



# The Danish Health Service



## Public vs. private hospitals

By: Charlotte Dupont, Key Account Manager

Date: 02-10-09





# Introduction to Private Hospital Hamlet



- Opened in 1993 as one of the first private hospitals in Denmark
- In 2008 there was built Hamlet in Søborg
- 40 permanent Chief Physicians and 20 affiliated Consultants
- Owned primarily by insurance companies
- 93 beds
- 10 operating rooms (including 3 endosuite and laminar air flow)
- 2 ambulant operating room + 2 scopic theatre
- Approx. 11,000 operations per year
- Approx. 6,000 admissions per year
- Approx. 60,000 visits in the ambulatory
- Approx. 274 employees



# Specialities at Hamlet



- Center for orthopaedic surgery
  - Hips- & knee clinic
  - Sports clinic
  - Shoulder-, elbow- & hand clinic
  - Foot- & ankle clinic
- Center for spinal disorders
- Center for gastrointestinal diseases
- Clinic for urological diseases
- ENT clinic(ear-nose-throat)
- Optical clinic
- Gynaecological clinic
- Clinic for plastic surgery
- Imaging clinic (MR-scan, CAT-scan, Ultrasound, mammography) PET- scan
- Clinic for dizziness
- Anaesthesiology
- Neurology
- Rheumatology
- Internal medicine
- Health check
- Psychiatry
- Mamma surgery
- Obesity surgery



# Hamlet's customer segments



- Public patients (40%)
  - County agreements with local hospitals
  - Agreements based on the law guaranteeing treatment within 8 weeks
- Private patients (60%)
  - Self-paying patients (25%)
  - Insured patients (35%)



# Why choose Hamlet?



- High quality standards (ISO 9001:2000)
- Safety (equiped in line with a public hospital)
- Starting autumn 2009 the Den Danske Kvalitetsmodel, as the standards of the public hospitals.
- 24h in-house consulting physician
- Well-equipped ICU
- Diagnosis and treatment at short notice (i.e. the day of the operation is fit into the patient's calendar)
- 1 patient – 1 consultant through the entire course of treatment
- No waiting time
- Plenty of time with the patient (min. 30 minutes)
- High level of information
- Quiet and inviting surroundings with private wards
- Meals are provided from an à la carte menu and wine and other refreshments are available
- Discretion
- Good reputation



# The role of the private hospitals



## Alternative

- More than 25 years since the first private hospitals were established. The patients were primarily self-paying
- In the nineties a few private suppliers entered into a framework agreement with some Counties allowing local hospitals to outsource specific treatments
- On 1 July 2002 the government passed a law guaranteeing treatment within 8 weeks => increasing public demand. On the 1 July 2009 guaranteeing treatment within 4 weeks
- The sale of private health insurances increased => increased private demand
- The number of private suppliers increased consequently

