



# HSV Purchasing Policy 4 Contract Management and Asset Disposal

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

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OFFICIAL



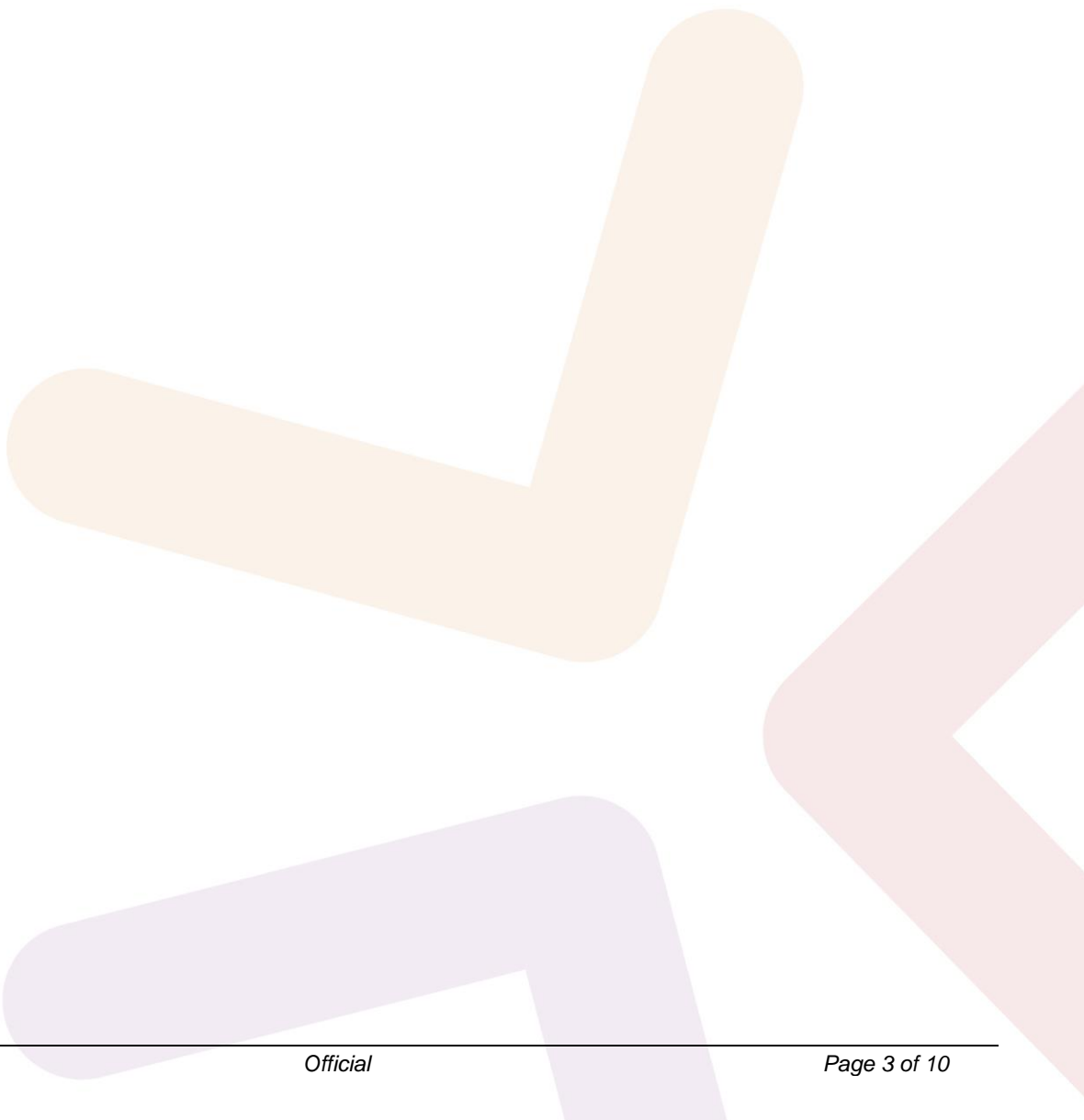
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### Disclaimer

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.

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## 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)<sup>1</sup> 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: Contract management and asset disposal principle and requirements

### 2.1 Contract management and asset disposal principle:

Health services systematically and efficiently manage contract creation, execution and asset disposal for maximising operational and financial performance and minimising risk.

