This DHB Procurement Strategy was unanimously endorsed by all DHB Chief Executives on the 14th of April 2016 and subsequently noted by the PHARMAC Board and approved by the NZ Health Partnerships Board. This represents a commitment to a collective way of working.

This strategy is subject to biennial reviews and may be updated if required. This strategy (and any available updates) are available from the NZ Health Partnerships website:

www.nzhealthpartnerships.co.nz

Publishing History

MAY 2016: Original release

Endorsed By:
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CEO Sponsor foreword

This strategy heralds a new era of collective DHB Procurement that will put DHBs in a stronger position to extract value from the products and services we purchase.

There are increasing demands on the health budget and we are entrusted with spending public money effectively and efficiently to ensure we meet the needs of the populations we serve.

In addition, the recently updated New Zealand Health Strategy and the Minister have clearly outlined the government’s expectation that we work together in smarter ways, helping us to live within our means without compromising patient care.

Our current procurement landscape is complex which is causing unnecessary confusion and impacting our ability to effectively implement change. This is leading to dissatisfaction with procurement outcomes, particularly given the costs.

We need to provide more clarity and reduce complexity. We also need to leverage the capability, credibility and independence offered by PHARMAC and The Ministry of Business Innovation and Employment.

This means embracing a new collective behaviour that has a more assertive approach to supplier management and delivering value from a reduced and standardised catalogue of goods and services.

This strategy is about consolidating our collective voice and providing a single direction in order to gain active commitment from all DHBs.

It’s about working collaboratively to achieve enhanced procurement outcomes for each DHB and also for the national good.

I wish to thank all the clinicians, procurement, operational and financial staff who generously gave their time and expertise to help shape this strategy.

Dr Nigel Murray

CEO, Waikato DHB
CEO Sponsor, DHB Procurement
Executive summary

This strategy outlines how DHBs will work together to deliver a Collective Procurement model that meets stakeholder expectations and delivers real savings.

A number of regional workshops have been held across the sector to help shape this strategy which focuses on areas of significant opportunity to deliver demonstrable value to District Health Boards (DHBs).

Initially, these opportunities have been identified as focussing on medical devices, extracting maximum value from All of Government (AoG) contracts, establishing a cost effective Collaborative Procurement offering and ensuring core enablers for effective procurement practice are in place.

The key strategic goals are defined as:

- driving health outcomes by focussing on clinical imperatives such as quality, safety, standardisation and sustainability
- reducing overall procurement costs and increasing real return on DHB investment
- catalysing collaboration and cooperation in the health sector by working as one team for the national good.

To achieve these goals this strategy focusses on four strategic priorities:

1. transparent and trusted governance
2. clear roles and responsibilities for all parties
3. a ‘principles-based’ approach
4. delivery of the enablers.

Key Activities to support the strategic priorities include:

- establishing trusted governance and ensuring decisions are appropriately informed through effective engagement
- designing and delivering aligned planning processes
- clarifying the role of DHBs in Collective Procurement and building capability where necessary
- leveraging PHARMAC’s capability and reputation
- implementing enabling technologies and processes to support decision making such as the National Oracle Solution (NOS)
- embedding principles into the way all stakeholders work to ensure the collective will to implement procurement decisions
- managing the transition of healthAlliance (FPSC) out of medical device procurement
- developing a collaborative business model in categories that are out of scope to PHARMAC or Ministry of Business, Innovation and Employment (MBIE)
- strengthening relationships with MBIE to deliver more value for health from AoG contracts.
1. Background

**DHBs’ vision for Collective Procurement** is a cost effective, multi-party model supporting defined health sector outcomes by delivering the right product or service at the right time, in the right place with the desired quality and at the best value.

Across the globe healthcare expenditure has outstripped Gross Domestic Product (GDP) growth for decades and the forecasts are for this funding gap to accelerate. Governments around the world are introducing strategies to address this issue.

In New Zealand, the government’s strategy includes extending the PHARMAC model into medical devices and appointing MBIE as Procurement Functional Leader (PFL) for all government procurement. DHBs are responding with collaborative measures such as the NOS, including a national standardised catalogue of goods and services.

DHBs have also identified that a Collaborative Procurement approach in categories outside the scope of PHARMAC and MBIE can deliver significant benefits.

Taking a collective approach can extend the strategic reach of procurement to enable greater leverage of the national spend and establish mutually beneficial relationships with suppliers. Technology solutions can also help reduce transactional and administrative costs.

Savings attained through effective sourcing and procurement practices create opportunities to reinvest in growth, personnel, facilities or other products and services, resulting in better healthcare outcomes for patients and ultimately supporting DHB’s achieve their legislative objectives.

It must not be forgotten that this is ultimately about helping the clinician and multidisciplinary teams serve the patient. Initiatives undertaken by the procurement function must support improved quality and the achievement of improved clinical outcomes.

This **DHB Procurement Strategy** sits within an existing legal and regulatory framework that defines the roles of MBIE and PHARMAC, and also the obligations that all DHBs have to both the Minister of Health and to their populations.

- **Collective Procurement** is used to describe the combination of all procurement activity; this includes PHARMAC, MBIE, healthAlliance (FPSC) and DHBs.

- **Collaborative Procurement** is used to describe the procurement that DHBs choose to do together through collaboration. This type of procurement is funded directly by DHBs and is governed exclusively by DHBs. In this definition, the work of PHARMAC and MBIE is excluded from collaborative, whereas the work of DHBs or of healthAlliance (FPSC), for example, would be included.

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1 The definition of medical device is set out in the amended Medicines Act (July 2014). PHARMAC’s role in hospital medical devices is set out in legislation and changes to this scope are out of scope to this document.
DHBs are independent organisations, each with different procurement needs and each at different levels of supply chain maturity and complexity.

The wide range of products and services procured in the health sector necessitates a variety of different skills and capabilities while the risks, change implications and considerations across categories vary enormously. Standardisation and rationalisation are required in order to secure targeted benefits for medical device procurement, yet this must be balanced by the appropriate need for product variation in some circumstances.

