

Health Purchasing Policy 5. Collective Purchasing

Understanding the requirements for collective purchasing and the obligations under such arrangements

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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. The Collective Purchasing Policy outlines the requirements for health services to comply with collective purchasing arrangements set up by Health Purchasing Victoria (HPV), a mechanism to leverage demand and drive a better value for money 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. Figure 1 illustrates the end to end procurement process model. Collective purchasing involves all areas of the procurement process.

Figure 1: Procurement Model



2. Collective purchasing

- 2.1. Health Purchasing Victoria (HPV) may choose to enter into collective agreements or arrangements, including joint ventures (e.g. with health services or Department of Treasury and Finance) on its own behalf, or on behalf of one or more Schedule 1 or 5 public hospitals or health services (mandated health services). Mandated health services must purchase from any collective agreement or arrangement entered into by HPV on their behalf.
- 2.2. In addition to mandated health services, other 'health or related services', as defined in the *Health Services Act 1988* (Vic) that meet HPV's defined access criteria can also request to participate in any collective agreements or arrangements entered into by HPV as detailed in clauses 2.8 – 2.11 of this policy. Non-mandated health or related services granted access to HPV collective agreement(s) by HPV are hereafter referred to as 'non-mandated health services'. Mandated and non-mandated health services that are participating in a HPV collective agreement are referred to collectively as 'participating health services'.
- 2.3. The Victorian Government also undertakes aggregated purchasing, through arrangements that take the form of State Purchase Contracts (SPCs) or Sole Entity Purchase Contracts (SEPCs). As outer budget agencies, mandated health services and health or related services can access SPCs and SEPCs (where mutually agreed). HPV may mandate the use of a Victorian Government SPC or SEPCs by mandated health services where:
 - a. HPV has reviewed the terms of the SPC or SEPC and consider the arrangement good value
 - b. HPV has decided not to enter into an agreement in its own right on behalf of mandated health services, by virtue of the existence of the SPC or SEPC

SPC and SEPC contracts mandated by HPV will be published in the Victorian Government Gazette in *Schedule to Health Purchasing Policy 5. Collective Purchasing – HPV mandated SPC and SEPC contracts*.

Note 1. For more information on Victorian Government SPCs and SEPCs, visit www.vgpb.vic.gov.au.

Obligations of mandated health services

- 2.4. Mandated health services are required to:
 - a. abide by the results of the sourcing outcome, which HPV (or its appointed agent) institutes in accordance with this policy, and the terms and conditions of any resulting agreements entered into by HPV (or its appointed agent)
 - b. only purchase from a HPV collective agreement or arrangement, any good or service that has been sourced by HPV
 - c. where HPV has reviewed the terms of a SPC or SEPC and consider the arrangement good value and by virtue of the existence of the SPC or SEPC, decided not to enter into an agreement in its own right on behalf of mandated health services, purchase only from that SPC or SEPC
 - d. report compliance with HPV agreements and provide periodic purchasing and associated details as requested by HPV
 - e. refrain from engaging in any practices that may have a subverting effect on HPV functions, health service obligations under the *HPV Health Purchasing Policies* and HPV collective agreements

2.5. Unless:

- a. a specific agreement applies only to certain hospitals or mandated health services and the mandated health service is excluded
- b. the mandated health service is exempted as per clauses 2.16 – 2.19 of this policy

2.6. Mandated health services are also required to:

- a. assist HPV in identifying potential aggregation opportunities, including:
 - i. informing HPV if any spend analysis or complexity assessment indicates ground for aggregating demand or benefits from HPV involvement
 - ii. working with HPV to collect procurement data to assist in the identification process and to develop the HPV sourcing program
- b. provide input into the development of business cases as requested
- c. nominate participants in consultative and advisory groups, where appropriate, including executive, product or service reference groups or other advisory groups, that will contribute towards:
 - i. the development of specifications
 - ii. the evaluation of bid responses and/or other negotiations with suppliers
 - iii. development of contract Key Performance Indicators (KPIs) and a contract management plan
 - iv. an understanding of health services' resourcing, clinical and operational requirements to enable a successful transition to any HPV collective agreement
 - v. on-going management of the category to optimise contract utilisation and review supplier performance
- d. act as HPV's agent in conducting sourcing activities, where mutually agreed
- e. establish appropriate processes to ensure the security of all confidential and commercially sensitive information; in particular, supplier information
- f. inform HPV where they on-sell, or otherwise provide, goods and services on an existing or new HPV collective agreement to other mandated health services or non-mandated health services that have been approved by HPV to access the relevant agreement
- g. seek approval from HPV to on-sell, or otherwise provide, goods and services on an existing or new HPV collective agreement to health and related services, not currently approved by HPV to access the relevant agreement
- h. ensure agreements are in place with entities in receipt of HPV contracted goods or services that protect the confidentiality of the HPV agreements involved, including pricing
- i. cease, and refrain from commencing, on-selling, or otherwise providing, goods and services on an existing or new HPV collective agreement to non-health entities unless an exemption is granted by HPV for the particular arrangement
- j. report annually, or as otherwise requested by HPV, details of all on-selling arrangements that relate to goods or services under a HPV collective agreement.

