

HPV Health Purchasing Policy 2. Procurement Strategic Analysis

Determining the market dynamics, complexity of procurement and aligning capability

25 May 2017

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Health Purchasing Policies are made by the Health Purchasing Victoria (HPV) Board in accordance with s134 of the *Health Services Act 1988 (the Act)*. All Schedule 1 and 5 public hospitals and health services as listed under *the Act* must comply with these policies which are legally binding, effective from date of publication in the Government Gazette.

The Health Purchasing Policy framework is based upon the VGPB supply policies, and must be complied with in conjunction with any relevant provisions of the current Victorian health policy and funding guidelines.

1. Introduction

- 1.1. This policy outlines the requirements for determining the complexity level of procurement activities undertaken by a health service, and assessing the capability level needed to match the complexity of a procurement activity. The policy is mandated for all Schedule 1 and 5 public hospitals and health services (as listed in the *Health Services Act 1988* (Vic), hereafter referred to as 'mandated health services').
- 1.2. The Procurement Strategic Analysis policy covers three components:
 - a. Complexity assessment - complexity in procurement refers to the various internal and external factors that impact the intricacy and scope of requirements and/or issues involved in a procurement activity
 - b. Market analysis review - market analysis is the systematic review of the characteristics, capacity and capability of the supply market in order to understand the extent to which the market meets the needs of the health service
 - c. Capability assessment - indicates the level of capability in a mandated health service. Procurement capability is about matching the people, resources, systems and processes to the requirements of procurement activity, ensuring sufficient expertise and other resources are in place to carry out the procurement successfully to achieve best value outcomes

Note 1. Mandated health services may choose to establish a regionally based centre for expertise, to support procurement where an individual health service's capability is limited.

- 1.3. The assessment of complexity and capability focus on the category level of procurement and should take place early in the procurement process (Opportunity Assessment). However, the assessments should be reviewed throughout the procurement process as additional considerations and more detailed information is obtained from the engagement, analysis and sourcing strategy stages.
- 1.4. Figure 1 illustrates the end to end procurement process model and highlights the areas (steps 1 to 4) of the process to which this policy applies.

Figure 1: Procurement Model



2. Complexity assessment

- 2.1. Complexity assessment involves an analysis of the market and other factors influencing the various areas of spend of a mandated health service to inform the procurement process.

Initial complexity assessment

- 2.2. Mandated health services must assess the complexity of a procurement activity before it begins. Prior to the assessment, mandated health services must identify its procurement spend profile; where the health service's non-salary spend is categorised based on common supply and demand drivers and suppliers.
- 2.3. The assessment of complexity must initially be applied to:
- a. relevant categories of procurement
 - b. any individual procurement activity that:
 - i. does not fall into a category of procurement; and
 - ii. is strategic or of high risk to the business of the health service
- 2.4. Carrying out an assessment of complexity at the category level can identify individual procurements and strategic or high risk procurements that require further individual complexity assessment. An assessment of complexity involves:
- a. setting out the business requirements of the goods or service being purchased including the importance/criticality to the organisation and any risks involved
 - b. identifying and measuring the internal and external factors that affect the procurement
 - c. assessing the capacity, capability and motivation of the market to supply the goods or service (see section 3. Market analysis review)
 - d. setting out the value created by the procurement to the health service and analysing opportunities to improve value for money
 - e. analysing the opportunities for aggregating purchasing demand
 - f. analysing the opportunities within the procurement category or activity to improve the outcomes for local businesses and small to medium enterprises to participate in government procurement
 - g. investigating the best way to approach the market that is both cost effective to suppliers and buyers and considers opportunities for local businesses to participate

Complexity matrix

- 2.5. The outcome of the complexity assessment will allocate procurement categories and individual procurements into one of four categories of complexity, and guide the market and contract management approach for each category. HPV collective agreements may occur in categories in the leveraged, focused and strategic quadrants.