**The number of entities currently undertaking or influencing procurement for DHBs creates additional complexity.**

As well as the medical device procurement responsibilities of PHARMAC and the policy setting and AoG contract work of MBIE, the landscape includes NZ Health Partnerships, healthAlliance (FPSC), The Ministry of Health and DHBs themselves.

The combined overall cost of delivering these procurement activities is estimated to exceed $30 million annually. This number further increases if activity in Planning and Funding is considered.

The Procurement Leadership Forum, led by CEO Sponsor Dr Nigel Murray, was tasked with making recommendations to DHB CEOs that would improve procurement outcomes for all DHBs.

**The purpose of this DHB Procurement Strategy is to show how DHBs will deliver a credible solution for Collective Procurement that meets stakeholder expectations, supports delivery of real savings and facilitates positive engagement and support.**

**MBIE IN CONTEXT**

- 2011: Better Public Services Advisory Group identified the need for significant change to improve state sector performance. CEO of MBIE appointed as Procurement Functional Leader (PFL).
- The PFL builds on Government Procurement Reform – giving greater focus on building procurement effectiveness across the public sector.
- MBIE developed and implemented Government Rules of Sourcing, the five principles and the good practice guidance that all government procurement is based on.
- MBIE negotiates and provides AoG contracts across various categories.

**PHARMAC IN CONTEXT**

- 2012: The government agreed to a phased plan for PHARMAC to progressively take on managing hospital medical devices.
- The aim of PHARMAC’s role in this area is to create national consistency in access to treatment, improve and increase transparency of decision making and improve the cost-effectiveness of public spending to generate savings.

**NZ HEALTH PARTNERSHIPS IN CONTEXT**

- 2015: NZ Health Partnerships is established. A multi-parent Crown subsidiary that is led, supported and owned by New Zealand’s 20 DHBs.
- Established and operated as a co-operative undertaking, NZ Health Partnerships’ purpose is to enable DHBs to collectively maximise shared services opportunities for the national good.
- Contracts healthAlliance (FPSC) to provide the National Procurement Service.

**HEALTHALLIANCE (FPSC) IN CONTEXT**

- healthAlliance (FPSC) is a wholly-owned subsidiary of healthAlliance NZ, in turn owned by the four Northern Region DHBs.
- healthAlliance (FPSC) is contracted by NZ Health Partnerships to provide a National Procurement Service to all DHBs.
The challenge of DHB leadership

A dominant theme in the regional workshops and in this strategy is that of DHB leadership.

The benefit of effective DHB procurement leadership is that it empowers the talent within DHBs and puts control of the Collaborative Procurement into the hands of its DHB beneficiaries. This strategy addresses how this can be achieved while maintaining the necessary pace and without compromising the effectiveness of the PHARMAC model.

A very significant risk to any collective DHB programme is the ability of 20 entities to commit to a common approach and remain committed should a more advantageous tactical deal be presented at a future point.

This strategy presents operating principles, strong roles-based governance, enhanced reporting, aligned planning and operating processes and an implementation approach built around genuine DHB participation to mitigate this risk.

The scope of the strategy

All procurement activity directly related to the acquisition of goods and services from third parties is considered to be in scope of this DHB Procurement Strategy.

Where an area is in scope of the strategy this does not mean that all activity should be undertaken collaboratively or all categories should be considered in the short to mid-term.

While it is understood that Collaborative Procurement could provide benefits in a number of areas that are currently outside the scope of either MBIE or PHARMAC it is also acknowledged there is a risk of trying too much too quickly.

The movement of any category from local management to a Collaborative Procurement approach would follow an agreed and transparent process.

Clarifying the term procurement

Procurement is not just about buying things or letting contracts. It requires the management of the procurement lifecycle from “defining the need through to the Source, Pay, Dispose or Renewal of the service or product”. It is a critical business function that has significant and direct impact on bottom-line performance, but it is a means rather than an end in itself.

“The term ‘procurement’ covers all aspects of the acquisition and delivery of goods or services, spanning the whole contract life cycle from the identification of needs to the end of a service contract, or the end of the useful life and subsequent disposal of an asset.”


“It is important that we drive a team approach across the health and disability system. I expect entities to continue to improve their efficiency and effectiveness by working together with other agencies... influencing sector-wide results and putting the patient or client (not agency boundaries) first.”

Different categories will require separate consideration, including potentially separate business cases, prior to changes in the current arrangements.

The initial focus is to deliver demonstrable value to DHBs through a focus on medical devices and extracting maximum value from AoG contracts.

**A focus on working together**

This strategy has been developed by DHBs, for DHBs. The need to look at how procurement works holistically was signalled by all DHBs in mid 2015 and NZ Health Partnerships was tasked with facilitating these efforts on behalf of its shareholders. This initial work resulted in a sector wide review by procurement specialists ArcBlue where an opportunity was identified to rethink the way procurement is done. This echoed work previously conducted by the DHBs’ own Strategic Procurement Subcommittee.¹

The Procurement Leadership Forum was established, led by CEO Sponsor Dr Nigel Murray and including DHB representatives, the Chief Executives of both PHARMAC and NZ Health Partnerships, Senior Clinical Leaders and ArcBlue.

The forum has worked with all 20 DHBs to develop this DHB owned and led Procurement Strategy.

This strategy draws on DHB experience and views - combining an overall view collated through regional workshops, targeted surveys and individual engagement points. It has included the development of a set of Principles and Critical Success Factors to inform the three Strategic Goals supported by four Strategic Priority Areas.

The following principles guide both the way that DHBs work together and how decisions are made.

**Agreement to this strategy is agreement to demonstrate behaviours that support these principles.**

This DHB Procurement Strategy sets us on a path to the future we want, it is enduring and is subject to biennial reviews. These reviews, to be undertaken through agreed mechanisms, allow the strategy direction to be altered or updated if needed, as the procurement landscape changes.

