



**Medical Technology**  
Association of Australia



*Reforming Public Health Procurement  
of Medical Technology  
Position Paper  
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MEDICAL TECHNOLOGY FOR A HEALTHIER AUSTRALIA

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## **1. Executive Summary**

The Medical Technology Association of Australia (MTAA) has developed this position paper to propose reforms to the procurement of medical products and medical technologies in the public health system. MTAA member companies supply most of the products used by public hospitals and clinics. The suppliers observe many instances where unnecessary costs are incurred by the customers as a result of inefficient and duplicative processes, or as a result of a shift in the equity balance between customer and supplier.

This position paper proposes several areas for reform. These are:

- National alignment of processes for public procurement of medical technology through the use of standardized terms and conditions and removal of duplicative requirements
- Improved governance arrangements for public procurement for medical technology to ensure the maintenance of discipline and transparency in the procurement process
- Mechanisms to achieve best practice in public procurement for medical technology
- Support for skills development of health procurement officials.

MTAA members have seen previous efforts at reform develop strong frameworks which are then not implemented. MTAA seeks to work with the States and their purchasing units to address the issues identified by suppliers. Simplification and standardization of the procurement of medical products and technologies will help to address the increasing pressure on health budgets.

## **2. About the Medical Technology industry**

MTAA represents the manufacturers, exporters, importers and distributors of medical technology products in Australia. Medical technologies are products used in the diagnosis, prevention, treatment and management of disease and disability. Medical technology includes a very diverse range of products including:

- Consumable items such as surgical gowns, drapes, bandages and syringes
- Operating theatre equipment such as lights, beds
- Implantable devices such as cardiac and orthopaedic devices, cochlear implants, intraocular lenses
- Equipment to support remote monitoring of patients
- Diagnostic imaging equipment such as ultrasound, computed tomography (CT), magnetic resonance imaging (MRI), and positron emission tomography (PET) machines.

Many newer products combine biological products with biomechanical devices, and employ converging technologies.

Sales of medical technology in Australia in 2008/2009 were \$7.4 billion, with \$1.6 billion earned from exports of medical technology manufactured in Australia. Approximately 80 per cent of the medical technology products used in Australia are imported and nearly all of the products manufactured in Australia are exported. The

industry employs over 17,500 people. It is a highly innovative industry which invests heavily in research and development.

### **3. Public health system procurement**

Public sector purchasing of medical devices is largely conducted at a state level to provide for the public hospital system currently under state control. Differences in state purchasing agency structures and practices contribute to inefficiencies in procurement practices which result in a financial burden to both the purchasers and suppliers of medical devices.

For several years MTAA has negotiated with State health departments on an individual basis as tendering and contracting issues have arisen. These have ranged from insurance cover requirements to non-conformity because of incorrect ISO compliance (medical technology manufacturers are required to meet ISO13485 rather than ISO 9001). There are many instances where the procurement arrangements are not tailored for medical technologies.

Medical technologies comprise approximately 5% of expenditure within the healthcare system. Consequently reduction in expenditure on medical technology offers only limited potential to contain total expenditure<sup>1</sup>. Savings are not generated from cost containment and restriction on availability of products, but rather through operational savings, including the cost of procurement. Cost savings can also be generated through a 'whole of system' approach. For example, the combination of preventative health measures with earlier diagnosis and intervention in conjunction with primary care and outpatients clinics, and remote monitoring of patients in their homes, will reduce the need for more costly hospitalization.

MTAA strongly advocates for improvement in processes to achieve benefits in public health procurement. These benefits can be translated to savings in healthcare expenditure. A recent OECD policy note<sup>2</sup> points out that public spending on health care is one of the largest government spending items, on average absorbing 15% of general government spending in 2007 (more than 6% of GDP on average), up from 12% in 1995. The OECD projects that public health spending could increase by 3.5 to 6 percentage points of GDP by 2050 across the OECD countries. By improving the efficiency of the health care system, public spending savings could approach 2% of GDP on average in the OECD<sup>3</sup>.

The OECD paper suggests that, in Australia as with a few other OECD countries, assigning responsibility across government levels and/or agencies in a more consistent manner would lead to less duplication and/or better accountability<sup>4</sup>.

