



# A GUIDE TO GOOD PROCUREMENT IN HEALTH

# WHAT IS GOOD PROCUREMENT?

Good procurement no longer just picks the cheapest product or service, but chooses the product or service that demonstrates the best value across its entire life cycle. For example, best value in the health context can mean that a product or service produces better clinical outcomes, lasts longer, or is of better quality.

Good procurement practices in health consider the big picture and are:

## 1. Owned by a senior role in your health service

The senior role is a Chief Procurement Officer (CPO) who applies their influence and expertise in your health service to:

- > Set up, monitor and assess their health service's good procurement practices.
- > Work closely with the CEO who approves the approach.
- > Support executives and managers who manage good procurement.
- > Ensure that their approach is compliant with government policy.

## 2. Easy to understand

Good procurement should be as simple as possible. Processes should make it easy and clear for everyone to understand how they best work with each other in a procurement context. Without a clearly defined process, your ability to achieve ongoing value and better outcomes will be compromised.

## 3. Measurable

You should be able to measure easily what you did and what you need! Good procurement should offer everyone clarity on how the procurement strategy is measuring against its SMART objectives.

With this knowledge, you can review and improve your procurement practices.

## 4. Beneficial to the health and the financial wellbeing of all Victorians by creating health services that:

- > Can provide better care with high quality outcomes.
- > Are more financially efficient.
- > Can deliver better health services and better patient outcomes for the money that's invested.
- > Free up resources allowing clinical staff to spend more time with patients.
- > Allow patients to receive the care they need because vital equipment and goods are available.

## 5. Considers all the contestable spend of a health service

One of the most vital aspects to purchasing performance improvement is understanding the categories of spend in the organisation. There is no doubt that while spend analysis is likely to be time consuming, the collection and systematic assessment of actual procurement data allows you to identify the areas in which focused negotiations and standardised processes are likely to yield the best results. Surveys\* suggest that organisations that have the ability to classify and cleanse their spend data and understand it, subsequently identified 23% more savings than organisations that did not go through the process of understanding their spend.

Other research has also found that spend analysis can directly improve corporate innovation – particularly the inter-departmental collaboration that the spend analysis process encourages.

## 6. Fair, equitable and transparent

High standards of probity and ethics are essential to a good procurement outcome and the confidence of participants in the process. (see below)

## About Procurement Reform

Following Victorian Government reforms to procurement policies across government departments in 2013, the Victorian Government Purchasing Board issued new purchasing policies to move beyond previous value-based thresholds.

HPV adapted this framework to develop its own Health Purchasing Policies that were gazetted into Parliament in June 2014 with mandatory compliance for public health services to take effect from June 2016. HPV is working closely with health services' staff to implement these policies in their own health services.

Visit <https://www.hpv.org.au/resources/health-purchasing-policies/> for more detail on the Health Purchasing Policies.

## Probity in Procurement

A core part of HPV's function as included under the *Health Services Act 1988* is the function to maintain and ensure probity in health services.

It does this through supporting health services to identify and manage probity risks in their procurement process.

Good probity in procurement practice ensures:

- > Fair and transparent treatment of all suppliers interested in supplying the health service a particular good or service
- > Good stewardship of public funds expended by health services
- > Confidence in the market place that bids will be treated fairly and evaluated on their merits
- > Good procurement outcomes through encouraging market participation and competitiveness

## High performing supply chains are good for public health

HPV helps public health care services deliver high quality patient care by ensuring they have a reliable and agile supply chain.

The *Health Services Act 1988* mandates that public hospitals (as defined in Schedule 1 of the Act) and public health services (as defined in Schedule 5 of the Act) purchase from HPV contracts and comply with HPV's policies.

However, HPV may also grant the following organisations access to HPV contracts:

- > public denominational hospitals (as defined in Schedule 2 of the *Health Services Act 1988*)
- > health or related services (as defined in Sections 3(1) and 131(a) of the *Health Services Act 1988*) which may include publicly funded multi-purpose, community health, women's health, pharmaceutical, ambulance, aged care, residential care, correctional, disability or palliative care services.

Nationally and globally, the costs of a hospital's supply chain are a significant part of the operational budget. With these increasing costs, HPV's role in managing collective procurement and driving future supply chain reform with support from health services.

## HPV's Field Support team

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# HPV'S GUIDELINES AND RESOURCES

For each milestone of the procurement lifecycle (see diagram overleaf), HPV provides guides, templates and resources to assist health services with their own contract management activities.