### The strategy development and sign-off process

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<th>Strategy Drafted</th>
<th>DHB CEO Review</th>
<th>NZ Health Partnerships and PHARMAC Boards</th>
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<tr>
<td>- Pre workshop survey</td>
<td>- Consolidated views taken into account</td>
<td>- Procurement Leadership Forum review</td>
<td>- Consideration and endorsement of recommendations sought</td>
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<td>Expert Advice Sought &amp; Incorporated Into Strategy</td>
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<td>Feedback Incorporated Into Strategy</td>
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¹ A multi-disciplinary group established as a subcommittee to the Shared Service Council
DHB Procurement Strategy Principles
Guiding the way DHBs work together and make decisions

1 Ensure Alignment
DHB procurement aligns with the NZ Health Sector Strategic outcomes and the Government Rules of Sourcing.¹

2 Demonstrate Commitment
DHBs are committed to Collective Procurement and will work cooperatively with all participants to achieve defined strategic goals.

3 Drive Standardisation
DHBs actively commit to a set of nationally led DHB procurement categories.

4 Ensure Patient Focus
Procurement is undertaken with the needs of patients in mind to achieve the desired balance of clinical and financial outcomes.

5 Achieve Balance
Long term goals are not compromised by a focus on the short term.

6 Demonstrate Value
All procurement activity must be of demonstrable value, taking into account the entire value chain.

7 Embed Enablers
Collective procurement is built on DHB-owned enablers, including systems and information.

8 Streamline Activity
Operational waste, including unnecessary duplication, is minimised.

2. The strategic priorities

This strategy attempts to consolidate the DHB voice and provide direction under which MBIE, PHARMAC, DHBs and NZ Health Partnerships can work together for outcomes that are beneficial to the patient and wider population of New Zealand.

Providing greater clarity to all stakeholders is critical. This is particularly important in medical devices.

Increasing competitive pressure in clinical product markets can bring a range of clinical, operational and financial benefits. Yet sustaining the benefits of a reduced and standardised catalogue across all DHBs requires a joint approach, co-ordinated effort and enablers such as data, technology and reporting. This strategy involves defining what capability is required to achieve this and building it where it is needed. This includes providing greater clarity in roles and responsibilities.

DHBs need to efficiently and effectively implement procurement decisions if the benefits are to be realised.

To do this they require:

- the ability to implement procurement decisions – through enabling technologies and processes and the availability of appropriately resourced teams; and

- the collective will to implement procurement decisions – even though they may be challenging, involve change, and benefit each DHB differentially.

The agreed principles will be used to help select the areas of focus and also drive the appropriate behaviours once the decision to work in a category has been made. The organisations involved will reflect on, and learn from, their experience and this will support continuous improvement within DHBs. Best practice sharing between DHBs will be encouraged and networks developed.

To avoid potential confusion and to reduce duplication of cost and effort, the national procurement service run by healthAlliance (FPSC) will rapidly transition out of medical device procurement. In flight initiatives that add genuine value to DHBs will be seen through to completion by the entity best placed to complete the work under the appropriate governance. Options for this include healthAlliance (FPSC), PHARMAC, a DHB or regional group of DHBs.

The Joint Procurement Authority (JPA) will provide clarity with respect to DHB requirements for their ongoing services and the currently defined healthAlliance (FPSC) scope will be renegotiated by NZ Health Partnerships to meet these needs.

It is important that the valuable expertise and experience of the healthAlliance (FPSC) team is not lost to the sector; that the required change is handled appropriately; and the cost of change is managed through an equitable process overseen by all DHB CEOs.

The procurement planning process for FY16/17 will provide the roadmap for this transition.
MBIE’s role in raising procurement effectiveness across the public sector supports what DHBs are trying to achieve and stronger relationships are envisaged.

Finally, a Collaborative Procurement model that enables DHBs to be price makers not price takers in categories outside of the current scope of MBIE and PHARMAC is needed. This model needs to be flexible as DHBs’ requirements for this collaborative activity will inevitably change over time.

A flexible, aligned planning process that allocates funding to the appropriately prioritised activity is a cornerstone of this strategy.

To aid clarity, the strategic priorities that have been identified have been grouped in to four priority areas.

**Strategic Priority Areas**

1. transparent and trusted governance
2. clear roles and responsibilities
3. a ‘principles-based’ approach
4. delivery of the enablers.
Strategic priority 1: Transparent and trusted governance

Key areas of focus are:

- establishing a Joint Procurement Authority and Procurement Advisory Groups
- agreeing a new Memorandum of Understanding (MOU) between PHARMAC and NZ Health Partnerships (on behalf of DHBs)
- developing two-way stakeholder engagement
- maturing benefits definitions to include clinical measures and total cost of ownership.

DHBs have requested greater transparency in decision making processes, better two-way stakeholder engagement and involvement processes along with credible governance and operational oversight at the right levels.

The way procurement is measured must also be matured so that focus on clinical imperatives such as quality, safety, standardisation and sustainability is not lost due to a drive towards short term financial gains. A methodology that includes total costs of ownership will be introduced.

This strategy presents fundamental changes in the approach to Collective Procurement governance in the sector. The establishment of the JPA will replace the Shared Service Council but in no way compromise the governance arrangements of the participating entities.

Memorandum of Understanding (MOU)

PHARMAC and DHBs need to partner effectively to ensure high quality decisions are made that DHBs are able to implement with appropriate support.

A new MOU between PHARMAC and NZ Health Partnerships (on behalf of DHBs) will be established to support this way of working and provide the relevant mandate for governance groups to act on behalf of DHBs within defined boundaries. This will supplement the existing MOU PHARMAC has with DHBs which covers a broader range of topics. It will also create a
formal relationship between PHARMAC and NZ Health Partnerships.

This MOU will set out the new ways of working and will be a key instrument to help PHARMAC achieve its objectives and also increase overall benefits that DHBs are able to realise from PHARMAC activity.