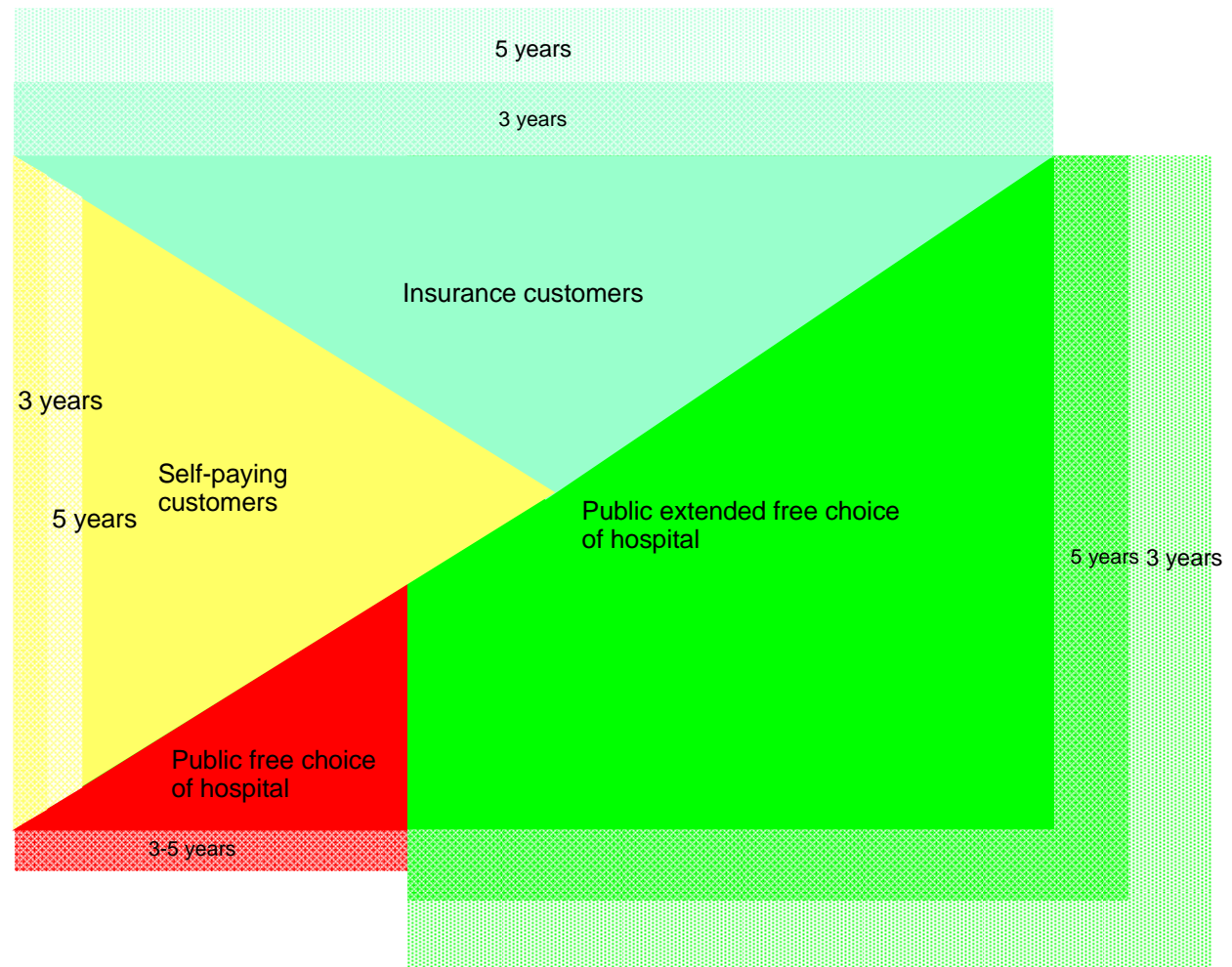
## Buffer

↓

**2 parallel systems**



# Market development





# Existing terms of agreement

Passed by law



**BUB-model  
(DOP)**

Demands, orders & pays



**The danish regions:**

- Obligated to buy
- No choice of rejection



**Carries  
out**



**Private suppliers:**

- Entitled to enter agreement
- Choice of rejection

## **Price fixing**

- "Dictated" based on the public DRG-price and therefore on the basis of the public cost structure
- However, prices corresponding to 60% of the production is negotiated





## Results after 4 years



- Negotiations with SPPD, Association of Private Hospitals and Private Clinics in Denmark, the Danish Regions and Ministry of Health and Prevention, made an agreement of price.
- The minister had to fix the agreement rates between public and private hospitals
- Rumours of cream-skimming in the private sector



# Settlement model 1



- Extension of the 2006 agreement model
- Summer 2008 nurses strike 6 weeks, and the extended free choice was suspended from November 2008 to July 2009
- Patients has the right to choose a private hospital, when waiting, over one month in the public.
- Demands for 3% improvement in efficiency over an agreement period of 3 - 5 years in order to reduce the DRG-price.



## Settlement model 2



### Private sector adjusted DRG-price:

- upsides: tax on wages, VAT, return on investment and depreciations
- downsides: science, education and emergency preparedness
- differentiated DRG-prices



## Settlement model 3



### **Private DRG-price:**

Calculated on the basis of the private cost structure and a politically fixed marginal return



## Settlement model 4



Entering into multi-annual  
framework agreements through  
public licitations



## Advantages of model 4



- Price is fixed by the market forces
- Reflects the cost structure in the private sector
- No excess profit
- Allow for competition between private suppliers => improvement in productivity and higher level of quality and service
- The boundary between own production and external production is altered



# Disadvantages/risks



- Amendment to the law is necessary leaving out the right of the private hospitals to enter an agreement and changing the principles of settlement
- The competition element between the public and the private hospitals is overshadowed by the strong focus on the competition among the private suppliers
- The agreement will only be based on price => affects the quality and safety
- The number of private hospitals entering an agreement will be reduced => The liberty of choice is limited for the patient
- Not all treatments can be fitted into this model
- Geographical consideration
- Uncertainty on the volume and time of order
- Uncertainty regarding the budget size of the Danish regions



# Conclusion



- Competition is healthy and only created by letting the market forces rule. If public licitation is chosen as the settlement model, the following conditions:
  - Price must not be the only decision parameter when entering agreements
  - Demands for quality and safety must be equally weighted through accreditations
  - There must be a willingness to move the boundaries between own production and external production
- Otherwise the politicians cannot ensure:
  - Purchase of the **best** and **cheapest** treatment for the patients