Primary Health Organisations: Establishment

Country: New Zealand
Partner Institute: The University of Auckland
Survey no: (3)2004
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Health Policy Issues: Access, Remuneration / Payment

Current Process Stages

<table>
<thead>
<tr>
<th>Idea</th>
<th>Pilot</th>
<th>Policy Paper</th>
<th>Legislation</th>
<th>Implementation</th>
<th>Evaluation</th>
<th>Change</th>
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1. Abstract

Primary Health Organisations (PHOs) are not-for-profit organisations funded on a capitation basis to provide a range of primary health services to an enrolled population. Establishment of these organisations commenced on 1 July 2002 and by early 2004, 53 PHOs had been established covering around two thirds of the population. Implementation problems have included: Poor public awareness and understanding; duplicate enrolments; inadequate establishment funding; payment problems.

2. Purpose of health policy or idea

Background
Primary Health Organisations (PHOs) are networks of doctors, nurses and other community-based health providers working together to provide a comprehensive set of primary health services. PHOs are not-for-profit organisations funded on a capitation basis to provide services to an enrolled population (see Survey 01/2003). Establishment of these organisations commenced on 1 July 2002. By early 2004, over 50 PHOs had been established throughout the country and around three quarters of the population were enrolled.

PHOs are required to work with those groups in their populations that have poor health or have poor access to primary health services. They are also required to work with other providers in their region to ensure that services are co-ordinated, and to involve their communities in their governance processes.

Objectives
The main objectives of PHOs are to move away from a fee-for-service treatment-based approach in which GPs are the principal providers to a capitation-funded team-based approach that focuses on prevention as well as on the provision of a wider range of first-line personal health services.

It is hoped that PHOs will improve access to primary care by reducing patient copayments, improving continuity of service, and providing services that are more culturally appropriate for specific groups of the population.

Funding
Additional government funding is being allocated to (a) the establishment of PHOs and (b) increasing the level of patient subsidies for GP services and pharmaceuticals provided to enrolees of PHOs, in order to reduce the fees paid by patients for primary care.

During the implementation phase, patient subsidies are being paid through two different capitation formulas. PHOs which serve populations with high concentrations of people living in deprived areas or high proportions of Maori and/or
Pacific Island people receive a higher level of funding than other PHOs. This means that people enrolled in a PHO receiving the higher level of funding pay less to visit a doctor, with some receiving services free of charge. The intention is to increase funding to all PHOs over time so that copayments can be reduced for everyone.

3. Characteristics of this policy

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Traditional</th>
<th>Innovative</th>
<th>Degree of Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of Controversy</td>
<td>consensual</td>
<td>highly controversial</td>
<td>Degree of Controversy</td>
</tr>
<tr>
<td>Structural or Systemic Impact</td>
<td>marginal</td>
<td>fundamental</td>
<td>Structural or Systemic Impact</td>
</tr>
<tr>
<td>Public Visibility</td>
<td>very low</td>
<td>very high</td>
<td>Public Visibility</td>
</tr>
<tr>
<td>Transferability</td>
<td>strongly system-dependent</td>
<td>system-neutral</td>
<td>Transferability</td>
</tr>
</tbody>
</table>

While the underlying philosophy and structure of PHOs has much promise, the implementation process to date has been complex, costly, and inconsistent. Providers have sometimes been exposed to unnecessary risk and uncertainty, and insufficient focus has been placed on the need to inform and educate the public about the nature and implications of the changes. The use of two different capitation formulas has introduced inequities between populations living in different areas. Current government policy is that it will take around 8-10 years to remove these inequities by increasing funding to allow all New Zealanders cheaper access to care.

4. Political and economic background

PHOs are part of a broader Primary Health Care Strategy, released in February 2001, which forms a central plank of the current Labour-led coalition government's health policy. Key aims of this policy are to improve access to primary health services by reducing or removing patient copayments and to encourage a population-based focus to the provision of primary health services. The Primary Health Care Strategy is itself part of the over-arching New Zealand National Health Strategy which sets out the fundamental principles upon which health services should be based, together with a set of 13 population health objectives for implementation in the short to medium term.

