

Health Purchasing Policy 4.

Contract Management and Asset Disposal

Ensuring value for money outcomes are realised with effective and efficient contract management

25 May 2017

Health Service Compliance
Health Purchasing Victoria
Level 34, 2 Lonsdale Street
Melbourne Victoria 3000
Telephone: +61 3 9947 3700
Facsimile: +64 3 9947 3701
Email: compliance@hvp.org.au
Website: www.hpv.org.au

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 contract implementation and management to derive maximum benefit from the procurement outcome. 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 Contract Management and Asset Disposal policy covers two components:
 - a. Contract management - the minimum requirements to ensure effective contract management, including the use of Health Purchasing Victoria (HPV) contracts; and
 - b. Disposal of assets - establishes a process and mechanism to manage disposal of assets as part of a whole of life appraisal of the procurement activity
- 1.3. Figure 1 illustrates the end to end procurement process model and highlights the areas (Steps 7, 8 and Category Management) of the process that this policy applies to.

Figure 1: Procurement Model



2. Contract management

- 2.1. Contract management is the systematic and efficient management of contract creation, execution and analysis for the purpose of maximising financial and operational performance and minimising risk.
- 2.2. Contract management operates at two distinct levels:
 - a. at the level of the organisation as a high level Contract Management Strategy (CMS)
 - b. at the level of individual procurement activity

Contract management at the organisational level

- 2.3. At the mandated health service level, a CMS can identify how individual contracts in a procurement category could be managed. It positions contract management issues at the beginning of the procurement planning cycle and allows for the effective allocation of resources.
- 2.4. Developing a CMS is part of the procurement strategy planning process after identifying procurement categories and carrying out an assessment of complexity.
- 2.5. At a minimum, mandated health services must include the following in its CMS:
 - a. the overall approach that will be used to manage contracts for categories or individual procurement activities in each complexity quadrant
 - b. processes to ensure people with the sufficient capability are allocated to manage each contract
 - c. a description of how performance measures (i.e. Key Performance Indicators) will be established and monitored for contracts in each complexity quadrant
 - d. processes for identifying and managing risks in contracts, including any contingency planning
 - e. processes to ensure any potential additional value is achieved through continuous improvement

Contract management at the individual procurement level

- 2.6. At the individual procurement activity level, contract management is the management of contracts made with the supplier(s) to ensure that goods and services are delivered as agreed over the life of the contract and that value for money is achieved.
- 2.7. Contract management as a function can extend beyond the current term of the contract, where there are on-going obligations associated with the contract, e.g. confidentiality, liability, guarantees, warranties or maintenance agreements.
- 2.8. Consideration of contract management issues is relevant across the elements of market analysis and review and market approach. At the market approach stage of sourcing, it can inform prospective suppliers about the organisation's intended legal arrangement in delivering the procurement requirement, including any performance standards and review mechanisms.

Note 1. Guidelines on developing a contract management plan are available at the Health Purchasing Victoria website at www.hpv.org.au.

Key requirements

- 2.9. A mandated health service must manage its contracts in a manner that is appropriate for the complexity and risk of the procurement activity.
- 2.10. At a minimum, the mandated health service must develop:
 - a. a CMS for categories that represent a significant proportion of the health services spend
 - b. a Contract Management Plan (CMP) for each individual procurement activity that is critical and/or high risk
- 2.11. The Chief Executive Officer of mandated health services (CEO) must ensure that:
 - a. contracts are managed on behalf of the health service by people with sufficient capability
 - b. contracts clearly define the deliverables, performance standards, and review mechanisms required from the supplier
- 2.12. The mandated health service must:
 - a. keep an appropriate record of contracts on a contracts register
 - b. monitor contracts to ensure that key events are managed effectively including:
 - i. the contract expiry date, by initiating any necessary procurement action well in advance of expiry
 - ii. that timely decisions are made with regard to any contract options available
 - iii. the expiry date of insurance or other relevant certificates and that new certificates are obtained prior to expiry
 - c. ensure CMPs are implemented and monitored effectively

Note 2. Refer to *Health Purchasing Policy 1. Procurement Governance* on requirement to report details of contracts.

