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18 December 2018

Dr Matthew Butlin
Chair & Chief Executive
South Australian Productivity Commission
GPO Box 2343
ADELAIDE SA 5001



By email: sapc@sa.gov.au

Dear Dr Butlin

Government Procurement Inquiry

The Royal Flying Doctor Service of Australia (RFDS) has been saving lives in rural and remote Australia for 90 years. It is one of the largest aeromedical organisations in the world, and today was named by the Reputation Institute as *Australia's Most Reputable Charity* – for the eighth year in a row (all eight years of the independent study).

In South Australia, RFDS Central Operations (serving SA/NT) has a workforce of 162 staff and 750 volunteers.

located across its two 24/7 aeromedical bases in Adelaide and Port Augusta and outback nurse clinics at Andamooka, Marree and Marla, who, collectively, provide over 25,000 episodes of health care every year.

On behalf of SA Health, RFDS Central Operations in the last financial year:

- transferred 6,575 patients by aeromedical aircraft between hospitals through our health facilities at Adelaide and Port Augusta Bases;
- delivered primary care to 7,460 residents and tourists in outback SA through our Andamooka, Marla and Marree Health Services; and
- transported 143 patients by 4WD Road Ambulance and Remote Area Nurse through the Andamooka, Marla and Marree Health Services.

These services provided on behalf of the SA Government, together with experience in also delivering additional services on behalf of the Commonwealth and the Northern Territory Governments, inform this submission of RFDS Central Operations for consideration of Government Procurement Inquiry.

As a health care charity, this submission restricts itself to addressing health and health service procurement only.

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By way of summary response to the two (2) main purposes of the Inquiry, RFDS Central Operations argues in relation to *health service* delivery:

1. The effectiveness and efficiency of State Government policies and practices for the procurement of goods and services could be improved by:
 1. health outcomes being placed at the centre of health service procurement;
 2. procurement decisions being taken in the context of health system wide risks and benefits; and
 3. the full spectrum of market contestability to direct negotiation being available for different purchasing.
2. Options to improve procurement practices and their impacts on local industry include:
 1. procurement policy fostering a vibrant SA third sector;
 2. procurement weighting being given to economic multiplication; and
 3. long-term agreements for complex purchasing.

Each of these elements are described further below.

1.1 Health outcomes being placed at the centre of health service procurement

Government procurement of any health service should have as its foremost purpose the best possible attainment of health outcomes for all South Australians. This requires the procurement process to be operated with regard to assessment of projected future clinical outcomes, but also for service providers to be required to demonstrate their clinical quality and safety track records, as well as their capacity to enable continuous improvement over the life of a procurement agreement.

To this end, procurement of health services should give regard to attainment of third-party accreditation benchmarks such as accreditation against relevant National Safety and Quality Health Service Standards, relevant Royal Australian College of General Practitioners general practice standards, and relevant International Organisation for Standardisation.

Secondly, health outcome procurement also warrants service provider demonstration of knowledge of patient need and community demand. Service providers should be required to demonstrate what information they can utilise to best understand the health demand of communities of service, how their service will best respond to but also anticipate changes in health service demand, and how patient and population health outcome data can be used to monitor the efficacy of the service, and be presented to SA Health to inform future policy development and service planning.

Demonstration of consultation with other relevant service providers to avoid service duplication will enable best responsiveness to community needs, but also aid efficiency in SA Government expenditure.

Thirdly, health consumer participation in health service planning and delivery is key to aligning service relevance to community need. Health procurement should favour health consumer participation in organisational governance, service planning and service monitoring.

Organisational participation of First Australians as health consumers where First Australians are key service users should be a mandatory feature of procurement assessment.

1.2 Procurement decisions being taken in the context of health system wide risks and benefits

Access to health care across SA involves interaction with different components of a state-wide system. A decision in one part of the health system can have either positive or adverse impacts on decisions in another part. Two illustrations of system wide impacts are as follows:

- A SA study assessed 29,623 episodes of myocardial infarction (or heart attack) over the decade to 2013. At commencement, the 30-day mortality rate was around a quarter higher in country SA compared to metropolitan Adelaide. At study end, after changes to the country patient treatment pathway involving uptake of specialist clinician video consultation and earlier aeromedical transfer of patients by the RFDS to Adelaide, the interventions closed the mortality gap between rural and metropolitan patients across SA. Clearly articulated system wide decision making among service providers resulted in significantly improved patient outcomes.
- A 2016 decision of the SA Ambulance Service (SAAS) to adopt new automatic stretchers in the State's road ambulance fleet was taken in the best interests of patients and staff of the state's ambulance service. The new stretchers have capacity to carry patients of greater weight than previously possible, and automation enables greater occupational health and safety of SAAS staff. However, the decision ended the use of a single stretcher platform across SAAS and RFDS Central Operations. The result was that patients being transferred between RFDS Central Operations and SAAS care required manual lifting from one stretcher to another. To reduce this avoidable patient lifting, RFDS Central Operations committed over \$1.4 million from its own reserves on R&D and engineering in order to modify its aircraft to commence use of the same stretcher procured by SAAS.

RFDS Central Operations, as an experienced component of the SA health system, notes effective participation as a service provider builds up over time. Development of organisational relationships, acquiring knowledge of the workings of the system, and becoming properly embedded requires significant investment in time and resources.

Any significant change to components of the health system warrants rigorous risk assessment, and procurement decisions should take account of demonstrated understanding of the SA health system.

1.3 The full spectrum of market contestability to direct negotiation being available for different purchasing

Procurement of low risk health care commodities, such as medicines or disposable gloves, warrants full market competition of large numbers of vendors. This will ensure cost competitiveness.

