COMPETITION BETWEEN NHS HOSPITALS IMPROVES EFFICIENCY; IMPACT OF PRIVATE SECTOR COMPETITION IS AMBIGUOUS

Competition between NHS hospitals improves their efficiency and can save significant amounts of money. But allowing NHS hospitals to compete against private providers has not produced the same positive outcomes for the public sector hospitals.

These are among the findings of a study published today by the Centre for Economic Performance (CEP) at the London School of Economics (LSE). The research team finds that in NHS hospitals located in parts of the country where there is a great deal of choice among public sector hospitals, patients spend less time in hospital both before and after their surgery.

In contrast, NHS hospitals located in places where there are more private NHS providers have not seen the same benefits after they were allowed to compete. Indeed, there has actually been a rise in patients’ length of stay in hospital. What’s more, NHS hospitals competing in markets with more private providers tend to treat older and less well-off patients.

These findings suggest that competition can create real value and significant savings for the health service. But they also indicate that strong regulation is vital to guard against providers ‘cherry-picking’ the patients who are easiest to treat.

In short, the researchers conclude, their results suggest that the NHS needs a regulatory and payment system in which avoiding costly patients is not more profitable than delivering excellent care.

Zack Cooper, one of the authors, says:

‘Competition creates very clear incentives for hospitals to become more efficient. But this is not a ‘one size fits all’ policy where more competition is unambiguously better. Markets in healthcare require strong regulation to get good outcomes.’

‘Competition has been hotly debated in the NHS over the last year. Our study highlights the benefits that competition can provide but it also underscores the need for a strong active regulator to guard against providers cherry-picking the easiest cases.

‘Hospitals need to be competing to offer excellent care and better service. But we need to make sure that it is not more profitable for them to avoid treating certain potentially more costly patients.’

The study was conducted by Zack Cooper, Stephen Gibbons, Simon Jones and Alistair McGuire. They examined over 1.8 million patient observations in the NHS from 2002 to 2010 and looked specifically at patients’ length of stay in hospital.

According to the NHS Institute for Innovation and Improvement, hospitals pre-surgery length of stay – the time patients spend at the hospital from their admission until their surgical procedure is carried out – is a measure of hospitals’ efficiency that measures their ‘lean production’.
This new study builds on earlier work by the research team looking at the impact of competition on hospital quality. It also echoes findings from separate work by CEP’s Nicholas Bloom and colleagues, which shows that competition in the NHS has improved hospitals’ management performance.

These findings come at a crucial time in the debate over the government’s NHS reforms, with competition due to be debated in the House of Lords this week. Zack Cooper comments:

‘We need evidence-based policy. Too often, the debates over competition are guided by anecdote and ideology. Our work focuses on seeing what happened when NHS hospitals were exposed to competition and examining whether they improved as a result.

‘The debate over competition needs more nuance and less rhetoric. Our results highlight the important role that competition can play – that incentives in the public sector matter.

‘But our results also show that competition is not always beneficial – and that we need to take care in ensuring that there is a level playing field between the public sector and the private sector’.

ENDS

Notes for editors:

Does Competition Improve Public Hospitals’ Efficiency? Evidence from a Quasi-Experiment in the English National Health Service by Zack Cooper (Centre for Economic Performance, LSE), Stephen Gibbons (Department of Geography and Environment, and Centre for Economic Performance, LSE), Simon Jones (University of Surrey) and Alistair McGuire (LSE Health and the Department of Social Policy, is available here: http://cep.lse.ac.uk/pubs/download/dp1125.pdf

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