

<p>Institution: University of Oxford</p>
<p>Unit of Assessment: 18 - Economics and Econometrics</p>
<p>Title of case study: Shaping policy on the role of competition in providing services for the NHS</p>
<p>1. Summary of the impact Recent government policy has emphasised the role for competition between providers of services in improving efficiency and driving up quality in the NHS. Oxford research on the forms of competition and contractual arrangements appropriate for health services with specific characteristics has played an important role in shaping and influencing public debate and policy on the role for competition within the NHS. The research underpins the development of a ‘toolkit’ to assess the feasibility of competition for different kinds of NHS funded services. NHS England has confirmed that guidance to be published for NHS commissioners will be informed by the toolkit.</p>
<p>2. Underpinning research Research by James Malcomson, Professor of Economics at Oxford since 1999, and his co-author Prof Martin Chalkley (York) has played a key role in informing and shaping Department of Health current policy on choice and competition in the NHS.</p> <p>Two forms of competition are commonly envisaged for NHS services that are “free at the point of delivery” (that is, not paid for directly by patients): (1) <i>quality competition</i> in which payment for services (prices) are set by NHS commissioners and any qualified provider can compete for patients through the quality of service it offers; and (2) <i>competitive tendering</i> in which specific providers are selected by NHS commissioners to provide services according to the package of service delivery and payment they tender. A fundamental issue with provision of health services is ensuring that an appropriate quality of service is delivered, not so low as to deprive patients of a reasonable standard of treatment, but also not so high as to incur exorbitant expenditure.</p> <p>Early (pre-1999) research by Malcomson and his co-author Professor Martin Chalkley considered how to set prices for services to achieve an appropriate level of quality when patients do not pay directly for treatment, and providers can attract patients from elsewhere by improving the quality of service. In the later work, they examine situations where the number of patient referrals cannot, or does not, respond to quality differences between providers. They show that in such cases prices may usefully be supplemented by some cost sharing with those providers for whom cost information can be reliably obtained, and who care to some extent about the quality of patient care (or physician behaviour ensures they act as if they care) [R1]. Subsequent research provided an empirical assessment of the extent of cost savings that might be attainable in this way [R2].</p> <p>In more recent research, Malcomson has focused on the impact of alternative payment arrangements on the behaviour of providers. GPs play a pivotal role as gatekeepers to NHS services and the research examines how their behaviour is affected by alternative contractual arrangements for payment [R3]. Health service providers have discretion over the form of treatment provided and their decision about treatment may be influenced by the payments offered across the range of alternative treatments – an unnecessarily expensive treatment for a minor condition may appeal to the patient and also to the provider if the payment for it is sufficiently generous. Research by Malcomson analyses how the payments for different treatments should be set under those circumstances; both in theory and with an application to specific medical procedures [R4].</p>

3. References to the research

[R1] Chalkley, M. and Malcomson, J. M. (2000), 'Government purchasing of health services', in Culyer A. J. and Newhouse J. P. (eds), *Handbook of Health Economics*, Vol. 1A, Amsterdam: Elsevier Science, chapter 15, pp. 847–890.

[R2] * Chalkley, M. and Malcomson, J. M. (2002), 'Cost sharing in health service provision: an empirical assessment of cost savings', *Journal of Public Economics*, 84(2): 219–249.

[R3] Malcomson, J. M. (2004), "Health service gatekeepers." *RAND Journal of Economics*, 35(2), Summer, 401-421.

[R4] * Malcomson, J. M. (2005), "Supplier discretion over provision: theory and an application to medical care." *RAND Journal of Economics*, 36(2), Summer, 412-432.

Research quality:

Journal of Public Economics is a leading field journal. It is classed as "AA" in the Combes-Linnemer (2010) ranking and was rated as "4*" by the ESRC-RES International Benchmarking Review of UK Economics 2008.

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* denotes publication returned as part of RAE 2008

4. Details of the impact

In 2010, the Office of Health Economics (OHE) established a Commission on Competition in the NHS to investigate for which health care services, and in which circumstances, competition between providers of health care might be both feasible and expected to yield benefits, and where not. Professor Malcomson was invited to chair this OHE Commission as consequence of his "high reputation and impressive research record in relevant fields of microeconomics, including the economics of contracts"...[Malcomson's] chairmanship was instrumental in structuring and steering the work of the Commission, ensuring the active participation of all of its members, and moulding the work of the Commission into a coherent and cogent whole"**[C1]**.

The report identifies the characteristics of health care services that determine whether competition is likely to be beneficial; the role of price and non-price competition; and the processes by which competition, where beneficial, might be enabled, promoted and regulated, drawing on the research findings. In doing this, it draws on the findings of the research described above **[R1-R4]**.