**Joint Procurement Authority (JPA)**

This group will have a role-based membership involving:

- DHB CEO Sponsor of Procurement
- CEO of PHARMAC
- GM Government Procurement, MBIE
- CEO NZ Health Partnerships (Chair)
- Chair(s) of Procurement Advisory Group(s)
- a DHB CFO
- a senior clinical representative.

The JPA will be accountable for the implementation of this strategy. It will do this by designing and maturing aligned planning routines that take draft plans per entity and recommending adjustments that will result in improved procurement outcomes for DHBs. The sign off of each entity's plan and the delivery of each of these plans remains the responsibility of each constituent entity. The JPA's role is to maintain the agreed processes to build the plan and to subsequently remove barriers to delivery such that overall effectiveness of Collective Procurement increases. This includes an important role in managing DHB compliance to procurement decisions and plans.

The strongest lever available to this group is in the allocation of DHB service fees to specific activities in order get the best procurement outcomes for DHBs. This includes decisions such as selecting which specific Collaborative Procurement initiatives are undertaken or allocating additional funding to procurement enablers if this were required.

This group is accountable to DHBs via the NZ Health Partnership Board and the JPA will regularly report into the DHB CEO Forum via the DHB CEO Sponsor, DHB Procurement.

The role of the JPA will be reflected in the MOU between PHARMAC and NZ Health Partnerships.

**Please note:** this group will make recommendations to the PHARMAC Board with respect to the scope of PHARMAC's medical devices work, the progression through this scope, and the strategies PHARMAC may pursue to deliver value, however this group in no way governs PHARMAC or changes their internal decision making processes. PHARMAC's accountability and governance arrangements are acknowledged and respected, as are the governance arrangements of other entities.

**Joint Procurement Advisory Groups**

A number of groups will be required to support the work of the JPA. Existing structures will be used where appropriate and the necessary linkages with the NOS programme and supply chain management will be established. Defining these groups will be a priority. They will be established as they become required.

**DHB Procurement Lead**

There will be a single point of contact in each DHB. This person will be accountable for being the liaison for all Collective Procurement activity, including reporting and will have accountabilities to the collective programme.
Strategic priority 2: Clear roles and responsibilities

Key areas of focus are:
- leveraging PHARMAC’s capability and reputation
- removing medical device procurement from the scope of healthAlliance (FPSC)
- developing a Supplier Relationship Management Framework
- working with MBIE to deliver more value for health from AoG contracts
- strengthening capability within DHBs
- providing coordination and oversight to ensure expected benefits are realised.

Leveraging PHARMAC’s capability and reputation

Leveraging PHARMAC’s capability and reputation to its fullest extent makes sense for DHBs. It is the surest way to achieve the best procurement outcomes in medical devices and potentially, over time, in other categories too.

To achieve this means identifying and planning to remove the limitations on PHARMAC’s expansion of the scope of its medical devices activity. The key impediments to this expansion are nationally consistent data, a standardised national catalogue of goods and services, robust business processes and, critically, DHB buy in and support.

A new formalised framework is required for DHBs and PHARMAC to work together to maximise PHARMAC’s scope for the benefit of the sector. This includes the arrangements detailed above, but it also extends further.

PHARMAC will continue to work with DHB staff to ensure that the clinical and technical information needed for high quality decisions is considered, and that suitable support is provided for DHBs to be able to implement PHARMAC contracts.

In addition, a new Supplier Relationship Management Framework is required to support the clarification of tasks undertaken by PHARMAC, other procurement agencies, DHBs and clinicians.

Over time, DHBs and PHARMAC will work together in pan DHB procurement initiatives, determine exceptions processes and develop a disciplined approach to the assessment and management of the introduction of new technology.

Greater involvement of MBIE

MBIE’s role in raising procurement effectiveness across the public sector supports what DHBs are trying to achieve and stronger relationships are envisaged.

DHB goals with respect to the work programme of MBIE will be determined by aligned planning processes, and are likely to include:

- fully adopting the Government Rules of Sourcing, including compliant annual planning routines, within DHBs
- simplifying the operating model such that there is a consistent interface between DHBs and AoG contracts
- unifying sector strength to ensure AoG contracts provide best value to the sector and eliminating barriers to AoG adoption, including negotiation of health representation on AoG initiatives
- driving full adoption of available AoG contracts (or valid exemptions) across all DHBs.
Clarifying the role of DHBs

Of the $30 million (plus) currently spent on procurement each year, a disproportionate amount is focussed on establishing low value contracts, many of which are not implemented. There is also money left on the table from valuable procurement activity not being taken up. The JPA will be accountable for determining what funding needs to be redirected to support local DHB tasks such as contract and product implementation, local clinical engagement, catalogue management, local contract management and local supplier relationship management.

In addition to these tasks there is a large body of procurement that is not covered by any form of Collaborative Procurement and this must be executed by DHBs within the Government Rules of Sourcing.

DHBs must be able to fund this activity within the current cost envelope. This means redirecting resources; it also means defining the work that must be done within DHBs and reporting on its effectiveness.

DHBs have a role to play in implementing procurement decisions, particularly when these decisions require changes in the range of products used within a DHB. Good procurement practice will be followed to ensure that the right procurement decisions are made and DHBs must have the collective will to implement these decisions if the targeted outcomes are to be achieved. Clarifying the DHB role and investing in capability development are key to the success of this strategy.

Appendix 1 shows the types of activities that are best delivered by the DHB and executed close to the clinical customers along with those that are best delivered by DHBs collectively.

NZ Health Partnerships will continue to support DHBs in collective areas and provide coordination and oversight as agreed with DHB leadership and governance.

Engaging clinicians is a critical element to the success of this strategy

- For a collective approach to be successful it is essential that clinicians are involved in planning and decision-making processes.
- Clinical views on proposals for change and suggestions for improvement need to be considered carefully.
- Engagement and communication must be facilitated in a meaningful and timely fashion to achieve effective outcomes.
Strategic priority 3: A ‘principles-based’ approach

Key areas of focus are:

- embedding the principles, rationale and implications of the strategy into the way all stakeholders work
- using the principles to drive decisions in procurement planning
- using the principles to drive funding allocation and/or the appointment of service providers
- adapting and refining the principles and rationale through use under change control.