To access these resources, you need to have a HPV website log-in (simply go to 'Register' on our homepage), then navigate to Resources > Procurement Reform.

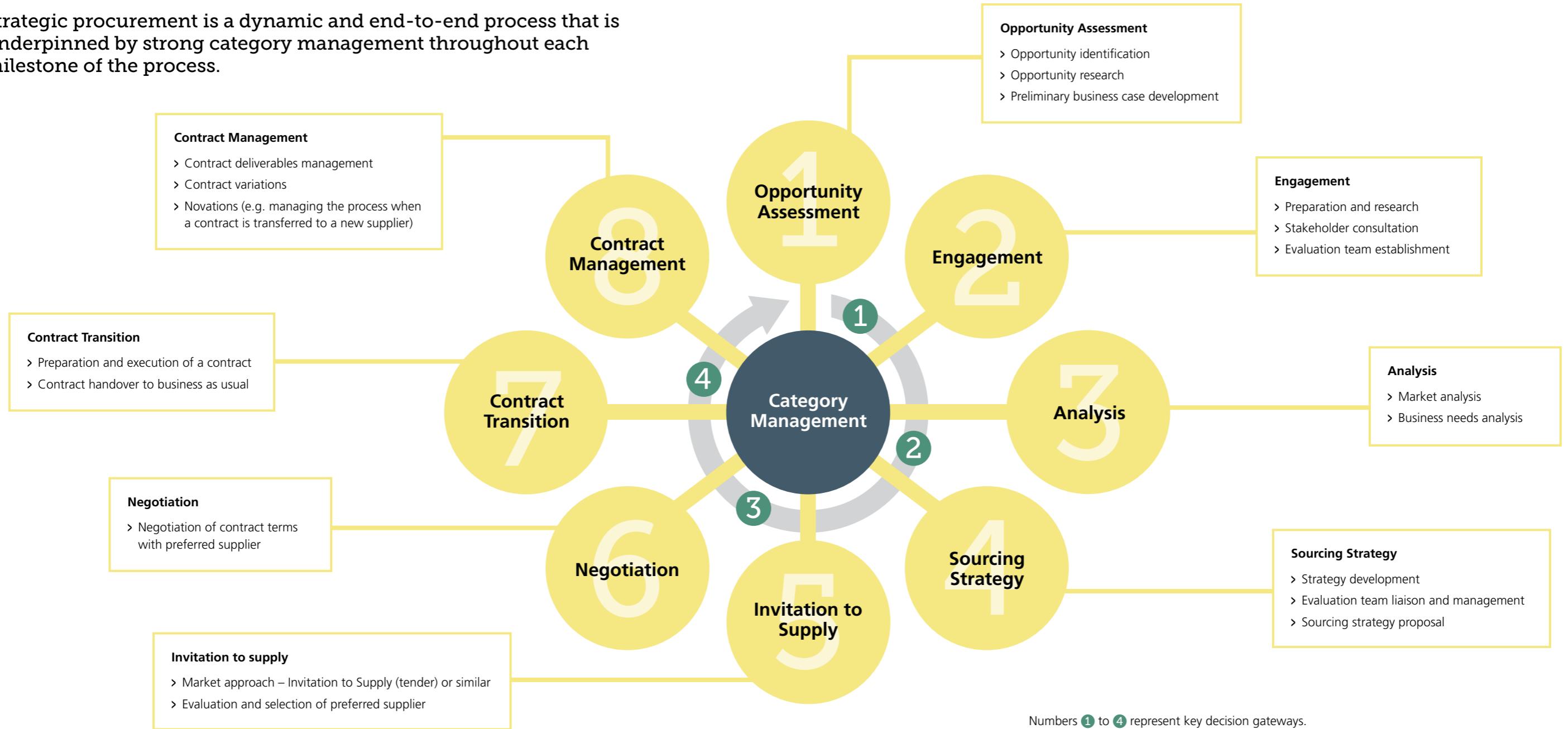
<https://www.hpv.org.au/resources/>

See below for an overview of the templates and tools that HPV provides for health services corresponding to each procurement milestone.

