

# Health New Zealand – Te Whatu Ora

## Executive Leadership Team

### Surgical Outsourcing Strategy / Procurement

Date:	12 December 2024	Author:	Rachel Haggerty, Director, Funding – Hospitals
For your:	Action	Approved by:	Andy Windsor, National Director, Procurement and Supply Chain
Seeking funding:	Yes	Funding implications:	Yes
To:	Executive Leadership Team		

### Purpose

1. This paper provides an update on the Surgical Procurement work programme to deliver three-year panel agreements for the three regions outside Northern, and it seeks agreement to execute it. The proposed agreements have been endorsed by the Regional Deputy Chief Executives.
2. The paper also outlines the additional volume of surgical outsourcing required to achieve health target milestones. There is no identified funding source for this activity.
3. Further papers on endoscopy and ophthalmology will be available in March 2025 as procurement processes are completed.

### Recommendations

4. It is recommended that the Executive Leadership Team:
  - a) **Note** surgical panel agreements for Te Manawa Taki, Central and Te Waipounamu will be operational by the end of December - replicating the benefits of the existing Northern panel agreements.
  - b) **Note** these panel agreements replace multiple contracts, providing a nationally consistent and administratively efficient process for outsourced surgical services.
  - c) **Note** by including volume commitments, aligned to the activity plans and health targets, Health NZ has successfully reduced the RFP prices submitted by providers. To retain these prices, Health NZ needs to meet these volume targets.
  - d) s 9(2)(b)(ii)
  - e)

s 9(2)(b)(ii)

f)

- g) **Note** the Commissioner wishes to review the Panel Agreements prior to execution.
- h) **Endorse** the continued execution of panel agreements with the providers summarised in Appendix A subject to Commissioner advice.
- i) **Note** that a consolidated 'Recommendation to Endorse and Execute' document will be approved by the delegated authority holder, the Director, Procurement, Supply Chain and Health Technology Management.

j) s 9(2)(b)(ii)

k)

- l) **Discuss** options for funding the additional outsourcing of up to \$51 million.

## Introduction

5. The four regions have been improving planned care delivery and productivity in the publicly provided system. The Northern Region is increasing its insourcing work to utilise Tōtara Haumarū. This is built on positive experiences of insourcing. The other regions are considering insourcing approaches where feasible.
6. Where physical capacity is available the lowest cost for addition planned care is through improved productivity of internal provision, the second lowest costs is the marginal cost of insourcing and then outsourcing.
7. Privately provided surgical services play an important role in Health NZs ability to manage health service delivery and meet health targets by ensuring outsourcing is affordable and complements our public capacity.
8. Currently, Health NZ does not have the capacity to meet the 2024/24 elective health target milestones from productivity gains or insourcing approaches especially in Te Manawa Taki and the Central Region.
9. The historic approach to outsourcing has been fragmented and resulted in lost opportunity to manage price, quality and the complexity of the work outsourced. Procurement, Finance, Regions, and the Hospital Funder have worked together to improve delivery by implementing panel agreements.
10. This Panel Agreement approach is embedded in a strategic outsourcing plan to improve the relationship with the private sector to drive better value for money and performance from the relationship.

11. A high quality and professional procurement approach has been managed by the Clinical Outsourcing Team within Procurement Services. Full reports on the procurement process are available. These confirm that all providers meet the quality and safety requirements, the professional standards and the reporting and performance requirements of the Panel Agreements. They also include the necessary declarations for probity purposes.
12. Panel Agreements are contractual arrangements with a panel of pre-approved suppliers that GDOs can access via statements of work and purchase orders. They include clinical pathways and service specifications, which have been drafted with clinical experts and approved by the Clinical Networks Group for Surgical services. Nationally consistent prices are negotiated, enabling Health NZ to leverage its size and manage cost.
13. The panels have been agreed at the national level with DCE endorsement. The Regional DCEs sought confirmation that they have at least quarterly review requirements and the mechanisms to support more complex work should this be required.

## The Outsourcing Agreement

14. Working with the Deputy CFOs and the Planned Care representatives, Clinical Procurement supported by the Hospital Funder has been working to achieve the best prices through panel agreements and negotiated pricing. Outsourcing volume requirements to meet health targets and potential expenditure is also outlined.

## Three Region Panel Agreements and Negotiated Pricing

15. Three regional surgical panel agreements for Te Manawa Taki, Central and Te Waipounamu will be ready for execution the week of 16 December. They have an initial term of two years, with one right of renewal of 12 months, which aligns the timeframes with the existing Northern region panel agreements.
16. The approach for the panel agreement negotiations is premised on:
  - a) Longer term agreements – to provide certainty and enable us to negotiate reduced prices.
  - b) A commitment to volumes – to achieve the elective health target milestones and enable us to negotiate the best prices.
  - c) Balancing the complexity of work outsourced – to ensure equity of outcomes, optimal efficiency, and the sustainability of public clinical training and capacity.

s 9(2)(b)(ii)

22. Benefits realisation requires the regions to manage the complexity of volumes done in private and the utilisation of provider capacity as a regional entity, not just at district level. The procurement process assumes high complexity work will be completed in-house and medium/lower complexity work is outsourced.

### **Activity Required to Achieve 2024/25 Elective Health Target Milestones**

23. The 2024/25 Activity Schedule, which was built before the health target milestones were set, planned for 209,000 caseweights across 16 specialties. Of this, 29,000 caseweights were planned to be outsourced. In addition, we planned on 238,000 elective outpatient appointments, of which 27,000 were planned to be outsourced.