- 2.7. HPV may approve arrangements under 2.6(g) or grant an exemption under 2.6(i) at its absolute discretion and subject to any number of conditions.
- 2.8. Where fees or charges are levied for on-selling goods or services, these must comply with the health service's legal obligations under the Victorian Department of Treasury and Finance's Competitive Neutrality Policy and other applicable legislation or policy.

Access by non-mandated health or related services

- 2.9. All non-mandated health or related services are eligible to apply for access to HPV collective agreements. All requests for access must be made to HPV. Where, at the discretion of HPV, access is granted to a non-mandated entity, it must enter into an agreement with HPV to comply with:
 - a. all the requirements of this policy that mandated health services are subject to
 - b. the rules of use established by HPV for purchasing and reporting under the HPV collective agreement to which access has been granted
- 2.10. Details of arrangements for application for access and granting access by HPV are available in the HPV Access to Contracts Policy (available on request from HPV).
- 2.11. HPV may, at its absolute discretion, assign rights of access to collective agreements to non-mandated health or related services. Factors to be taken into account by HPV in exercising this discretion include:
 - a. the factors listed under section 133 of the Health Services Act 1988
 - b. the benefit which would be gained by that agency
 - c. whether there is any disadvantage to mandated health services
- 2.12. The onus of providing evidence to establish whether access should be granted, as may be required by HPV, remains with the non-mandated health service seeking access.

Confirmed annual sourcing program

- 2.13. As part of its procurement activity plan, HPV will, in consultation with stakeholders, develop a schedule of prospective sourcing requirements covering at a minimum twelve months, which will include both "greenfield" categories and currently contracted categories due for renewal, with the intention to supplant (and perhaps expand upon) existing collective agreements.
- 2.14. HPV will publish a schedule of procurement activities derived from the prospective sourcing program, to be known as the 'Confirmed Annual Sourcing Program' (CASP), at least annually for the coming financial year, but more often as may be desirable or necessary to meet the needs of both stakeholders and the market.

Prior to publication the CASP may be amended by HPV to:

 - a. add categories, including any which may be required by government to fulfil a particular need, but which are not subject to consultation or notice as above
 - b. defer previously scheduled categories to a subsequent year
 - c. to remove a category from the CASP
- 2.15. At the date of publication of the CASP for a relevant period, mandated health services may only enter into a new contract, or renew any current contract, with suppliers for categories of goods or services which are the subject of the CASP, where there is a contractual capacity to terminate forthwith any such contract when a relevant HPV collective agreement for the same deliverables is

entered into. This obligation is removed for any category of goods or services removed from the CASP.

Exemptions from HPV collective agreements

- 2.16. The HPV Board, under its powers established in section 134 of the *Health Services Act 1988* (Vic), may exercise its absolute discretion at any time to grant an exemption to a participating health service from any of the provisions of this policy, where it is reasonably established that a special circumstance exists to justify the exemption, with or without condition. HPV will, in exercising its discretion to grant exemptions, have regard to the factors referred to in section 133 of the Act.
- 2.17. Specifically, participating health services may request, and HPV may grant, an exemption from purchasing from an HPV collective agreement as required by this policy in the following circumstances:
 - a. where a participating health service has a current contract in force in respect to the supply of particular goods and/or services at the time notification occurs that those goods and/or services are part of a CASP
 - b. on clinical grounds; i.e. to ensure that patients of the participating health service will receive clinically appropriate treatment or care
 - c. for operational reasons; i.e. to ensure the effective administration of the participating health service
 - d. where there is a significant negative impact on the viability of small or medium sized businesses, or local employment growth or retention
- 2.18. All requests for exemption must be submitted by the Chief Executive Officer of mandated health service (CEO) to HPV in accordance with the "Guide to Exemptions from HPV Collective Agreements". In particular applications for exemption must be accompanied by:
 - a. a statement of the reasons, including reasonable evidence of any arrangement the mandated health service has in place that may impact the relevant HPV collective agreement, or otherwise any reasons effectively preventing it at law from complying
 - b. any supporting documentation or other material which HPV believes is required to assist the making of a decision
- 2.19. HPV must record all requests for exemption and notify the HPV Board in accordance with the agreed delegations of authority for exemption decisions.