HPV POLICIES	SUMMARY	GUIDELINES, TOOLS AND TEMPLATES
<b>Opportunity Assessment</b>	Identify, evaluate and select procurement opportunities. Develop procurement categories and a procurement plan.	<ul style="list-style-type: none"> <li>&gt; Guide to procurement strategic analysis</li> <li>&gt; Guide to opportunity assessment</li> <li>&gt; Guide to completing spend analysis</li> <li>&gt; Guide to procurement categorisation</li> <li>&gt; Guide to developing a procurement activity plan</li> <li>&gt; Procurement Activity Plan Template</li> </ul>
<b>Engagement</b>	Engage the market and identify relevant stakeholders to participate in the procurement process. Ensure businesses of all sizes are able to access suitable opportunities.	<ul style="list-style-type: none"> <li>&gt; Change management activity plan</li> <li>&gt; Communication register</li> <li>&gt; Guide to improving access to health sector procurement by SMEs</li> </ul>
<b>Analysis</b>	Understand the business needs, market dynamic and risks associated with a procurement category and/or activity, aligning internal capability and resources with the complexity.	<ul style="list-style-type: none"> <li>&gt; Guide to complexity assessment</li> <li>&gt; Market analysis tool</li> <li>&gt; Complexity analysis tool</li> <li>&gt; Guide to assessing capability</li> <li>&gt; Capability Assessment Template</li> <li>&gt; Risk analysis tool</li> <li>&gt; Risk Register Template</li> </ul>
<b>Sourcing Strategy</b>	Plan the project timeline, sourcing strategy and approach to market, and gain approval from the appropriate authority.	<ul style="list-style-type: none"> <li>&gt; Guide to accessing alternative approaches to market</li> <li>&gt; Guide to environmental procurement</li> <li>&gt; Creating a business case template</li> <li>&gt; Contract management template (complex)</li> <li>&gt; Contract management template (simple)</li> <li>&gt; Guide to benefits realisation</li> <li>&gt; Guide to maintain or enhance value for money</li> <li>&gt; Guide to ethical and social procurement</li> <li>&gt; Guide to sustainable procurement</li> </ul>
<b>Invitation to supply</b>	Execute the approach to market ensuring all potential suppliers are treated equitably and value for money outcome is achieved.	<ul style="list-style-type: none"> <li>&gt; Guide to specifications writing/statement of requirements</li> <li>&gt; Guide to market approach</li> <li>&gt; Guide to insurance and liability considerations</li> <li>&gt; Common Use (Transition) Clause</li> <li>&gt; Invitation to supply and contract templates</li> <li>&gt; Guide to ensuring probity in procurement practice</li> <li>&gt; Probity compliance checklist template</li> </ul>
<b>Negotiation</b>	Ensure the successful bid(s) are translated into a suitable contract agreement, so that the outcomes are realised through the contract.	<ul style="list-style-type: none"> <li>&gt; Guide to evaluation, negotiation and selection</li> <li>&gt; Guide to managing unsolicited proposals</li> </ul>
<b>Contract Transition</b>	Ensure a smooth transition to the new contract by engaging suppliers and stakeholders to clarify the contract terms.	<ul style="list-style-type: none"> <li>&gt; Guide to developing a contract management strategy</li> <li>&gt; Contract Management Strategy Tool</li> <li>&gt; Guide to contract management</li> <li>&gt; Guide to Exemptions from HPV Collective Contracts</li> <li>&gt; Guide to complaints management</li> </ul>
<b>Contract Management</b>	Appropriate controls and structure are in place to ensure the procurement outcomes are realised through the life of the contract	<ul style="list-style-type: none"> <li>&gt; Supplier Engagement Plan Template</li> <li>&gt; Guide to contract management</li> </ul>

# THE PROCUREMENT LIFECYCLE

Strategic procurement is a dynamic and end-to-end process that is underpinned by strong category management throughout each milestone of the process.



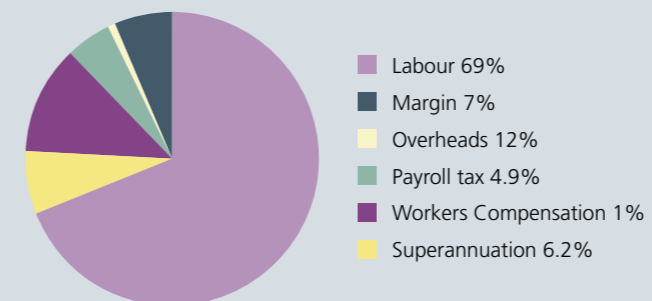
## WHAT ARE YOUR COST DRIVERS?

This is perhaps one of the fundamental questions for any procurement organisation.