The MBIE Government Rules of Sourcing provide the foundations for good procurement practice. The rules support government agencies to deliver better procurement outcomes through sound commercial decisions. These rules, along with the NZ Health Sector strategic outcomes, guide this DHB Procurement Strategy.

The rules include five key principles which apply to all government agencies, including DHBs. These encompass the government’s overarching values and the expectation is that these guide all procurement activity in the sector.

However, this strategy also needs to describe how to be a responsible party to Collective Procurement activity; that is, how DHBs will work together.

Applying a ‘principles-based’ approach to all Collective Procurement will help to ensure:

- the work remains established within a potentially changing strategic environment
- the appropriate people in the appropriate entities are involved and commitments confirmed prior to going to market
- the required behaviours are maintained once a collective contract has been let
- business processes and practices are continually improved to reduce non-value adding activity.

The agreed principles support our strategy of standardisation and rationalisation. Choices will be made according to these principles and behaviours must align. It is clear that after a national deal has been established excluded suppliers will offer ‘better’ deals and DHBs must resist this temptation regardless of budget pressures or internal incentives.

Chief Executives of the participating entities are ultimately accountable for the management of behaviours within their organisation. Trusted operational oversight and associated performance reporting must support them in this.

Collective Procurement cannot work without these commitments. Both sets of principles are set out below and the rationale for each DHB Procurement Strategy Principle is shown in Appendix 2.

### MBIE’s PRINCIPLES OF GOOD PROCUREMENT

*Guiding the way procurement is done*

1. Plan and manage for great results
2. Be fair to all suppliers
3. Get the right supplier
4. Get the best deal for everyone
5. Play by the rules

### DHB PROCUREMENT STRATEGY PRINCIPLES

*Guiding the way DHBs work together and make decisions*

1. Ensure Alignment
2. Demonstrate Commitment
3. Drive Standardisation
4. Ensure Patient Focus
5. Achieve Balance
6. Demonstrate Value
7. Embed Enablers
8. Streamline Activity
Strategic priority 4: Delivery of the enablers

Key areas of focus are:

- establishing Data Governance accountabilities and providing greater clarity to DHBs with respect to their commitments
- supporting the NOS
- developing a technology road map in collaboration with the National Oracle Solution team
- designing and developing aligned planning routines
- supporting capability development
- improving reporting and decision support.

The full benefits of Collective Procurement require good data, an agreed catalogue of goods and services, robust business processes, product management and clinical engagement capability within the DHB along with trusted reporting and decision support.

A central tenet of this strategy is that money spent currently delivering low value procurement contracts should be re-directed to more value adding activity. This may include the enablers of genuine, value-adding procurement outcomes.

This is how DHBs will realise financial benefits; ‘potential benefits’ have no value until realised.

Formal, aligned planning routines will be designed to enable DHB designated teams to prioritise activity (and consequently investment) in the areas that will bring the greatest value, including investment in the agreed enablers of effective procurement.
## 3. What will be different?

<table>
<thead>
<tr>
<th>Procurement in DHBs in FY 15 / 16</th>
<th>What will be different?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collective Procurement is unnecessarily complex PHARMAC, MBIE, healthAlliance (FPSC) and DHBs are not working towards well-defined, shared goals. Although there is a lot of effort, it is not yielding the projected benefits.</td>
<td>A new MOU with PHARMAC will show how DHBs can participate in, and benefit from, PHARMAC’s activities. DHBs will grow their relationship with PHARMAC and leverage its capability wherever possible and practicable.</td>
</tr>
<tr>
<td>There are many customer and stakeholder relationships between all organisations involved that are not coordinated. There is a disaggregated product management model.</td>
<td>There will be a National Catalogue of goods and services - delivered as DHBs transition to the NOS. There will also be best practice sharing between DHBs and a Supplier Relationship Management Framework.</td>
</tr>
<tr>
<td>healthAlliance (FPSC) is contracted to deliver the National Procurement Service to DHBs in the interim until PHARMAC are in a position to increase medical device procurement.</td>
<td>healthAlliance (FPSC) will transition out of medical devices and a clear scope will be provided through annual planning processes. The existing contract for currently defined scope will be renegotiated to appropriate scope and cost.</td>
</tr>
<tr>
<td>There is confusion with respect to roles and responsibilities of all parties. The scope of Collaborative Procurement activity is not determined by an aligned DHB planning process.</td>
<td>All DHBs will be involved in determining what requirements they have for Collaborative Procurement. Service providers will be evaluated against these requirements and DHB needs will be matched to service provider capability.</td>
</tr>
<tr>
<td>The total costs of procurement within this complex environment in the health sector are estimated to be greater than $30 million.</td>
<td>Funding will be directed away from delivering low-value procurement contracts towards the enablers of genuine, value-adding procurement outcomes delivered through the NOS. Over time, costs will be reduced and/or returns significantly improved.</td>
</tr>
<tr>
<td>Procurement in DHBs in FY 15 / 16</td>
<td>What will be different?</td>
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<tr>
<td>Under the HBL model, the Shared Service Council and the HBL Board were the key governance groups. A CEO Sponsor has been appointed and new governance arrangements will be implemented as appropriate to implement the agreed DHB Procurement Strategy.</td>
<td>DHBs will build the right system to govern and manage collaborative procurement activity with DHB leadership and decision making at the heart. NZ Health partnerships will help facilitate this. Each DHB Procurement Lead will be expected to participate or delegate involvement.</td>
</tr>
<tr>
<td>The role of the DHB is unclear and some lack necessary resources.</td>
<td>The role of the DHB will be clear and capability built where required.</td>
</tr>
<tr>
<td>Engagement and involvement is not well structured. DHBs are dissatisfied with current ways of working and want change.</td>
<td>Meaningful, two way stakeholder engagement and involvement processes will be co-designed.</td>
</tr>
</tbody>
</table>
4. The critical success factors

This strategy calls for simplification and a return to basics. It acknowledges that procurement outcomes rely on co-ordination of resources with different accountabilities and different reporting lines.

