

Primary Health Care organisations: Some procurement terms and definitions October 2009

At a time when the Network is considering a transition to primary health care organisations (PHCOs) with expanded roles and functions, this short document has been developed as information resource for the Network. Its objective is to provide Divisions with a better understanding of the various procurement terms that have been used in relation to PHCOs and their potential roles. There are many terms associated with procurement and it is envisaged that Divisions will already be very familiar with these. For this reason, only a few procurement terms are listed below. They have been chosen as having relevance to PHCOs and/or because previous Network feedback suggests that they are not clearly understood.

Broker: An individual or organisation which acts as an intermediary between a buyer and seller, usually charging a commission or administrative fee of some kind. Divisions' many linkages between the community, government and general practice means that they often act in a brokerage role where they facilitate business/activity between two or more agencies. Facilitating workshops for external agencies for local health professionals is a common example.

Commissioning: In its pure sense, this really means to place an order for something. However in the UK, commissioning which occurs at the primary care trust level can include the process of assessing need, agreeing priorities, specifying the services to meet the needs, allocating resources, and reviewing the effectiveness of the service. This differentiates it from contracting (defined below) which relates simply to the service agreement that occurs for the provision of services between the commissioning agency and the provider¹. Commissioning is also sometimes used interchangeably with purchasing.

Competitive Tendering: The process of seeking competing bids from more than one contractor, supplier or service provider in order to identify the one offering the best value for money.

Contracting: Entering into an agreement (contract) with one or more suppliers or service providers (contractors) for the provision of a defined range of works, goods or services. Contracts can be entered into either with or without a formal competitive process.

¹ This refers to commissioning at the PHCO level. In the UK, there is also practice-level commissioning. However this is really referring to practice based contracting – where practices buy-in, through contracts, a set of services they provide.

Fundholding:

AGPN uses the term “fundholding” to mean:

A framework that consolidates regional fund allocations, under a single point of management, for a defined period of time, with clearly defined service areas and target population groups, to improve the availability of, or access to, primary health care resources.

Fund-holding essentially aims to contain costs whilst simultaneously increasing access to, and quality of, care. Although research in this area is limited, recent evidence in Australia indicates that fund-holding improves patient wellbeing and leads to significant changes in service mix, which may in turn produce longer-term health gains².

Divisions already act as fund-holders through programs such as the *More Allied Health Services (MAHS)*, *Access to Allied Psychological Services (ATAPS)* and for the youth component of *headspace*. It is anticipated that PHCOs would act as fundholders of regional health budgets which they then use to purchase the services required to deliver agreed population health outcomes, determined as part of their ongoing population health planning and assessment role.

Fundholders may exercise the role in different ways such as brokering, contracting or direct provision. They do not normally commission (in the sense that commissioning is defined above) as determination of the needs to be addressed, the services to be provided and who forms the priority and target groups have been defined elsewhere.

AGPN does not support US style fundholding where capped funds mean that providers can choose to provide only certain services, so reducing patient choice and restricting access to needed services.

Purchaser: An agency or individual that holds funds that are used to buy services (although in purchaser-provider models, the purchaser role, sometimes also referred to as “commissioning” also includes assessing the needs for services and agreeing priorities – see below). Divisions currently purchase specified services for their communities through funds provided by government such as *More Allied Health Services (MAHS)*, *Access To Allied Psychological Services (ATAPS)* and other initiatives.

Provider: An individual or agency that directly supplies the services bought by the purchaser. Currently, Divisions do not directly provide most health services. Rather they are an intermediary in the supply of health services through, for example general practice, whose services are “purchased” by federal government and individual co-payments. In certain instances however, Divisions employ service providers who directly provide services to the community – for example practice nurses employed by the Division that work in local general practices, psychologists employed through ATAPS funds, or other allied health providers through MAHS funds. In these instances the Division is acting as a provider.

2 Beilby J and Pekarsky B. 2002. Fundholding: Learning from the Past and looking to the future. *MJA*. 176. 321-325

Purchaser-Provider (or Commissioning-Provider) models:

Models which aim to maximise use of the health dollar through managing the market, promoting competition and making effective commissioning decisions. Purchaser-provider models usually allocate managerial responsibility for the service need/demand and supply functions to separate, distinct agencies or institutions, although they could be allocated to operationally and legally separate arms of the same organisation.

In proposed Australian PHCO models - and in existing PHCO models in the United Kingdom (UK) and New Zealand (NZ) - the Purchasers' role is to buy health services to secure improvements in health for defined populations, usually by assessing their population's health care needs, determining the most cost-effective means of meeting these needs, and contracting with providers to supply the services required.

The Provider's role is to deliver/ provide services. Providers do not determine priorities, they simply supply services to/or on behalf of the purchaser and are paid to do so, usually through contracts often won through competitive tenders.

An option for PHCOs in Australia is for them to tend towards a purchaser role, although they may have subsidiary companies that could act as providers (service deliverers). This matter is however still a matter of debate. Conflict of interest issues would need to be addressed should PHCOs develop in the later way..

Preferred Providers: Organisations who have been assessed as meeting defined criteria for service provision, and are then selected (preferred) to compete for the delivery of certain works, supplies or services.

Procurement: The process of acquiring goods, works or services from third party providers. The process spans the whole life cycle from identification of needs, through to the end of a services contract or the end of the useful life of an asset.

Service agreement: an agreement between a company and a customer, or between a purchaser and provider, stating what product or service the company/provider will provide, and any arrangements for delivery, payment and the like. It is often used for loosely defined scopes of work requiring little or no design input. In other countries, it is also sometimes referred to as a time and materials contract, although this term is rarely used in Australia.