Complexity Quadrant	Description
Transactional	Small value and low-risk transactions where approved suppliers (e.g. HPV collective agreements) are not available or viable.
Leveraged	Frequently used goods/services in a competitive marketplace that are procured by an individual mandated health service or whole of health sector, where the mandated health service has the ability to drive value.
Focused	Procured goods/services where a limited number of suppliers are available or where novel commercial arrangements are in place.
Strategic	Goods/services in a competitive market that are high value, where business criticality is high, and/or where the good/service is of State significance.

Note 2. Details for how to complete a complexity assessment are detailed in the respective guide and tools available at the Health Purchasing Victoria website at www.hpv.org.au.

- 2.6. The mandated health service's Chief Procurement Officer (CPO) is to be consulted when determining the optimal approach to market for any procurement identified as strategic or high risk to the organisation. Consideration should also be given to engaging a probity advisor or probity auditor.
- 2.7. Where there is an existing HPV collective agreement in place for an identified category, mandated health services must observe the rules of use for the agreement. This may include a requirement to complete an assessment of complexity for an individual procurement under the agreement.

3. Market analysis review

- 3.1. Market analysis involves an assessment of the market dynamics, which informs the assessment of the complexity of the procurement activity and helps determine the best way to approach the market (taking into consideration market risks and any alternative solutions). It can also determine the viability of a procurement requirement.
- 3.2. The objective of market analysis is to understand the capacity of the market to supply the goods or services required in relation to:
 - a. suppliers and their market share
 - b. competition in the market, including potential for new entrants
 - c. product lifecycle
 - d. availability of substitutes for the good or service
 - e. cost model and drivers
 - f. market share represented by the health service's forecast demand
 - g. robustness of the supply chain
- 3.3. For each individual procurement activity, a mandated health service must:
 - a. consider the outcome of the initial complexity assessment to determine if the assessment at the category level establishes the basis for being able to approach the market
 - b. conduct further market analysis to improve understanding of the capability and capacity of the market to supply and to identify opportunities for market based solutions
 - c. reassess each procurement requirement with regard to the market analysis
 - d. undertake further complexity analysis at the level of the individual procurement activity where either:
 - i. the category assessment provides insufficient detail to determine the optimal approach to market; or
 - ii. the rules of use of an HPV collective agreement require it
 - e. consider engaging an independent probity advisor or probity auditor based on the complexity of the procurement and the risk to the organisation
 - f. prepare a statement of grounds, or business case, which supports the decision to proceed with the procurement and identifies the optimal market engagement strategy
 - g. consider how assets associated or accrued as part of the procurement activity will be managed and/or disposed
- 3.4. The mandated health service's CPO is to be consulted when determining the optimal approach to market for any procurement identified as strategic or high risk to the organisation. The approach to market must be approved according to the mandated health services procurement governance framework.

Note 3. Refer to *Health Purchasing Policy 4. Contract Management and Asset Disposal* for more information on asset disposal.

4. Capability assessment

- 4.1. The Chief Executive Officer of a mandated health service (CEO) must ensure that the organisation has, or has access to, an appropriate level of procurement expertise, resources, systems and processes that enable procurement activities to be completed successfully.
- 4.2. The assessment of capability must:
 - a. be carried out by people with appropriate knowledge and expertise
 - b. identify the capabilities needed to carry out the procurement activity
 - c. identify whether the capabilities in the organisation need to be developed or supplemented to undertake the procurement activity
- 4.3. An assessment of capability may be based on the whole organisation or on particular business units.
- 4.4. Where the mandated health service's capability does not match the procurement complexity, the CEO must ensure the required level of capability is secured from external sources.

Note 4. Health services may access required capability externally or at a regional level. Alternatively the HPV Secretariat should be contacted for advice.

Note 5. Refer to the *Health Purchasing Policy 1. Procurement Governance* for more information on roles and responsibilities.