NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

by

New Zealand Council of Trade Unions
Te Kauae Kaimahi

Submission on

Health Benefits Limited – Indicative Case for Change Finance Procurement and Supply Chain

17 February 2012

Summary of NZCTU Recommendations:

- There must be assurances that funding in the health sector will not be affected or reduced due to savings that may be made through the Indicative Case for Change and other Indicative Cases for Change that have yet to be released for consultation.

- Any proposal must ensure that patient safety and quality of care are not adversely affected in pursuit of cost savings. The proposal should also have aspirational aims for improving health outcomes.

- Open, accountable and transparent decision making processes must be a key criterion in any proposal for shared services and standardised systems.

- Job losses should be managed through staff attrition in the first instance. Employees who are directly affected by loss of employment should be given priority status for new jobs that may arise.

- Consideration must be given to the impact of changes such as job losses and potential loss of trade for small and medium sized businesses in smaller communities.

- Clarification is required of who the employer would be in a centralised model and its role/relationship with all those affected by a centralised model including DHBs and unions.

- Careful consideration must be given to areas of cost savings where potential changes could have an impact on terms and conditions of current collective employment agreements. The CTU expects that there is a commitment to maintaining good pay and employment conditions as part of this process.

- Further consideration and analysis of the problem, available options and impacts is required before a final decision is made. The section on "Compelling Reason" needs to specify in more detail what the problem is, the need for greater efficiencies and how these efficiencies will be met.

- International examples examined should identify evaluations and experiences from these systems, the experiences of users and actual impact on efficiencies and cost savings. This will be instructive on how, or whether, to undertake a similar exercise here.

- Further clarification is required of whether "payroll" will be examined under the Indicative Case for Change Human Resources and Workforce Management or the Indicative for Change Finance Procurement and Supply Chain.

- Any changes to Finance which impact payroll must ensure that payments to employees are made accurately and on time. A detailed implementation and trial approach of a new Finance system is recommended to mitigate operational risks.

- Clarification of timeframes and commencement of the implementation phase is required for certainty of processes. Further information is required on what feasibility studies and pilots might look like before a final approach is agreed.

- Further research and consideration should be given to local procurement models such as Pharmac. A similar model may be worth investigating for a national procurement process.

- For a national procurement model to be successful DHBs and practitioners within them need to maintain control over the choice of goods and services procured. DHBs and practitioners using the procured items must have confidence in those making the decisions on procurement.

- The DHBs should maintain close and direct control over the procurement operation.

- Models involving a procurement arm which could be seen as competing with commercial procurement services should be avoided.

- Any proposal for a national procurement model should carefully consider the potential impacts of international agreements to which New Zealand is party.

- Any change to inventory systems must not have an adverse effect on clinical leadership and must ensure that employees still have access to inventory information including cost of items.

- Health practitioners and union representatives must be part of a structured and participatory process for the health item coding process. This will help ensure the coding system is fit for purpose.

- Items on the collective procurement list need to be clearly defined so they are clearly understood by the workforce.

- Union and practitioner involvement in the National Procurement Council is important for ensuring quality standards, safety and transparent processes are maintained.

- Further information is required on how a national procurement process will work in practice.

- Consideration must be given to the environmental impact and sustainability of purchase agreements, and responsible contracting principles in any national procurement process.

- There should be union involvement in the development of governance principles and structures, and the Programme Review Panel for a proposal to be successful.

- Maintaining open lines of communication with health sector forums such as the Health Sector Relationship Agreement Steering Group and the National Bi-partite Action Group will help ensure buy-in from the health sector and provide credibility to the change process.

- Given the significance of the changes, a detailed evaluation programme examining the implementation process, effectiveness of the changes and experiences of users should be built into the agreed model from the start of the change process.

1. Introduction

1.1 The New Zealand Council of Trade Unions - Te Kauae Kaimahi (CTU) is the internationally recognised trade union body in New Zealand. The CTU represents 39 affiliated unions with a membership of over 350,000 workers.

1.2 The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.

1.3 The CTU has an active role in health sector forums including the Health Sector Relationship Agreement (HSRA) and the National Bi-Partite Action Group (NBAG). The CTU and health sector affiliated unions have been engaging with Health Benefits Limited (HBL) on the processes and timeframes for their work including the development of the Change and Communications Framework which has been agreed to by District Health Boards (DHBs) and unions.

2. Indicative Case for Change Finance Procurement and Supply Chain: CTU response

2.1 The CTU welcomes the opportunity to make a submission on the Indicative Case for Change Finance Procurement and Supply Chain (the Indicative Case for Change). The CTU supports the submissions of CTU affiliated health sector unions. In preparing this response, the CTU has consulted with its health sector union affiliates.

