



HSV Purchasing Policy 5

Collective Purchasing and Supply Chain

Understanding the requirements for collective purchasing and supply chain including the obligations under such arrangements

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OFFICIAL



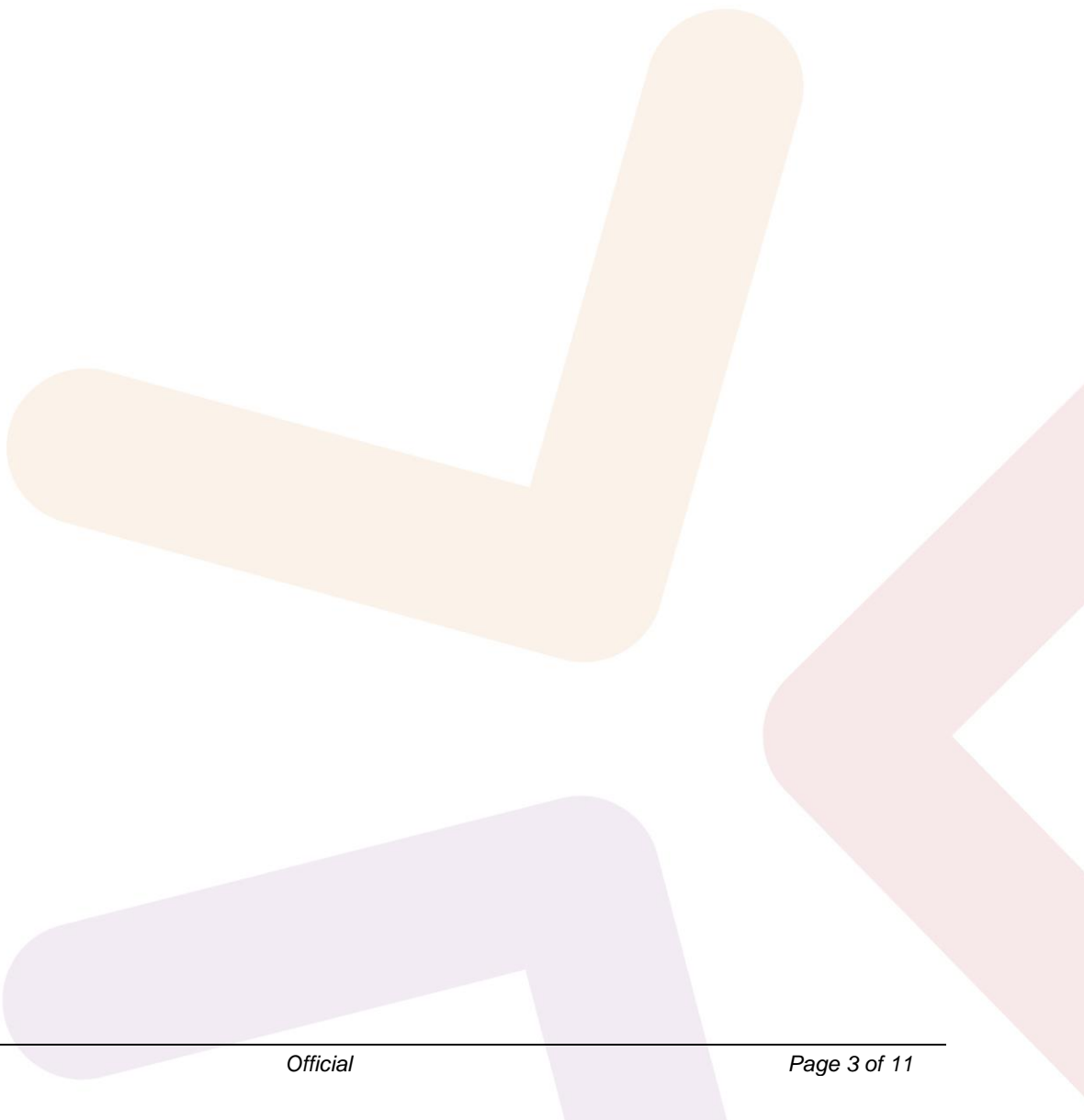
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Disclaimer

The information presented in this document is general in nature and based on HealthShare Victoria's interpretation of the *Health Services Act 1988 (Vic)* and any ancillary legislation and regulations in effect at the time and should not be relied upon as legal advice. Please consider seeking professional and independent advice from your legal representative as to the applicability and suitability of this information and the legislation to your own business needs or circumstances.

Contents

Part 1: Introduction	4
Part 2: Collective purchasing and supply chain principle and requirements	4
Part 3: Collective purchasing and supply chain supplementary material	6
Part 4: Definitions	9



Part 1: Introduction

1.1 Authority of policies

- 1.1.1 Under section 134(1) of the *Health Services Act 1988 (Vic)*, HealthShare Victoria (HSV)¹ is responsible for the establishment of purchasing policies relating to the supply of goods and services to health services and the management and disposal of goods by health services.
- 1.1.2 Health services listed in Schedule 1 and 5 of the *Health Services Act 1988 (Vic)* are responsible under section 134(3) of the *Health Services Act 1988 (Vic)* for complying with each purchasing policy.