To support health policy makers and local NHS commissioners in deciding where and when to promote and enable competition, the OHE Commission for Competition devised a toolkit (set out in full in Appendix II of its report) **[C2]**. The toolkit lists, in everyday language for non-economists, the economic characteristics affecting the feasibility and effectiveness of competition. The economic characteristics were derived from the economics literature, making extensive use of the research findings, particularly those concerning the ease of defining and monitoring output and quality **[R1, R4]**; and the scope for supplier discretion **[R4]**. To provide guidance to NHS commissioners, it illustrates the relevance of these characteristics by mapping them to specific medical procedures.

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Specifically, it contains a matrix with rows corresponding to the economic characteristics, columns corresponding to the specific medical procedures, and colour-coded cells indicating the importance of the economic characteristics for the specific medical procedures. The mapping to the medical procedures was carried out by interactive discussion between those with economic and those with medical expertise.

The report received extensive coverage in the national, professional and commercial media following its launch in January 2012, involving citation by journalists and broadcasters in the general and specialist media (e.g. [C4, C5]). Its informed and balanced approach was supported by the NHS Confederation and NHS partners Network [C3]. A spokesperson from the Department of Health described the toolkit as the most important thing in the report, adding: "It will be for commissioners to decide when to use competition, so this set of criteria will be very useful. In 10 years' time we'll look back and say that made a big contribution." [C6]. The toolkit was also a specific focus of an interview of Malcomson by Eddie Mair (BBC Radio 4 PM programme, 8 February 2012) [C7].

The Director of Commissioning Support Services Strategy & Market Development NHS England, responsible for developing the NHS framework for Choice and Competition, confirms that the report and its recommendations has been "influential in shaping NHS England's thinking on the policy and still remains the main repository of the national and international evidence." [C8]. Following delays, the implementation of the Framework for Choice and Competition is to be rolled out over the coming months, accompanied by guidance and toolkits for local NHS Commissioners developed from the OHE toolkit

In terms of impact on regulators, Monitor (the Independent Regulator of NHS Foundation Trusts) welcomed the report as a helpful contribution to the evidence base and has used of the findings of the Report of the Commission in setting out the scope of its subsequent invitations to tender for research [C9, p.20]. Monitor and NHS England are also currently developing together a 'Choice and Competition' website for NHS commissioners of health care services and providers of those services. As the Deputy Director of OHE stated, "we expect that the website will build directly on the framework set out by the OHE commission" and therefore, by implication, will rely on the toolkit and the work of Malcomson [C1].

5. Sources to corroborate the impact

[C1] Corroborating statement provided by Deputy Director, Office of Health Economics 14th September 2013 (on file) confirms that Malcomson's appointment as Chair of the OHE Commission was based on his research on contracting for healthcare services.

[C2] Report of the Office of Health Economics Commission on Competition in the NHS (Office of Health Economics, January 2012, <http://ohe.org/object/download.cfm?lib=liDownload&id=514> or <http://news.ohe.org/2012/01/31/new-report-competition-can-help-the-nhs-%e2%80%93-but-proceed-with-care/>).

[C3] NHS Confederation and NHS Partners Network comment on OHE report on competition in the NHS 31/01/2012 (<http://www.nhsconfed.org/PressReleases/Archive/2012/Pages/comment-on-OHE-report-on-competition-in-the-NHS.aspx>)

[C4] "Competition can deliver better healthcare, major study reveals", *Health Insurance and*

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Protection, 31 January 2012 (<http://www.hi-mag.com/health-insurance/product-area/pmi/article390236.ece>)

[C5] Dowler, Crispin “Fixed NHS prices could become ‘increasingly problematic’ commission warns”, *Health Services Journal*, January 31st 2012

[C6] Hawkes, Nigel. “Competition can help NHS but must be used with care report says” *BMJ* 2012; 344:e800 (published 31 January 2012)

[C7] BBC 4 Today programme, 31 January 2012, on launch of Commission report with fuller interview of Malcomson by Eddie Mair, BBC Radio 4 PM programme, 8 February 2012

[C8] Director of Commissioning Support Services Strategy & Market Development NHS England will confirm the impact of the report and the toolkit in shaping the guidance to be provided to local NHS commissioners

[C9] Monitor (Independent Regulator of NHS Foundation Trusts), “T-BUI-0512-045; INVITATION TO TENDER (‘ITT’) Consultancy & Advisory for Publication Paper for Choice and Competition in the English NHS” [8 May 2012 Dear Sir/Madam, Ref: T-BUI-0512-045 ; INVITATION TO ...](#)