The Auditor-General
Audit Report No.34 2007–08
Performance Audit

Administration of the Pathology Quality and Outlays Memorandum of Understanding

Department of Health and Ageing

Australian National Audit Office

ISSN 1036–7632

ISBN 0 642 81015 X

Australian National
Audit Office

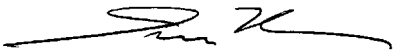
Canberra ACT
21 May 2008

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Health and Ageing in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Administration of the Pathology Quality and Outlays Memorandum of Understanding.*

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely



Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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Audit Team

Steven Lack

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Abbreviations

AAPP	Australian Association of Pathology Practices Inc
AMA	Australian Medical Association
AMWAC	Australian Medical Workforce Advisory Committee
ANAO	Australian National Audit Office
APL	Approved Pathology Laboratory
COAG	Council of Australian Governments
DoHA	Department of Health and Ageing
GP	General Practitioner
MBS	Medicare Benefits Schedule
MoU	Memorandum of Understanding
NATA	National Accreditation of Testing Authorities
NCOPP	National Coalition of Public Pathology
PBS	Pharmaceutical Benefits Scheme
PCC	Pathology Consultative Committee
PEI	Patient Episode Initiation
PST	Pathology Services Table
PSTC	Pathology Services Table Committee
QUPC	Quality Use of Pathology Committee
QUPP	Quality Use of Pathology Program
RCPA	Royal College of Pathologists of Australasia

Summary and Recommendations

Summary

Introduction

1. Pathology is the scientific study of disease and, as such, underpins most of medicine. Pathology tests are now a common part of modern medical practice and are used to screen for, confirm, exclude and monitor disease.

2. Under Medicare, many pathology services are eligible for subsidies. Through the Medicare Benefits Schedule (MBS), the Australian Government provides approximately $1.7 billion each year to support private patient pathology services in the Australian community and in hospitals.

3. Pathology services are funded through a combination of government and private payments. Patients who are bulk billed by a pathology service provider do not incur any out-of-pocket expense for the pathology service. For patients who are not bulk billed, the fee is determined at the provider's discretion, with the patient responsible for paying the difference between that fee and the appropriate Medicare rebate.

4. Pathology stands out within the medical profession for its consistently high rates of bulk billing and observance of the MBS schedule fee – 87 per cent and 92 per cent of services respectively.[1]

5. In recent years there has been a strong growth in the number of Medicare-funded pathology services. The growth can be attributed to an increase in the use of medical services and in the average number of pathology tests per medical service. Factors that may be contributing to an increase in the volume of pathology tests include an expansion in the range of tests available, doctors practising defensive medicine, and the ageing of the population. Government policy can also increase the demand for pathology services, for example, by adding new subsidised items to the MBS or through specific initiatives and incentives designed to improve patient access to medical services and to better manage illnesses and diseases (such as diabetes).

6. Section 16A of the *Health Insurance Act 1973* provides for the payment of Medicare benefits for pathology services. The *Health Insurance Act 1973* also provides for the Health Insurance (Pathology Services Table) Regulations 2007 that prescribe a Pathology Services Table (PST) that sets out the items of pathology

[1] DoHA releases quarterly statistics on Medicare bull billing and schedule fee observance rates for broad types of services with the latest report available from its website at <www.health.gov.au> for the December quarter 2007. The latest rates for pathology are 86.6 per cent bulk billing rate and 92.3 per cent schedule fee observance rate.

services, the amount of fees applicable for each item, and rules for interpretation. The *Health Insurance Act 1973* requires an annual review process for the Table.

7. The Pathology Services Table Committee (PSTC)[2] manages the PST. This entails drafting new item descriptors and related rules of interpretation, and revising existing ones. The committee also advises on the interpretation of item descriptors, rules and fee levels.

8. Determining appropriate fee levels for pathology items (fee setting) is a negotiated process between the PSTC and the Department of Health and Ageing (DoHA). Fees are based on an assessment of the similarity in complexity and/or method and associated costs between the service being considered and a comparable item on the table. Implicit in this approach is that schedule fees are based on actual cost structures, plus a profit margin. In the last few years there has been an emphasis on redressing any under-remunerated services on the table, that is, the more complex and labour-intensive services.

9. A significant objective of the *Health Insurance Act 1973*, including the enforcement and offence provisions relating to pathology, is to prevent over-servicing. As a complementary strategy, the Government has entered into a Memorandum of Understanding (MoU) with the pathology profession to manage outlays in pathology services.

The Pathology Quality and Outlays MoU

10. Through Medicare, pathology practitioners are reimbursed by the Australian Government on a fee-for-service basis for many of the pathology services they provide. Most government expenditure on pathology is managed through the use of the Pathology Quality and Outlays MoU between the Australian Government and the pathology profession. The Pathology Quality and Outlays MoU 2004–2009 is the third MoU. It is intended to promote:

- access to quality, affordable pathology services;
- effective management of government outlays relating to the services described in the Pathology Services Table of the MBS;
- improved patient care by enhancing the quality of pathology services and the appropriate use of services; and
- cooperative strategies that promote affordability of services for patients.

[2] The PSTC consists of members from the Australian Association of Pathology Practices (AAPP), the Royal College of Pathologists of Australasia (RCPA), the National Coalition of Public Pathology (NCOPP), the Australian Medical Association (AMA), Medicare Australia and DoHA.

11. The 'parties' to the MoU include the Australian Government (as represented by the Minister for Health and Ageing), the Australian Association of Pathology Practices (AAPP), the Royal College of Pathologists of Australasia (RCPA) and the National Coalition of Public Pathology (NCOPP).

12. A Pathology Consultative Committee (PCC) is responsible for managing the MoU, including having principal responsibility for managing pathology outlays within agreed parameters.[3] DoHA represents the Minister for Health and Ageing as a signatory to the MoU, and also provides secretariat and project support to the PCC and its various sub-committees.

13. The current MoU was designed to provide for stable growth in pathology outlays at an average of 5.3 per cent per annum growth between 2004 and 2009. The Government initially committed $8.034 billion for pathology outlays over the period of the agreement and provided an extra $3.75 million to help train pathologists to meet a recognised shortfall.

14. The MoU has thresholds and measures designed to limit growth in pathology outlays and was designed to constrain outlays by regulating the price of the Medicare rebates paid to pathologists for items performed when projections suggest the overall level of outlays will exceed established targets.

Audit objective and scope

15. The objective of the audit was to determine the effectiveness of DoHA's administration of the MoU between the Government and the pathology profession, including monitoring whether the MoU is achieving its objectives.

16. The audit examined the controls DoHA has implemented to manage the MoU and government outlays for pathology services. Other objectives of the MoU, such as promoting access to quality, affordable pathology services, were examined from the perspective of their contribution as complementary strategies and initiatives to broader requirements, including the *Health Insurance Act 1973* and accreditation processes.

17. The audit did not examine the controls for processing claims by Medicare Australia.

[3] The Pathology Consultative Committee's membership includes up to three representatives each from the Australian Government; the Australian Association of Pathology Practices (AAPP); and the Royal College of Pathologists of Australasia (RCPA) and one representative from the National Coalition of Public Pathology (NCOPP). The Prime Minister's authorisation is required for adjustments to pathology outlay targets in the MoU that exceed $10 million.

Conclusion

18. A key objective of the current Pathology Quality and Outlays MoU is to manage Australian Government outlays for pathology services over the period 2004 to 2009. The MoU brings together the Government and the other signatories to the MoU: the Australian Association of Pathology Practices; the National Coalition of Public Pathology; and the Royal College of Pathologists of Australasia to allow the parties to consider possible strategies to ensure that pathology outlays remain within the established targets.

19. The Government initially committed $8.034 billion over the period of the agreement to fund pathology outlays and provided an extra $3.75 million to help train pathologists to meet a recognised shortfall in the specialisation. The MoU is based on an average annual rate of growth in pathology outlays of 5.3 per cent between 2004 and 2009.

20. DoHA's monitoring of pathology outlays is comprehensive and consists of a suite of reports for the Pathology Consultative Committee (PCC) members to consider. These reports provide a thorough analysis of outlays, projected trends and estimated variances.

21. Over the first three years of the MoU, the number of Medicare funded pathology services increased from 77.7 million per year to 87.5 million per year and the average annual rate of growth of actual pathology outlays was 7 per cent. As at October 2007, adjustments to allowable Medicare outlays/benefits under the Pathology MoU had been increased by $530.57 million, bringing the revised total to $8.564 billion.

22. In examining DoHA's administration of the Pathology MoU the ANAO focused on the MoU objective of most concern to the department, namely, to manage pathology outlays. Based on this analysis, areas for consideration by DoHA include:

- better managing the risks related to increasing pathology outlays;
- improving the timeliness in assessing claims submitted by the pathology profession; and
- reviewing the effectiveness of the MoU.

23. A precursor in managing pathology outlays is having an understanding of the drivers behind the growth in pathology services. This information is essential for being able to implement strategies to effectively manage pathology outlays in the long term. Views about the key factors driving the high growth in pathology requests include: an ageing population; changes in health care delivery practices

by medical practitioners; the changing profile of medical practitioners and their ordering patterns; increases in the demand for pathology services by consumers; and increases in the demand for pathology services as a result of government health policy initiatives. The ANAO has made a recommendation that DoHA develops a better understanding of the impact of the drivers of growth for pathology services to inform policy decisions and management strategies for outlays in future years, given the magnitude of pathology outlays.

24. Under the terms of the MoU, the Government is responsible for meeting increases in pathology outlays that can be demonstrated to have been caused by government policy. Over the period 2004 to 2007, DoHA and the pathology profession considered the effect of significant policy decisions influencing the demand for pathology services and, hence, pathology outlays. These included the extended Medicare safety Net (introduced in March 2004), the *Strengthening Medicare* package (introduced in January 2005), and the flow-on to Specialist services. Accurately determining the effects of these policy decisions on pathology outlays has been a lengthy and difficult process and involved considerable debate over the appropriateness of methodologies and the level of economic evidence required to prove claims.

25. These factors, especially the magnitude of the *Strengthening Medicare* package, have made managing this MoU considerably more complex than previous MoUs. In this environment, establishing clear evaluation criteria (including the level of economic evidence required) and clarifying the economic modelling methodologies to be used to assess claims to adjust pathology outlay targets, is likely to have assisted the resolution of funding adjustments.

26. The Pathology MoU has been in operation since 2004 and is scheduled to end in 2009. In considering the design of any of any future program to provide for stable growth in pathology outlays, it is timely for DoHA to review the effectiveness of the current MoU and the lessons learned from its operation during the past three years. A review would require DoHA to establish a framework to monitor the extent to which the pathology outlay objectives of the arrangement have been met.

27. The MoU has other objectives, including promoting access to quality, affordable pathology services. DoHA sees these objectives as complementary initiatives to broader requirements, including the *Health Insurance Act 1973* and accreditation processes. The contribution of the MoU to these broader strategies is difficult to measure. DoHA requires more evidence to demonstrate how the MoU has promoted access to quality, affordable pathology services, or improved patient care by enhancing the quality of pathology services.

Key Findings by chapter

Management of Government Outlays for Pathology Services (Chapter 2)

28. In examining DoHA's administration of the Pathology MoU the ANAO focused on the MoU objective of most concern to the department, namely, to manage pathology outlays. This involved examining DoHA's approach to:

- managing the risks related to increasing pathology outlays;
- timeliness in assessing claims submitted by the pathology profession;
- monitoring actual pathology outlays; and
- performance monitoring and reporting.

Managing the risks related to increasing pathology outlays

29. DoHA's administration of this third Pathology MoU has not involved any formal assessment of risks or the creation of a risk management plan. Instead, risks have been managed on an ad-hoc basis. Without a documented risk management framework it is not possible to conclude on the extent to which risks have been identified, analysed, treated and monitored by the department. Significantly, it does not allow risk mitigation measures to be considered in a holistic and structured manner, commonly accepted practice in relation to significant agreements and projects.

30. A key risk in managing pathology outlays is not fully understanding the drivers behind the growth in pathology services. In May 2001, during the term of a previous MoU, the Australian Association of Pathology Practices (AAPP), Royal College of Pathologists of Australasia (RCPA), DoHA and the Health Insurance Commission (HIC) participated in a workshop to discuss drivers and structural issues impacting on pathology funding. In August 2001, the AAPP issued a paper entitled *Pathology Funding Agreement Issues to be Addressed by PCC*, which was a product of these discussions. This document is essentially a risk assessment that: 'documents a wide range of drivers and structural factors that are impacting on the ability of all parties to effectively manage the pathology agreement'.[4]

31. The AAPP paper identifies numerous issues along with recommended actions that have the potential to form the basis of a risk management plan which would clearly identify the links between the activities of the Pathology Consultative Committee (PCC) and the risks identified. Because of its age this

[4] Australian Association of Pathology Practices, *Pathology Funding Agreement Issues to be Addressed by PCC*, 2001, p. 17.

particular document would require updating before it could be used as a component of a broader risk management framework for the current MoU.

Timeliness in assessing claims submitted by the pathology profession

32. Under the terms of the MoU, the Government is responsible for meeting increases in pathology outlays that can be demonstrated to have been caused by government policy. The approach taken under the MoU is for the pathology profession (the Australian Association of Pathology Practices, the Royal College of Pathologists of Australasia, and the National Coalition of Public Pathology) to put forward claims to adjust pathology outlay targets following the introduction of new health policies. To determine the veracity of these claims, DoHA undertakes its own analysis and calculations.

33. The appropriateness of adjustments stemming from government health policies, particularly the *Strengthening Medicare* package introduced in January 2005 (the GP claim), and the flow-on to Specialist services (the Specialist claim) was the subject of extensive negotiations.

34. Following the pathology profession's October 2005 and March 2006 claims, DoHA and the profession agreed on an adjustment to the 2004–05 pathology outlay target arising from the effect of government policy increasing access to GP services (the GP claim). Adjustments for subsequent MoU outlay targets for 2005–06, 2006–07, 2007–08, and 2008–09 were considered more fully by DoHA following the profession's January 2007 claim.

35. In DoHA's view, the Specialist claims put forward by the profession in October 2005 and March 2006 were unproven. Following the profession's January 2007 claim, the merits behind the Specialist claim were partially accepted by DoHA for MoU outlay targets for 2005–06 through to 2008–09. [5]

36. Timeliness in resolving claims is a significant issue for the pathology profession and DoHA. In the past, the pathology profession has been critical of the department acting too soon to adjust fees, only to find that it has over-corrected and further action to restore the balance is then needed. On the other hand, the lengthy processes for considering outlay target adjustments can result in a limited window of opportunity before the conclusion of the MoU to make any fee adjustments, should they be necessary.

[5] On 16 October 2007, the Government agreed to increase allowable outlays under the Pathology MoU by $102.4 million for 2005–06, totalling $442 million over the remainder of the MoU period. An amount of $9.1 million for flow-ons from Specialists was agreed for 2004–05 pathology outlays.

37. DoHA's approach to managing adjustments resulting from new health policy measures has been to consider claims for adjustment as they have been received and to assess whether the case for an adjustment has been satisfactorily established. DoHA advised the ANAO that the terms of the MoU dictate that adjustments to outlays are considered retrospectively, once data showing the actual outlays becomes available. There is no provision in the MoU for DoHA to act before any evidence of outlays exceeding targets becomes available.

38. The difficulties experienced in the resolution of funding adjustments has been further complicated by:

- the MOU describing the circumstances in which outlay targets can be adjusted, but lacking any specified mechanism for determining and agreeing the value of those adjustments;
- the number and unprecedented magnitude of new health policy initiatives experienced during the term of the current MoU; and
- a lack of agreed methodologies for economic modelling undertaken separately by DoHA and the pathology profession and clarity over the level of proof required to advance claims to increase outlays.

39. The ANAO notes that PCC members have also expressed concern that there has been a lack of clarity about the level of proof required to successfully argue for outlay targets to be adjusted.

Monitoring actual pathology outlays

40. From discussions with stakeholders and a review of the minutes of PCC meetings, it was apparent that the monitoring of outlays to ensure that outlay targets are not exceeded has been the predominant focus of the PCC during the term of the third Pathology MoU.

41. DoHA takes the lead role in facilitating the monitoring of outlays. It has a small team focusing on pathology outlays, and sources information for monitoring purposes predominantly from Medicare data.

42. Overall, DoHA's monitoring of pathology outlays is comprehensive and consists of a suite of reports for PCC members to consider. These reports provide a thorough analysis of outlays, projected trends and estimated variances. PCC members provide regular feedback on the suitability of reports received and where additional information might prove useful. They considered that DoHA was generally responsive to such requests and, overall, were satisfied with the monitoring undertaken on their behalf.

43. DoHA also monitors and reports on movements in the pathology cost index and the underlying year on year growth in outlays. This is necessary as excessive movements in these measures could trigger an adjustment to outlay targets in accordance with clauses 5.11 and 5.14 of the MoU. DoHA's monitoring of actual outlay expenditure to date compared with outlay targets is shown in Appendix 4.

Performance monitoring and reporting

44. DoHA is required to prepare biannual reports to the Minister for Health and Ageing about the activities of the PCC and the operation of the MoU as a whole. These reports have focused predominantly on pathology outlays, but also contain information about affordability measures in the form of bulk billing rates, percentage of schedule fee observance, the average patient gap and contribution percentage.

45. Biannual reporting to the Minister has not been occurring as required, with the last report provided for the period January to June 2005. At the time of the audit fieldwork, DoHA advised that the report for the period January to June 2007 was being prepared. The reason attributed to three biannual reports not being provided was uncertainty over the target outlay figures arising from then unresolved claims by the pathology profession stemming from new government policies.

46. During the 18-month period when the Minister did not receive biannual reports, some information was provided by way of correspondence accompanying the request to adjust targets following the March 2006 claim from the pathology profession. Similarly, correspondence to the Minister in September 2007 relating to subsequent claims from the pathology profession for target adjustments for GP and Specialist claims provided an update of the progress of the MoU with regards to outlays.