### **4. Past attempts at reform**

There have been several previous attempts at reform of procurement of medical technologies in the public health system. However there has been a failure to follow

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<sup>1</sup> LEK Consulting *Best Practices in Medical Device Procurement – A Road Map to System Success*, a research paper prepared for Medtronic International 2009

<sup>2</sup> Organisation for Economic Co-operation and Development 2010, "Health care systems: Getting More Value for Money", *OECD Economics Department Policy Notes* No.2

<sup>3</sup> *Ibid* page 3

<sup>4</sup> *Ibid* page 8

through from the reviews which recommend reforms and implement the recommendations. The following is a summary of previous efforts.

2000

- DASH Report by PWC, contains estimated savings and recommendations for supply chain practices.
- NHIMAC (Health Online) established the National Supply Chain Reform Task Force (NSCRTF) to support joint planning by governments, hospitals, purchasing agencies and suppliers. Its work included e-commerce and standard contract terms.

2006

- NSCRTF was discontinued when NEHTA was formed and viewed as the most appropriate agency to continue the work.

2010

NEHTA's work in the health supply chain has focused on:

- Uptake of the National Product Catalogue (NPC)
- eProcurement standards in conjunction with Standards Australia and GS1.

While the concept of the NPC as a single source of data for suppliers to populate is supported by MTAA, the implementation has resulted in a far larger number of fields than initially required and an undesirable financial burden on suppliers. It has also created a barrier for smaller suppliers.

The eProcurement options being implemented by some states (eg. WA - fully available, NSW - slowly building) are welcome, but have not yet been widely adopted.

There is currently no body to address the inconsistencies and inefficiencies across state public health procurement practices outside of the eHealth issues under NEHTA.

## **5. Health procurement in other countries**

The New Zealand public health system is under considerable financial pressure. The public health system is responsible for 75% of the medical technology purchased in New Zealand. Annual expenditure on health has been increasing at an annual rate of 6-10% over the past 10 years.

New Zealand has had a significant reform program underway, outlined in the Ministerial Review Group report commissioned by the Minister for Health and released in August 2009<sup>5</sup>. Amongst the recommendations are the centralization of shared services, centralization of national procurement, and the introduction of a health technology assessment system in New Zealand.

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<sup>5</sup> Murray Horn, "Meeting the challenge: enhancing sustainability and the patient and consumer experience within the current legislative framework for health and disability service in New Zealand", Report of the Ministerial Review Group, August 2009

The medical technology industry in New Zealand has worked closely with the Government on a series of projects aimed at driving efficiency and cost savings. These include:

- Four standard contract options for use across the public health system (in place of the previous 60 plus variations)
- A co-operative orthopaedic sector initiative aimed at category managing the sector and driving engagement and cooperation from clinicians, suppliers and public health procurement
- An eCommerce project that uses a common platform to minimize costs and has already demonstrated savings in excess of \$20million.

Importantly these initiatives have been achieved through active engagement with, and support from, suppliers who have been able to add value to the project.

The United Kingdom also maintains standard terms and conditions for the supply of goods and services to the National Health Service. These are reviewed regularly and updated, most recently in October 2010<sup>6</sup>.

## **6. Proposals for reform**

With an increased focus on health reform, on a national and State basis, it is timely for Health Ministers and Department of Health officials to again consider ways to improve both health outcomes and budgetary impact of a more efficient, consistent national approach to procurement of medical technologies.

This position paper proposes three areas for reform:

- National alignment of processes for public procurement of medical technology
- Improved governance arrangements for public procurement for medical technology
- Mechanisms to achieve best practice in public procurement for medical technology.

Each area is examined in more detail below.

### **6.1 National alignment of processes for public procurement for medical technology**

There needs to be equity in the relationship between supplier and customer to deliver benefits. For example, if the purchaser does not notify timelines, or requires information far in excess of what is required to meet the requirements of a tender, the balance between supplier and customer shifts. This has a negative outcome for the healthcare system. Costs are created by the inequality which are passed back to the customer. MTAA strongly believes that maintenance of the balance between the parties produces a more equitable outcome for both.