2.2 The health sector employs over 100,000 people and has a strongly unionised workforce ranging from doctors, nurses and allied health professionals to clerical, cleaning, trades people, store and laundry workers. The proposal outlined in the Indicative Case for Change will have a direct impact on Public Services Association (PSA) members working in administrative and clerical areas. The proposal is likely to have an indirect impact on other parts of the health workforce and unions downstream. The CTU considers that there is also the potential for contracted staff such as cleaners to be affected by changes.

2.3 The CTU submits that any proposal must ensure that patient safety and quality of care are not adversely affected in pursuit of cost savings; has open and transparent decision making processes; promotes clinical leadership; maintains business and appropriately manages direct impact on job losses. The proposal should also have aspirational aims for improving health outcomes.

2.4 In principle, the CTU supports the proposal outlined in the Indicative Case for Change Finance Procurement and Supply Chain. There are clear benefits in having shared services and standardised systems for

Finance, Procurement and Supply Chain, including improved and efficient processes for the wider workforce, reduced costs and better access to information.

2.5 The Indicative Case for Change identifies technology changes will be made in line with the IT Health Board's direction and strategy. The CTU supports this co-ordinated and collaborative approach with other strategies in the health sector aimed at delivering better services to the sector.

2.6 Although the CTU broadly supports the proposals outlined in the Indicative Case for Change, there are a number of issues and areas that lack clarity and which require further analysis before a decision is made on a final approach.

3. Issues

Managing job losses

3.1 The proposal outlined in the Indicative Case for Change will have a significant and direct impact on administrative staff, with approximately 20% of staff being directly affected. The CTU anticipates that there may be further job losses once the shared services and standardised systems have been centralised. The CTU encourages DHBs to manage job losses through staff attrition as much as possible.

3.2 The Indicative Case for Change states that as part of implementation activities there is likely to be recruitment of new staff and new career opportunities. There is little detail regarding the number of new jobs that may be created or whether there will be actual cost savings after recruitment and redundancy costs. The CTU believes that where possible, employees who are directly affected are given priority for new jobs that may arise. This is particularly important in retaining skills, knowledge and experience of the administrative field in the health sector.

Impact on smaller communities

3.3 Any job losses in smaller DHBs as a result of the change process will have a significantly adverse effect on their communities. The CTU encourages HBL to consider the effect job losses will have on smaller communities as the impact of job losses will be felt more widely and have a direct impact on people and the local economy.

Impact on employment agreements

3.4 The Indicative Case for Change states that there will be a change in employer, however, it is unclear as to who would be the legal employer if centralised services and systems are implemented. This issue may need to be considered more in depth if a national document for

Finance, Procurement and Supply Chain is to be considered further. Clarification of who the employer would be in a centralised model is a critical employment issue to be resolved.

3.5 For example, it is proposed that Procurement will be managed on a national basis on behalf of DHBs. Does this mean that DHBs remain as employers or will there be a new employer/entity? Would the terms and conditions of employees be transferred if there was a new employer? Where would DHBs sit in the overall framework – would they have a say and maintain autonomy over business decisions and processes in relation to Finance Procurement and Supply Chain? The relationship between different players in the model remains unclear. It may be intended that these issues will be considered later, however, these issues must be given priority in the design of programmes and to provide clarity for both DHBs and unions.

3.6 Some of the proposals outlined in the Indicative Case for Change are likely to affect collective employment agreements. For example, Appendix D outlines areas of third party spend which could result in cost savings. Some areas identified as being in scope are directly related to what has already been negotiated in collective employment agreements. Further consideration may need to be given to these areas of cost savings where potential changes could have an impact on terms and conditions of current collective employment agreements and processes. We would be very concerned if a change in employer led to deterioration in pay and conditions for the employees affected.

Problem definition

3.7 Though the CTU broadly supports the proposal outlined in the Indicative Case for Change, we believe there needs to be more consideration and analysis of the problem, available options and impacts. The CTU understands there is a set financial target in terms of cost savings and much research has been conducted by HBL on the Indicative Case for Change but in our opinion the current document does not clearly enough state the problem it is intending to overcome in order to achieve the proposed savings. For example, the section on "Compelling Reason" could specify in more detail what the problem is, why there is a need for greater efficiencies and how the efficiencies will be met.

Evidence and models

3.8 The CTU believes any such undertaking needs to include an analysis of what has occurred internationally and locally. The document outlines in Appendix C similar models and examples of multi-functional shared services organisations in the United Kingdom, Ireland, Canada and Australia. However, these examples do not identify evaluations or experiences from the systems and processes, the experiences of users and actual impact on efficiencies and cost savings. It would be useful

to identify evaluations and experiences from similar models as proposed in the Indicative Case for Change. This will be instructive on how, or whether, to undertake a similar exercise here.