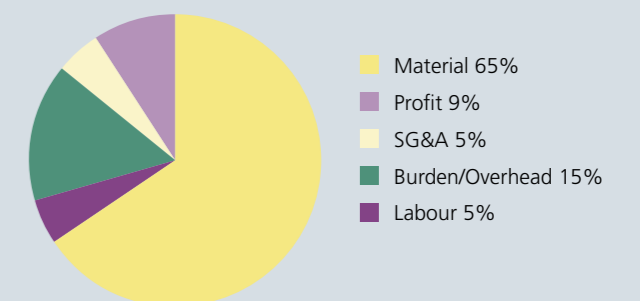
Knowing what drives the cost of a particular product or service is critical to ensuring true efficiency from your procurement efforts. When the cost driver is identified, the impact on the total price from respective drivers becomes transparent.

The objective of a cost driver analysis is to break down the costs of a purchased product/service. Cost types can vary depending on the product/service in question and the applicable State legislation. When the cost drivers of a category are identified, the impact on the total price from respective drivers becomes transparent.

Example of Cost Drivers for Services



Example of Cost Drivers for Products



Legislative requirements will vary between states. Pharmaceuticals may vary due to patent products; the percentages are indicative and may vary.

# PROCUREMENT ESSENTIALS

## Ensuring you have the fundamentals covered as part of your procurement process is part of a sound procurement strategy.

The following checklists can be used as general guides when preparing for a market release or managing a current agreement. By going through a guided process, it helps to ensure that probity concerns are addressed up-front and integrated into the ongoing plan.

### Preparing for an Invitation to Supply

- > **Is the approach to market and funding approved by the appropriate authority(ies)/delegates?**
- > **Have you developed a realistic and achievable project plan?** Identify major task, timelines and resources required, and an allowance for unforeseen delays.
- > **Have you ensured the right stakeholders are involved and understand their responsibilities particularly with regard to the probity of the process?** e.g. operational/business unit managers, finance, technical experts, logistics etc e.g. balance of commercial, operational and technical expertise.
- > **How will you ensure all suitable, potential suppliers are (i.e. the market is) aware of, and can respond to, the Invitation to Supply?** e.g. market analysis, pre-registration, advance public notice, website, newsletters, advertising etc.

- > **Do you have an appropriate statement of requirements (specification or SoR) which is vendor neutral and clear about 'must haves' vs. 'nice to haves'?** See HPV's Guide to Writing SoR's, available on the HPV website under Resources > Procurement (note you need a log-in to the website to access).
- > **Do you have an evaluation plan, with clear criteria, weighted appropriately and a methodology to compare the capability of respondents against the price of their offer?** e.g. vendor capability, capacity, quality and safety systems, customer service etc.
- > **How will you manage responses to ensure the integrity of the process: security, confidentially and impartiality in the evaluation process?** e.g. a sealed bidding process, document security and access controls, independent scoring, evaluation based on bids presented, not the evaluators experience of the supplier, separate financial and technical evaluations.
- > **Do you have a well-articulated and objectively defensible proposal for your selection of the successful supplier(s)?** i.e. based on objective evaluation and scoring of bids, risk assessment of bidders, and value for money principles.
- > **Has their offer been translated successfully into the terms of the contract?** Including any additional commitments over and above the statement of requirements and any variation to the draft agreement terms.
- > **Has the supplier selection been approved by the appropriate authority, and contract been correctly executed?** Ensure the signatories have the appropriate legal authority

## The agreement with the supplier is in place – now what?

### Financial Tracking

- > Has a financial health check been completed? And scheduled for review? A financial health check on an agreement typically covers a review of the company's balance sheet, P&L over three years and any adverse financial events or judgments.
- > Has the payment schedule been aligned to supplier performance and/or aligned with delivery of contract milestones and deliverables?
- > Has a review process been implemented to confirm invoices are consistent with contract schedules and contract terms and conditions?

### Contract Insurance

- > Has the contractor provided necessary insurance certificates of currency, as specified in the contract?
- > Are contractor certificates of currency up to date?
- > Contractor certificates of currency expiry dates are recorded and monitored to ensure that certificates are updated four weeks prior to expiry?

### Contract Governance

- > Have key agency and supplier personnel been identified and appointed in relation to the contract e.g. general manager level, contract manager, supplier account manager, technical leads?
- > Is it clear who is accountable for the contract outcomes?
- > Do the skills of the department's personnel match the capability required for the complexity of this category/procurement activity?
- > Are appropriate performance management and reporting requirements established for this contract?
- > Has the approval/audit and accountability been identified and established?