Reviewing the effectiveness of the MoU

47. Review and evaluation is an important part of managing government programs. Large programs, especially, should be evaluated on a regular and systematic basis to:

- gauge the continued relevance and priority of program objectives in the light of current circumstances;
- assess whether the program is achieving its stated objectives; and
- ascertain whether more efficient ways of achieving these objectives.

48. The Pathology MoU was signed in September 2004. It was based on total Australian Government funding outlays/benefits of $8.034 billion dollars from 2004–05 to 2008–09, incorporating an average of 5.3 per cent annual growth in outlays over the life of the MoU.

49. Clauses in the MoU provide for adjustments to pathology outlay targets. As at October 2007, allowable Medicare outlays/benefits under the Pathology MoU had been increased by:

- $11.5 million in 2004–05 for fee adjustments foregone in the previous MoU;
- $8.0 million in 2004–05 and 2005–06 (and provisionally for 2006–07, 2007–08 and 2008–09) when patient contributions were below identified Patient Affordability targets;
- $45.11 million in 2004–05 arising from the pathology profession's claim that government policy decisions increased pathology referrals from General Practitioners. This included the extended Medicare Safety Net ($5.89 million), the Round the Clock Medicare/*Strengthening Medicare* package (38.95 million), and Aboriginal and Torres Strait Islander pap smears (0.27 million);
- $9.1 million in 2004–05 arising from the pathology profession's claim that government policy decisions had increased pathology referrals from Specialist practitioners;
- $442.0 million for the years 2005–06 to 2008–09, comprising $379.7 for flow-ons arising from the extended Medicare Safety Net and the *Strengthening Medicare* package, and $62.3 million for flow-ons arising from Specialist services.

50. Over the first three years of the MoU, the number of Medicare funded pathology services increased from 77.7 million per year to 87.5 million per year and the average annual rate of growth of actual pathology outlays was 7 per cent. As at October 2007, adjustments to allowable Medicare outlays/benefits under the Pathology MoU had been increased by $530.57 million, bringing the revised total to $8.564 billion.[6]

51. The Pathology MoU has been in operation since 2004 and is scheduled to end in 2009. In considering the design of any future program to provide for stable growth in pathology outlays, it is timely for DoHA to review the effectiveness of the current MoU and the lessons learned from its operation during the past three years. A review would require DoHA to establish a framework to monitor the extent to which the objectives of the arrangement have been met.

[6] There are minor deductions for the P9 group of services - see Appendix 3 and Appendix 4, Table A 5 for details.

Strategies that promote access to affordable pathology services (Chapter 3)

52. The Government's primary tool for managing patient affordability of pathology services is bulk billing, which involves the pathology provider billing Medicare directly and accepting the Medicare benefits attributable as full payment for the service provided.

53. In addition, the pathology profession has agreed, through the MoU, to consider patient affordability when setting fees. Patient affordability monitors out-of-pocket expenses for patients. The MoU includes provision for annual affordability bonuses to the agreed level of outlays if patient contributions to the cost of pathology services in the given year are less than specified targets (ranging from 9.5 to 11 per cent) over the life of the MoU.

54. The targets for the pathology profession reflect the current high rates of bulk billing. If the targets are met (that is, actual patient contributions are below 9.5 to 11 per cent), an additional $8 million a year is added to the outlay target. Targets and actual results are shown in Table 1.

Table 1

Patient affordability targets versus actual patient contributions

	2003–04 Patient Contribution (%)	2004–05 Patient Contribution (%)	2005–06 Patient Contribution (%)	2006–07 Patient Contribution (%)	2007–08 Patient Contribution (%)
MoU affordability target	9.5	9.5	10.0	10.5	11.0
Actual patient contribution	7.9	7.5	7.0	7.0	–

Source: Targets are sourced from the Pathology Quality and Outlays MoU and actual contributions from Medicare data.

55. Trends in actual patient contributions illustrate that the affordability bonus has been easily achieved and that the percentage targets are generous to the pathology profession. Investigation of the rationale behind these percentages was inconclusive, suggesting the percentages were negotiated between the parties with no evidentiary basis for establishing the thresholds. DoHA indicated that it is unlikely that the affordability targets established in the MoU would be exceeded. This is also reflected in monitoring information provided to the Department of Finance and Deregulation, which has factored in the $8 million affordability bonus for all years of the MoU.

56. 'Patient affordability' is not defined in the MoU and the predefined thresholds contained in the MoU regarding payment of the affordability bonus are

not supported by any detailed rationale. Furthermore, there is no clearly defined strategy addressing the principle and objective of the MoU to promote consumer access and patient affordability. Overall, promoting access to affordable pathology services has not been a focus in managing the MoU as the pathology profession has a high level of bulk billing, which has been a consistent trend during the life of this MoU. DoHA noted, however, that should the situation change during the life of the MoU or in the context of any future agreements, it would consider a broader range of policy options for promoting patient affordability.

Enhancing the quality of pathology services (Chapter 4)

57. Since 1986, the *Health Insurance Act 1973* has required pathology laboratories to be accredited in order to access the MBS. In determining laboratory accreditation status, Medicare Australia relies on assessments conducted by the National Association of Testing Authorities (NATA), in conjunction with the Royal College of Pathologists of Australasia (RCPA), against national standards established by the National Pathology Accreditation Advisory Council (NPAAC).

58. The MoU was designed to complement these accreditation requirements. DoHA states that 'Improving the quality use of pathology in patient care is an important element of the third Pathology Quality and Outlays Memorandum of Understanding (MoU) between the Australian Government and the pathology profession.'[7]

59. Section 9 of the MoU focuses on 'Quality Initiatives'. Subject to the appropriate agreements relating to the funds being entered into, the Government will make funding available for a Quality Use of Pathology Program (QUPP), up to a maximum of $2 million for each year of the MoU.

60. The MoU states that the objectives of the QUPP are to improve patient care through enhancing the quality of pathology services and the appropriate use of services. This may include support for research into consumer needs; development of education and information programs for consumers, requestors and/or providers of pathology services; utilisation of infomatics and the application of information technology; and quality assurance programs.

61. DoHA commissioned consultants to map a strategy to ensure QUPP-funded projects are effectively implemented in order to realise potential benefits. The consultancy was a positive initiative, providing a more robust management framework. Notwithstanding, the strategic plan for the QUPP, the MoU and the terms of reference for the PCC and the Quality Use of Pathology Committee (QUPC) do not align, and there is a risk that the newly established direction for the

[7] See DoHA, Quality Use of Pathology homepage: <http://www.health.gov.au/internet/wcms/publishing.nsf/Content/health-pathology-qual-index.htm>.

QUPC potentially overlaps with other established structures such as National Pathology Accreditation Advisory Council (with regard to standard setting) and the RCPA (with regard to addressing quality in pathology practice). The existing framework does not specify how the interrelationships with these bodies should be conducted.

62. While there have been a number of QUPP initiatives, there is no defined measure to determine whether the MoU objectives of quality pathology services – improved patient care and the appropriate use of services –- have actually been enhanced by the MoU. A central aspect of quality pathology use is excessive or unnecessary referrals, commonly believed to be a key contributor to increasing outlays. While this relationship is generally appreciated, there is no strategy in the MoU that aligns the objectives of the QUPP with containing outlays in overall growth.

Workforce development and support (Chapter 5)

63. The MoU is not a major mechanism for supporting pathology training, but was designed to make a modest contribution to it.

64. The primary providers of pathology training positions in Australia are the States and Territories, in line with their public hospital service delivery employment functions. The Australian Government provides funding for public hospital based training of medical specialists through the Australian Health Care Agreements. States and Territories are required under the Agreements to continue to provide support for medical specialist training positions and determine the level of funding to be allocated within the individual hospital budgets for this purpose. States and Territories also determine the number and type of accredited training places to be provided.

65. In addition, through the MoU, the Australian Government has contributed $3.75 million towards the cost of training new pathologists in the private sector. Funding for up to 10 pathology training places in the private sector began in January 2005.

Summary of agency response

66. The Department is supportive of the report and agrees with the recommendation.

Recommendations

The Pathology Quality and Outlays MoU is the third in a series of MoUs designed to provide for stable growth in pathology outlays. It is due to end in 2009. The ANAO's recommendation is framed to assist DoHA in the work it is already undertaking to ensure that any future arrangement incorporates the lessons learned.

Recommendation 1
Para 2.78

The ANAO recommends that DoHA identifies the lessons learned from its management of the current Pathology Quality and Outlays MoU, particularly in regard to:

- developing a better understanding of the impact of key risks, especially the limited knowledge of the drivers of growth for pathology services, to better inform policy decisions and management strategies for pathology outlays in future years;
- establishing clear evaluation criteria (including the level of economic evidence required) and clarifying the economic modelling methodologies to be used to assess claims to adjust pathology outlay targets; and
- establishing a framework to monitor the extent to which the objectives of the MoU or alternative arrangement have been met.

DoHA's response: *Agreed.*

Audit Findings and Conclusions

1. Background to the MoU

This chapter describes briefly the pathology industry and the funding of pathology services under Medicare. It establishes the purpose of the memorandum of understanding (MoU) between the Government and the pathology profession, and outlines the audit's objective, scope and methodology.

Introduction

1.1 Pathology is the scientific study of disease and, as such, underpins most of medicine. Pathology tests are now a common part of modern medical practice and are used to screen for, confirm, exclude and monitor disease (see Appendix 1 for an outline of pathology activity areas).

1.2 Pathologists are responsible for, among other things, performing and reporting on tests used to help diagnose a range of conditions, including pregnancy, anaemia, diabetes, heart disease and cancers. The medical benefits stemming from pathology include early diagnosis, monitoring health problems, and improving the effectiveness of drug therapy.

1.3 There are around 450 pathology laboratories in Australia, employing 1290 pathologists and some 11 300 employees.[8] Over time, there has been a structural shift in the pathology industry, with a move away from a large number of 'small player' partnership-based professional practices to fewer, larger corporate pathology service firms.[9] It is estimated that the four largest pathology companies in Australia currently account for at least 83 per cent of industry revenues.[10]

1.4 The Australian health care system is designed to ensure universal access to adequate health care at an affordable cost, or no cost. It is a mix of public and private sector involvement – private medical practitioners provide primary and specialist care in the community, while a mix of public and private hospitals provide comprehensive acute services.

1.5 Two-thirds of Australia's health expenditure is funded by the Australian Government and State/Territory Governments, and one-third by non-government sources, including individuals and private health insurance. Australian Government funding includes:

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8 Monique Roos, *Australia: Analytical and Clinical Chemistry Industry*, US Commercial Service: US Department of Commerce, June 2006.

9 Monique Roos, ibid.

10 Michael Wynne, *Corporatisation of Diagnostic Services: Pathology and Radiology*, February 2006, available at <http://www.uow.edu.au/arts/sts/bmartin/dissent/documents/health/path_rad_aus.html>.

- grants to the States as a contribution to the cost of providing public hospital services (Australian Health Care Agreements); and
- a subsidy for private health insurance through a 30 per cent rebate on premiums.

1.6 In addition, the Australian Government funds two universal national subsidy schemes:

- the Pharmaceutical Benefits Scheme (PBS), which provides for the supply of listed pharmaceutical products to eligible people at subsidised rates; and
- the Medicare Benefits Schedule (MBS), which provides patient subsidies for listed medical practitioner services, optometry, diagnostic imaging and pathology. The MBS forms the core of Medicare, Australia's universal health program.

1.7 Under Medicare, many pathology services are eligible for subsidies. Through the MBS, the Australian Government provides approximately $1.7 billion dollars each year to support private patient pathology services in the Australian community and in hospitals. Approximately 90 per cent of all Medicare-funded pathology is delivered by private pathology practices.[11]

1.8 Pathology services are funded through a combination of government and private payments. Patients who are bulk billed by a pathology service provider do not incur any out-of-pocket expense for the pathology service. For patients who are not bulk billed, the fee is determined at the provider's discretion, with the patient responsible for paying the difference between that fee and the appropriate Medicare rebate.

1.9 Pathology stands out within the medical profession for its consistently high rates of bulk billing and observance of the MBS schedule fee – 87 per cent and 92 per cent of services respectively.[12]

Growth in pathology services

1.10 Pathology providers have little direct control over the volume and frequency of services requested of them. Pathology is a secondary medical service, with a requesting practitioner ordering the service on behalf of a patient.

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[11] Emerging Patient Episode Initiation (PEI) item data, available through Medicare Australia's website, indicates that public pathology Approved Pathology Authorities (APAs) are servicing in the order of 10 -11 per cent of episodes.

[12] DoHA releases quarterly statistics on Medicare bull billing and schedule fee observance rates for broad types of services with the latest report available from its website at www.health.gov.au for the December quarter 2007. The latest rates for pathology are 86.6 per cent bulk billing rate and 92.3 per cent schedule fee observance rate.

1.11 In recent years there has been strong growth in the number of Medicare-funded pathology services. This growth can be attributed to an increase in the use of medical services and an increase in the average number of pathology tests per medical service.

1.12 Factors that may be contributing to an increase in the volume of pathology tests include an expansion in the range of tests available, doctors practising defensive medicine, and the ageing of the population. Government policy can also increase the demand for pathology services, for example, by adding new subsidised items to the MBS or through specific initiatives and incentives designed to improve patient access to medical services and to better manage illnesses and diseases (such as diabetes).

Legislation – Part IIA of the Health Insurance Act 1973

1.13 The *Health Insurance Act 1973* establishes the MBS and provides for a range of regulations and other delegated legislation which together constitute the federal regulatory framework for Medicare-eligible services, including pathology services (see Appendix 2 for a list of reviews relevant to the pathology sector).

1.14 Part IIA of the *Health Insurance Act* forms the legislative basis for the regulation of pathology services under Medicare. The objectives are to:

- provide access to pathology services for all eligible Australian citizens;
- prevent fraud and over-servicing in the pathology profession; and
- ensure the quality of pathology services provided.

1.15 Section 16A of the *Health Insurance Act* specifically provides for the payment of Medicare benefits for pathology services. For a pathology service to be covered under Medicare, a number of requirements must be met, including:

- the initial request for the pathology test must be provided by a treating practitioner who has determined the service necessary for the appropriate medical care of the patient;
- an Approved Pathology Laboratory (APL) must analyse the sample (with the exception of the P9 group of tests) – accreditation is conducted by the National Association of Testing Authorities (NATA), Australia's national laboratory accreditation authority, and
- the report has to be provided by an Approved Pathology Practitioner (APP). Pathology practitioners apply each year to Medicare for acceptance as an APP.

1.16 The *Health Insurance Act 1973* also provides for the Health Insurance (Pathology Services Table) Regulations 2007, which prescribe the Pathology Services Table (PST), which sets out the items of pathology services, the amount of fees applicable in respect of each item, and rules for interpretation. The *Health Insurance Act 1973* requires an annual review process for the Table.

1.17 The PST is Category 6 of the Medicare Benefits Schedule (MBS) Book and relates specifically to the pathology services arrangements under Medicare. The PST lists the pathology tests Medicare benefits are available for, their schedule fees and conditions for use. Each year the MBS is updated to reflect new regulations or amendments.

1.18 The Pathology Services Table Committee (PSTC) reviews the PST to ensure that the services, fees and conditions for use are appropriate. This entails drafting new item descriptors and related rules of interpretation, and revising existing ones. The PSTC also advises on the interpretation of item descriptors, rules and fee levels.

1.19 The PSTC consists of members from the Australian Association of Pathology Practices (AAPP), the Royal College of Pathologists of Australasia (RCPA), the National Coalition of Public Pathology (NCOPP), the Australian Medical Association (AMA), Medicare Australia and the Department of Health and Ageing (DoHA).

1.20 Determining appropriate fee levels for pathology items (fee setting) is a negotiated process between the PSTC and the Australian Government. Fees are based on an assessment of the similarity in complexity and/or method and associated costs between the service being considered and a comparable item on the table. Implicit in this approach is that schedule fees are based on actual cost structures, plus a profit margin. In the last few years there has been an emphasis on redressing any under-remunerated services on the table, that is, the more complex and labour-intensive services.

1.21 A significant objective of the *Health Insurance Act 1973*, including the enforcement and offence provisions relating to pathology, is to prevent over-servicing. Complementary strategies are also incorporated in the Pathology Quality and Outlays Memorandum of Understanding (MoU), designed to control public expenditure on pathology.

Complementary strategies: the Pathology Quality and Outlays MoU

1.22 Successive Australian Governments have found that the involvement of health professionals and relevant sectors of the health industry has benefited decision making in the health area.

1.23 The Pathology Quality and Outlays MoU is an agreement between the Australian Government, the Australian Association of Pathology Practices (AAPP), the Royal College of Pathologists of Australasia (RCPA) and the National Coalition of Public Pathology (NCOPP). The Australian Government has entered into similar arrangements with peak industry groups to manage other selected areas of expenditure within its MBS and PBS programs.[13]

1.24 The current MoU was designed to provide for stable growth in pathology outlays at an average of 5.3 per cent per annum growth between 2004 and 2009. The Government initially committed $8.034 billion for pathology outlays over the period of the agreement. The MoU aims to promote:

- access to quality, affordable pathology services;
- effective management of government outlays relating to the services described in the Pathology Services Table (PST) of the MBS;
- improved patient care through enhancing the quality of pathology services and the appropriate use of services; and
- cooperative strategies that promote affordability of services for patients.[14]

1.25 The MoU is designed to achieve these goals through the following provisions.

Outlay targets

1.26 A key objective of the MoU is to ensure that government outlays for pathology services under Medicare are maintained within agreed limits. The MoU is designed to manage the growth in pathology outlays under the Medicare benefits arrangements, within agreed expenditure parameters. It does this by providing for the downward adjustment of unit price as aggregate expenditure varies beyond defined limits. For example, if cumulative outlays to date vary from

[13] These are cooperative strategies designed to promote affordability of services for patients. They include the Radiology Quality and Outlays MoU and the Fourth Community Pharmacy Agreement.

[14] DoHA, *Pathology Quality and Outlays: Memorandum of Understanding*, 2004, available at <http://www.health.gov.au>.

the pro rata cumulative outlay target by an amount exceeding 0.5 per cent of the pro rata cumulative outlay target, measures may include, but are not limited to:

- targeted or 'across the board' fee adjustments;
- changes to schedule fees, item descriptions and/or rules of interpretation under the PST.