3.9 There is an absence of consideration of local procurement models in the Indicative Case for Change such as the Government drug buying agency, Pharmac. The CTU considers Pharmac is a proven model for collective procurement, which serves national interests well by demonstrating the interconnections between regulation, cost-effective assessments, practitioner-led professional judgements, accountability and employment. A similar model may be worth investigating for procurement processes in the Indicative Case for Change.

3.10 We consider that a critical criterion for a successful procurement model is that DHBs and the practitioners within them maintain control over the choice of goods and services procured. Many items have a direct or indirect impact on health and professional standards, and all will have impacts on the efficiency of DHB operations. Unless the people using items have confidence in those making the decisions on procurement choices, the procurement system will be gradually undermined by (perhaps surreptitious) local purchasing and/or pressure to make exceptions. Detailed knowledge of the context in which items are used is important in making these decisions. The Pharmac model is an example of how this can succeed when judgements are made by respected independent clinicians and experts.

3.11 We would be very concerned at any model which proposed a for-profit procurement arm whose relationship with the DHBs was simply that of a commercial vendor. Shared procurement gives monopoly rights to the procurement organisation making it imperative that the DHBs maintain close and direct control over it. In addition, an operation which could be seen to be competing with commercial procurement services should be avoided. It would be open to challenge by private suppliers which consider they should have the opportunity to provide the monopoly procurement service. The rights of overseas-owned suppliers to be treated equally with local (including publicly owned) commercial suppliers are enforced by international agreements on services and government procurement.

Costs and implementation

Cost-benefit analysis

3.12 The CTU considers the real benefits of a shared service will be felt more in the long term rather than the short term due to implementation design, processes and costs. In particular, it is unclear from the document as to how useful/real the cost savings will be in the first five years - $146m when offset against the implementation cost of $77.6m. The CTU considers it is likely there will be many hidden costs associated with the proposal, particularly when taking into account

training and IT infrastructure costs. Given the overall savings target of $700m (within five years), there is a chance the contribution to savings will be minimal and outweighed by implementation and design costs if they are not adequately identified.

Implementation - timing

3.13 The implementation phase regarding timeframes and anticipated costs are unclear. In some sections the document states that implementation will be achieved within *three years* of commencing roll-out (page 6), in another section (page 8) it identifies that an investment of $77.6m will be required over *two and a half years,* however in another section (page 10) the document states the proposal can be executed upon and completed *within a two year timeframe* from commencement. Greater clarity regarding timing and commencement for the implementation phase would be useful in planning for a rollout, developing a communications plan, change management and providing certainty to the workforce.

3.14 The Indicative Case for Change states that there will be a "wave" approach to trialling how the proposed changes would work in practice. The CTU supports this trial approach before implementing new systems and processes. However, more information is needed on what the feasibility studies and pilots might look like before a final approach is agreed.

Impact on payroll systems

3.15 The CTU understands that areas related to payroll will be examined under the Indicative Case for Change Human Resources and Workforce Management (as outlined in the Concept Brief). It is unclear, however, if the proposal outlined for Finance in the Indicative Case for Change Finance Procurement and Supply Chain will have an impact on payroll systems as this was not specified.

3.16 The CTU assumes that if there are changes to a national Finance system there is likely to be an impact on the administration of payroll given that payroll systems are linked to a Finance system. A move from DHB payroll systems to a national payroll system will require significant training and investment to ensure payments to employees are made accurately and on time. Payments not made on time or accurately can cause considerable anxiety and stress for staff. The CTU supports the general idea proposed in the finance programme but considers this to be a high risk area and which requires a detailed implementation plan and trial approach.

Distribution of cost savings and impact on health funding

3.17 The Indicative Case for Change states that savings from the Indicative Case for Change and other areas will *"free up money to reinvest into*

the clinical areas of DHBs". It is unclear as to where the benefits will *exactly* go, how the savings will be distributed and by who, and whether health sector funding will be affected by any savings incurred. There must be assurances that funding in the health sector will not be reduced due to savings that may be made through the Indicative Case for Change and other Indicative Cases for Change that have yet to be released for consultation.

Impact on clinical leadership

3.18 Any change to systems and processes should not have an adverse effect on clinical leadership and access to inventory information including costs of items. Clinical staff spend considerable time undertaking stocktakes of inventory items. Whilst the proposal would add value by reducing time spent by staff on conducting inventory stocktakes, costs and making procurement processes more efficient, it is important to note that clinical staff still need access to inventory information including the cost of items. The document is unclear as to how clinical staff will have access to this information. Without this knowledge unnecessary wastage of items may occur and the good intentions of the proposal may be lost.