The following are considered to be critical to success:

- there is an environment that enables clinical leadership, alignment of activity and a culture of trust
- important clinical factors such as quality are appropriately considered
- the tension between short and long term objectives is well managed
- clear accountabilities and transparent decision making processes are in place and continuously improved
- a national catalogue of goods and services is in place
- robust business processes are in place and continuously improved
- trusted and timely reporting exists across a range of performance dimensions
- accurate data drives decision making
- the system is responsive and able to flex to changing needs or circumstances
- DHB leadership and strong local procurement are enabled to support a successful collective approach
- all parties work within defined plans when categories are managed collectively or collaboratively
- there is sense of urgency - however not at the detriment of quality outputs
- complexity and unnecessary duplication are removed
- there is a co-ordinated approach to managing suppliers
- mechanisms for communication and collaboration are in place
- roadmaps are defined that link strategy to annual plans
- the current state is understood before changes are made or undeliverable or unintentional high risk strategies are defined.
5. Implementation approach

This approach is designed around genuine DHB participation, effective leadership, aligned planning, and a ‘learn by doing’ approach.

DHB operational teams will be involved in planning to help deliver solutions that are appropriate for their own circumstances.

The intent is to make the planning processes meaningful to people right from the start, to get their participation and to provide an environment in which their ideas, enthusiasm and commitment can flourish. This requires leadership; not authority.

The operational teams working on implementation planning activities will identify improvements in their day-to-day work practices and these will also benefit their DHB more widely. This will accelerate adoption of new ways of working and immediate realisation of available benefits for DHBs.

The regional workshops that developed this strategy and the approach taken by the DHB led NOS programme provide a blueprint for collaborative work moving forward. This reflects a significant shift in the nature of relationships: from command and control, to co-operation and partnership; a model in which value is added by presenting ideas rather than instructions and by encouraging DHB networks rather than controlling communication and information flows.

This, then, is the challenge and the opportunity: developing and nurturing DHB networks that work for themselves and the national good.

The key activities to support the strategic priorities include:

- establishing trusted governance and ensuring decisions are appropriately informed through effective engagement
- designing and delivering aligned planning processes
- clarifying the role of DHBs and building capability where necessary
- leveraging PHARMAC’s capability and reputation
- implementing enabling technologies and processes to support decision making such as the NOS
- embedding principles into the way all stakeholders work to ensure the collective will to implement procurement decisions
- managing the transition of healthAlliance (FPSC) out of medical device procurement
- developing a collaborative business model in categories that are out of scope to PHARMAC or MBIE
- strengthening relationships with MBIE to deliver more value for health from AoG contracts.
Appendix 1 - DHB activities: local versus collective

DHB Local Activities

The following activities are the types that are perhaps best delivered by the DHB and executed close to the clinical customers:

- procurement planning for the specific DHB according to the Government Rules of Sourcing
- managing contract implementation and any associated product change processes
- where flexibility is provided, selecting products to be made available to DHBs through the National Catalogue (i.e. selecting the ‘DHB view’ of the National Catalogue)
- managing required local clinical engagement processes in line with any collective decisions
- managing local purchasing aligned to National contracts
- managing the relationship with suppliers within an agreed framework
- managing the relationship with National entities (single point of contact for procurement)
- executing local demand forecasting and management
- planning and executing DHB specific procurement obligations
- collaborating with other DHBs on procurement opportunities. Building and leveraging regional networks
- delivering local and regional standardisation and rationalisation activities
- reporting DHB benefits according to an agreed process.

DHB Collective Activities

The following activities require the involvement of all 20 DHBs:

- maintaining a DHB Procurement Strategy
- building and communicating a single Collective Procurement plan
- establishing National governance structures to enable Collective Procurement
- designing and delivering aligned planning processes
- maintaining operating standards and continuous improvement processes
- commissioning third parties to execute agreed high quality Collaborative Procurement projects
- managing the strategic communications with suppliers within an agreed framework
- defining and executing a national communications strategy and plan
- undertaking coordinated reporting and decision support.
# Appendix 2 - Principles and rationale