Funding adjustments

1.27 The MoU contains provisions for managing variations from the outlay targets, including, but not limited to:

- targeted or 'across the board' fee adjustments';
- changes to schedule fees, item descriptions and/or rules of interpretation under the PST; and
- deferral of action pending further monitoring and review. Section 14 of the MoU provides for dispute resolution processes.[15]

1.28 The MoU also provides for the adjustment of outlay targets if a government policy decision has a direct impact on outlays for pathology services in the MBS.

1.29 The Prime Minister's authorisation is required for adjustments to pathology outlay targets in the MoU that exceed $10 million.

Quality initiatives

1.30 Subject to appropriate agreements relating to the funds being entered into, the Government will make $2 million available annually for the Quality Use of Pathology Program (QUPP).

Patient affordability

1.31 The MoU contains provisions to monitor patient out-of-pocket expenses and to identify ways to minimise patient costs.

Workforce training funds

1.32 The first two years of the MoU provide for $3.75 million for training pathology registrars in the private sector.

[15] These processes, however, are stated as being applicable to disputes related to paragraph 7.18 of the MoU. This paragraph refers to disputes about the implementation of fee reductions. There are no detailed dispute resolution procedures in place for issues such as claims for target adjustment arising from new policy initiatives.

Pathology Consultative Committee

1.33 A Pathology Consultative Committee (PCC) is responsible for managing the MoU, as well as making policy recommendations to the Minister for Health and Ageing on the operation of the MoU.

1.34 The Pathology Consultative Committee's membership includes up to three representatives each from the Australian Government; the Australian Association of Pathology Practices (AAPP); and the Royal College of Pathologists of Australasia (RCPA) and one representative from the National Coalition of Public Pathology (NCOPP).

Role of DoHA

1.35 DoHA's Pathology Section undertakes a range of activities relating to the funding and delivery of pathology services in Australia. These activities include the provision of policy advice on the financing and delivery of pathology services; creation of guidelines and standards for accreditation of pathology laboratories; policy advice and programs on the quality use of pathology; statistical monitoring and modelling and project work.

1.36 DoHA's Pathology Section also represents the Minister for Health and Ageing as a signatory to the MoU, and also provides secretariat and project support to the PCC and its various sub-committees.

Role of Medicare Australia

1.37 Medicare Australia administers a number of Australian Government health programs including the Medicare Benefits Schedule (MBS), the Pharmaceutical Benefits Schedule (PBS), and a range of associated government programs. Medicare Australia is responsible for ensuring that Medicare benefits are paid to eligible health care consumers (for services provided by eligible medical practitioners), and assessing and paying Medicare benefits for a range of medical services.

1.38 Medicare benefits provide financial assistance towards the cost of medical services, including pathology services. The PST sits within the MBS and lists the pathology tests Medicare benefits are available, their schedule fees and their conditions for use. Note that schedule fees are determined by DoHA in consultation with the pathology profession.

1.39 Medicare Australia processes claims for payment and makes payments to the approved pathology provider where the service is bulk billed, or rebates to patients where no bulk billing occurred. Medicare Australia also applies the rules for the PST.

1.40 Medicare Australia's controls for processing claims were out of scope of the audit.

Audit objective, scope and methodology

Audit objective

1.41 The objective of the audit was to determine the effectiveness of DoHA's administration of the MoU between the Government and the pathology profession, including monitoring whether the MoU is achieving its objectives.

1.42 The audit criteria used to allow a conclusion to be reached in terms of this objective were whether, through the MoU, DoHA has:

- effectively managed government outlays relating to pathology payments;
- implemented cooperative strategies to effectively manage access to affordable pathology services; and
- improved patient care by enhancing the quality of pathology services.

Audit scope

1.43 The audit examined the controls DoHA has implemented to manage the MoU and government outlays for pathology services. Other objectives of the MoU, such as promoting access to quality, affordable pathology services, were examined from the perspective of their contribution as complementary strategies and initiatives to broader requirements, including the *Health Insurance Act 1973* and accreditation processes.

1.44 The MoU provides for the phased introduction of patient episode initiation (PEI) fees for public sector accredited pathology laboratories. Public sector PEI fees were introduced from 1 May 2007 and are subject to review by the PCC. Arrangements for the introduction and review of PEI fees were out of scope for this audit.

1.45 The audit did not examine the controls for processing claims by Medicare Australia.

Audit methodology

1.46 The audit methodology included:

- interviewing DoHA officers in Central Office, Canberra;
- interviewing peak industry bodies, including the Australian Association of Pathology Practices (AAPP), the Royal College of Pathologists of

Australasia (RCPA) and the National Coalition of Public Pathology (NCOPP);

- interviewing other relevant stakeholders, including the Consumers' Health Forum of Australia;
- interviewing members of the governance structure underpinning the MoU, including Medicare Australia, the Pathology Consultative Committee, the Pathology Services Table Committee, and the Quality Use of Pathology Committee;
- visiting a selected accredited pathology laboratory (Dorevitch Pathology, Heidelberg, Victoria);
- reviewing DoHA data, including legislation, policies, procedures and guidelines, performance data, strategic business plans, risk management plans and other relevant material; and
- reviewing industry reports, previous independent reviews and studies, and industry-specific literature.

Consultation process

1.47 Under section 19 of the *Auditor-General Act 1997*, in April 2008 the proposed report or relevant extracts were issued for comment to the Department of Health and Ageing and 11 other parties having a special interest in the report. The comments received were considered in the preparation of the final audit report.

Previous audit coverage

1.48 The ANAO has not previously audited the Pathology Quality and Outlays MoU. However, it has completed the following related audits in recent years:

- *The National Cervical Screening Program*, Department of Health and Ageing, Audit Report No. 50, 2000–01;
- *The National Cervical Screening Program Follow-Up*, Department of Health and Ageing, Audit Report No. 5, 2007–08; and
- *Magnetic Resonance Imaging Services – effectiveness and probity of the policy development process and implementation*, ANAO Report No. 42, 1999–2000.

Report structure

1.49 The audit's findings are organised into the following five chapters:

- Chapter 1: Background to the Pathology MoU;

- Chapter 2: Management of Government Outlays for Pathology Services;
- Chapter 3: Strategies that Promote Affordable Pathology Services;
- Chapter 4: Enhancing the Quality of Pathology Services; and
- Chapter 5: Pathology Workforce Development and Support.

1.50 The report also contains the following appendices:

- Appendix 1: Pathology Activity Areas;
- Appendix 2: List of Reviews Relevant to the Pathology Sector and the Administration of the MoU;
- Appendix 3: Growth in Pathology Services and Benefits;
- Appendix 4: DoHA's Monitoring of Pathology Outlays against Targets; and
- Appendix 5: List of Quality Use of Pathology Program funded Projects.

1.51 The audit was conducted in accordance with ANAO Auditing Standards at cost of $304 130. A consultant firm, Ascent, assisted with the conduct of the audit.

2. Management of Government Outlays for Pathology Services

This chapter examines DoHA's role in administering Australian Government outlays relating to pathology payments.

2.1 In assessing the management of government outlays for pathology services, the ANAO examined: the growth in pathology services and outlays; the design features of the Pathology Quality and Outlays MoU to constrain outlays; the resolution of claims put forward by the pathology profession, and DoHA's role in administering the MoU.

Growth in pathology services and outlays

2.2 In recent years there has been a strong growth in the number of Medicare-funded pathology services. The growth can be attributed to an increase in the use of medical services and in the average number of pathology tests per medical service. From 2000–01 to 2006–07, the number of Medicare-funded pathology services increased from 62.1 million to 87.5 million per year (an average annual growth rate of 6 per cent). Over the same period, Australian Government outlays/pathology benefits increased from $1.2 billion to $1.7 billion per year (an average annual growth rate of 7 per cent). See Appendix 3 and Appendix 4 for details.

Drivers of growth in pathology services

2.3 There are various views about what is driving the high growth in pathology requests. Possible reasons put forward in the 2002 *Report of the Review of Commonwealth Legislation for Pathology Arrangement under Medicare* included: increase in the supply of, and demand for, pathology services; changes in health care delivery practices by medical practitioners; and the changing profile of medical practitioners and their ordering patterns.

2.4 Government policy can increase the demand for pathology services. Other possible influences relate to structural developments, such as increased marketing of services by pathology practices to requesting practitioners, and ownership of medical practices by pathology practices. There are also increased consumer expectations, more knowledgeable consumers, fear of litigation by General Practitioners (GPs), and greater availability of tests. Other factors are a lack of information among medical practitioners about the costs of tests ordered and the high bulk billing rates of pathology services, which mean that patients are less

likely to question the need for the services because they do not have to pay for them.[16]

2.5 There has been little research done on GP pathology referring habits, with the most recent study of significance being *Changes in Pathology Ordering by General Practitioners in Australia 1998–2001,* Number 13 in the Bettering the Evaluation and Care of Health series of publications (the BEACH Report). The BEACH Report concluded there was a move away from GPs ordering a single test per problem to ordering three or more tests per episode. However, the study was unable to attribute the overall reasons behind the increases identified to factors related to the characteristics of GPs. The study concluded that:

> external influences such as the introduction of new MBS item numbers, system changes such as increased computerisation and possibly increased fear of litigation must be considered as possible influences on pathology ordering rates of GPs over the period of this study.[17]

2.6 In January 2006, DoHA commissioned an independent firm to further investigate the drivers of growth in pathology services. The progress of this study has not been a focus for the Pathology Consultative Committee (PCC) and the majority of members interviewed during the audit were unaware that the study struggled to gain momentum and has now been decommissioned. PCC members were advised at the PCC meeting held on 6 September 2007 that the consultancy contract had been terminated.

2.7 An understanding of the drivers behind the growth in pathology services is an essential first step in being able to implement strategies to effectively manage pathology outlays in the long term. The ANAO has made a recommendation in this audit that DoHA develops a better understanding of the impact of the drivers of growth for pathology services to inform policy decisions and management strategies for outlays in future years.

The design features of the MoU to constrain outlays

2.8 The third pathology funding agreement between the Australian Government and the pathology profession – the Pathology Quality and Outlays Memorandum of Understanding (MoU) 2004–09 – was signed on 20 September 2004. The key elements of the MoU are:

- five years operation from 1 July 2004–30 June 2009;

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[16] *Report of the Review of Commonwealth Legislation for Pathology Arrangements under Medicare*, Final Report, December 2002, see <http://www.health.gov.au/internet/wcms/publishing.nsf/content/health-pathology-leg-index.htm/$file/review.pdf>.

[17] Bettering the Evaluation and Care of Health Series, Number 13, *Changes in Pathology Ordering by General Practitioners in Australia 1998–2001.*

- total Australian Government funding outlays/benefits of $8.034 billion dollars, incorporating an average of 5.3 per cent annual growth in outlays over the life of the MoU; and
- a cumulative tolerance in pathology outlays/benefits of plus or minus 0.5 per cent over threshold the life of the MoU.

2.9 The MoU was designed to ensure that pathology operates in a capped funding environment and to provide a degree of certainty over pathology outlays. The intention was to constrain pathology outlays by regulating the price of Medicare rebates paid to pathologists for items performed when projections suggest that the overall level of outlays will exceed established targets. The outlay targets agreed to for the MoU are shown in Table 2.1.

Table 2.1

Unadjusted outlay targets

2004–05 ($m)	2005–06 ($m)	2006–07 ($m)	2007–08 ($m)	2008–09 ($m)	Total
1456.73	1523.54	1597.18	1689.18	1766.92	8033.55

Annual growth rate

2004–05 (% growth)	2005–06 (% growth)	2006–07 (% growth)	2007–08 (% growth)	2008–09 (% growth)	Average growth rate (%)
–	4.587	4.833	5.760	4.602	5.323

Source: ANAO, based on outlay data contained in the Pathology Quality and Outlays MoU.

Adjustments to outlay targets

2.10 Clauses contained in the MoU provide for adjustments to be made to the outlay targets initially established for a variety of circumstances. These circumstances include:

- an initial adjustment of $11.5 million for fee adjustments foregone under the second Pathology Quality and Outlays Agreement (clause 5.6);
- an adjustment of $8 million in each year that patient contributions are below the agreed patient affordability targets (clause 6.4);
- government policy decisions external to the MoU that have a consequential increase or decrease in MBS outlays for pathology services (clause 5.8);
- where growth in the pathology cost index (a 50:50 composite of the consumer price index and average weekly earnings) is more than 5 per cent or less than 2 per cent in any one year (clause 5.11); and

- where the underlying growth in outlays is more than 5.5 per cent or less than 2.5 per cent in any one year (clause 5.14).

Measures in the MoU if outlay targets are exceeded

2.11 If outlays exceed the pro rata cumulative outlay target by an amount of more than 0.5 per cent, the Pathology Consultative Committee (PCC) agrees to recommend necessary action to ensure that the MoU meets its targets. This action may include, but is not necessarily limited to:

- targeted or 'across the board' fee adjustments; and
- changes to schedule fees, item descriptions and/or rules of interpretation under the Pathology Services Table (PST).

2.12 Section 14 of the MoU specifies dispute reconciliation processes to be followed in the event that the PCC cannot agree on the action required to restore outlays to within the established targets.

Actual pathology outlays

2.13 The MoU is based on an average of 5.3 per cent annual growth in pathology outlays over the life of the MoU. Over the first three years of the MoU, the average annual rate of growth of actual pathology outlays was 7 per cent.

2.14 Factors that may have contributed to this greater than expected upward pressure on pathology services include: doctors practising defensive medicine; an expansion in the range of tests available; an ageing population; and government policy changes, for example to improve the access to General Practitioners (GPs), which leads to increased utilisation of pathology services.

2.15 The effect of the greater than expected growth in pathology outlays on the MoU was that, at September 2007, the cumulative tolerance in pathology outlays of plus 0.5 per cent had been exceeded. The cumulative tolerances for 2005–06 and 2006–07 were 3.5 per cent and 5.1 per cent respectively, in excess of the 0.5 per cent threshold to trigger action to manage pathology outlays. See Appendix 4, Table A 3 and Table A 4 for details.

2.16 However, when the impact of the funding adjustment approved in October 2007 is taken into consideration, cumulative variances for 2005–06 and 2006–07 are reduced to -0.19 and 0.41 per cent respectively, well within the 0.5 per cent threshold. See Appendix 4, Table A 5 and Table A 6 for details.

2.17 At a practical level, DoHA's management of the outlay targets has centred on the department considering and advising on the appropriateness of proposed funding adjustments put forward by the pathology profession in response to new

government policy affecting the provision of pathology services. Claims put forward by the pathology profession seeking increases in the MoU outlay targets are examined in the following section.

Resolution of claims put forward by the pathology profession

2.18 Under the terms of the Pathology Quality and Outlays MoU, pathology outlay targets are able to be adjusted where government policy decisions lead to demonstrable increases in Medical Benefits Schedule (MBS) outlays. The Prime Minister's authorisation is required for adjustments to pathology outlay targets in the MoU that exceed $10 million.

Government policy initiatives

2.19 Over the past few years there has been a number of government policy initiatives aimed at increasing access to General Practitioner (GP) services. Specific policy packages include:

- in March 2004
  - the introduction of bulk billing incentives and an extended Medicare Safety Net;
- in January 2005
  - further initiatives introduced in the form of the 100 per cent GP bulk billing rebate and Round the Clock Medicare/*Strengthening Medicare* package (higher rebates for after-hours GP services).

2.20 The pathology profession considers that the implementation of these government policies had:

- a direct effect on the number of GP consultations and a flow-on to the number of pathology referrals from GPs and subsequent ordering of pathology services/tests; and
- an indirect effect on the number of Specialist consultations and a flow-on to the number of pathology referrals from Specialists and subsequent ordering of pathology services/tests (patients can only access Specialist services after they have been to see a GP).

Claims put forward by the pathology profession

2.21 Following the introduction of above health policies, the pathology provider groups (the Australian Association of Pathology Practices, the Royal

College of Pathologists of Australasia, and the National Coalition of Public Pathology) submitted a number of claims to adjust pathology outlay targets.

2.22 DoHA's role is to appraise the relevance and robustness of such claims. Acceptance of claims requires DoHA to put a sound case to Ministers and central agencies to support any recommendation to add additional funding to the Medicare appropriation. Not accepting a claim requires an equally sound response to the claimants.

The GP claim

2.23 The appropriateness of adjustments stemming from new government policies directly affecting GPs (the GP claim) was the subject of extensive negotiations. It can be broadly categorised as comprising two issues, namely:

- considering the merits behind claims that changes in government policy have had an impact on pathology outlays; and
- where the case for an outlay target adjustment has been accepted, assessing the magnitude of the necessary adjustment.

The Pathology profession's first claim (increased GP consultations)

2.24 In October 2005, the pathology profession submitted a claim that the Government's March 2004 and January 2005 policies aimed at encouraging greater access to primary care services had increased GP consultations and the subsequent ordering of pathology services. This claim was re-submitted in March 2006, and the revision requested that $39 million be added to the target pathology outlays in respect of 2004–05.[18] The profession also requested that $65 million be added to each subsequent year of the MoU (2005–06, 2006–07, 2007–08, and 2008–09) for modelling and managing outlays under the MoU.[19]

2.25 DoHA and the pathology profession agreed on the appropriate adjustments for the GP claim for the 2004–05 outlay target. However, they did not agree on the magnitude of all the adjustments necessary for subsequent MoU outlay targets for 2005–06 through to 2008–09.

2.26 In October 2006, the then Prime Minister approved an increase of $39 million to allowable Medicare outlays under the Pathology MoU for 2004–05. This recognised the effect of government policy on GP services and the resulting

[18] Pathology Memorandum of Understanding, Revised Claim for Adjustment (superseding the Claim lodged on 14 October 2005), the Australian Association of Pathology Practices, the Royal College of Pathologists of Australasia, the National Coalition of Public Pathology, 1 March 2006.