1.2 Obligation

- 1.2.1 This policy outlines the mandatory Principle/s and Requirements for all Schedule 1 and 5 health services listed in the *Health Services Act 1988 (Vic)*.
- 1.2.2 [Part 3](#) is provided to assist with meeting the compliance obligations and the type/s of evidence a health service may provide to an auditor. Part 3 materials are not assessable in the audit.

Part 2: Collective purchasing and supply chain principle and requirements

2.1 Collective purchasing and supply chain principle:

Comply with HSV's collective agreements, supply chain² conditions/specifications or approved Victorian Government SPC / SEPC to gain value for money through aggregated demand.

2.2 Collective purchasing and supply chain associated requirements:

- a) Health services within Schedule 1 and 5 of the *Health Services Act 1988 (Vic)* must only purchase from a HSV collective agreement, arrangement, or supply chain, any good or service that has been sourced by HSV.
- b) Compliance with HSV collective agreements, supply chain conditions/specifications, and HSV approved SPC and SEPC opportunities³, including reporting.
- c) Health services are to be actively responsible and accountable for the establishment of internal processes and ongoing requirements of compliance with HSV collective agreements. [Part 3: 3.2.](#)
- d) Health services are to assist⁴ HSV in:
- i. identifying potential aggregation opportunities, including:

¹ HealthShare Victoria is the assumed trading name for Health Purchasing Victoria that remains as an independent public entity incorporated under the *Health Services Act 1988 (Vic)*.

² See [Part 4: Definitions](#)

³ For HSV approved SPC and SEPC please see Schedule to HSV Purchasing Policy 5. Collective Purchasing and Supply Chain – HSV Mandated SPC and SEPC contracts.

⁴ Assisting HSV will be dependant on the Health Service complexity, capability, and capacity.

2.2 Collective purchasing and supply chain associated requirements:

- informing HSV if any spend analysis or complexity assessment indicates grounds for aggregating demand or benefits from HSV involvement; and
- working with HSV to collect procurement data to assist in the identification process and to develop the HSV sourcing program.
- ii. providing input into the development of business cases as requested;
- iii. nominating participants in consultative and advisory groups, where appropriate, including executive, product or service reference groups or other advisory groups that will contribute toward:
 - development of specifications;
 - evaluation of bid responses and/or other negotiations with suppliers;
 - development of contract key performance indicators (KPIs) and a contract management plan;
 - an understanding of health service's resourcing, clinical and operational requirements to enable a successful transition to any HSV collective agreement;
 - ongoing management of the category to optimise contract utilisation and review supplier performance;
 - acting as HSV's agent in conducting sourcing activities where mutually agreed upon; and
 - establishing appropriate processes to ensure the security of all confidential and commercially sensitive information, in particular, supplier information.

e) Refrain from engaging in practices that may subvert HSV's function⁵.

f) Seek approval from HSV to on-sell, and report any on-selling⁶ approved arrangements to HSV annually.

g) Apply for an exemption from HSV collective agreements, supply chain arrangements, and HSV approved SPC and SEPC only in specific circumstances.

⁵ Section 131 of the *Health Services Act 1988 (Vic)*

⁶ See [Part 4: Definitions](#)

Part 3: Collective purchasing and supply chain supplementary material

3.1 Compliance with HSV collective agreements, supply chain, or HSV approved SPC/SEPC opportunities, including reporting of periodic purchasing

- 3.1.1 Health services are to have evidence to support their adherence to results of sourcing outcomes, which HSV (or its appointed agent) institutes by this policy, and the terms and conditions of any resulting agreements entered by HSV (or its appointed agent) and supply chain.
- 3.1.2 Health services are only to purchase from an HSV collective agreement or supply chain any goods or services HSV has sourced, and all corresponding evidence will demonstrate this compliance.
- 3.1.3 Where HSV has reviewed the terms of an SPC or SEPC and considered the arrangement good value and by the existence of the SPC or SEPC, decided not to enter into an agreement in its own right on behalf of health services, a health service will evidence purchase from that SPC or SEPC only.
- 3.1.4 Health services have evidence of compliance with HSV agreements/supply chain and provide periodic purchasing and associated details as requested by HSV, such as:
- a) purchasing data from items purchased by the health services compared to HSV Supply Chain Inventory list.
- 3.1.5 Health services may require the following evidence to demonstrate compliance against HSV agreements and supply chain:
- a) a specific agreement applies only to certain health services, and the health service is excluded; or
 - b) evidence of an approved HSV exemption as per clause 2.2 g).

