

PROCUREMENT SERVICES

CE SPONSORS

Kevin Snee (Hawke's Bay DHB) and Peter Bramley (Nelson Marlborough DHB)

PROCUREMENT POLICY TO UNLOCK GREATER VALUE

On behalf of the Joint Procurement Authority (JPA), NZ Health Partnerships has embarked on a consultation process for a draft health sector Procurement Policy.

The purpose of the Policy is to reinforce the roles and responsibilities of the various organisations involved in health sector procurement. It will also introduce compliance requirements. Research across the globe shows that there is a direct correlation between high contract compliance and better procurement outcomes, including cost reduction.

DHB Procurement Leads, CFOs and others are being contacted as part of the consultation process. Ultimately DHB Chief Executives will be asked to approve the Procurement Policy.

Why do we need a Procurement Policy?

The sector's first-ever DHB Procurement Strategy, which was unanimously approved by DHB Chief Executives in April 2016, focused on reducing complexity and improving collaboration to help DHBs extract greater value from the goods and services they purchase.

The associated Procurement Operating Model, approved in March 2017, mapped out in greater detail the roles of the various parties involved including PHARMAC, MBIE, DHB-owned shared services agencies and the DHBs themselves.

The Operating Model also identified key enablers to support health sector procurement including joint governance, planning, reporting and compliance.

However, until now there have been no compliance requirements nor a monitoring system in place.

This has led to problems such as multiple tenders being released for the same goods and services within the health sector, which has led to on-going confusion within the sector and of course amongst suppliers. There is also a general lack of visibility of procurement activities at governance group level which makes it very difficult to identify and quantify areas for improvement.

In simple terms, the lack of compliance is resulting in lost opportunities to create value for DHBs.

International research indicates that there is a direct correlation between compliance of contracts to budgetary benefits

Source: 2016 Return on Supply Management Assets report, A.T. Kearney

MARCH 2018

TODAY'S UPDATE INCLUDES:

- Procurement Services
- Microsoft G2018
- National Oracle Solution (NOS)
- Shared Banking
- Collective Insurance
- Quarter 2 Performance Report
- 'Mini' Annual General Meeting

KEY UPCOMING DATES:

06 MAR

- Food Services Contract Management Group meeting

08 MAR

- NZ Health Partnerships 'Mini' Annual General Meeting
- NOS Programme Board meeting
- Procurement Operations Advisory Group meeting

09 MAR

- Procurement Leads call

13 MAR

- NOS Executive Steering Committee meeting

19 MAR

- NOS Joint Design Council meeting

21 MAR

- NZ Health Partnerships Board meeting

22 MAR

- NOS Programme Board meeting

23 MAR

- Procurement Leads call

27 MAR

- Joint Procurement Authority meeting

MICROSOFT G2018

HEALTH'S VOICE TO BE HEARD IN GOVERNMENT NEGOTIATIONS WITH MICROSOFT

In 2018 the Department of Internal Affairs (DIA) is leading a procurement process for the entire government sector's Microsoft licensing requirements.

The estimate of the current health sector spend with Microsoft is \$15m per annum - \$45m over the standard three-year contractual term. This represents approximately 30% of total government spend on Microsoft.

It is estimated that Microsoft will seek to increase the price to the health sector by at least 25%, or \$11m over the three year term of the contract. The increase will be less for other government agencies as the health sector has retained 2012 pricing for a six year period, while other agencies have seen a number of increases, starting in 2015. Simply put, health has maintained lower prices for longer so the 'hit' may be bigger in percentage terms this year.

The DIA have been seeking agency input primarily from two types of reference groups, a Technical Advisory Group and a Client Advisory Group. Given the significance of the health sector spend and the specific requirements of the health sector, the DIA has suggested forming a separate reference group specifically for the health sector.

The health sector has asked NZ Health Partnerships lead this work. Specifically, we will aggregate the health sector's requirements and provide a single point of contact between DHBs and the DIA as well as ensuring a good procurement process and strategy is in place.

The DIA has formed a team, a procurement plan and processes. Two sector representatives are participating in the DIA negotiation team.

To assist with our work in representing DHBs' collective interests we are pulling together a governance structure including involvement from four regional CIO leads. NZ Health Partnerships is also pulling together a small project team that makes use of existing DHB expertise.

We will provide updates as things progress over the coming six months.

GENERAL NATIONAL PROCUREMENT UPDATE

The development of the sector's aligned 2018/19 Annual Procurement Plan is underway. Benefits targets will be set for both contract management and sourcing activities (meaning not simply for achieving a lower unit price but for maintaining and/or increasing value throughout the life of the contract).