[19] The submission that $65 million be added to years 2, 3, 4 and 5 MoU funding targets was based on estimated increased services being provided by both GPs and Specialists.

increase in the demand for pathology services.[20] Additional adjustments to 2004–05 pathology outlays took into account the extended Medicare Safety Net ($5.89 million in 2004–05) and Aboriginal and Torres Strait Islander pap smears (0.27 million in 2004–05). See Appendix 4 for details.

The Pathology profession's second claim (increased GP consultations)

2.27 In January 2007, the pathology profession submitted a further claim that, based on its update of pathology utilisation increases:

> a sum of $103.1 million be added to the allocated funds for the year 2005–06 to offset the increased utilisation of pathology caused by continued increases in GP consultations as a consequence of successful government policies direct at primary care providers.[21]

2.28 Based on commissioned economic analysis,[22] the pathology profession considered that the introduction of the Government's GP policies had resulted in an additional 10.514 million GP services (at 37 pathology tests per 100 consultations) and, consequently, the outlay claim was for an increase of $103.1 million for 2005–06.

2.29 DoHA's calculation, which was advised to the then Minister for Health and Ageing,[23] was based on an additional 8.97 million GP services and amounted to $87.953 million for 2006–06. This position was a compromise between the original amount calculated by DoHA for 2005–06 of $77.5 million and the pathology profession's claim for $103.1 million.[24]

2.30 The difference between the pathology profession's estimate and DoHA's estimate of the effect of the GP policies on pathology outlays in 2005–06 was $25.6 million. Applying the amounts recommended by DoHA, the full cost of the GP claim over the course of the MoU (including the 2004–05 GP claim already agreed) was $419 million. Excluding the adjustments already approved, the amount over the term of the MoU was $379.7 million (Table 2.2).

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20 Letter dated 22 October 2006, from the then Prime Minister to the then Minister for Health and Ageing agreeing to proposed increases in Medicare outlays under the Pathology MoU.

21 Pathology Memorandum of Understanding, Claim for Adjustment, the Australian Association of Pathology Practices, the Royal College of Pathologists of Australasia, the National Coalition of Public Pathology, 18 January 2007.

22 Undertaken by Access Economics.

23 Briefing to the then Minister for Health and Ageing, *Further Outlays and Adjustments for Pathology*, 13 September 2007.

24 Extraordinary Pathology Consultative Committee meeting, 19 April 2007, Attachment A.

Table 2.2

DoHA's recommendation for the GP claim

	DoHA's recommendation for the GP claim ($)
2004–05	39 222 942
2005–06	87 953 347
2006–07	92 210 289
2007–08	97 521 602
2008–09	102 007 595
Total	**418 915 773**
Minus adjustments already approved	39 222 942
Total	**379 692 833**

Source: Briefing to the Minister for Health and Ageing, *Further Outlays and Adjustments for Pathology*, 13 September 2007, Attachment C.

The 'Specialist claim'

The Pathology profession's first claim (increased Specialist activity)

2.31 In its October 2005 and March 2006 claims, the pathology profession also reasoned that the implementation of the Government's policy initiatives had led to additional Specialist consultations and subsequent ordering of pathology services/tests – an indirect impact arising from greater access to primary care GP services.

2.32 In DoHA's view, this Specialist claim was unproven.[25]

The Pathology profession's second claim (increased Specialist activity)

2.33 In its January 2007 claim, the pathology profession sought an adjustment for increased Specialist activity and consequent pathology referrals for the years 2004–05 and 2005–06:

> That on further examination the sums of $9.1 million and $20.2 million be added to the allocated funds in the years 2004–05 and 2005–06 respectively to take account of the flow-on from GPs consultations to Specialist referrals and the consequent increase in pathology outlays from those referrals as a further consequence of those policies.[26]

2.34 The pathology profession estimated that the introduction of the Government's GP policies had resulted in an additional 385 000 specialist

[25] Extraordinary Pathology Consultative Committee meeting, 19 April 2007.

[26] Pathology Memorandum of Understanding, Claim for Adjustment, the Australian Association of Pathology Practices, the Royal College of Pathologists of Australasia, the National Coalition of Public Pathology, 18 January 2007.

consultations in 2004–05 and 855 000 in 2005–06 (at 74.2 pathology tests per 100 consultations).

2.35 The merits behind this Specialist claim were not fully accepted by DoHA. While DoHA presented a detailed statistical explanation of its reasons for not accepting the merits of the Specialist claim in full, PCC members expressed uncertainty about the reasons for DoHA's position on this matter.[27]

2.36 The position put forward by DoHA for the then Minister's consideration included target adjustments relating to increased Specialist referrals as shown in Table 2.3.

Table 2.3

DoHA recommendation for the Specialist claim

	DoHA recommendation for Specialist claim ($)
2004–05	–
2005–06	14 447 287
2006–07	15 169 651
2007–08	15 928 134
2008–09	16 724 541
Total	**62 269 613**

Source: Briefing to the Minister for Health and Ageing, *Further Outlays and Adjustments for Pathology*, 13 September 2007, Attachment C.

Combined GP and Specialist claims

2.37 Based on the position recommended to the then Minister by DoHA, total adjustments for the GP claim and the Specialist claim amounted to $442 million over the term of the third MoU. The pathology profession's full claim, including both GP and Specialist components, was $531.6 million over the remainder of the MoU period.

Economic modelling

2.38 The claims submitted by the pathology profession to increase pathology outlay targets seek to demonstrate a link between the implementation of a range of government policies and an increase in the utilisation of pathology services.

2.39 The pathology profession's initial October 2005 claim rejected by DoHA on the basis that the profession had not proven the linkages between increased GP activity and government policy initiatives and thus the flow-on impact to pathology utilisation. The profession advised DoHA that it stood by its claim but would seek an external independent evaluation of the data, methodology and

[27] Extraordinary Pathology Consultative Committee meeting, 19 April 2007.

conclusions to support or refute its case. Subsequently, Access Economics was commissioned by the profession to undertake this review. Based on statistical modelling, the profession presented a revised claim on 1 March 2006 submitting that there has been a large and continuing increase in pathology activity caused by the success of a range of government policy changes in 2004 and 2005 targeted at making GP and Specialist medical services more accessible and more affordable to patients.

2.40 In March 2007, the pathology profession submitted a further claim for supplementation, also supported by descriptive analysis and statistical modelling.

2.41 At a PCC meeting in April 2007, members discussed why DoHA and the pathology profession had arrived at different calculations for the impact of increased GP services. It was noted that differences in the methods of forecasting and points in time from which projections were made resulted in different outcomes.[28]

2.42 The pathology profession and DoHA have undertaken significant work considering the merits of various economic models that aim to assess the impact of new policies and thereby the size of the necessary adjustment. However, the methodology applied in the model put forward by the pathology profession for the 2005–06 claim differs with regard to forecasting methods from the methodology agreed to in the 2004–05 claim. DoHA stated that it was reluctant to deviate from the precedent set by this earlier claim.

2.43 DoHA attempted to resolve this debate, engaging the Centre for Health Economics at Monash University to provide an independent assessment of both parties' models. The overall conclusion from the assessment was that:

> In summary while the general arguments made by the claimants are plausible, the size of the effect of the policy initiatives in 2004 and 2005 on the actual size of the increase in the number of tests over the counter-factual of no policy initiatives has not been established convincingly.[29]

2.44 DoHA raised the issue of the difficulty of agreeing in advance on a common methodology for economic modelling and associated outlay adjustments, particularly in an environment where future government policies, not known at the time the methodology is developed, can have indirect follow-on effects to pathology outlays.

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[28] Extraordinary Pathology Consultative Committee meeting, 19 April 2007.

[29] Pathology and Radiology Claims, Review for the Commonwealth Government Department of Health and Ageing Diagnostics and Technology Branch, Centre for Health Economics, Faculty of Business and Economics, Monash University, May 2006.

2.45 In this environment, establishing clear evaluation criteria (including the level of economic evidence required) and clarifying the economic modelling methodologies to be used to assess claims to adjust pathology outlay targets, is likely to have assisted the resolution of funding adjustments.

Agreeing the magnitude of the adjustments required

2.46 In September 2007, DoHA recommended to the then Minister an increase in the Pathology MoU funding target of $442 million for the years 2005–06 to 2008–09, comprising $379.7 for flow-ons arising from GP services, and $62.3 million for flow-ons arising from Specialist services. [30]

2.47 At this time it appeared likely that, after adjusting for the effects of these policies, fee reductions may still have been required to constrain Australian Government pathology outlays to within the amount provided for over the term of the MoU.

2.48 In its 13 September 2007 briefing to the then Minister, DoHA noted that:

> If the proposed increase to target outlays is approved, we estimate that the Pathology MoU will still be overspent by $61.6 million by June 2008 and $153.8 million by June 2009. Therefore, if growth in pathology outlays continues at projected levels, some rebate reductions would still be warranted under the terms of the MoU.[31]

2.49 On 18 September 2007, the then Minister for Health and Ageing wrote to the then Prime Minister seeking approval to increase allowable Medicare outlays under the Pathology MoU. The Minister for Health and Ageing noted that:

> Pathology outlays under the MoU have continued to grow strongly and may yet provide cause to reduce Medicare rebates. However, I consider that there is no immediate cause to make such adjustments once the estimates are adjusted for the impact of Government policy.[32]

2.50 On 16 October 2007, the Government agreed to increase allowable outlays under the Pathology MoU by $102.4 million for 2005–06, totalling $442 million over the remainder of the MoU period. An amount of $9.1 million for flow-ons from Specialists was agreed for 2004–05 pathology outlays.[33]

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30 Briefing to the then Minister for Health and Ageing, *Further Outlays and Adjustments for Pathology*, 13 September 2007.

31 ibid.

32 Correspondence from the then Minister for Health and Ageing to the then Prime Minister, 18 September 2007.

33 Letter dated 16 October 2007, from the then Prime Minister to the then Minister for Health and Ageing agreeing to proposed increases in Medicare outlays under the Pathology MoU.

2.51 The parties to the MoU were informed of this outcome on 22 October 2007.[34] DoHA advised that the parties to the MoU subsequently wrote to the then Minister for Health and Ageing, expressing their dissatisfaction with the decision. As the Government was in caretaker mode, DoHA responded on behalf of the Minister, advising that their concerns would be brought to the attention of the incoming government.

DoHA's role in administering the Pathology MoU

2.52 In examining DoHA's administration of the Pathology MoU the ANAO focused on the MoU objective of most concern to the department, namely, to manage pathology outlays. This involved examining DoHA's approach to:

- managing the risks related to increasing pathology outlays;
- timeliness in assessing claims submitted by the pathology profession;
- monitoring actual pathology outlays; and
- performance monitoring and reporting.

Managing the risks related to increasing pathology outlays

2.53 DoHA's administration this third Pathology MoU has not involved any formal assessment of risks or the creation of a risk management plan. Instead, risks have been managed on an ad-hoc basis. Without a documented risk management framework it is not possible to conclude on the extent to which risks have been identified, analysed, treated and monitored by the department. Significantly, it does not allow risk mitigation measures to be considered in a holistic and structured manner, commonly accepted practice in relation to significant agreements and projects.

2.54 A precursor in managing pathology outlays is having an understanding of the drivers behind the growth in pathology services. This information is essential for being able to implement strategies to effectively manage pathology outlays in the long term. Views about the key factors driving the high growth in pathology requests include: an ageing population; changes in health care delivery practices by medical practitioners; the changing profile of medical practitioners and their ordering patterns; increases in the demand for pathology services by consumers; and increases in the demand for pathology services as a result of government health policy initiatives.

[34] Letter dated 22 October 2007, from DoHA to the parties to the MoU advising of the Government's agreement to increases to the MoU outlays.

2.55 A key risk in managing pathology outlays is not fully understanding the drivers behind the growth in pathology services. In May 2001, during the term of a previous MoU, the Australian Association of Pathology Practices (AAPP), the Royal College of Pathologists of Australasia (RCPA), DoHA and the Health Insurance Commission (HIC) participated in a workshop to discuss drivers and structural issues impacting on pathology funding. In August 2001, the AAPP issued a paper entitled *Pathology Funding Agreement Issues to be Addressed by PCC*, which was a product of these discussions. This document is essentially a risk assessment that: 'documents a wide range of drivers and structural factors that are impacting on the ability of all parties to effectively manage the pathology agreement'.[35]

2.56 The AAPP paper identifies numerous issues along with recommended actions that have the potential to form the basis of a risk management plan which would clearly identify the links between the activities of the Pathology Consultative Committee (PCC) and the risks identified. Because of its age this particular document would require updating before it could be used as a component of a broader risk management framework for the current MoU.

Timeliness in assessing claims submitted by the pathology profession

2.57 Under the terms of the MoU, the Government is responsible for meeting increases in pathology outlays that can be demonstrated to have been caused by government policy. The approach taken under the MoU is for the pathology profession (the Australian Association of Pathology Practices, the Royal College of Pathologists of Australasia, and the National Coalition of Public Pathology) to put forward claims to adjust pathology outlay targets following the introduction of new health policies. To determine the veracity of these claims, DoHA undertakes its own analysis and calculations.

2.58 The appropriateness of adjustments stemming from government health policies, particularly the *Strengthening Medicare* package introduced in January 2005 (the GP claim), and the flow-on to Specialist services (the Specialist claim) was the subject of extensive negotiations.

2.59 Following the pathology profession's October 2005 and March 2006 claims, DoHA and the profession agreed on an adjustment to the 2004–05 pathology outlay target arising from the effect of government policy increasing access to GP services (the GP claim). Adjustments for subsequent MoU outlay targets for

[35] Australian Association of Pathology Practices, *Pathology Funding Agreement Issues to be Addressed by PCC*, 2001, p. 17.

2005–06, 2006–07, 2007–08, and 2008–09 were considered more fully by DoHA following the profession's January 2007 claim.

2.60 In DoHA's view, the Specialist claims put forward by the profession in October 2005 and March 2006 were unproven. Following the profession's January 2007 claim, the merits behind the Specialist claim were partially accepted by DoHA for MoU outlay targets for 2005–06 through to 2008–09. [36]

2.61 Timeliness in resolving claims is a significant issue for the pathology profession and DoHA. PCC members have expressed concern about the uncertainty of the outcome and timing of finalising claims.[37]

2.62 In the past, the pathology profession has been critical of the department acting too soon to adjust fees, only to find that it has over-corrected and further action to restore the balance is then needed. On the other hand, the lengthy processes for considering outlay target adjustments can result in a limited window of opportunity before the conclusion of the MoU to make any fee adjustments, should they be necessary.

2.63 DoHA's approach to managing adjustments resulting from new health policy measures has been to consider claims for adjustment as they have been received and to assess whether the case for an adjustment has been satisfactorily established. DoHA advised the ANAO that the terms of the MoU dictate that adjustments to outlays are considered retrospectively, once data showing the actual outlays becomes available. There is no provision in the MoU for DoHA to act before any evidence of outlays exceeding targets becomes available.

2.64 The difficulties experienced in the resolution of funding adjustments has been further complicated by:

- the MOU describing the circumstances in which outlay targets can be adjusted, but lacking any specified mechanism for determining and agreeing the value of those adjustments;
- the number and unprecedented magnitude of new health policy initiatives experienced during the term of the current MoU; and
- a lack of agreed methodologies for economic modelling undertaken separately by DoHA and the pathology profession and clarity over the level of proof required to advance claims to increase outlays.

[36] On 16 October 2007, the Government agreed to increase allowable outlays under the Pathology MoU by $102.4 million for 2005-06, totalling $442 million over the remainder of the MoU period. An amount of $9.1 million for flow-ons from Specialists was agreed for 2004–05 pathology outlays.

[37] Extraordinary Pathology Consultative Committee meeting, 19 April 2007.

2.65 The ANAO notes that PCC members have also expressed concern that there has been a lack of clarity about the level of proof required to successfully argue for outlay targets to be adjusted.

Monitoring actual pathology outlays

2.66 From discussions with stakeholders and a review of the minutes of PCC meetings, it was apparent that the monitoring of outlays to ensure that outlay targets are not exceeded has been the predominant focus of the PCC during the term of the third Pathology MoU.

2.67 DoHA takes the lead role in facilitating the monitoring of outlays. It has a small team focusing on pathology outlays, and sources information for monitoring purposes predominantly from Medicare data.

2.68 Overall, DoHA's monitoring of pathology outlays is comprehensive and consists of a suite of reports for PCC members to consider. These reports provide a thorough analysis of outlays, projected trends and estimated variances. PCC members provide regular feedback on the suitability of reports received and where additional information might prove useful. They considered that DoHA was generally responsive to such requests and, overall, were satisfied with the monitoring undertaken on their behalf.

2.69 DoHA also monitors and reports on movements in the pathology cost index and the underlying year on year growth in outlays. This is necessary as excessive movements in these measures could trigger an adjustment to outlay targets in accordance with clauses 5.11 and 5.14 of the MoU. DoHA's monitoring of actual outlay expenditure to date compared with outlay targets is shown in Appendix 4.

Performance monitoring and reporting

2.70 DoHA is required to prepare biannual reports to the Minister for Health and Ageing about the activities of the PCC and the operation of the MoU as a whole. These reports have focused predominantly on pathology outlays, but also contain information about affordability measures in the form of bulk billing rates, percentage of schedule fee observance, the average patient gap and contribution percentage.

2.71 Biannual reporting to the Minister has not been occurring as required, with the last report provided for the period January to June 2005. At the time of the audit fieldwork, DoHA advised that the report for the period January to June 2007 was being prepared. The reason attributed to three biannual reports not being provided was uncertainty over the target outlay figures arising from then

unresolved claims by the pathology profession stemming from new government policies.

2.72 During the 18-month period when the Minister did not receive biannual reports, some information was provided by way of correspondence accompanying the request to adjust targets following the March 2006 claim from the pathology profession. Similarly, correspondence to the Minister in September 2007 relating to subsequent claims from the pathology profession for target adjustments for GP and Specialist claims provided an update of the progress of the MoU with regards to outlays.

Reviewing the effectiveness of the MoU

2.73 Review and evaluation is an important part of managing government programs. Large programs, especially, should be evaluated on a regular and systematic basis to:

- gauge the continued relevance and priority of program objectives in the light of current circumstances;
- assess whether the program is achieving its stated objectives; and
- ascertain whether more efficient ways of achieving these objectives.