HPV collective agreements

- 2.13. HPV is responsible for:
 - a. establishing HPV collective agreements
 - b. any formal variation of the HPV collective agreements
 - c. managing supplier performance, including resolution of any formal disputes and breaches of contract
- 2.14. Participating health services (see *Health Purchasing Policy 5. Collective Purchasing* for definition) are responsible for:
 - a. the day-to-day purchases under the agreements
 - b. resolving any local Service Level Agreement (SLA) or local supplier performance issues that arise
 - c. report as required on supplier performance to HPV

2.15. HPV will:

- a. ensure adequate advance notification to participating health services of the details, including agreement price schedules and key contract terms, for:
 - i. newly established collective agreements
 - ii. agreement renewals, including any options to extend agreements exercised
 - iii. any other variations to agreements, including price variations
- b. provide sufficient time for participating health services to transition to any new agreement
- c. assist participating health services in identifying best value options in HPV agreements
- d. maintain a database of sales activity under HPV agreements, as reported by suppliers and/or health services and regularly share this information with participating health services
- e. where agreed with participating health services, maintain contract performance data reported by suppliers and/or health services
- f. communicate any changes to the rules of use or contract management terms
- g. take the necessary action in the case of a substantial breach of contract by any supplier that cannot be resolved by a participating health service

2.16. Participating health services must:

- a. work pro-actively with suppliers and HPV to transition within the designated timeframes to new HPV collective agreements
- b. communicate their requirements under the agreement directly with suppliers by issuing a purchase order or similar
- c. where indicated in the HPV agreement, establish SLAs with supplier(s)
- d. regularly monitor the performance of suppliers
- e. meet their obligations under the agreements, in particular with respect to payment terms, communication with suppliers and maintaining the security of all confidential and commercially sensitive information as per the terms and conditions of the agreements
- f. immediately notify HPV of any significant breach of the agreement by a supplier that cannot be resolved successfully directly with the supplier

3. Disposal of assets

- 3.1. This policy complements State government asset management policy requirements and the Victorian health policy and funding guidelines.

Note 3. "Assets" in this context include all current and non-current items, as well as consumables, and relates to all assets not dealt with under a separate Act or Government policy (e.g. land).

- 3.2. Mandated health service CEOs must assign responsibility, accountability and reporting requirements, to establish and maintain asset management so as to optimise value for money, minimise risk and sustain maximum service provision.
- 3.3. Disposal of assets should be considered when the asset is identified as being:
- a. obsolete due to changed procedures, functions or usage patterns
 - b. no longer complying with clinical or occupational health and safety standards
 - c. reaching its optimum selling time to maximise returns
 - d. beyond repair
 - e. surplus to requirements
- 3.4. Disposal of assets can present the health service with opportunities to optimise the use of an asset, including:
- a. extending the life of an asset by transferring it to another business unit or organisation
 - b. recovering material for recycling prior to sending the asset to landfill
 - c. transferring assets to not for profit organisations
- 3.5. The disposal of assets is a key consideration in the forward planning of any procurement activity. Assets of (or belonging to, or in the care, custody, or control of) a mandated health service are to be disposed of in a way that takes into account probity, security, sustainability and transparency, as well as environmental and social factors. A mandated health service must develop and apply an asset disposal process that details:
- a. parties/business unit responsible for managing the process
 - b. reasons for disposal
 - c. disposal options appropriate to the nature of the asset and broader government objectives
 - d. management of issues of risk, liability, safety and security
 - e. the process for keeping the health service's assets register up to date
 - f. issues of risk, liability, safety and security associated with the use of an asset by other parties when transferring an asset to another location or entity

- 3.6. The method of disposal will depend on whether the asset can be:
 - a. modified to extend the life of the asset
 - b. transferred to another party
 - c. recycled
 - d. traded-in
 - e. disposed of by way of public auction or public tender
- 3.7. Disposal of assets must be in accordance with the principle of probity, taking into consideration the cost of disposal, to achieve the best value outcome.