## THE ROLE OF THE CPO

A key part of the new Health Purchasing Policies requires public health services to establish a Chief Procurement Officer (CPO) role that has visibility and oversight of the entire non-salary spend profile of their health service. Essentially, the CPO provides expert advice and guidance to the Executive, CEO and their health service's board regarding procurement governance.

In line with best practice, the CPO must be a senior executive or the role may be incorporated into the role of an existing senior

executive such as a CFO or the CEO. The CPO must have procurement qualifications, or equivalent experience, or have access to advice from someone with these qualifications, commensurate with the health services' spend profile.

This strategic oversight is critical to the effective governance of procurement within a health service – a key recommendation of procurement reform.

## THE PROCUREMENT PROFESSIONAL'S SKILL SET

The capability assessment process can be used to assess capability at the organisational, business unit, or individual procurement personnel level. It identifies current procurement capability as well as capability gaps to drive continuous improvement in your organisation. Investing in Learning and Development (L&D) is essential for an organisation's sustainability.

Upgrading the skills and competencies of your personnel is a critical component to successful business growth and change.

Capitalising on the work of individuals within their specific environments, by focusing on developing and reinforcing the knowledge, skills and abilities, will not only increase the expertise in your organisation but the benefits will also be in the form of

increased motivation and improved morale as staff will feel they are truly contributing to the success of the organisation. Investing in your employees by providing training and development helps employees to prosper and develop their careers by not only giving your business a highly skilled workforce but it also demonstrates your loyalty and commitment to your staff.

It is also an important element for "Employers of Choice". Various organisational and HR research supports the fact that employers who invest in staff development and training also have much lower staff turnover.

As part of the planning process, capabilities are mapped against each role. This is a dynamic process that changes as the professional development needs change.

### Key Skills for a Procurement Professional

CAPABILITY	DESCRIPTION
<b>Contract Negotiation and Management</b>	Able to develop relationships with suppliers and stakeholders to deliver solutions which optimise the organisation's outcomes. Able to build on relationships based on credibility and trust to influence stakeholders using relevant information, analysis and evidence.
<b>Market Analysis</b>	Able to draw on market knowledge, expertise and relevant information and research to develop and evaluate solutions with consideration for likely business and market impacts. Familiar with common analysis tools and concepts, and able to synthesise information to develop appropriate sourcing and contract/category management strategies.
<b>Procurement</b>	Knowledge of supply chain, financial analysis, procurement policies and procedures and application of probity to procurement. Able to take a strategic approach to procurement and allocate resources to plan effectively and deliver value for money outcomes.
<b>Commercial</b>	Possesses strong commercial and business acumen with knowledge and understanding of the financial, accounting, marketing and operational functions of an organisation. Understanding of business processes to deliver effective solutions to meet business needs and demonstrate the value of procurement.
<b>Managing Procurement Projects</b>	Able to plan and execute large and complex procurement projects effectively, within time and resource constraints. Address issues strategically, managing resources and delegating effectively to ensure project success. Ensures stakeholders are actively engaged in the problem solving process to broker solutions and encourage joint ownership.



## Accessing HPV's website

HPV's website is the central source of communication for all HPV contracts via customised portals. Contracted suppliers can access all information and files relevant to the HPV categories that they supply, such as their agreement with HPV.

## Are you a prospective supplier?

If you are not currently supplying a HPV contract, you can apply for a HPV website log-in that will allow you to access publicly available information and provide you with the ability to 'favourite' or 'subscribe' categories of interest to receive direct email updates.

To register for a log-in, you can go to the homepage and enter your email address. The system will automatically recognise your email address and if your organisation is already registered in the system, it will be sent to the super-user from that organisation.

## FAQs

[www.hpv.org.au/faqs](http://www.hpv.org.au/faqs)



## Procurement Reform resources and templates

[www.hpv.org.au/resources/health-purchasing-policies/procurement-guidelines-tools-and-templates](http://www.hpv.org.au/resources/health-purchasing-policies/procurement-guidelines-tools-and-templates)



*Note, to proceed to this page, you will need to log in to the HPV website – if you don't have a log-in, you can register via the homepage.*

## CONTACTING US

Feedback and collaborative input is critical to the success of HPV's sourcing program. We encourage health services to provide us with real-time feedback on contract performance.

Contact us on one of these Zendesk emails to ensure that your query is tracked and allocated to the appropriate contacts at HPV.

[feedback@hpv.zendesk.com](mailto:feedback@hpv.zendesk.com) – for general queries

[contracts@hpv.zendesk.com](mailto:contracts@hpv.zendesk.com) – for sourcing program and supplier performance management communication

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