2.74 The Pathology MoU was signed in September 2004. It was based on total Australian Government funding outlays/benefits of $8.034 billion dollars from 2004–05 to 2008–09, incorporating an average of 5.3 per cent annual growth in outlays over the life of the MoU.

2.75 Clauses in the MoU provide for adjustments to pathology outlay targets. As at October 2007, allowable Medicare outlays/benefits under the Pathology MoU had been increased by:

- $11.5 million in 2004–05 for fee adjustments foregone in the previous MoU;
- $8.0 million in 2004–05 and 2005–06 (and provisionally for 2006–07, 2007–08 and 2008–09) when patient contributions were below identified Patient Affordability targets;
- $45.11 million in 2004–05 arising from the pathology profession's claim that government policy decisions increased pathology referrals from General Practitioners. This included the extended Medicare Safety Net ($5.89 million), the Round the Clock Medicare/*Strengthening Medicare* package (38.95 million), and Aboriginal and Torres Strait Islander pap smears (0.27 million);

- $9.1 million in 2004–05 arising from the pathology profession's claim that government policy decisions had increased pathology referrals from Specialist practitioners;
- $442.0 million for the years 2005–06 to 2008–09, comprising $379.7 for flow-ons arising from the extended Medicare Safety Net and the *Strengthening Medicare* package, and $62.3 million for flow-ons arising from Specialist services.

2.76 Over the first three years of the MoU, the number of Medicare funded pathology services increased from 77.7 million per year to 87.5 million per year and the average annual rate of growth of actual pathology outlays was 7 per cent. As at October 2007, adjustments to allowable Medicare outlays/benefits under the Pathology MoU had been increased by $530.57 million, bringing the revised total to $8.564 billion.[38]

2.77 The Pathology MoU has been in operation since 2004 and is scheduled to end in 2009. In considering the design of any future program to provide for stable growth in pathology outlays, it is timely for DoHA to review the effectiveness of the current MoU and the lessons learned from its operation during the past three years. A review would require DoHA to establish a framework to monitor the extent to which the objectives of the arrangement have been met.

Recommendation No.1

2.78 The ANAO recommends that DoHA identifies the lessons learned from its management of the current Pathology Quality and Outlays MoU, particularly in regard to:

- developing a better understanding of the impact of key risks, especially the limited knowledge of the drivers of growth for pathology services, to better inform policy decisions and management strategies for pathology outlays in future years;
- establishing clear evaluation criteria (including the level of economic evidence required) and clarifying the economic modelling methodologies to be used to assess claims to adjust pathology outlay targets; and
- establishing a framework to monitor the extent to which the objectives of the MoU or alternative arrangement have been met.

DoHA's response

2.79 Agreed.

[38] There are minor deductions for P9 group of services - see Appendix 3 and Appendix 4, Table A 5 for details.

3. Strategies that Promote Access to Affordable Pathology Services

As well as being designed to manage pathology outlays, the MoU contains other objectives, including promoting access to affordable pathology services. DoHA considers that promoting access to affordable pathology services is complementary to broader initiatives such as bulk billing. Against this background, this chapter examines the means by which DoHA monitors access to pathology services and determines the contribution of the MoU in promoting affordable pathology services.

3.1 In assessing DoHA's role in promoting access to affordable pathology services, the ANAO examined:

- the overarching strategies for managing patient affordability;
- relevant principles and objectives of the Pathology Quality and Outlays MoU;
- the operation of the MoU; and
- access to pathology services.

Overarching strategies for managing patient affordability

Bulk Billing

3.2 The Government's primary tool for managing patient affordability is bulk billing, which involves the pathology provider billing Medicare directly and accepting the Medicare benefits attributable as full payment for the service provided. This means that if a doctor bulk bills, a patient cannot be charged a booking fee, administration fee, a charge for record keeping or a charge by the doctor. Many GPs bulk bill some patients, such as pensioners or health care cardholders.

3.3 Bulk billing can cover 'out-of-hospital services', where Medicare provides benefits for consultation fees for doctors, including specialists and tests, and examinations by doctors needed to treat illnesses, including X-rays and pathology tests. It also applies to 'in-hospital services'. If patients choose to be admitted as a public patient in a public hospital, they will receive treatment by doctors and specialists nominated by the hospital. They will not be charged for care and treatment, or after-care by the treating doctor. If patients are admitted as private patients in a public or private hospital, they will have a choice of doctor for treatment. Medicare will pay 75 per cent of the Medicare Schedule fee for services

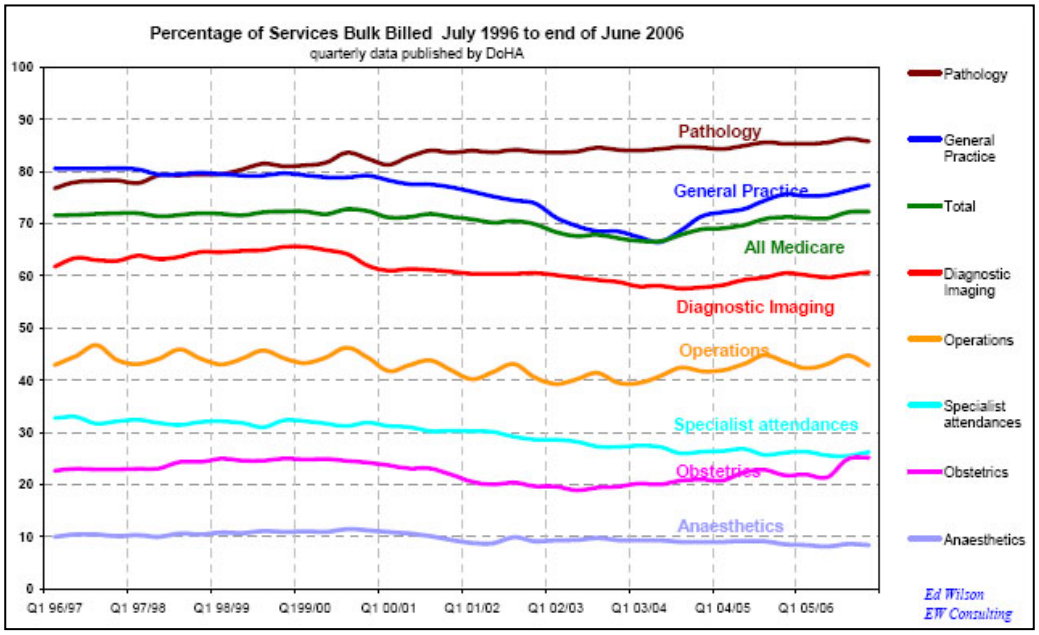
and procedures provided by the treating doctor. Private health insurance may cover some or all of the outstanding balance.

3.4 The schedule fee is a fee-for-service set by the Australian Government and is not necessarily what the doctor charges the patient. The majority of items listed in the Pathology Services Table (PST) relate to the fees for specific services across the range of pathology disciplines. The rebate is also 75 per cent of the Medicare Benefits Schedule (MBS) fee for in-hospital pathology services and 85 per cent of the MBS fee for pathology services rendered out of hospital.

3.5 Bulk billing and schedule fee compliance are the primary means by which affordable pathology services are delivered. Figures 3.1 and 3.2 indicate that the pathology profession is achieving these objectives compared to other specialist service lines.

Figure 3.1

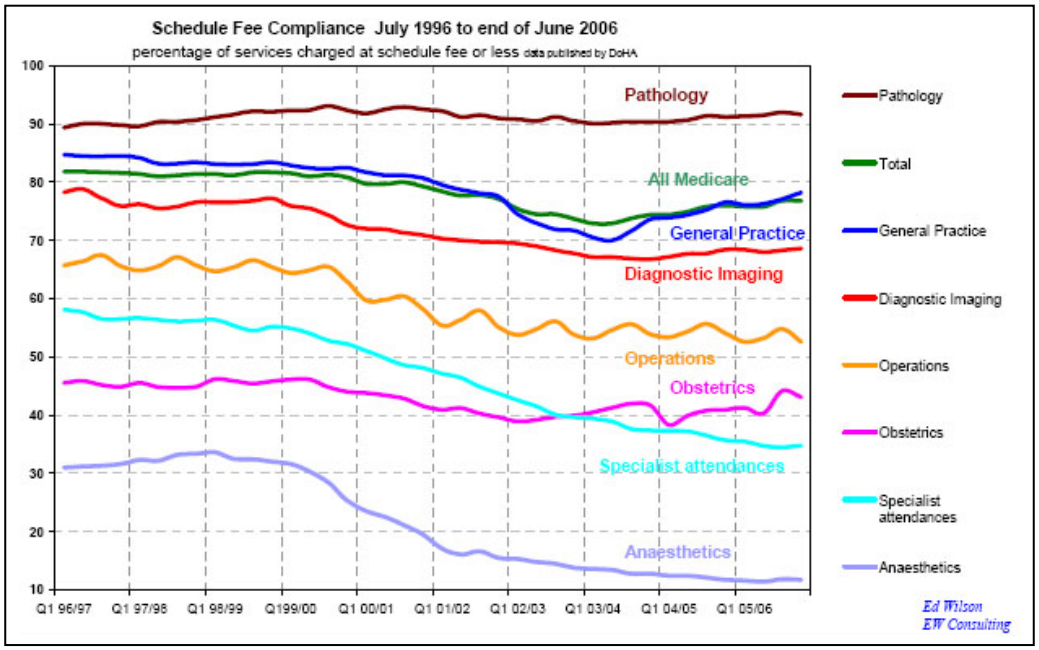
Percentage of services bulk billed



Source: Ed Wilson Consulting.

Figure 3.2

Schedule fee compliance



Source: Ed Wilson Consulting.

Episode Coning

3.6 One rule that affects the fee for pathology services relates to episode coning. Broadly, Medicare benefits payable for a patient episode containing more than three items are limited to the sum of the three items with the highest MBS fees. Exceptions to the episode cone rule include pathology services rendered for hospital in-patients, particular MBS pathology items, and pathology tests requested by Specialists.

3.7 The provision of pathology services under the MBS is governed by a number of rules that define or clarify how services are to be interpreted and funded, namely the: patient episode; episode cone; patient episode initiation (PEI) fees; multiple services rule; and specimen-referred fee.

3.8 A number of submissions to the inquiry that produced the *Report of the Review of Commonwealth Legislation for Pathology Arrangements under Medicare*[39] raised issues about each of the pathology rules for interpretation, including the definition of the rule and its application. In particular:

[39] *Report of the Review of Commonwealth Legislation for Pathology Arrangements under Medicare*, Final Report, December 2002, see <http://www.health.gov.au/internet/wcms/publishing.nsf/content/health-pathology-leg-index.htm/$file/review.pdf>.

- some sectors consider that there are differences in the way pathology services are provided compared with the legal definition of a patient episode. A number of submissions proposed that the definition of a patient episode be changed;
- perceived inequalities about eligibility for, and applicability of, the PEI fee and the episode cone between the public and private sectors require further examination;
- in cases where specimens are referred from one laboratory to another for testing, the way Medicare Australia calculates the episode count—and subsequent benefits paid—should be examined;
- the exemptions to the multiple services rule are too narrow, and provisions for seeking exemptions from Medicare Australia are time consuming and not always successful; and
- the episode cone is perceived as inappropriate by some sectors of the industry.

3.9 Coned-out tests are not billed to the patient when the pathology episode is bulk billed. These factors impact on the profitability of pathology provider organisations, rather than patient affordability, except when passed on in non bulk-billed (patient billed) services as charges above the schedule fee.

Extended Medicare Safety Net

3.10 The extended Medicare Safety Net is a government affordability initiative. If a family or an individual needs to see a doctor or have tests regularly, it creates high medical costs that the patient may be unable to afford. The Medicare Safety Net means that once a family or individual reaches a threshold, the cost of doctor consultations and the on-cost of additional tests may be scaled back so the patient bears less of the service cost.

3.11 Bulk billing, episode coning and the extended Medicare Safety Net focus on the schedule fee. While patients who are bulk billed do not incur any out-of-pocket expense for pathology services, for patients that are not bulk billed it is at the provider's discretion whether to privately bill the patient for the gap or incur the gap themselves. This is essentially an organisational decision, with some providers incurring the gap in order to compete on price, while others pass on the remaining cost to consumers and compete on reputation and service quality alone.

Principles and objectives of the MoU

3.12 The principles and objectives of the Pathology Quality and Outlays MoU are intended to promote:

- access to quality, affordable pathology services (clause 3.1(a)); and
- cooperative strategies that promote affordability of services for patients (clause 3.1(d)).

3.13 The MoU does not define 'access' and 'affordability'. Furthermore, there is no underlying strategy to provide the means by which these objectives will be achieved. The MoU does, however, contain specific provisions on affordability; with regard to the impact affordability has on outlays and the triggers for additional funding to be provided to the pathology profession.

Operation of the MoU

3.14 The MoU requires cooperative strategies to promote affordability of services for patients. The MoU states that strategies may include, but will not be limited to:

- pathology providers being encouraged to inform consumers of their charging policies; and
- developing appropriate arrangements to encourage providers to inform referring practitioners of patient charging policies in relation to pathology services. [40]

3.15 In negotiating the MoU, the Australian Association of Pathology Practices (AAPP), the Royal College of Pathologists of Australasia (RCPA) and the National Coalition of Public Pathology (NCOPP) agreed to advise their members of the Government's concern to minimise costs to patients.

3.16 The focus of administering the MoU is, however, centred on the impact of outlays and monitoring the thresholds established in the MoU to pay the affordability bonus should the predefined criteria be achieved.

3.17 While the concept of patient affordability is not defined in the MoU, patient affordability is monitored by the overall level of patient contributions. The MoU states:

- If patient contributions relating to all Medicare-eligible pathology services for the relevant financial year are equal to, or less than, the specified

[40] MoU Pathology Quality and Outlays 2004–2009.

percentage affordability targets (ranging from 9.5 to 11 per cent of the total fees charged for all Medicare-eligible pathology services for the relevant financial year), the outlay target for the subsequent financial year will be increased by a non-cumulative affordability bonus of $8 million dollars.

- If patient contributions relating to all Medicare-eligible pathology services are more than the MoU affordability target percentage for the relevant financial year, but not more than the percentage plus 1 per cent of the total fees charged for all Medicare-eligible pathology services for the relevant financial year, the outlay target for the subsequent financial year is increased by a non-cumulative affordability bonus of $4 million dollars.
- If patient contributions are equal to, or less than, 11.5 per cent of the total fees charged in the final year of the MoU, $8 million dollars would be made available for carry-over into a subsequent MoU. If patient contributions are more than 11.5 per cent but not more than 12.5 per cent in the final year of the MoU, $4 million dollars would be made available for carry-over into a subsequent MoU.

3.18 Trends in actual patient contributions illustrate that the affordability bonus has been easily achieved and that the percentage targets are generous to the pathology profession. Investigation of the rationale behind these percentages was inconclusive, suggesting the percentages were negotiated between the parties with no evidentiary basis for establishing the thresholds. DoHA indicated that it is unlikely that the affordability targets established in the MoU would be exceeded. This is also reflected in monitoring information provided to the Department of Finance and Deregulation, which has factored in the $8 million affordability bonus for all years of the MoU.

Table 3.1

Patient affordability targets versus actual patient contributions

	2003–04 Patient Contribution (%)	2004–05 Patient Contribution (%)	2005–06 Patient Contribution (%)	2006–07 Patient Contribution (%)	2007–08 Patient Contribution (%)
MoU affordability target	9.5	9.5	10.0	10.5	11.0
Actual patient contribution	7.9	7.5	7.0	7.0	–

Source: Targets are sourced from the Pathology Quality and Outlays MoU and actual contributions from Medicare data.

Access to pathology services

3.19 Trends in access to pathology services suggests there is a need to understand the risks in accessing services and the necessary inequalities that may exist across the population, whether demographic or due to a particular barrier that needs a specific mitigation strategy.

3.20 The Australian Government has implemented the Rural Health Strategy, which recognises that as well as improving access to services and contributing to the retention of the rural health workforce, more direct steps are needed to address the causes of health differences between metropolitan and rural and remote Australians. One of these differentials is access to services.

3.21 While the pathology workforce is primarily urban-based, particularly compared to population distribution, this may not be a great concern in providing pathology services. Unlike services provided by other medical specialists, that often require a face-to-face patient–doctor consultation, pathology services can be provided from a distance (that is, a specimen can be collected in a rural area and sent for testing to a pathologist located in a metropolitan area). As a result, the proximity of the pathology workforce to patients is not as much of an issue as for other medical specialties.

3.22 Transporting specimens to other locations can raise other concerns, including access to appropriate transportation, associated costs, and ensuring proper care of the specimen while it is transported.[41]

3.23 The 2003 Australian Medical Workforce Advisory Committee (AMWAC) report considered the distribution of pathologists across the country. While this was a workforce consideration, it highlighted the need to understand the demographic impact of accessing pathology services and the expected delays to rural patients opposed to the timeliness of clinician feedback for metropolitan patients.[42]

3.24 AMWAC indicated that the distribution of pathologists across the states and territories showed that 90.5 per cent of pathologists are located in a metropolitan area. The geographical distribution of pathologists matches the distribution of all specialists fairly closely. The trend towards corporatisation has resulted in a greater capacity to meet the service demand in rural and regional areas caused by an uneven distribution of providers, and is likely to remain a trend.[43]

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41 <http://www.health.nsw.gov.au/amwac/amwac/pdf/pathology_2003.5.pdf>.

42 ibid.

43 ibid.

3.25 AMWAC surveyed General Practitioners (GPs) in 2001 to ascertain their satisfaction with the availability of pathology services across the country. They included the following distribution table (Table 3.2 below) indicating the following level of satisfaction with the supply of pathology services.

3.26 The report concluded that GPs raising concerns about access to pathologists in their area identified that, with no laboratories located locally, most specimens were collected locally and sent to a central location for processing. While in some cases this system was perceived to be good or adequate, with use of couriers and access to pathology advice via telephone, other respondents noted a concern with lengthy transport times and high transport costs. These key risks are not translated to a strategic management plan, and are not aligned with the access objectives of the MoU. Consequently, there are no access-related activities accounted for by DoHA.