24. Working with the Regions, the Hospital Funding Team have modelled the additional activity required to meet the Health Target milestones in 24/25. Year to date planned care activity has fallen behind plan, and recovery plans are being implemented.
25. Further work has been completed with the three regions to understand the additional outsourced volumes required to meet the 2024/25 elective health target milestones. These are outlined in the table below. The FSAs will be managed internally by Health NZ as per the 'Planned Care Taskforce - Reset and Restore Plan'.

**Table Two: Additional volumes required to meet Health Target Milestones**

Procedure	Te Manawa Taki	Central	Te Waipounamu	Total
Surgical FSAs (ESPI 2)	2,500	1,700	2,900	7,000
Surgical Treatments (ESPI 5)	1,100	1,000	1,700	3,800

## Financial Implications

26. We have worked with the national finance team on the analysis below and final endorsement will be provided at the meeting.
27. Final advice from finance will be provided as an addendum to this paper .

## Financial Resources Available for Surgical Outsourcing

28. The funding of the volumes required for outsourcing is impacted by the budget setting process for 2024/25, savings targets embedded in outsourcing budget, expenditure to date and the need for additional volumes to meet the waiting list demand and achieve Health Target milestones.
29. It is important to note that Regional Deputy CFOs and national finance have identified that account coding of outsourcing expenditure is variable as Districts have not consistently allocated costs to the appropriate account code. The table below makes consideration of these issues and are the best estimates available.

s 9(2)(b)(ii)



## ***Resources to Achieve 2024/25 Elective Health Target Milestones***

32. We have estimated the costs to outsource the additional volumes required to meet the 2024/25 elective health target milestones, based on the RFP response prices.

s 9(2)(b)(ii)

## **Next Steps**

37. The Commissioner will, on the advice of ELT, review the proposed agreements.
38. Approval of the consolidated 'Recommendation to Endorse and Execute' document by the delegated authority holder, the Director, Procurement, Supply Chain and Health Technology Management will occur after this review.
39. The CE, CFO and Regional Deputy CEs will advise on the approach to supporting the additional funding required for outsourcing to achieve health target milestones.

## **Document ownership**

Andy Windsor

National Director, Procurement and Supply

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Signature

## APPENDIX A: LIST OF SURGICAL PANEL PROVIDERS

Provider	Facility	Cardiothoracic	Breast	ORL & ENT	General Surgery	Gynaecology	Orthopaedic	Urology	Vascular	Paediatric	Plastics	Neurosurgery	Additional Services	Wet Lease	Region
Southern Cross Healthcare	Hamilton		✓	✓	✓	✓	✓	✓				✓		✓	Te Manawa Taki
	New Plymouth			✓	✓		✓	✓							Te Manawa Taki
	Rotorua		✓	✓	✓	✓	✓								Te Manawa Taki
	Wellington				✓	✓	✓	✓		✓		✓		✓	Central
	Christchurch		✓		✓	✓	✓	✓						✓	Te Waipounamu
	Invercargill				✓	✓	✓	✓						✓	Te Waipounamu
	Ormiston			✓	✓	✓	✓	✓					✓	✓	All
Evolution Healthcare	Wakefield / Bowen Hospital	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓		✓	Central
	Royston Day Surgery						✓								Central
	Royston Hospital		✓		✓	✓	✓	✓	✓	✓	✓			✓	Central
	Anglesea Hospital		✓	✓	✓	✓	✓	✓		✓	✓			✓	Te Manawa Taki
Grace Hospital (Evolution/Southern Cross Ltd)	JV - Evolution / Southern Cross		✓	✓	✓	✓		✓	✓	✓	✓			✓	Te Manawa Taki
Braemar Hospital Limited		✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	Te Manawa Taki
Orthopaedic Services Ltd							✓						✓		Te Manawa Taki
Chelsea Hospital					✓	✓	✓							✓	Te Manawa Taki
Eastbay Specialists Centre Ltd							✓								Te Manawa Taki
Tauranga Eye Specialists														✓	Te Manawa Taki
Boulcott Pulse Health Ltd			✓		✓		✓				✓				Central
Kaweka Health Ltd			✓	✓	✓	✓	✓	✓	✓		✓		✓	✓	Central
Crest Hospital	JV - Southern Cross / Aorangi		✓	✓	✓	✓	✓	✓		✓				✓	Central
Wairarapa Hospital OPCO Limited						✓	✓						✓		Central
Kapiti Day Hospital						✓									Central
Manuka Street Hospital	JV Southern Cross		✓	✓	✓	✓	✓	✓					✓	✓	Te Waipounamu
Southern Cross Central Lakes Trust	JV Southern Cross		✓	✓	✓	✓	✓	✓	✓		✓			✓	Te Waipounamu
Churchill Hospital					✓		✓								Te Waipounamu
Forte Health			✓	✓		✓	✓	✓		✓	✓				Te Waipounamu
St George's Hospital Inc		✓	✓	✓	✓				✓	✓	✓	✓		✓	Te Waipounamu
Bidwill Trust Hospital				✓	✓		✓	✓	✓				✓		Te Waipounamu
Nelson Day Surgery				✓			✓				✓				Te Waipounamu
Tasman Day Surgery					✓	✓	✓				✓		✓	✓	Te Waipounamu
Intus Dunedin			✓		✓	✓	✓	✓			✓		✓	✓	Te Waipounamu
Mercy Hospital Dunedin		✓	✓	✓	✓	✓	✓	✓		✓	✓	✓			Te Waipounamu
Mercy Ascot		✓			✓	✓	✓						✓		All
Mobile Health (Nationwide)					✓	✓	✓	✓			✓				All