3.2 Health services are to be actively responsible and accountable for the establishment of internal processes and ongoing requirements of compliance with HSV collective agreements

- 3.2.1 Health services are responsible and accountable 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) reporting as required on supplier performance to HSV;
 - d) working proactively with suppliers and HSV to transition within the designated timeframes to new HSV collective agreements;
 - e) communicating their requirements under the agreement directly with suppliers by issuing a purchase order or similar;
 - f) establishing SLAs with supplier(s), where required;
 - g) monitoring the performance of suppliers;
 - h) meeting 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; and
 - i) immediately notifying HSV of any significant breach of the agreement by a supplier that cannot be resolved successfully directly with the supplier.

3.3 Refrain from practices that may subvert HSV's function

3.3.1 Health services maintain evidence of their processes and procedures which would support that they have refrained from engaging in any practices that may have a subverting effect on HSV functions.

Some options of evidence:

- Approved exemption or gazette to purchase off contract.
- Social Procurement requirements
- Local Jobs First requirements
- Fair Jobs Code requirements

3.4 Reporting any on-selling to HSV

3.4.1 Health services demonstrate reporting annually, or as otherwise requested by HSV, details of all on-selling arrangements that relate to goods or services under a HSV collective agreement and supply chain.

3.4.2 HSV may approve arrangements under 2.2 f) or grant an exemption under 2.2 f) at its absolute discretion and subject to any number of conditions.

3.4.3 Where fees or charges are levied for on-selling goods or services, health services have legal obligations to comply with the Victorian Department of Treasury and Finance's Competitive Neutrality Policy and other applicable legislation or policy.

3.5 Process to apply for an exemption from HSV collective agreements, supply chain, and HSV approved SPC and SEPC, only in specific circumstances

3.5.1 The HSV Board, under its powers established in section 134 of the *Health Services Act 1988 (Vic)*, (the Act) 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. HSV will, in exercising its discretion to grant exemptions, have regard to the factors referred to in section 133 of the Act.

3.5.2 Specifically, health services may request, and HSV may grant, an exemption from purchasing from a HSV collective agreement in the following circumstances:

- a) where a 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 PAP; or
- b) on clinical grounds; e.g. to ensure that patients of the health service will receive clinically appropriate treatment or care; or
- c) for operational reasons; e.g. to ensure the effective administration of the health service; or
- d) where there is a significant negative impact on the viability of small or medium sized businesses, or local employment growth or retention.

3.5.3 All requests for exemption are to be submitted by the Accountable Officer (AO) of the health service to HSV in accordance with the "Guide to Exemptions from HSV Collective Agreements".

3.5.4 When applying for an exemption the application is to 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 HSV collective agreement, or otherwise any reasons effectively preventing it at law from complying.

- b) any supporting documentation or other material which HSV believes is required to assist the making of a decision.

3.5.5 HSV is to record all requests for exemption and notify the HSV Board in accordance with the agreed delegations of authority for exemption decisions.

3.6 HSV's confirmed annual sourcing program

3.6.1 As part of its procurement activity plan, HSV will, in consultation with stakeholders, develop a schedule of prospective sourcing requirements covering a minimum of 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.

3.6.2 HSV will publish a schedule of procurement activities derived from the prospective sourcing program, to be known as the 'Procurement Activity Plan (PAP)', at least annually for the coming two (2) years, but more often as may be desirable or necessary to meet the needs of both stakeholders and the market.

3.6.3 Before publication, the PAP may be amended by HSV to:

- a) add categories, including any which may be required by the 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; and
- c) to remove a category from the PAP.

3.6.4 At the date of publication of the PAP, health services may only enter into a new contract, or renew any current contract, with suppliers for categories of goods or services which are not subject of the PAP, where there is a contractual capacity to terminate any such contract forthwith when a relevant HSV collective agreement for the same deliverables is entered into. This obligation is removed for any category of goods or services removed from the PAP.

3.7 HSV's collective agreements responsibilities

3.7.1 HSV is responsible for:

- a) establishing HSV collective agreements;
- b) any formal variation of the HSV collective agreements; and
- c) managing supplier performance, including resolution of any formal disputes and breaches of contract.

3.7.2 HSV 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; and
 - 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 HSV agreements;
- d) maintain a database of sales activity under HSV 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; and
- 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.