Table 3.2

Adequacy of access to pathology services in areas covered by divisions of general practice, percentage of responses by State/Territory, 2001

State/Territory	Oversupply	About right	Short supply	Totally inadequate	Total
New South Wales	11.1	55.6	22.2	11.1	100.0
Victoria	8.3	75.0	16.7		100.0
Queensland		71.4	28.6		100.0
South Australia	16.7	83.3			100.0
Western Australia		66.7	16.7	16.7	100.0
Tasmania		100.0			100.0
Northern Territory				100.0	100.0
Australia	7.1	69.0	16.7	7.1	100.0

Source: Australian Medical Workforce Advisory Committee survey of divisions of general practice.

Note: Responses show that the majority of GPs located in rural and metropolitan areas indicated that the adequacy of access to pathology services is 'about right'. Rural GPs were more likely to indicate a shortage or inadequate supply of pathology services, compared with metropolitan GPs.

3.27 DoHA has access to various data through Medicare Australia. Some of these data relate to profiling approved pathology authorities (APAs), approved pathology laboratories (APLs), and approved pathology providers (APPs) and can provide some understanding of where providers are located.[44]

3.28 DoHA provided the ANAO with comprehensive data on pathologist distribution and the relational data between APAs, APLs and APPs. The

[44] Many pathologists are not Approved Pathology Practitioners (APPs) and work in a team under one supervising APP. A practice sometimes adopted in the private sector is to bill all services in the name of one APP.

department's data management and retrieval of requested data was very good. However, DoHA does not conduct any underlying analysis as to whether pathology provider locations create access barriers and whether specific strategies are required to mitigate the risks to consumers not being able to readily access pathology services.

4. Enhancing the Quality of Pathology Services

This chapter examines the quality initiatives in the Pathology Quality and Outlays MoU that contribute to a wider framework for quality assurance applying across the pathology profession. It defines the boundary of influence of the MoU over quality control, and examines the role of the Quality Use of Pathology Program and the overall stewardship of the program.

4.1 In examining DoHA's management of initiatives to enhance the quality of pathology services, the ANAO examined:

- the *Health Insurance Act 1973* and the regulatory environment;
- complementary strategies within the Pathology Quality and Outlays MoU;
- the strategy for the Quality Use of Pathology Program (QUPP); and
- projects funded by QUPP.

Health Insurance Act and the regulatory environment

4.2 Since 1986, the *Health Insurance Act 1973* has required pathology laboratories to be accredited in order to access the Medicare Benefits Schedule (MBS). This was introduced as part of a broader package of legislative reforms aimed at addressing concerns about the quality of pathology practice. The Health Insurance (Accredited Pathology Laboratories – Approval) Principles 2002 (as amended) made under sub-section 23 DNA (1) of the *Health Insurance Act* set out current accreditation requirements and processes.

4.3 In determining laboratory accreditation status, Medicare Australia relies on assessments conducted by the National Association of Testing Authorities (NATA), in conjunction with the Royal College of Pathologists of Australasia (RCPA) Quality Assurance Programs Pty Ltd, against national standards established by the National Pathology Accreditation Advisory Council (NPAAC).

4.4 Accreditation by the National Association of Testing Authorities benefits testing and inspection facilities by allowing them to determine whether they are performing their work correctly and to appropriate standards, and providing a benchmark for maintaining that competence. A regular NATA audit checks all aspects of a facility's operations related to consistently producing accurate and dependable data. NATA has provided laboratory accreditation services in Australia since 1947 and the Productivity Commission has confirmed its status as

the Australian Government's recognised national authority for accrediting laboratories (and certified reference material producers).

4.5 The National Pathology Accreditation Advisory Council is established under the *Health Insurance Act 1973* by an Order in Council. Its primary role is to advise the Australian Government and States and Territories on developing standards and policy for accrediting pathology laboratories. It uses international and Australian standards to set standards for pathology laboratories in Australia, for example, ISO15189. Figure 4.1 outlines the pathology regulatory environment in Australia.

4.6 Further strengthening of legislative provisions has also enhanced the quality of pathology services. The Health Insurance Amendment (Inappropriate and Prohibited Practices and Other Measures) Bill 2007 was introduced into Parliament in March 2007. The purpose of the Bill is to prohibit certain practices related to rendering pathology (and diagnostic imaging) services provided under Medicare – including inducements between requesters and providers of such services and other payments that do not benefit patients. The Bill addresses certain recommendations of the Phillips Fox Review[45], in particular that:

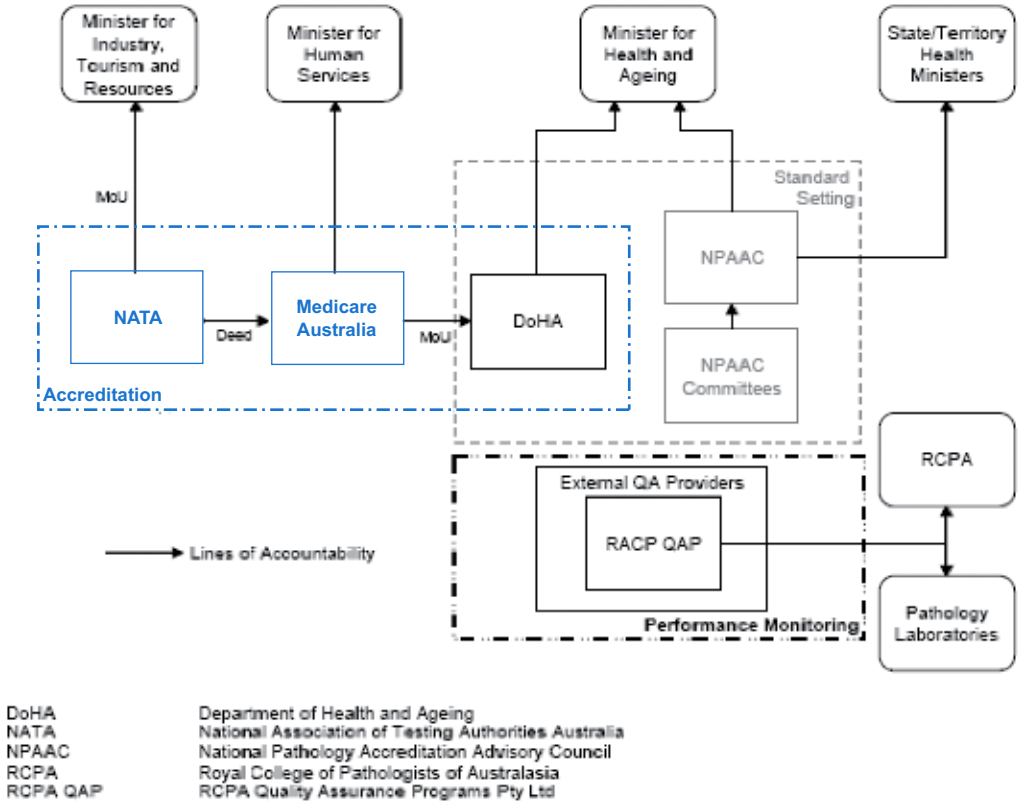
- it be made clear that benefits and bribes between providers and requesters of pathology services are prohibited, and
- the Health Insurance Commission (now Medicare Australia) contains an effective enforcement framework in relation to such practices.

4.7 These recommendations followed findings in the Phillips Fox Review that some pathology providers offer inducements for practitioners to refer patients to them, or order services that may not be clinically necessary. It also found that some medical practitioners were alleged to have demanded payments from pathology providers for referring patients to particular pathology services. While this practice is not considered widespread, the Bill is designed to reduce any instances of this occurring and actively removes any inducements to encourage over-servicing.

[45] *Review of Enforcement and Offence Provisions of the Health Insurance Act 1973 as they Relate to the Provision of Pathology Services Under Medicare* (Phillips Fox Review), 2005.

Figure 4.1

Pathology regulatory environment



Source: ANAO Audit Report No. 5 2007–08 *National Cervical Screening Program-Follow-up*, p. 54.

4.8 The quality assurance process described above as part of the accreditation cycle is not part of the Pathology MoU and, hence, was not considered to be part of the ANAO audit. However, the accreditation process is the key control designed to regulate the pathology profession and to achieve quality pathology practice. Achieving quality pathology practice is also one the three elements of the Quality Use of Pathology Program (QUPP) management strategy. This link is intrinsic to effective management of the MoU, without being specifically addressed in the MoU.

Complementary strategies in the MoU

4.9 DoHA states that 'Improving the quality use of pathology in patient care is an important element of the third Pathology Quality and Outlays Memorandum of Understanding (MoU) between the Australian Government and the pathology profession'.[46]

The Quality Use of Pathology Program (QUPP)

4.10 Section 9 of the MoU focuses on 'Quality Initiatives'. Subject to the appropriate agreements relating to the funds being entered into, the Government will make funding available for a QUPP of up to a maximum of $2 million for each year of the MoU. The annual funding limits will be adjusted to current year prices using Wage Cost Index 4 (WCI-4) or, if the use of WCI-4 is discontinued, an equivalent index. Any funds not spent in the relevant year may be made available in a subsequent year.

4.11 The MoU states that the objectives of the QUPP are to improve patient care through enhancing the quality of pathology services and the appropriate use of services. This may include support for:

- research into consumer needs;
- development of education and information programs for consumers, requestors and/or providers of pathology services;
- utilisation of infomatics and the application of information technology; and
- quality assurance programs.

Quality Use of Pathology Committee

4.12 The MoU requires a Quality Use of Pathology Committee (QUPC) to be established as a sub-committee of the Pathology Consultative Committee (PCC) and take responsibility for providing advice and recommendations on strategic directions and projects implemented under the QUPP.

4.13 DoHA provides secretariat services to the QUPC. The secretariat is responsible for numerous activities that support the QUPC, including ensuring the committee is aware of Australian Government policy directions; liaising with internal and external stakeholders to facilitate projects; undertaking procurement

[46] See DoHA, Quality Use of Pathology homepage <http://www.health.gov.au/internet/wcms/publishing.nsf/Content/health-pathology-qual-index.htm>

and tender processes, and managing projects and contracts; and managing the QUPP budget.[47]

4.14 The original terms of reference of the QUPC were to:

- develop projects to demonstrate areas where improvements in practice could be made; and
- encourage their adoption in general practice by introducing incentives.

4.15 In November 2005, DoHA undertook an initiative to better define the direction of the QUPP and the role of the QUPC. It commissioned NOVA Public Policy, a consultancy firm with extensive experience in health care policy and practice, to develop a national strategy for the QUPP and processes for administering the QUPP that met Australian Government accountability requirements.

4.16 In undertaking this task NOVA was specifically asked to: assess the QUPP and its future directions; develop a national strategy and work plans for the QUPP; provide recommendations on outsourcing the management of the QUPP; and develop a program management system for the QUPP.

4.17 The NOVA report was finalised in March 2006, with the terms of reference for the QUPC being redefined to:

- identify priority areas and develop best practice clinical guidelines to facilitate the quality use of pathology testing;
- identify priority areas and develop educational material for pathologists and medical practitioners aimed at improving the quality of use of pathology services;
- promote the adoption of health informatics by pathologists and medical practitioners;
- identify and address consumer issues in relation to the use of pathology services, and the development of education and information programs;
- research and identify initiatives across the health care sector that could support the work of the QUPC;
- identify and implement effective communication strategies to disseminate the work of the QUPC; and
- report regularly to the PCC on QUPC activities.

[47] DoHA has considered outsourcing the secretariat function of the QUPP to the Royal College of Pathologists of Australasia, primarily to overcome the negative consequence of high staff turnover in the department, which has led to instability and lack of continuity in managing the program. While DoHA continues to operate the secretariat function, it has advised that this issue is likely to be reviewed.

Strategic Plan for the QUPP

Program framework

4.18 The NOVA report was a positive initiative undertaken by DoHA. The future for the QUPP following the NOVA report is more clearly defined, with a robust program structure and framework. DoHA now has a national strategy to guide research and funding priorities for the program and to recommend more accountable processes for its administration.

4.19 The national strategy includes a Program Framework and an Outline Work Plan 2004–05 to 2008–09. These two documents establish the goals and objectives for the QUPP, targets, budgets and milestones for each year, and program governance, management and administration requirements for performance against the framework, work plan and budget. The QUPP work plan has three sub-programs:

- quality consumer services – to develop and improve consumer-focused, accessible and coordinated services that promote informed choice and meet consumer needs;
- quality referrals – (requesting/ordering) to support referral practices that are informed and facilitated by best practice professional relationships and protocols between referrers and providers; informed by evidence; maximise health benefit; and inform and engage consumers; and
- quality pathology services – to support professional practice standards that meet consumer and referrer needs and provide evidence-based, best practice, quality-assured services that are safe, cost-effective and efficient.

4.20 One of the sub-objectives of the QUPC is to educate consumers about the use of pathology services. There are initiatives to ensure informed choice among consumers and that consumers understand the nature and availability of pathology tests. The Consumers' Health Forum of Australia was particularly complimentary of the QUPP-funded initiative *Lab Tests online*[48] which is designed to help patients better understand the many clinical laboratory tests that are part of routine care, as well as diagnosis and treatment of a broad range of conditions and diseases. The forum considered that this initiative more than satisfied the QUPP sub-program for quality consumer services.

4.21 The program framework is a significant improvement on past arrangements and should address concerns from the pathology profession that the QUPP and related quality initiatives lacked strategic oversight.

[48] <http://www.labtestsonline.org.au/>

Strategic links

4.22 Notwithstanding, the strategic plan for the QUPP, the pathology MoU and the terms of reference for the PCC and the QUPC do not align. The business guidelines that structure the role and responsibilities of the PCC and the terms of reference for the QUPC do not state how the principles and objectives of the MoU are to be achieved. They focus on the PCC as an oversight committee and the QUPC as a strategic sub-committee. The ANAO notes that, in responding to DoHA, the NOVA report did not focus on the specific MoU requirements.

4.23 There is also a risk that the newly established direction for the QUPC potentially overlaps with other established structures such as National Pathology Accreditation Advisory Council (with regard to standard setting) and the RCPA (with regard to addressing quality in pathology practice). The existing framework does not specify how the interrelationships with these bodies should be conducted.

Projects funded by the QUPP

4.24 Appendix 5 of this audit report contains a list of the 26 QUPP projects funded and completed. The ANAO examined DoHA's administration of QUPP projects to determine whether:

- the department used standard templates and funding agreements to promote consistency;
- criteria for considering individual projects aligned with the broader objectives of the MoU.

Standard templates and funding agreements

4.25 DoHA decides on funding allocation for QUPP projects. It is important to note that this is the role of the department as custodian of the public purse – it is not a role for the QUPC, although recommendations are forwarded by the QUPC, of which DoHA is a member. However, the final decision rests with DoHA.

4.26 To ensure transparency and accountability requirements are satisfied, DoHA uses standard funding agreements for each individual project. Each project is assessed against the following standard three assessment criteria:

- need – the applicant can demonstrate that the proposed project addresses needs within the organisation, in the local community, and/or nationally, and has the capacity to complement and/or add value to pathology services, activities, resources and/or consumers;

- ability – the applicant can demonstrate they have the ability to complete the proposed project to a high standard within the timeframe and budget, and that the project represents value for money; and
- sustainability – the applicant can demonstrate that the proposed project outcomes are sustainable and can be continued after funding is expended.

Alignment with the broader objectives of the MoU

4.27 The QUPP project templates and funding agreements are sound and assist a standardised consideration of each funding application. However, a weakness in the assessment methodology is that the project criteria do not clearly link to the QUPP program framework and Outline Work Plan in terms of clearly defining measurement criteria against the project goals and priorities or the broader program objectives. Consequently, there is little alignment with the principles and objectives of the MoU.

Project-specific findings

4.28 In the period 2001 to 2006, DoHA funded 30 projects through the MoU under the auspices of the QUPP. Twenty-six of these projects are listed on DoHA's website (and in Appendix 5). The nature of the projects varied according to the priorities of the QUPC. The audit reviewed a sample of files covering a period from 2001 to August 2007, for the following QUPP projects:

- the First World Congress on Pathology Informatics (sponsorship of the event);
- Hand Held Decision Support Devices (development and trial);
- RCPA Pathology Update 2006 (sponsorship of the event); and
- Common Sense Pathology Project publication (included as an insert in *Australian Doctor*).

4.29 The four projects differed significantly in how they have been managed by DoHA. Findings from this review were as follows.

- Projects that consisted of sponsoring pathology events could benefit from better documentation supporting the degree to which sponsorship can achieve the project aims. Arguably, most events sponsored would have proceeded regardless of QUPP funding. This therefore necessitates strategic alignment with the program objectives to justify the expense.
- The better managed projects benefited from comprehensive templates for assessing whether milestones have been achieved – others could benefit from the approach.

- In one instance, financial statements to DoHA were certified by the Manager, Accounting Services, rather than by a qualified and independent auditor, as required in the agreement. This did not provide independent assurance over the final expended amount.
- Decisions to extend projects rather than return unexpended funds could benefit from better documentation of the decision process used. Certainly, the documentation on hand to support this decision lacked the rigour of the initial project proposal.
- Not all projects contained an agreed evaluation method to gauge the success of the project.

4.30 Overall, it was evident that the QUPP provides a means to approve projects that support various quality initiatives, but without any clearly defined link to the MoU. The evaluation criteria for projects are typically based on the financial benefits realised, which may not always align with the quality use of pathology.

5. Pathology Workforce Development and Support

This chapter examines the activities DoHA has undertaken to support the principles and objectives of the Pathology Quality and Outlays MoU in relation to workforce development and support.

5.1 In examining DoHA's support of the principles and objectives of the Pathology Quality and Outlays MoU relating to workforce development and support, the ANAO examined:

- recent reviews concerning the health workforce; and
- the links between the Pathology MoU and the pathology workforce.