Procurement of specialist and large scale health services, involving known but regulated and mitigated patient safety risk, best suits targeted and direct sourcing methods. Use of direct

negotiation is even more suited to rural and remote markets, where a combination of vulnerable consumers and thin markets exist.

The final report of the Commonwealth Competition Policy Review released on 31 March 2015, commonly known as the Harper Review, recommended in relation to thin human service markets in rural and remote areas that:

The Panel recognises that some markets will not have sufficient depth to support a number of providers – including, for example, certain services in remote and regional areas. Ensuring access to services and maintaining and improving service quality in these cases increases the emphasis on well-designed benchmarking of services.

The benefit of direct negotiation in thin or rural and remote markets is the development of the capacity of specified providers within areas of service demand of their long-term clinical skill, community engagement, and capital utilisation.

Procurement has a role to play in fostering service capability outside of government; in complex health service delivery, procurement can similarly disrupt capacity development by frequent competitive processes and regular change in service provider arrangements.

Balance in capacity development against the need for innovation should be recognised in procurement assessments, with the ability of innovation within direct negotiation procurement to be assessed in place of the need to force contested processes in thin or no markets for innovation's sake.

2.1 Procurement policy fostering a vibrant South Australian third sector

There is benefit to governments and the community alike in supporting the build-up of a thriving charity and not-for-profit sector. Procurement assessment processes should seek to achieve a thriving SA third sector by recognising in purchasing assessment processes the value of charity and not-for-profit service provision.

The charity and not-for-profit sector are able to deliver services at less cost than Government because of leaner workforce and management overhead costs. The charity and not-for-profit sector is also able to deliver service on behalf of government without a profit margin being paid to shareholders as required by the for-profit sector.

Charity and not-for-profit sector service providers are more likely than not to provide service where commercial providers will not or cannot, such as in thin or rural and remote markets where low service demand arising from small populations creates unprofitable market conditions.

The third sector is further able to add value to public expenditure on a procurement decision by:

- bringing capital funds from fundraising efforts, to substitute or reduce the necessity of governments to meet capital costs;
- bringing operational funds from fundraising efforts, to substitute or reduce the cost of service delivery or unfunded service need;
- volunteer contributions to procurement decisions, by harnessing community inputs into services procured by governments;

- providing community legitimacy to procurement decisions, in that citizens are often more likely to put trust in or seek help from charity and community organisations than from governments or corporations;
- accessing the cost benefits of tax concessions on both organisational income and staff employment costs that arise from waiver of income tax for charities and fringe benefits tax exemptions for Public Benevolent Institutions.

2.2 Procurement weighting being given to economic multiplication

When a significant health procurement decision is being made, regard should be given to the potential of a multiplier effect the purchase decision has in relevant communities. Not likely relevant to small scale or commodity purchasing, large scale and complex health procurement can give rise to other benefits across the state. Consideration should be given to:

- SA employment benefits, both direct employment in service provision but also indirect employment through associated employment; an illustration is the employment of aircraft engineering/maintenance staff and operational support staff in regional SA in support of air retrieval services;
- quantification of the economic and social capital value of volunteer contributions to or in support of a procured service;
- utilisation of existing or future capital derived from sources other than State Government contributions (such as funding for RFDS Central Operations buildings and aeromedical aircraft provided from community fundraising); and
- utilisation of operational revenue offsets from sources other than State Government funding (such as funding for RFDS Central Operations shared bases in Port Augusta and Adelaide provided by the Commonwealth).

2.3 Long-term agreements for complex purchasing

Short-term contracting for complex health service delivery results in service disruption and cost inefficiency. This is more so the case in rural and remote areas where new service providers are required to build trust with local communities before their service is able to be fully utilised.

The recently completed Senate Community Affairs Reference Committee Inquiry into mental health services in remote Australia recommended:

The Committee recommends that Commonwealth, State and Territory Governments should develop longer minimum contract lengths for commissioned mental health services in regional, rural and remote locations.

The recommendation arises from evidence of short-term contracts of between one and three years having detriment to health outcomes or rural citizens because of delay in service provision that arises from frequent service contract changes.

The Inquiry considered the benefit of five- to seven-year contracts as a minimum for mental health service provision. With regard to provision of aeromedical services, RFDS Central

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Operations argues even longer term contracting is necessary to enable significant capital outlay for aircraft purchasing and aeromedical base infrastructure development and maintenance to deliver quality, reliable and cost-efficient service to Government and public stakeholders.

Conclusion and invitation

RFDS Central Operations submits the effectiveness and efficiency of State Government policies and practices for the procurement of goods and services could be improved by health outcomes being placed at the centre of health service procurement, procurement decisions being taken in the context of health system wide risks and benefits, and the full spectrum of market contestability to direct negotiation being available for different purchasing.

Options to improve procurement practices and their impacts on local industry include adoption of procurement policy fostering a vibrant SA third sector, procurement weighting being given to economic multiplication benefits, and long-term agreements for complex purchasing being adopted as standard.

Because of the general nature of this South Australian Productivity Commission Inquiry into Government Procurement, this submission of RFDS Central Operations has itself been general in response.

RFDS Central Operations does however extend an offer to the Inquiry to provide more detail in support of argument made here and to be specific about the value RFDS Central Operations provides to the SA Government, its taxpayers, and its health consumers as a result of its current direct negotiated methods of health service provision. Should further detail be of use, RFDS Central Operations would welcome the opportunity to host a visit of the Inquiry to its Adelaide, Port Augusta, Andamooka, Marla, or Marree facilities.

Yours sincerely

A handwritten signature in black ink, appearing to read "Tony Vaughan", written in a cursive style.

Tony Vaughan ASM
Chief Executive Officer