5. Purpose and process analysis

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Origins of health policy idea

The idea of PHOs was developed centrally by the Minister/Ministry of Health, following submissions from and meetings with interested parties. The proposal is being implemented through the 21 District Health Boards which are funded to provide, or purchase, all publicly funded personal health services for the people living within their district. The DHBs have been instrumental in planning PHO development, and in encouraging and assisting collaboration between different types of primary health providers towards the establishment of PHOs.
Stakeholder positions

At the outset, many health professionals, especially GPs, were opposed to the idea of PHOs, seeing their establishment as a threat to the traditional method of primary health care being focussed around the family doctor (see Survey 01/2003). Providers and opposition parliamentary parties also highlighted the inequities between patient groups during the implementation phase. The financial risk associated with capitation payment and increased paper work are other areas of concern.

Although a majority of GPs have now joined PHOs, many have done so reluctantly. While joining a PHO can expose them to some financial risk, not joining is often not a viable option if other GPs in the district who are members of PHOs are able to reduce copayments for their services.

Some primary health nurses and other allied health professionals have also expressed concern that PHOs will be dominated by GPs rather than be based upon a team-based approach to care as envisaged by the government.

Adoption and implementation

Implementation of PHOs has been driven by the Ministry of Health along with District Health Boards (which are responsible for planning services and for allocating funds to the PHOs) in association with primary health providers. Maori and Pacific providers have been especially active in early PHO establishment, as have Independent Practitioner Associations (umbrella groups representing general practitioners).

Some District Health Boards (DHBs) have been very active in implementing PHOs by setting out the type and number of PHOs they would like to see established in their District, arranging meetings between stakeholders and potential partners, and specifying particular characteristics that they wish to see in PHOs in their District. As a result PHOs are defined geographically in some districts, with only one PHO covering each area. Other DHBs have followed a more hands-off approach. This has sometimes led to a single area being covered by several PHOs which then compete for patients.

Monitoring and evaluation

Two early formative evaluations have been undertaken of the process of implementing PHO development.

PHO popular with their users

These evaluations indicate that there is a lot of support for the philosophy that underlies PHOs, particularly the focus on populations, the increased collaboration across professional groups, and the opportunity for improving service integration. Not surprisingly, consumers are also strongly supportive of reduced copayments. However providers’ views are mixed, with some GPs expressing severe reservations about the potential for PHOs to undermine the doctor-patient relationship that has traditionally been the focus of general practice.

Implementation obstacles

Providers have also experienced some major implementation problems. These have included:

- A lack of clarity and consistency with regard to the implementation of PHOs
- Duplicate enrolments (i.e. people enrolling in two or more PHOs) averaging 8.6% of the enrolled population
- The potentially destabilising effect associated with the establishment of low cost (i.e. more highly funded) PHOs located alongside practices that are being paid a lower level of subsidy.
- Large quarterly fluctuations in revenue as a result of mobile populations and rapid changes in numbers of enrollees in areas where new PHOs are being established.
- High set-up costs and inadequate establishment funding, especially for smaller PHOs
- Cumbersome payment processes
- Poor public awareness or understanding of PHOs generally and of the concept and implications of enrolment
- Uncertainty of revenue for providers during the establishment phase and high financial risk on an on-going basis
- Potential fragmentation of services, particularly where a number of PHOs are providing services in the same region

**Improvements induced by evaluation**

The Ministry of Health has introduced a number of changes following the evaluations including:

- increased establishment funding to small and medium sized PHOs
- a public awareness campaign
- a range of changes aimed at improving enrolment processes.

Further evaluation is being undertaken of various aspects of PHO development, including estimation of their management costs and responses of consumers.

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6. **References**

**Sources of Information**

Details of the Primary Health Care Strategy are at:

[www.moh.govt.nz/moh.nsf/49ba80c00757b8804c256673001d47d0/7bafad2531e04d92cc2569e600013d04?OpenDocument](http://www.moh.govt.nz/moh.nsf/49ba80c00757b8804c256673001d47d0/7bafad2531e04d92cc2569e600013d04?OpenDocument)

Two evaluations of the implementation of PHOs can be found on:

[www.moh.govt.nz/moh.nsf/30ad137c772c883e4c25665c002c4198/1b69ae8afc30db4acc256db7000d4a2f?OpenDocument](http://www.moh.govt.nz/moh.nsf/30ad137c772c883e4c25665c002c4198/1b69ae8afc30db4acc256db7000d4a2f?OpenDocument)


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