The health workforce

5.2 The primary providers of pathology training positions in Australia are the States and Territories, in line with their public hospital service delivery employment functions. The Australian Government provides funding for public hospital based training of medical specialists through the Australian Health Care Agreements. States and Territories are required under the Agreements to continue to provide support for medical specialist training positions and determine the level of funding to be allocated within the individual hospital budgets for this purpose. States and Territories also determine the number and type of accredited training places to be provided.

5.3 Policy formulation concerned with the supply of pathology training places (as with other medical and health workforce issues) is managed through established Commonwealth/State structures, notably the Australian Health Ministers' Advisory Council (AHMAC), which directly advises Health Ministers and, through them, the Council of Australian Governments (COAG).

5.4 In July 2006, AHMAC established the Health Workforce Principal Committee (HWPC) as its principal adviser on health workforce issues. The HWPC (formerly the Australian Health Workforce Officials' Committee) is a committee of senior government officials that reflects the interest of governments as major employers of health workforce, providers of public sector health and key funders of the health care and education and training sectors.

5.5 In providing advice to AHMAC, the HWPC considers the health workforce as a whole, across the spectrum of health occupations and roles, and the

public and private sectors and takes into account the public interest. The HWPC advises on a coordinated approach to national health workforce strategic issues.

5.6 A National Health Workforce Taskforce (NHWT) was established in December 2007. It has been given carriage of a number of the COAG Health Workforce Reforms via the HWPC on behalf of Health Ministers. This will form part of a broader work-program which will include undertaking reform projects focusing on workforce education and innovation; carrying out research including workforce planning activities previously undertaken by the HWPC Secretariat; and providing secretariat support for the HWPC.

Reviews of the pathology workforce

Report on the specialist pathology workforce

5.7 The Australian Health Ministers' Advisory Council (AHMAC) established the Australian Medical Workforce Advisory Committee (AMWAC) in 1995 to help develop a more strategic focus on medical workforce planning in Australia and advice on national medical workforce matters, including workforce supply, distribution and future requirements.[49] AMWAC was disbanded on 30 June 2006 and replaced by the HWPC and the newly established NHWT.

5.8 As part of its 2000–2001 Work Plan, AHMAC requested the then AMWAC to report on the specialist pathology workforce. A Pathology Workforce Working Party was established as a sub-committee of AMWAC and asked to report on the optimal supply and appropriate distribution of pathologists across Australia, including projections for future requirements.

5.9 The 2003 AMWAC report describes the specialist pathology workforce; assesses its adequacy; projects future supply of, and requirements for, the specialist pathology workforce; and assesses what adjustments may be needed to current arrangements to achieve a specialist pathology workforce where supply meets requirements.

5.10 The AMWAC report on the pathology workforce revealed a serious shortage of pathologists in Australia, but also recognised this was an international problem and could not be remedied by importing specialist pathologists from overseas.[50]

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[49] See Australian Medical Workforce Advisory Committee homepage: <http://www.health.nsw.gov.au/amwac/amwac/index.html>

[50] Royal College of Pathologists of Australasia, Fact File, *Pathology Workforce in Australia*, November 2007, available at <http://www.rcpa.edu.au>

5.11 The Royal College of Pathologists of Australasia (RCPA), Fact File, *Pathology Workforce in Australia*, November 2007, provides an update of the pathology workforce in Australia. RCPA data shows that in 2006 there were 1281 pathologists in active practice. With the population in Australia reaching 20 million, that provides an overall population ratio of 1 pathologist to 15 500 per head of population (see Table 5.1).

Table 5.1

Specialists practising mainly in pathology, by sub-specialty, 2006

Sub-specialty	Number of Specialists	Percentage of total
Anatomical pathology	545	42.54
General pathology	108	8.43
Microbiology	149	11.63
Haematology	304	23.73
Chemical pathology	72	5.62
Forensic pathology	24	1.87
Immunology	73	5.70
Genetics	6	0.47
Total	1 281	99.99

Source: Royal College of Pathologists of Australasia, Fact File, *Pathology Workforce in Australia*, November 2007, available at <http://www.rcpa.edu.au>

5.12 The RCPA Fact File states that a major concern is that 20 per cent of Australia's active pathologists are currently over the age of 60, with 10 per cent over 65.

5.13 The 2003 AMWAC report on pathology recommended that an additional 100 registrar positions needed to be created every year for five years to address the current shortfall of pathologists (at that time there were around 260 trainees in Australia, with an average of 50 new trainees entering the programs each year).[51] In 2006, a snapshot survey of vacancies in pathology revealed some 72 full-time equivalent vacancies (these vacancies were for funded positions at the time, not potential positions).[52]

[51] See Australian Medical Workforce Advisory Committee report, available at <http://www.health.nsw.gov.au/amwac/amwac/pdf/pathology_2003.5.pdf>, p. 41.

[52] Royal College of Pathologists of Australasia, Fact File, *Pathology Workforce in Australia*, November 2007, available at <http://www.rcpa.edu.au>

The Australian Health Ministers' Conference

5.14 The Australian Health Ministers' Conference of 2004 stated that the health workforce is a high priority for Australian Health Ministers, and in recent years there has been an ongoing investment in coordinating national health workforce action.[53]

5.15 The conference noted there had been no national strategic framework to guide that action, and responded by developing a national framework. This represents Australia's first attempt to establish a comprehensive National Health Workforce Strategic Framework, and is designed to guide national health workforce policy and planning and Australia's investment in its health workforce throughout the decade. Existing or emerging shortages have been highlighted in all but one (paediatrics) of the 24 medical workforces examined in detail by the Australian Medical Workforce Advisory Committee. Key areas of shortage included pathology.

COAG health workforce reform agenda

5.16 The Australian Government asked the Productivity Commission to examine issues impacting on the health workforce, including the supply of and demand for health workforce professionals, and propose solutions to ensure the continued delivery of quality health care over the next 10 years. The research report, *Australia's Health Workforce,* was released on 19 January 2006.

5.17 The report found that Australia is experiencing workforce shortages across a number of health professions, despite a significant and growing reliance on overseas-trained health workers. The shortages are more acute in rural and remote areas and in certain special needs sectors.[54]

5.18 With developing technology, growing community expectations and an ageing population, the demand for health workforce services will increase, while the labour market will tighten. The Productivity Commission recommended an integrated set of national actions to secure a more sustainable and responsive health workforce. The proposed workforce arrangements were designed to:

- drive reform to scopes of practice, and job design more broadly, while maintaining safety and quality;
- deliver a more coordinated and responsive education and training regime for health workers;

[53] **<**http://www.health.nsw.gov.au/amwac/pdf/NHW_stratfwork_AHMC_2004.pdf**>,** p. 32.

[54] *Australia's Health Workforce*, Productivity Commission Research Report, Key Points, 2006 p. xiv.

- accredit courses and institutions and register health professionals in nationally consolidated and coherent frameworks; and
- provide financial incentives to support access to safe and high-quality care in a way that promotes innovation in health workplaces.

5.19 In July 2006, following the release of the Productivity Commission report, COAG announced a major health workforce reform agenda. COAG agreed to a package of reforms to help ensure that the health workforce can respond to the evolving care needs of the Australian community, while maintaining the quality and safety of health services. The Australian Government's total contribution to the package is in the order of $300 million over four years.

Links between the Pathology MoU and the pathology workforce

Pathology training places provided through the MoU

5.20 The Pathology and Quality Outlays Memorandum of Understanding (MoU) 2004–05 – 2008–09 states:

> The Parties recognise the need to increase the number of training places provided for pathologists in the private sector, while maintaining the number of public sector training places.[55]

5.21 Through the MoU the Australian Government has contributed $3.75 million towards the cost of training new pathologists in the private sector. This approach is the Australian Government's contribution to a key recommendation of the Australian Medical Workforce Advisory Committee review – that an additional 100 registrar positions need to be created every year for five years to address the current shortfall of pathologists.[56] As such, the MoU is a minor element of wider pathology workforce initiatives that are part of broader health workforce reforms.

5.22 The MoU recognises the changing profile of pathologists in Australia, with the increasing age of pathologists contributing to the shortfall.[57] Specific funding has been allocated to increase the number of training places for pathologists in private industry. According to the MoU, it is anticipated that funds will be distributed between years as illustrated in Table 5.2.

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55 The Pathology Quality and Outlays MoU, 1 July 2004 to 30 June 2009, Clause 11.1.

56 Royal College of Pathologists of Australasia, Fact File, *Pathology Workforce in Australia*, November 2007, available at <http://www.rcpa.edu.au>

57 Because international comparisons suffer from uncertainties about definitions of specialist pathologists and variations in style and scope of practice and health care systems, it is difficult to establish international benchmarks in this area.

Table 5.2

MoU workforce funding

2004–05 ($m)	2005–06 ($m)	2006–07 ($m)	2007–08 ($m)	2008–09 ($m)	Total ($m)
1.25	2.50				3.75

Source: Pathology Quality and Outlays MoU.

5.23 Clauses 11.3 and 11.4 of the MoU relating to training places state:

- The annual funding amounts are in 2004–05 prices and will be adjusted to current year prices using the Wage Cost Index 4 (WCI-4) specified in the MoU or, if the use of WCI-4 is discontinued, an equivalent index. Any funds not spent in the relevant year may be made available in a subsequent year.
- Provision of funds is subject to appropriate agreements between the parties being entered into. The precise purpose the funds may be used for, and the associated terms and conditions, are set out in separate agreements between the relevant parties under the stewardship of the Pathology Consultative Committee (PCC).

The contribution of the MoU in addressing pathology workforce issues

5.24 As mentioned above, the 2003 Australian Medical Workforce Advisory Committee report recommended that an additional 100 registrar positions needed to be created every year for five years to address the current shortfall of pathologists.[58]

5.25 Under the Pathology MoU, the Australian Government contributed $3.75 million towards the cost of training new pathologists in the private sector. The MoU was signed in September 2004 and funding for up to 10 pathology training places in the private sector began in January 2005. These positions were filled for five years, commencing in 2005. The distribution of the 10 funded positions by State is as follows: Queensland 2, New South Wales (NSW) 4, Victoria 3 and Western Australia 1. DoHA provides funding of $75,000 per trainee per year over the life of the MoU.[59]

5.26 The Australian Government has committed to funding the training for a further 20 positions in the private sector and is seeking collaborative funding arrangements to increase the overall number of pathology training positions

[58] Royal College of Pathologists of Australasia, Fact File, *Pathology Workforce in Australia*, November 2007, available at <http://www.rcpa.edu.au>

[59] Provided in discussions with Workforce Infrastructure Branch, DoHA.

provided. The Royal College of Pathologists of Australasia (RCPA) advised that State and Territories have committed to the following number of positions: New South Wales (NSW): 7 (4 x 12-month seed funding only plus 2 forensic pathology, 1 private sector); Victoria: 10 (commencing 2007); Queensland: 21 positions (20 Queensland Government, 1 University of Queensland); South Australia: 2; Western Australia: 19 (18 Western Australian Government, 1 private sector); Tasmania: 1 (from private sector hospitals directly); and the Australian Capital Territory (ACT): 2 positions. In total, there are 92 new positions, well short of the extra 400 positions the Australian Medical Workforce Advisory Committee report identified as necessary by the beginning of 2007.[60]

Table 5.3

Pathology trainees, by State/Territory, 2002

State/Territory	Number of trainees	Percentage of trainees	Percentage of population
New South Wales	72	37.5	33.7
Victoria	48	25.0	24.6
Queensland	27	14.1	18.9
South Australia	20	10.4	7.8
Western Australia	15	7.8	9.9
Tasmania	3	1.6	2.4
Northern Territory	0	0	1.1
Australian Capital Territory	7	3.6	1.7
Total	192	100.0	100.0

Source: Royal College of Pathologists of Australasia, Australian Bureau of Statistics.

5.27 The RCPA oversees training in the pathology profession. DoHA has a direct funding agreement with the RCPA, although the majority of positions are funded by the States and Territories through public hospital employment. The RCPA accredits laboratories for training in individual disciplines, but does not determine the number of training positions.

5.28 The RCPA has identified a reduction in registrar positions in public sector laboratories as an issue that may influence training numbers in the next few years. This has emerged over the years as a result of contestability within the public sector and the subsequent erosion of trainee placements. The RCPA is exploring the possibility for more training in private sector laboratories. It is also

[60] Royal College of Pathologists of Australasia, Fact File, *Pathology Workforce in Australia*, November 2007, available at <http://www.rcpa.edu.au>

undertaking a major education review to determine the future market for pathologists.

5.29 The RCPA supervises a five-year training program. There are joint programs with the Royal Australasian College of Physicians in haematology, immunology and endocrinology/chemical pathology; and with the Royal Australasian College of Physicians for Microbiology/Infectious Diseases (see Table 5.4).

Table 5.4

Accredited pathology training laboratories, by State/Territory, 2003

State/Territory	Number of accredited hospitals/laboratories	Accredited disciplines
New South Wales	23	Microbiology, anatomical pathology, chemical pathology, haematology, immunology, genetics
Victoria	22	Microbiology, anatomical pathology, chemical pathology, haematology, immunology, genetics
Queensland	11	Microbiology, anatomical pathology, chemical pathology, haematology, immunology
South Australia	6	Microbiology, anatomical pathology, chemical pathology, haematology, immunology, genetics
Western Australia	7	Microbiology, anatomical pathology, chemical pathology, haematology, immunology, genetics
Tasmania	1	Microbiology, anatomical pathology, chemical pathology, haematology
Northern Territory	1	Microbiology, anatomical pathology.
Australian Capital Territory	1	Microbiology, anatomical pathology, chemical pathology, haematology, immunology
Australia	72	

Source: Royal College of Pathologists of Australasia.

5.30 Government-supported health workforce planning and research in Australia occurs at both the national and State/Territory levels. National activities are undertaken through a number of working groups, overseen and coordinated by the Health Workforce Principal Committee. The working groups undertake health workforce projects, and research and data analysis, and then provide workforce planning advice to Australian Health Ministers, the Australian Health

Ministers' Advisory Council, jurisdictions and health workforce stakeholders. The workforce planning advice guides workforce policy.

Measuring the contribution of the MoU to broader pathology workforce issues

5.31 Pathology workforce issues are not directed or managed through the MoU although, as mentioned earlier, it does provide $3.75 million for a cohort of 10 pathology training positions. The MoU is, therefore, not a major mechanism for supporting pathology training, but was designed to make a modest contribution to it.

5.32 Currently, in managing the MoU, DoHA's contribution to addressing broader workforce needs in the pathology sector is to ensure that training positions provided through the MoU have been filled.

5.33 The annual funding amounts for training provided through the MoU are expended by the Royal College of Pathologists of Australasia (RCPA), with costs attributed to DoHA's Workforce Infrastructure Branch. The link between MoU funding for pathology training positions and the broader pathology workforce priorities could be made more transparent.

5.34 The Pathology Consultative Committee (PCC) plays no part in monitoring or acquitting use of these funds. The RCPA takes the lead on accounting for the pathology workforce, as the funded training positions must be accredited positions through the RCPA. The PCC does have a standing agenda item that considers reports from the Chief Executive Officer (CEO) of the RCPA, where the CEO is also a member of the PCC. Reporting to the PCC is limited to quarterly updates on the training positions from the RCPA perspective.

5.35 In addition to the Private Pathology Trainee Program, the Australian Government has two other programs designed to expand the supply and breadth of specialist training:

- the Expanded Specialist Training Program (originating from a Council of Australian Governments' agreement in July 2006) for the training of specialists in a broader range of settings; and
- the Outer Metropolitan Specialist Trainee Program (announced in the 2002–03 Budget) for the training of specialists in outer metropolitan locations.

5.36 Each of these program funds an additional 10 pathology positions.

5.37 While limited performance information is provided to the PCC, there is no strategic workforce planning that aligns DoHA's responsibility of administering workforce funds provided in the MoU with the broader needs of the pathology sector. Such strategic planning would assist DoHA to monitor the contribution of the MoU, through the increased number of training places provided for pathologists in the private sector, to the National Health Workforce Strategic Framework.

Ian McPhee
Auditor-General

Canberra ACT
21 May 2008

Appendices

Appendix 1: Pathology Activity Areas

Pathology involves examining and testing body fluids and body cells to identify what changes are occurring and to help select the best course of treatment. Pathologists seek to improve the quality of life for a patient by identifying disease early and monitoring treatment to prevent the disease progressing. Pathologists are doctors who undertake an additional five years full-time study and training after graduation to become expert in using laboratory tests to diagnose and treat disease.

At the present time, pathology has the following seven different areas of activity, related either to the methods used or the types of disease they investigate:

- Anatomical pathology – deals with the tissue diagnosis of disease. Modern anatomical pathologists examine not only samples of solid tissue, but also small specimens of separated cells. This is the sub-specialty of cytology. The specimens include fluids and tissue smears, mainly for diagnosis and prevention of cancer.
- Chemical pathology – encompasses detecting changes in a wide range of substances in blood and body fluids (electrolytes, enzymes and proteins) in association with many diseases. In addition, it involves detecting and measuring tumour (cancer) markers, hormones, poisons and both therapeutic and illicit drugs.
- Genetics – there are two main branches of laboratory genetics:
  - (1) clinical cytogenetics, which involves the microscopic analysis of chromosomal abnormalities, such as an increase or reduction in the number of chromosomes or a translocation of part of one chromosome to another. These techniques are used to diagnose such conditions as Downs Syndrome, and
  - (2) molecular genetics, which uses the tools of DNA technology to analyse mutations (changes) in genes. Many genes have been identified that are associated with such diseases as cystic fibrosis, breast cancer and diabetes mellitus.
- Haematology – deals with many aspects of diseases affecting the blood such as anaemia, leukaemia, lymphoma, and clotting or bleeding disorders.
- Immunopathology – involves both laboratory medicine (testing specimens collected from patients) and clinical practice (interviewing, examining and advising patients about clinical problems). In the laboratory,

immunologists are involved in designing, performing and supervising tests of the immune system. These include, for example, testing for 'allergy antibodies' to determine whether patients have allergies to various substances, measuring different classes of antibody proteins to determine the state of the immune system's defence mechanisms, or monitoring the level of T-lymphocytes, the cells that disappear after HIV infection.