<table>
<thead>
<tr>
<th>Principle</th>
<th>Rationale</th>
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| **Ensure Alignment**              | • This principle provides a necessary link to two key external frameworks that influence the strategic direction of DHB Collective Procurement.  
• It also goes some way to providing the boundaries within which DHBs can act ‘autonomously’ with respect to procurement.  
• All DHBs are committed to work within the Government Rules of Sourcing.  
• Each DHB is mandated to produce Annual Procurement plans under the Government Rules of sourcing. |
| **Demonstrate Commitment**        | • DHB Collective Procurement has a high profile in central government and DHB CEOs have expressed their commitment to working together.  
• There is a strong belief that in many expenditure categories DHBs can gain greater leverage and outcomes through collective activity rather than via individual activity alone.  
• A national strategy is only effective if all parties play their part and believe in the approach. This requires collaboration and co-operation. It also requires joint commitment to issues resolution. |
| **Drive Standardisation**         | • Once it has been determined that a category is to be managed nationally commitment is required.  
• Demand volume may be used as a basis for negotiation and any national benefits may be undermined if a DHB subsequently pulls out of a deal.  
• Furthermore, individual approaches to key pan-sector suppliers can undermine strategic supplier management initiatives that should benefit all. |
| **Ensure Patient Focus**          | • A highly functioning health system has clinical and administrative staff working closely together with common goals, patients and their populations as the focus.  
• Procurement, in any government or commercial sector, must support business strategies and plans. This means appropriately balancing clinical effectiveness and costs in decision making.  
• For a Collective Procurement approach to be successful in health it is essential that clinicians are involved in planning and decision making processes. It is also important that their time is respected: engagement must be required and it must be meaningful.  
• Clinical views on proposals for change and suggestions for improvement need to be considered carefully.  
• Engagement and communication must be facilitated in a meaningful and timely fashion to achieve effective outcomes. Similarly, the ways of working must be evaluated for effectiveness and continually improved. |
<table>
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<tr>
<th>Principle</th>
<th>Rationale</th>
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| Achieve Balance              | ● Procurement must consider all elements relevant to the strategy vision. These include achieving patient outcomes, and the efficient delivery of these.  
● In line with principle 4, clinical advice will be critical to informing DHB needs for procurement; and advising on implications of change.  
● Success in strategic procurement requires a culture of trust, based on sound business insight and performance excellence, aspects of this are likely to develop over time.  
● Although vital to deliver in the short term, it is important that future gains are not lost in pursuit of short term savings.  
● Successful procurement will avoid excessive market consolidation and potential creation of monopolies.  
● While price is an important factor, it's not the only one that needs to be considered. Costings must account for lifetime costs rather than just unit costs.  
● The maturity of (and benefits expected from) the procurement activity are dependent on the enablers and the implementation of these will see an increase in benefits. |
| Demonstrate Value            | ● Procurement must deliver value from the outset and all activity must be of demonstrable value. ‘Value’ may include delivery of financial outcomes, mitigation of risk or contribute to achieving longer term goals, and always related to patient outcomes.  
● In many industries or jurisdictions funding for tomorrow’s procurement activity is derived from today’s savings.  
● There is a wide variety of products and services DHBs require in order to deliver services.  
● Where activity is best placed will depend on a range of factors, and DHBs will have an important role in the planning process to determine this, and reduce duplication.  
● The most effective procurement approaches must always be used to generate the change necessary to deliver on the vision. This may exclude a collaborative approach. |
<table>
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<tr>
<th>Principle</th>
<th>Rationale</th>
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</table>
| **Embed Enablers**<br>Collective procurement is built on DHB-owned enablers, including systems and information | Good procurement must be supported by quality and timely information, which:  
- enables better planning and management of opportunities  
- quantifies the value of DHBs collective buying power  
- provides suppliers with certainty that DHBs have suitable controls to meet commitments. |
| **Streamline Activity**<br>Operational waste, including unnecessary duplication is minimised | Duplication is inherently wasteful and the Joint Procurement Authority is committed to the systematic removal of waste from the system.  
- Duplication can also lead to an increased number of handovers and, as handovers are always opportunities for errors, reducing the number of these generally results in an increase in quality and a reduction in operating costs.  
- Duplication is not the only operational waste that exists currently. Successful procurement will avoid excessive market consolidation and potential creation of monopolies.  
- Where duplication is required as a market strategy (redundant capacity, regionally specific requirements etc) then this needs to be actively embarked on rather than being a default position. |
## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>All of Government Contracts (AOGs)</td>
<td>A type of collaborative contract that has been approved by the Procurement Functional Leader (the Chief Executive of MBIE). AoGs are usually Panel Contracts established by MBIE or other agencies that are approved Centres of Expertise for common goods or services (eg vehicles, laptops, and recruitment services).</td>
</tr>
<tr>
<td>Benefits (Procurement)</td>
<td>This refers to the process of identification, definition, tracking, realisation and optimisation of benefits related to procurement activity. Benefits may be financial such as reduced cost or qualitative such as improved clinical outcomes for patients.</td>
</tr>
<tr>
<td>Clinicians</td>
<td>Key stakeholders in the procurement process. Clinical engagement and leadership is vital to ensure procurement activity supports benefits realisation.</td>
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<tr>
<td>Collaborative Procurement</td>
<td>This is the procurement that DHBs choose to do together through collaboration. This type of procurement is funded directly by DHBs and is governed exclusively by DHBs. In this definition, the work of PHARMAC and MBIE is excluded from collaborative, whereas the work of DHBs or of healthAlliance (FPSC), for example, would be included.</td>
</tr>
<tr>
<td>Collective Procurement</td>
<td>This is the combination of all procurement activity; this includes PHARMAC, MBIE, healthAlliance (FPSC) and DHBs.</td>
</tr>
<tr>
<td>Data Governance</td>
<td>Data governance refers to the overall management of the availability, usability, integrity, and security of the data employed in an enterprise. A sound data governance program includes a governing body or council, a defined set of procedures, and a plan to execute those procedures.</td>
</tr>
<tr>
<td>DHB CEO Sponsor</td>
<td>This role is responsible for driving the vision of the overall programme through strong stakeholder management and supporting teams responsible for delivery and execution. They energize and guide Shareholder / DHB collective decision making, clarify and help people understand by provide balance and assurance.</td>
</tr>
<tr>
<td>DHB Procurement Lead</td>