Governance principles and structures

3.19 The proposal outlined in the Indicative Case for Change is unclear on whether there will be union representation on governance structures and decision-making processes including governance principles for implementation. The CTU supports the establishment of Boards and Councils based on specialist work-streams. Union involvement in these structures is vital to the success of the proposal. The CTU supports PSA representation on governance structures such as shared services, and the New Zealand Nurses Organisation (NZNO) and Association of Salaried Medical Specialists (ASMS) representation on the proposed National Clinical Procurement Council.

3.20 The HSRA Steering Group and the NBAG are effective forums for discussing issues related to Change Management and Governance Principles. Given the number of organisations, people and processes that will be affected by the Indicative Case for Change, the CTU believes continued involvement between the HSRA, NBAG and HBL including open lines of communication will help ensure buy-in from the sector and provide credibility.

Programme Review Panel

3.21 The Indicative Case for Change states that a Programme Review Panel will be established across all four programmes. The Panel will have representatives from HBL, DHBs and Ministry of Health. However, it is silent on whether there will be workforce input. The CTU supports the establishment of a Programme Review Panel given the

extent of changes proposed but considers it vital to have employee and union representation on the Panel in providing a worker voice.

Procurement processes

Health item coding

3.22 The CTU supports the idea of health item coding as outlined in the Indicative Case for Change, however, it is unclear whether there will be workforce input into the coding process. Practitioners and union representatives must be part of a structured and participatory process for the coding process. This will help ensure the coding system works, is well understood and is fit for purpose.

Collective procurement list

3.23 The list of collective procurement items as listed on page 14 of the document are unclear and may lead to confusion as they are not clearly defined. It may be useful to provide definitions of items on the collective procurement list. The CTU supports the involvement of NZNO and ASMS representation on the National Procurement Council. Input from unions and practitioners will help maintain oversight of quality, safety and transparency of procurement processes, and ensures health items are fit for purpose.

Transparency and accountability of processes

3.24 A national procurement process may reduce the potential for fraud and corruption arising at a local level, but a national procurement process could increase this risk given the centralised power on procurement processes. The CTU believes these risks can be mitigated by strong governance structures and robust and transparent processes.

3.25 The Indicative Case for Change provides a high level overview of what a national procurement process might look like but lacks details on how the process will work in practice such as the process for identifying quality health items for procurement and the process for purchase decisions. The CTU acknowledges that design work is underway, but would like to see further information on how a national procurement process will work in practice.

Impact on small and medium sized business

3.26 It is unclear how many DHBs, if any, currently engage in procurement processes with small and medium sized businesses. The CTU is concerned that smaller and medium sized businesses may miss out on business opportunities due to national procurement processes. The CTU encourages any proposal for national procurement processes to consider the impact of loss of trade on smaller and medium sized businesses and the wider impact on local communities.

Sustainable options and responsible contracting

3.27 It is important to note the environmental impact of procurement processes and purchase agreements. The CTU believes it is essential for any national procurement process to consider buying decisions which are environmentally friendly, sustainable and adhere to responsible contracting principles.

Evaluation process

3.28 The Change and Communications Framework indicates there will be an evaluation review of the post-implementation phase. The Indicative Case for Change lacks detail on any evaluation programmes. Given the significance of the changes, a detailed evaluation programme examining the implementation phase, effectiveness of the changes and experiences of users should be built into the agreed model from the start of the change process. Evaluation findings will be critical in identifying whether the implementation process was successful, changes have worked, the intentions of the proposal have been achieved and further areas for improvement.

Questions for HBL

3.29 In addition to the issues and questions raised above, the CTU has further questions which require clarification:

- Who will make the final decision on what the changes will be and will there be union input? Can HBL give a timeframe for when implementation will begin and will unions have input into the commencement decision and rollout process?

- What impact, if any, will the cost savings plan have on implementation timeframes given it is now 2012 and a Cabinet directive to achieve savings of $700m within 5 years was set in 2010?

4. Conclusion

4.1 The CTU broadly supports the proposals outlined in the Indicative Case for Change Finance Procurement and Supply Chain, however, we urge caution in moving too fast in finalising models for change. It is clear that further detail and work is required on the Indicative Case for Change before a final approach is agreed upon.

4.2 The CTU welcomes further opportunities to work with HBL on the development of the Indicative Case for Change Finance, Procurement and Supply Chain and consultation on future Indicative Cases for Change including Facilities Management and Support Services; Information Services; Human Resources and Workforce Management.