- Microbiology – deals with diseases caused by infectious agents such as bacteria, viruses, fungi and parasites. Again, many microbiologists have roles in both the laboratory and directly in patient care.
- General pathology – a general pathologist is familiar with the major aspects of all branches of laboratory medicine described above and is usually trained in anatomical pathology, cytology, chemical pathology, microbiology, haematology and blood banking, though not in as much detail as sub-specialists in each field. A general pathologist would usually work in a medium-sized private practice, community hospital, or a large country town or other non-metropolitan centre.

Appendix 2: List of Reviews Relevant to the Pathology Sector and the Administration of the MoU

The regulatory framework has been the subject of numerous recent reviews, many of which impact on the quality issues discussed previously. These reviews include the following.

- *Review of Commonwealth Legislation for Pathology Arrangements under Medicare*

  The Department of Health and Ageing has conducted a broad review of the Commonwealth legislation that establishes the regulatory framework for pathology services provided under Medicare.

- *Review of the Enforcement and Offence Provisions of the Health Insurance Act 1973 as they Relate to the Provision of Pathology Services Under Medicare*

  This review, finalised in August 2005, was undertaken by Phillips Fox Lawyers to address recommendations from the Review of the Commonwealth Legislation for Pathology Arrangements under Medicare.

- *Health Insurance (Accredited Pathology Laboratories – Approval) Principles*

  Under Section 23DNA of the *Health Insurance Act 1973*, the Minister or a delegate may determine principles which outline eligibility for premises to be approved as an accredited pathology laboratory. The current version of the principle came into effect on 1 July 2006.

- *Health Insurance (Eligible Collection Centres) Approval Principles*

  Sub-section 23DNBA(4) of the *Health Insurance Act 1973* requires the Minister to determine, in writing, principles that apply to granting approvals for eligible pathology specimen collection centres. Approved pathology specimen collection centres are known as 'approved collection centres'. A major focus of the new arrangements is an emphasis on the quality of pathology specimen collection facilities. Under the Medicare benefits arrangements, pathology specimens need to be collected in an approved collection centres, or in other specified circumstances.

Appendix 3: Growth in Pathology Services and Benefits

A brief history of Australian Government funding arrangements for pathology services

During the 1980s, several reports were undertaken investigating claims of fraud and over-servicing, inducements and kickbacks in the pathology services industry.[61] In 1985, pathology benefits were deemed a segment of Medicare expenditure that should be fully accounted for. Since then, demand for pathology services has continued to increase as a percentage of benefits paid for all services, contrasting with a decline in consultations for General Practitioners (GPs) and Specialists.

On 1 August 1986, the pathology schedule received a unilateral fee cut of 25 per cent against the 25 most commonly undertaken pathology items. This effectively amounted to a 13 per cent reduction in pathology schedule outlays as a whole. In 1988–89, the Government proposed a further reduction to schedule fees, this time a 20 per cent 'across the board' cut. This resulted in a Federal Court challenge against the Pathology Services Advisory Committee (superseded by the PSTC), which was ultimately successful.

In the early to mid-1990s the Australian Government introduced a range of measures designed to limit growth in pathology outlays which, by 1990–91, were tracking at approximately 13 per cent. These measures included legislation to regulate the Medicare system, including an accreditation procedure limiting the number of pathology laboratories and collection centres able to claim Medicare rebates.

The Government has also entered into agreements/ Memorandum of Understanding (MoU) with the professional bodies representing the pathology profession to manage Australian Government pathology outlays.

Table A 1 provides a brief history of these and other related changes affecting the way pathology has been remunerated by the Government from 1985 up to the signing of the third Pathology MoU in 2004.

[61] See, for example, Joint Standing Committee on Public Accounts, *Medical Fraud and Overservicing* (Report 236), Canberra, Parliament of Australia, 1985.

Table A 1

History of pathology developments

Year	Development
2004	Third Pathology MoU signed, covering 5-year period to 2009
2003	A 3.3 per cent 'across the board' fee increase
2003	Private health insurance incentives recognised by increase in funding cap
2002	Three 1 per cent fee reductions
2000	Pathology legislative review announced
2000	Introduction of the Approved Pathology Collection Centre (APCC) scheme to replace the Licensed Collection Centre (LCC) scheme
2000	Second funding agreement (MoU) extended by additional 2 years
2000	Second 3-year funding agreement (MoU) negotiated
1999	Major review of Pathology Services Table (PST) completed and implemented
1996	First capped 3-year funding agreement (MoU) negotiated
1996	Second national pathology summit
1995	'Episode cone', targeted fee reductions (5 per cent cut), Pathology Consultative Committee (PCC) replaces Pathology Advisory Committee (PAC)
1994	Licensed Collection Centre scheme phase-in complete
1992	Licensed Collection Centre scheme commences (2-year phase-in)
1991	Introduction of patient episode initiation fees (PEI), equating to an 8 per cent fee cut. PAC established.
1991	Joint AAPP/RCPA/AMA costing working party to review PST relativities
1990,1991	AAPP '12 Point Plan' emanating from summit
1990	First national pathology summit
1990,91	National Health Service (NHS) Macklin Inquiry – Deeble paper 'Options for Pathology'
1990	Establishment of Pathology Services Table Committee, resulting from the Pathology Options Working Party
1990	Pathology Options Working Party
1990	'Quick Fix' schedule
1988,1989	Federal Court case against Pathology Services Advisory Council schedule successful
1986	Unilateral fee cut of 25 per cent against the 25 most common pathology items
1985	Joint Standing Committee on Public Accounts, Report No. 236, *Medical Fraud and Overservicing*

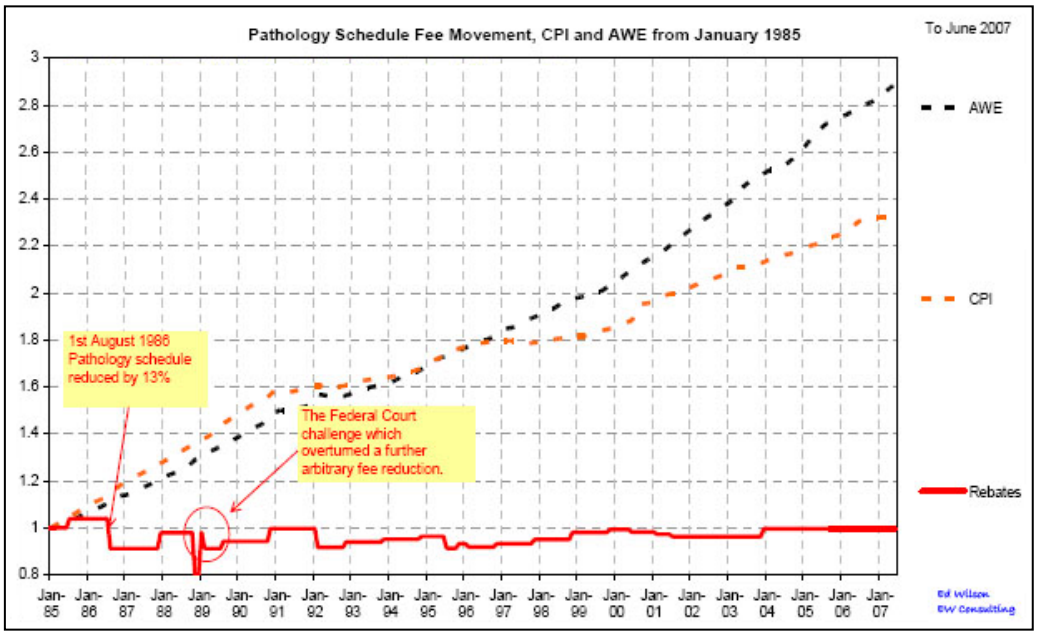
Source: Australian Association of Pathology Practices Inc, *Funding Attrition, Efficiency Dividends and Fee Containment*.

Growth in pathology services

At the most basic level, growth in pathology outlays can be attributed to increasing prices for services and an increase in the number of services provided. Figure A 1 illustrates that the overall Medicare rebate paid for pathology items has remained virtually static since the early 1980s and has not kept pace with key economic indicators.

Figure A 1

Pathology schedule fee movement, consumer price index and average weekly earnings



Source: Ed Wilson Consulting.

Medicare data also confirm that there has been a consistent increase in the number of pathology services being provided, as illustrated in Table A 2. The data confirm that the growth in benefits is mainly attributable to a consistent growth in pathology referrals.

Table A 2

Pathology services and benefits, 1993 to 2007

Year	Pathology Services (Number)	Government Outlays/ Benefits ($)	Services growth rate (%)	Benefits growth rate (%)
1993–94	42 817 965	702 115 293		
1994–95	46 930 746	778 040 309	9.61	10.81
1995–96	48 660 829	812 772 231	3.69	4.46
1996–97	50 276 890	857 769 316	3.32	5.54
1997–98	52 430 438	924 228 712	4.28	7.75
1998–99	55 600 585	1 008 379 906	6.05	9.11
1999–00	58 761 444	1 087 554 042	5.68	7.85
2000–01	62 118 366	1 156 787 492	5.71	6.37
2001–02	68 022 122	1 254 066 715	9.50	8.41
2002–03	70 482 000	1 312 040 873	3.62	4.62
2003–04	73 761 949	1 407 491 501	4.65	7.27
2004–05	77 719 128	1 521 907 974	5.36	8.13
2005–06	82 889 458	1 641 847 756	6.65	7.88
2006–07	87 542 167	1 741 564 402	5.61	6.07

Source: Medicare Australia.

It is likely that the true extent of the growth in referrals is understated by the Medicare statistics because of the effects of the 'episode cone'. Pathology services are measured in terms of episodes, where an episode represents services provided to the same patient on the same day, regardless of whether they are provided by the same or different laboratories. When a GP requests more than three tests in an episode, only the three highest priced tests attract a Medicare rebate, with the remaining tests being 'coned out'. Because all tests do not attract a rebate, it is common practice not to report all tests performed to Medicare Australia. As a result, Medicare statistics cannot be relied on as a complete measure of the number of pathology services.

Appendix 4: DoHA's Monitoring of Pathology Outlays Against Targets

Table A 3

The 2004–05 claim: targets for pathology outlays following adjustments (as at September 2007)

	2004–05 ($m)	2005–06 ($m)	2006–07 ($m)	2007–08 ($m)	2008–09 ($m)
Initial agreed outlay targets (clause 5.1)	1 456.73	1 523.54	1 597.18	1 689.18	1 766.92
Adjustments	–	–	–	–	–
Adjustments foregone from previous MoU	11.50	–	–	–	–
Affordability Bonus	8.00	8.00	8.00	8.00	8.00
Deduction of P9 group of services	-4.00	-3.69	-3.40	-3.13	-2.88
Agreed outlay targets as per clause 5.8	1 472.23	1 527.85	1 601.78	1 694.05	1 772.04
2004-05 Claim					
Medicare Safety Net	5.89	–	–	–	–
GP policy effect	38.95	–	–	–	–
Aboriginal and Torres Strait Islander pap smear	0.27	–	–	–	–
Adjusted outlay targets	1 517.34	1 527.88	1 601.78	1 694.05	1 772.04
Cumulative outlay targets	1 517.34	3 045.22	4 647.00	6 341.05	8 113.09

Source: ANAO, using DoHA and Medicare data.

Table A 4

The 2004–05 claim: variances from outlay targets following adjustments (as at September 2007)

	2004–05	2005–06	2006–07	2007–08	2008–09
Actual pathology outlays ($m)	1 521.91	1 641.85	1 741.56	–	–
Less: P9 items – simple basic services as per clause 4.1(a) ($m)	-4.82	-4.90	-4.87	–	–
Less: P12 items – management of bulk billed services as per clause 4.1(b) ($m)	-1.50	-1.70	-1.87	–	–
Actual pathology outlays per MoU ($m)	1 515.59	1 635.25	1 734.82	–	–
Adjusted outlay targets ($m)	1 517.34	1 527.88	1 601.78	1 694.05	1 772.04
Variance ($m)	-1.75	107.37	133.04	–	–
Variance **(%)**	-0.12	7.03	8.31	–	–
Cumulative Results					
Cumulative pathology outlays ($m)	1 515.59	3 150.84	4 885.66	–	–
Cumulative outlay targets ($m)	1 517.34	3 045.22	4 647.00	6 341.05	8 113.09
Cumulative variance ($m)	-1.75	105.62	238.66	–	–
Cumulative variance **(%)**	-0.12	3.47	5.14	–	–

Source: ANAO, using DoHA and Medicare data.

Table A 5

The 2005–06 claim: targets for pathology outlays following adjustments (as at October 2007)

	2004–05 ($m)	2005–06 ($m)	2006–07 ($m)	2007–08 ($m)	2008–09 ($m)
Initial agreed outlay targets (clause 5.1)	1 456.73	1 523.54	1 597.18	1 689.18	1 766.92
Adjustments	–	–	–	–	–
Adjustments foregone from previous MoU	11.50	–	–	–	–
Affordability Bonus	8.00	8.00	8.00	8.00	8.00
Deduction of P9 group of services	-4.00	-3.69	-3.40	-3.13	-2.88
Agreed outlay targets as per clause 5.8	1 472.23	1 527.85	1 601.78	1 694.05	1 772.04
2004–05 Claim					
Medicare Safety Net	5.89	–	–	–	–
GP policy effect	38.95	–	–	–	–
Aboriginal and Torres Strait Islander pap smear	0.27	–	–	–	–
2005–06 Claim					
$451.1 million over the term of the MoU to account for: • the GP policy effect (2005–06 to 2008–09), and • Specialist services (2004–05 to 2008–09)	9.10	102.40	107.38	113.45	118.73
Adjusted outlay targets	1 526.44	1 630.25	1 709.16	1 807.5	1 890.77
Cumulative outlay targets	1 526.44	3 156.69	4 865.85	6 673.35	8 564.12

Source: ANAO, using DoHA and Medicare data. These data are up-to-date at the time of the audit fieldwork and do not reflect any adjustments made since October 2007.

Table A 6

The 2005–06 claim: variances from outlay targets following adjustments (as at October 2007)

	2004–05	2005–06	2006–07	2007–08	2008–09
Actual pathology outlays ($m)	1 521.91	1 641.85	1 741.56	–	–
Less: P9 items – simple basic services as per clause 4.1(a) ($m)	-4.82	-4.90	-4.87	–	–
Less: P12 items – management of bulk billed services as per clause 4.1(b) ($m)	-1.50	-1.70	-1.87	–	–
Actual pathology outlays per MoU ($m)	1 515.59	1 635.25	1 734.82	–	–
Adjusted outlay targets ($m)	1 526.44	1 630.25	1 709.16	1 807.50	1 890.77
Variance ($m)	-10.85	5.00	25.66	–	–
Variance **(%)**	-0.71	0.31	1.50	–	–
Cumulative Results					
Cumulative pathology outlays ($m)	1 515.59	3 150.84	4 885.66	–	–
Cumulative outlay targets ($m)	1 526.44	3 156.69	4 865.85	6 673.35	8 564.12
Cumulative variance ($m)	-10.85	-5.85	19.81	–	–
Cumulative variance **(%)**	-0.71	-0.19	0.41	–	–

Source: ANAO, using DoHA and Medicare data. These data are up-to-date at the time of the audit fieldwork and do not reflect any adjustments made since October 2007.

Appendix 5: List of Quality Use of Pathology Program (QUPP) funded Projects

2006

- Sponsorship of the Pathology Update Symposium 2006 – The Royal College of Pathologists of Australasia, 10–12 March 2006
- Hand Held Decision Support Devices – Flinders Medical Centre – Supplementary Progress Report, April 2006
- Common Sense Pathology – Royal College of Pathologists of Australasia, December 2006

2005

- Hand Held Decision Support Devices – Flinders Medical Centre, January 2005
- PADLOK – Fremantle Hospital, February 2005
- Pathology Update Symposium - Royal College of Pathologists of Australasia - April 2005
- Improving GP Access to Increase Detection of Early Diabetes – Fremantle Regional GP Network, May 2005
- Pathway – The Royal College of Pathologists of Australasia in Association with S2i Communications, July 2005

2004

- Revision of Pathology Manual – Royal College of Pathologists, April 2004
- A study of the impact of the use of general practice computer systems on the ordering of pathology – Michael Legg & Associates, IRIS Research, the University of Wollongong and Dr Ian Cheong, May 2004
- Supporting HL7 to build Pathology Informatics Standards – HL7 Australasia User Group Incorporated, June 2004
- Application of pathology informatics to reporting of critical/abnormal results for improved requester/provider communication and improved patient care – Mater Misericordiae Health Services Brisbane Limited, July 2004
- Academic Detailing – Prostate Specific Antigen (PSA) – DATIS, November 2004
- AUSLAB Extension – AUSLAB Retest Interval Project, December 2004

2003

- Guidelines mechanism – Therapeutic Guidelines Limited, February 2003
- AUSLAB Retest interval trial project – Queensland Health, February 2003
- Analysis of current laboratory medicine (pathology) teaching practice in prevocational and general practitioner vocations training – Healthcare Management Advisors, May 2003
- Pathology/general practice software integration project (PaGSIP) – University of Ballarat and Queensland Medical Laboratory, June 2003
- Pathology Informatics Working Party – Royal College of Pathologists of Australasia, September 2003
- Home monitoring of warfarin therapy in children – The Royal Women's Hospital and the Royal Children's Hospital, November 2003
- Development of an on-line maintenance system for the Australian pathology request and result code sets – University of Sydney, December 2003

2002

- Consultancy to undertake an analysis of current practices in teaching pathology (undergraduate) – Healthcare Management Advisors Pty Ltd, January 2002.
- A project to examine the utilisation of pathology tests in the investigation of tiredness in general practice – Luminis Pty Ltd, June 2002
- BEACH historical analysis – Australian Institute of Health and Welfare, November 2002

2001

- Evaluation of the impact on pathology practice of the manual of use and interpretation of pathology tests – Healthcare Management Advisors Pty Ltd, November 2001
- Guidelines for pathologists on patient test reports – Quality Use of Pathology Committee, 2001

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National Cervical Screening Program Follow-up
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