Part 4: Definitions

Terminology	Definition
Accountable Officer (AO)	Means Chief Executive Officer (by whatever name called) of a health service.
Actual conflict of interest	There is a real conflict between an employee's public duties and private interests. (<i>Victorian Public Sector Commission</i>)
Asset	An item or thing that has potential value to an organisation, and for which the organisation has a responsibility. Asset does not include financial assets. Please refer to the Department of Treasury and Finance's Asset Management Accountability Framework regarding asset management.
Categories	Categories are groupings of similar goods or services with common supply and demand drivers and suppliers. For example, a blood collection tube would be in the pathology consumables procurement category. A category can be defined at any level above a single procurement. Categories will vary according to the size and type of organisation and the supply market.
Chief Procurement Officer (CPO)	The CPO provides strategic expert advice and oversight of the procurement function to drive and ensure value-for-money outcomes in the health service. The CPO is responsible for developing and monitoring strategic procurement activities.
Collective Purchasing	Collective Purchasing, also referred to as a Collective Agreement or Collective Purchasing Arrangement, is a contract for the purchase of goods or services for the benefit of two or more entities. A Collective Agreement may be established by HSV on behalf of health services.
Conflict of interest	Conflicts may be actual, potential or perceived. (<i>Victorian Public Sector Commission</i>)
Complaint	A complaint is an issue or concern expressed by a supplier in relation to the process and probity applied by a health service when conducting a procurement activity.
Contract management	The process of ensuring the contractual obligations of successful suppliers is met during the life of the contract. Elements of contract management include supplier performance management, monitoring contract activity including acquittal against budgets, invoicing against contract prices/rates, review of key performance indicators (KPIs) and contract activity and may involve regular meetings with stakeholders and/or suppliers. Proactive management will also seek to work with the supplier to identify opportunities for additional benefits from the contract.
Contract Management Strategy (CMS)	Identifies 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.

Terminology	Definition
Emergency procurement	<p>An emergency in Victoria is defined by the <i>Emergency Management Act 2013 (Vic)</i> (the Act). In summary, an emergency is the actual or imminent occurrence of an event that in any way:</p> <ul style="list-style-type: none"> • endangers or threatens to endanger the safety or health of any person; • destroys or damages, or threatens to destroy or damage, any property; or • endangers or threatens to endanger the environment. <p>The definition in the Act includes a disruption to essential services (for example transport, fuel, power, water, sewerage). The Emergency Procurement Policy may also be applied to an event that significantly disrupts or threatens provision of an organisation's key services.</p>
Eligible health services	As outlined in Part 6 in the <i>Health Services Act 1988 (Vic)</i> .
Health service	Public hospitals and health services outlined in Schedule 1 and 5 in the <i>Health Services Act 1988 (Vic)</i> .
On-selling	On-selling occurs if an entity purchases goods or services under a HSV collective agreement and then re-supplies the goods to another entity. This includes the provision or sale of goods or services to a separate entity (e.g., another health or related service or non-health entity) through the provision of warehousing and logistics services or otherwise, including where goods or services are provided at no cost, possibly under the terms of another agreement e.g., provision of clinical or non-clinical services, tenancy, public private partnership (PPP) etc.
Participating health service	Health services listed in Schedule 1 and 5 in the <i>Health Services Act 1988 (Vic)</i> and approved eligible health services accessing HSV collective agreements.
Perceived conflict of interest	<p>The public or a third party could form the view that an employee's private interests could improperly influence their decisions or actions, now or in the future.</p> <p>(<i>Victorian Public Sector Commission</i>)</p>
Potential conflict of interest	<p>An employee has private interests that could conflict with their public duties. This refers to circumstances where it is foreseeable that a conflict may arise in future and steps should be taken now to mitigate that future risk.</p> <p>(<i>Victorian Public Sector Commission</i>)</p>
Procurement Activity Plan (PAP)	A procurement activity plan is a list of all procurement activities that the health service anticipates taking to market over a period (ideally 12-18 months). What constitutes a procurement activity will depend on each health service and their internal process for determining those sourcing activities that require a market approach. This will usually be based on value depending on the organisation's spend profile.
Procurement Strategy	<p>A Procurement Strategy contains the following elements:</p> <ul style="list-style-type: none"> • Procurement Activity Plan: a detailed list of procurement activities anticipated to be taken to market in the next 12-18 months.

Terminology	Definition
	<ul style="list-style-type: none"> • Capability Development Plan: steps to improve the capability to undertake procurement needs. • Contract Management Plan: a framework based on the health service spend profile which assists in how procurement categories and individual procurement will be managed at the contractual stage. • Supplier Engagement Plan: processes, systems, and communication strategies to maintain good relationships with suppliers (existing and prospective). <p>Note: The Procurement Strategy may consist of the above elements but may or may not be called the Procurement Strategy.</p>
SEPC	Sole Entity Purchase Contracts
SPC	State Purchase Contracts
Supply chain	Supply chain management encompasses the planning and management of all activities involved in the sourcing and procurement, conversion and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers and customers. In essence, supply chain management integrates supply and demand management within and across entities.
Value for money	Involves a balanced judgment of financial and non-financial factors. Typical factors include fitness for purpose, quality, whole-of-life costs, risk, environmental and sustainability issues and price.
VGPB	Victorian Government Procurement Board