In order to achieve improved national alignment of public health procurement, MTAA recommends a series of actions to be coordinated at a national level for implementation by the State and Territory purchasing bodies:

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<sup>6</sup> See [www.dh.gov.uk](http://www.dh.gov.uk) or <http://tinyurl.com/38xc65j/>

- Use of an electronic tendering tool such as Tendermax, preferably enabled for online lodgment. Another tool that might be suitable is the GS1 browser template which enables companies to complete tender information in a format which can be uploaded to the National Product catalogue. MTAA does not mandate a specific tool – the primary requirement is simplicity of use both by tenderer and assessor
- The tool should be pre-populated with standard company information to avoid the need for time-consuming entry on every occasion. The tenderer should be asked to confirm the pre-populated data. The elements which could be standardised with no customization required include:
  - Contract details
  - Terms of tender
  - Corporate information
  - Company reference
  - Insurance
  - NPC readiness
  - KPIs
  - Agreement terms
- Conditions which are unique to a State or Territory should be avoided, eg. the requirement to comply with VIPP in the Victorian tenders. These State development provisions are generally not relevant to the supply of medical technology
- Development of a standard form contract with schedules to be completed for each tender to avoid the need to negotiate contract terms with each tender. Consideration might be given to the work currently underway in New Zealand, in conjunction with industry, to develop a standard contract for use by the District Health Boards.

## **6.2 Governance arrangements for public procurement for medical technology**

Once a national approach is developed, there needs to be a mechanism to ensure discipline in the event of reforms to the health system so that changes are not made unilaterally.

- Contract terms should be developed in a cooperative arrangement between industry and purchasers. The terms must be reasonable, equitable, and achievable eg. contracts should not require evidence of insurance at a level which is not uniform as suppliers will not have the requisite level of coverage; the appropriate ISO standard should be referenced (medical technology is manufactured against a specific global standard ISO 13485)
- Once the template contract terms are agreed they should not be varied by the purchasing authority, or supplier. Any special conditions should be included in a schedule. The template terms should be reviewed on an agreed regular cycle eg. every three years, to ensure currency. This approach mirrors that of the Government Information Technology Contract (GITC) which was designed to assist government buyers and industry suppliers to develop contracts for the supply of information and communications technology (ICT) products and services in the most efficient and effective manner. A similar

model and governance could be considered for the supply of medical technology or products

- Enhance governance of the process so that 'special deals' cannot be negotiated outside the contract by individual hospitals (or local hospital networks). The service level agreements between the State and territory health departments with the local hospital networks should reflect the agreed procurement processes

### **6.3 Achieving best practice in public procurement for medical technology**

Tendering systems face a number of challenges<sup>7</sup>:

- Effectively lowering total healthcare spend
- Maximizing patient access
- Ensuring sustainable competition
- Efficiently managing administrative burden.

LEK Consulting in its report on global medical technology procurement practices identified five best practice design principles with examples of observed best practice:

- Evaluate total cost of care eg. cross-functional involvement in product selection; use of healthcare economics data
- Ensure clinical input eg. physician involvement in purchasing; monitoring clinical impact of tendering
- Embed some flexibility in contracting eg. provisions for rapid adoption of new products; provisions to allow for off-tender purchasing
- Encourage supplier diversity eg. selection of multiple suppliers; avoidance of whole-market tenders; increased frequency of contract turnover
- Ensure process transparency eg. clear definition of process and requirements; oversight of bidding process; communication of results and rationale to all bidders.

Some of these elements have been observed in current State and Territory practices, and are commended:

- Published tender schedule, which is adhered to
- Evaluation reports
- Briefing and debriefing
- Reviewing processes to refine clinician input
- Requests for market information
- Draft tenders provided for industry comment.

MTAA also strongly supports a requirement that tenderers for the supply of medical technology products commit to compliance with the relevant industry code of practice, specifically the MTAA Code of Practice. This not only encourages ethical behaviour by all companies working with healthcare professionals and hospitals, but also ensures a level playing field between those companies which are members of MTAA and therefore adopters of the Code through their membership, and non-members.

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<sup>7</sup> LEK Consulting, *supra*

## **7. Skills development in health procurement**

One of the challenges for suppliers and customers alike is to have adequately trained personnel with an understanding of the unique nature of medical technologies. MTAA supports training programs such as those offered by the Chartered Institute of Purchasing and Supply. While not targeted specifically at health purchasing, MTAA would support a collaboration with health purchasing units, to seek inclusion of a unit which explains the nature of medical technology products and the specific requirements for tender assessment and contracting in the health sector.

The recent work by the New Zealand Ministry of Economic Development in establishing the NZ Procurement Academy is a good example of what can be achieved.