<td>Each DHB CEO will identify a DHB staff member to fulfil this role. They will be the single point of contact for all communication and take the responsibility of leading effective procurement practice in their DHB. A full role description will be agreed with DHB Chief Executives.</td>
</tr>
<tr>
<td>DHB Procurement Strategy</td>
<td>A living strategy document that describes how DHBs will work together to to maximise value, reduce supply chain risk, improve quality and increase innovation in the products and services purchased.</td>
</tr>
<tr>
<td>Enablers of Procurement</td>
<td>These include the system, technology, information, processes and capability that support the system quality and its effectiveness. The NOS is identified as a key enabler.</td>
</tr>
<tr>
<td>Goods</td>
<td>Items which are capable of being owned. This includes physical goods and personal property as well as intangible property such as Intellectual Property (eg a software product).</td>
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<tr>
<td>Term</td>
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<tr>
<td>Government Rules of Sourcing</td>
<td>Rules for planning procurement, approaching the market and contracting. These rules are the standards of good practice for government procurement. The rules work in conjunction with the Five Principles of Government Procurement.</td>
</tr>
<tr>
<td>Joint Procurement Authority</td>
<td>This group will be accountable for the implementation of this Strategy. It will do this by designing and maturing aligned planning routines that take draft plans per entity and recommending adjustments that will result in improved procurement outcomes for DHBs.</td>
</tr>
<tr>
<td>Joint Procurement Advisory Groups</td>
<td>A number of groups will be required to support the work of the Joint Procurement Authority. Existing structures will be used where appropriate and the necessary linkages with the NOS programme will be established.</td>
</tr>
<tr>
<td>Medical Devices</td>
<td>This is as per section 3A Meaning of medical device of the Medicines Act 1981 and its amendments†</td>
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<tr>
<td></td>
<td>In this Act, unless the context otherwise requires, medical device</td>
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<tr>
<td></td>
<td>*(a) means any device, instrument, apparatus, appliance, or other article that—</td>
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<td></td>
<td>*(i) is intended to be used in, on, or for human beings for a therapeutic purpose; and</td>
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<td></td>
<td>*(ii) does not achieve its principal intended action in or on the human body by pharmacological, immunological, or metabolic means (but may be assisted in its function by such means); and</td>
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<tr>
<td></td>
<td>*(b) includes a material that—</td>
</tr>
<tr>
<td></td>
<td>*(i) is intended to be used in or on human beings for a therapeutic purpose; and</td>
</tr>
<tr>
<td></td>
<td>*(ii) does not achieve its principal intended action in or on the human body by pharmacological, immunological, or metabolic means (but may be assisted in its function by such means); and</td>
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<tr>
<td></td>
<td>*(c) also includes—</td>
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<td></td>
<td>*(i) anything that is intended to be used with a device, instrument, apparatus, appliance, article, or material referred to in paragraph (a) or (b) to enable the device, instrument, apparatus, appliance, article, or material to be used as its manufacturer intends; and</td>
</tr>
<tr>
<td></td>
<td>*(ii) any device, instrument, apparatus, appliance, article, or material of a kind or belonging to a class that is declared by regulations to be a medical device, for the purposes of this Act; but</td>
</tr>
<tr>
<td></td>
<td>*(d) does not include a device, instrument, apparatus, appliance, article, or material of a kind or belonging to a class that is declared by regulations not to be a medical device for the purposes of this Act.</td>
</tr>
<tr>
<td></td>
<td>†Section 3A: inserted, on 1 July 2014, by section 6 of the Medicines Amendment Act 2013 (2013 No 141).</td>
</tr>
<tr>
<td>National Catalogue</td>
<td>A standardised list of all goods and services purchased by DHBs.</td>
</tr>
<tr>
<td><strong>Term</strong></td>
<td><strong>Definition</strong></td>
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<tr>
<td>National Good</td>
<td>Significant sector-wide gains in any or all the following areas: quality, scalability, cost-effectiveness, capability and consistency.</td>
</tr>
<tr>
<td>National Oracle Solution Programme</td>
<td>The National Oracle Solution Programme is focussed on building a national Enterprise Resource Planning (ERP) system that will be managed and delivered to all 20 DHBs as a common service. This system is essentially a suite of integrated applications that can be used to manage and report on core activities including financial management accounting, supply chain management, business intelligence.</td>
</tr>
<tr>
<td>National Procurement Service</td>
<td>This term describes the procurement services delivered to all DHBs since July 2014 by healthAlliance (FPSC).</td>
</tr>
<tr>
<td>Procurement</td>
<td>The term ‘procurement’ covers all aspects of the acquisition and delivery of goods or services, spanning the whole contract life cycle from the identification of needs to the end of a service contract, or the end of the useful life and subsequent disposal of an asset.</td>
</tr>
<tr>
<td>Procurement Functional Leader (PFL)</td>
<td>The Chief Executive of the Ministry of Business, Innovation and Employment, who has been appointed by the Commissioner for State Services as the Functional Leader for procurement activities across government.</td>
</tr>
<tr>
<td>Procurement Leadership Forum</td>
<td>The group, led by Dr. Nigel Murray, had the responsibility of developing a DHB Procurement Strategy. Now that the strategy has been approved, this group has been replaced by the Joint Procurement Authority.</td>
</tr>
</tbody>
</table>
| Services | Acts or work performed for another party, eg accounting, legal services, cleaning, consultancy, training, medical treatment, or transportation. Sometimes services are difficult to identify because they are closely associated with a good (eg where medicine is administered as a result of a diagnosis). No transfer of possession or ownership takes place when services are sold, and they:  
  - cannot be stored or transported  
  - are instantly perishable  
  - only exist at the time they are provided. |
<p>| Suppliers | A person, business, company or organisation that supplies or can supply goods or services or works to an agency. |</p>
<table>
<thead>
<tr>
<th>Entity / organisation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Health Boards (DHBs)</td>
<td>20 organisations responsible for providing or funding the provision of health services in their district, including meeting health targets.</td>
</tr>
<tr>
<td>healthAlliance (FPSC)</td>
<td>A wholly owned subsidiary of healthAlliance NZ Ltd. Provider of the National Procurement Service since July 2014. Provision of regional Procurement &amp; Supply Chain services for the northern region DHBs.</td>
</tr>
<tr>
<td>Ministry of Business, Innovation and Employment (MBIE)</td>
<td>Delivers policy, advice, regulation and services that have a real impact on New Zealand businesses and the environment they operate in. They manage the public sector wide Procurement Functional Leadership Programme.</td>
</tr>
<tr>
<td>NZ Health Partnerships (NZHP)</td>
<td>Owned by the 20 DHBs. Its role is to identify, collaborate and build shared services for the benefit of its shareholders.</td>
</tr>
<tr>
<td>PHARMAC</td>
<td>PHARMAC is the New Zealand government agency that decides which medicines and related products are subsidised. The government tasked PHARMAC in 2012 to begin applying its model to hospital medical devices, with the expectation that this will achieve value for money and support equitable access to treatments.</td>
</tr>
<tr>
<td>The Ministry of Health (MoH)</td>
<td>Has overall responsibility for the management and development of New Zealand's Health and Disability system. The government's principal advisor on policy and strategy.</td>
</tr>
</tbody>
</table>