The National Procurement process for Peritoneal Dialysis was completed in December 2017. From a total spend of \$14.5 million per annum across 13 DHBs **the final outcome is estimated to provide direct cost reduction of \$1.64 million per annum, as well as \$0.35 million in cost avoidance** relating to the daily remote monitoring fee for

full therapy patients. The contract pricing was effective from 1 January 2018 with DHB specific schedules currently being completed. Urology, Ostomy and Continence contract negotiation is on-going.

In December 2017 the JPA approved proceeding with Personal Protective Equipment Category as a National Contract for DHBs.

The nomination process is underway to identify subject matter experts for Medical Examination Gloves and Personal Protection Equipment category to help with evaluations. This is the first step of a formal, standardised clinical engagement process. Nominations for any clinically related categories will also involve Product Evaluation Health New Zealand (PEHNZ).

NATIONAL ORACLE SOLUTION (NOS)

CE SPONSOR

David Meates (Canterbury and West Coast DHBs)

In mid-December NZ Health Partnerships was advised that Cabinet approval was required for the additional funding required to complete the NOS programme. NZ Health Partnerships advised DHB Chairs, CEs, CFOs and CIOs of this via teleconference on 19 December. A further update was provided at the National CEs Group meeting on 8 February this year.

To inform the Cabinet process, the Ministry of Health is leading an independent review of the NOS programme. Deloitte has been engaged to undertake the review. At this stage we expect a Cabinet decision by end-April.

PROGRAMME STATUS

Importantly, the programme itself is in good shape. All programme health indicators – scope, time, budget, resource, quality, risk and communications - would be green if not for the review.

Wave 1 remains on schedule to go-live in July 2018. The programme has successfully completed the second round of end-to-end testing of the system and the joint design council (JDC) have endorsed the programme's request to move through this significant gate.

The programme is now positioned to prepare for the final round of testing which will see nominated DHB users get access to the system to ensure it performs as expected from an end-user perspective.

The system itself is in its penultimate state of configuration. This pre-production environment will form the template on which the final production environment will be built, ready for go-live in July.

In 2019 the Wave 1 DHBs are scheduled to move to the National Technology Solution, followed by the remaining DHBs. The National Technology Solution will run the

same system as Wave 1 will be using in July, but it is significantly more powerful infrastructure and will be built to manage all 20 DHBs. PwC have just reviewed the design for this infrastructure and not only given it a clean bill of health but stated that it is the most comprehensive piece of work that they have seen.

SHARED BANKING AND COLLECTIVE INSURANCE

CE SPONSOR

Nigel Trainor (South Canterbury DHB)

SHARED BANKING

As scheduled, 13 DHBs and related subsidiaries have transitioned to the sector's new shared banking services provider, BNZ. Late-adopter DHBs such as the four wave 1 NOS DHBs remain with Westpac for now but are scheduled to transition across later this year.

COLLECTIVE INSURANCE

Good progress is being made identifying the best solution to meet DHBs' Insurance Brokerage needs. Informal discussions have been had with AON and Crombie Lockwood, as well as Marsh to inform development of the mid-to-long range Collective Insurance strategy and how we might be best placed to structure insurance in the future.

'MINI' ANNUAL GENERAL MEETING

NZ Health Partnerships will hold its 2017/18 'Mini' Annual General Meeting on 8 March in Wellington. This has been incorporated into the schedule of the DHB Chairs and Chief Executives Forum on the same day. The agenda includes:

- Consideration of the reappointment of NZ Health Partnerships' three independent directors
- A brief review of 2017/18 year to date
- Draft 2018/19 Annual Plan targets.

A paper outlining the various actions and initiatives NZ Health Partnerships has undertaken in direct response to last year's Stakeholder Survey will be included in the pre-reading pack.

With agreement from DHB Chairs and Chief Executives, NZ Health Partnerships will hold a full planning day with its Shareholders in August / September. This day will be used to plan for 2019/20 as well as to discuss key strategic pieces of work such as a Decision Making Framework, the need for which was agreed at our Shareholders' day last year.

QUARTER TWO PERFORMANCE REPORT

NZ Health Partnerships has released its Quarter Two Report to DHB Chairs, Chief Executives and CFOs. This report provided our Shareholders with a progress update against measures and targets in our Statement of Performance Expectations 2017/18 (SPE).

Below shows our overall performance results for Q2 ending 31 December 2017.

One metric is assessed as Not Achieved. This relates to the delivery of an efficient food service measure and its target of \$1.8m in budgetary benefits which cannot be measured without an original expenditure baseline. Non-budgetary benefits will continue to be communicated in the report as they are realised.

