



## NEW ZEALAND MEDICAL ASSOCIATION

26 June 2010

Jens Mueller

By email: [m@usainfo.net](mailto:m@usainfo.net)

Dear Jens

### **Review of Learnings from the Auckland Laboratory Transition**

Thank you for the opportunity to comment on the Auckland laboratory transition.

The NZMA is New Zealand's largest medical organisation and has a pan professional membership. We have around 4500 members who come from all areas of medicine.

The NZMA aims to provide leadership of the medical profession, and promote:

- professional unity and values;
- the health of New Zealanders.

The key roles of the NZMA are to:

- provide advocacy on behalf of doctors and their patients;
- provide support and services to members and their practices;
- publish and maintain the Code of Ethics for the profession; and
- publish the New Zealand Medical Journal.

While we appreciate that this review focuses on how the implementation was handled and what health organisations can take away as learnings for the future (and this is what our submission focuses on) there are certain other lessons in relation to decisions made which we think also need to be considered. The most important of these was the decision to continue with a single (but new) laboratory services provider. Our concerns regarding this are discussed further below.

Turning to the issue of process, from the very beginning the NZMA was concerned about the manner in which the Auckland DHBs decided to tender out laboratory services and the criteria applied. It should be noted that our concern was never over which provider ultimately won the contract but always about the process by which the decision was made, its impact on quality and safety in terms of patients, and on how the proposed changes might affect the morale of the pathology workforce. In

particular for many years the NZMA called for government leadership to deliver improved central coordination and national policy frameworks for our health system.

#### **Lack of National Policy Frameworks**

The contract process used by the three Auckland regional DHBs highlights the flawed and often high risk contracting arrangements used within New Zealand's health system where major decisions regarding critical health services (including contracting for these services) have been made without a national policy framework determining essential criteria and principles for that service. That lack of central policy is an issue that extends beyond the laboratory contract in Auckland and pervades our health system. Until this is corrected New Zealand will never achieve national consistency in provision of health services, and leaves our health system fragmented and postcode dependent. National frameworks need to be in place to guide critical strategic decisions about health services. Without such frameworks decisions continue to be made in a policy vacuum, based entirely on local or regional factors, and often with cost as an overriding factor.

#### **Inadequate Consultation**

Before the Auckland laboratory transition, DHBs successfully argued in the law courts that there would not be material changes in services and therefore they did not have to consult before signing the new contract. But, the decision not to consult with effected providers and their communities showed a serious lack of judgement. It only served to further exacerbate the distrust between medical practitioners and the DHBs. Subsequently the Auckland Regional DHBs have acknowledged that it will take time to win back trust. Underlying this lack of consultation is a tendency by DHBs to treat essential health services as commodities. DHBs need to be more conscious of the risks involved in contracting for these critical health services and to work more closely with providers to ensure the needs of the health sector could be met. They needed to listen closely to what clinicians and professional health organisations were telling them and be prepared to take concerns on board.

In regard to this it is noted that from the beginning the Auckland DHBs received considerable expert advice from national and regional organisations (including the NZMA) on the risks and inappropriateness of the path taken. It is disappointing that the Auckland DHBs chose not to listen to that advice.

#### **Inappropriate Focus on Cost versus Quality**

Driving the Auckland DHBs' decision was an inappropriate focus on cost rather than the quality service. The effects of this focus are still being felt. There needed to be more emphasis placed on ensuring that a new provider could effectively deliver services to the required level, so that the transition was as seamless as possible. The question that needed to be asked during the tender process was whether paying much less for a service would result in a much reduced service. This focus on cost not only proves detrimental to patients, but inevitably compromises the ability of the new provider to deliver the expected quality.

Where cost is to be considered (and we accept that it should be one of the key factors to consider it is important that the true costs of the new service (and taking into account the costs of implementation) are considered against current existing costs. While the Auckland DHBs may claim to have done this in their original analysis clearly it cannot have been done properly.

### **Undervaluing Our Health Workforce**

Underlining many of the mistakes which occurred in the Auckland laboratory situation was a strong tendency by DHBs to undervalue our health workforce. In particular their contracting decisions failed to take into account the negative impact this would have on the health workforce. New Zealand already faces a health workforce crisis, and while shortages can be partly attributed to gaps in the earnings of health professionals overseas, a significant factor is the working environment. Poorly considered contracting decisions which led to instability and a less trusted service further undermined the morale of an already fragile health workforce and increased the risk that these doctors would decide to work abroad or leave the profession altogether. We cannot afford to take this risk with our very small pathology workforce.

### **Transition was a Bigger Issue than Acknowledged**

The NZMA acknowledges that there will be situations where we should change what we do and by whom it is done. However, the difficulties of such changes must be fully analysed and plans put in place to minimise the transitory difficulties that any change precipitates.

The Auckland Community Laboratory change required a separate transition contract that involved the three DHBs and both the new and old provider. It seems naïve to have expected a smooth and seamless change when information was neither asked for nor shared, general practice was not included in the detailed planning, and no funding was identified for the costs involved for all parties during this time. It was not enough to simply hope that the desired outcome would be achieved when such omissions in planning occurred, and after such bitterness had transpired between the parties during protracted legal arguments.

### **The Need for Contestable Services**

The NZMA was and continues to be fundamentally opposed to a single community provider of a critical health service such as laboratory services as we consider that a change to a new single provider in this environment presents too great a risk should that provider fail. In regard to laboratory services most other Western countries, including Australia, have systems which permit several proven providers to operate competitively. In New Zealand, the Canterbury region has a successful laboratory service using two providers. This delivers security and choice for both patients and their health professional. In any guidelines the government prepares in regard to the tendering out of key health services it should be stated clearly that **more** than one provider in regard to any service should be the aim.

### **Further Information**

In relation to this process we understand that as a result of the early litigation Harbour Health PHO now has a considerable amount of documentation which is likely to be relevant to this review. We suggest that you contact them.

### **Conclusion**

It is imperative that contracts that are entered into for health services are robust and able to withstand scrutiny. A thorough risk analysis needs to be undertaken. Had this been done in the Auckland laboratory situation it is doubtful a tender by one provider for 100% of the services would have been accepted.

Service specifications and performance criteria must be clearly stated and agreed to in advance. In regard to the Auckland situation there was a lack of adequate key performance indicators in the initial contract which would have required an appropriate level of performance by the new contractor for the commencement of the contract.

The NZMA acknowledges that the issues around contracting are highly complex, and that the contracting processes adopted by the 20 DHBs are not immediately visible or transparent outside of the DHBs themselves. However, we believe that core aspects of our health system are likely to be at risk and resources wasted, unless these issues are addressed by implementing appropriate national policy frameworks in respect of contracting for health services.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Peter Foley', written in a cursive style.

Dr Peter Foley  
**Chair, NZMA**