### 2.2 Contract management and asset disposal associated requirements:

- a) Health services implement minimum requirements to effect contract management<sup>2</sup>, including individual procurement and the overarching entity contract management strategy.
- b) Health services include the following minimum clauses<sup>3</sup> within contracts:
- i. Transition clause
  - ii. Confidentiality clause
  - iii. Supplier code of conduct
- c) Health services establish and implement processes and mechanisms for the disposal of assets to support a whole of life cycle procurement approach in line with the Department of Treasury and Finance Asset Management Accountability Framework.

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<sup>1</sup> 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)*.

<sup>2</sup> See [Part 4: Definitions](#)

<sup>3</sup> 3.2 of the Supplementary materials provides wording for health services regarding clauses.

## Part 3: Contract management and asset disposal supplementary material

### 3.1 Health services to implement minimum requirements to give effect to contract management, including individual procurement and overarching entity contract management strategy

- 3.1.1 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.
- 3.1.2 Contract management operates at two distinct levels:
- at the level of the organisation as a high-level Contract Management Strategy (CMS); and
  - at the level of individual procurement activity.

#### Contract management at the organisational level

- 3.1.3 A CMS can identify how individual contracts in a procurement category could be managed at the health service level. It positions contract management issues at the beginning of the procurement planning cycle and allows for the effective allocation of resources.
- 3.1.4 Developing a CMS is part of the procurement planning process after identifying procurement categories and carrying out an assessment of complexity.
- 3.1.5 Health services may include the following components in their CMS:
- the overall approach that will be used to manage contracts for categories or individual procurement activities in each complexity quadrant;
  - processes to ensure people are allocated to manage each contract for which they are responsible or accountable;
  - a description of how performance measures (i.e. key performance indicators) will be established and monitored for contracts in each complexity quadrant;
  - processes for identifying and managing risks in contracts, including any contingency planning; and
  - processes to ensure any potential additional value is achieved through continuous improvement.

#### Contract management at the individual procurement level

- 3.1.6 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.
- 3.1.7 Contract management as a function can extend beyond the current term of the contract, where there are ongoing obligations associated with the contract, e.g. confidentiality, liability, guarantees, warranties or maintenance agreements.
- 3.1.8 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.

- 3.1.9 Health services should manage their contracts in a manner that is appropriate for the complexity and risk of the procurement activity.
- 3.1.10 A health service, to support its processes, may 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.
- 3.1.11 The AO of the health services should be satisfied that:
- a) contracts are managed on behalf of the health service by people with sufficient accountability and responsibility; and
  - b) contracts clearly define the deliverables, performance standards and review mechanisms required from the supplier.
- 3.1.12 The health service ought:
- a) keep an appropriate record of contracts on a contract 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; and
    - iii. the expiry date of insurance or other relevant certificates and that new certificates are obtained prior to expiry; and
  - c) support CMPs to be implemented and monitored effectively.

## 3.2 Minimum clauses within contracts

- 3.2.1 The following clauses<sup>4</sup> (which may change from time to time) have been developed to assist health services:
- a) **Transition clause:**  
[Health services transition contract clause](#)
  - b) **Confidentiality clause:**  
[Health services confidentiality contract clause](#)
  - c) **Supplier code of conduct:**  
[Health services supplier code of conduct clause](#)
- 3.2.2 Include other clauses<sup>5</sup> as directed by Victorian State Government Departments or Agencies within health services contracts.

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<sup>4</sup> These clauses are compulsory but certain legal departments may want to add other information for clarity.

<sup>5</sup> For example, *Fair Jobs Code* which comes into effect 1 December 2022.

### **3.3 Health services establish and implement processes and mechanisms for disposal of assets to support a whole of life cycle procurement approach that is in line with the Department of Treasury and Finance Asset Management Accountability Framework.**

- 3.3.1 A health service AO ought to assign responsibility, accountability and reporting requirements to establish and maintain asset management to optimise value for money, minimise risk and sustain maximum service provision.
- 3.3.2 Disposal of assets may 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; and
  - e) surplus to requirements.
- 3.3.3 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; and/or
  - c) transferring assets to not-for-profit organisations.
- 3.3.4 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 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 health service may 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; and
  - 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.
- 3.3.5 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; and/or
  - e) disposed of by way of public auction or public tender.
- 3.3.6 Disposal of assets ought to be in accordance with the principle of probity, taking into consideration the cost of disposal to achieve the best value outcome.
- 3.3.7 Health services are reminded to refer to the Department of Treasury and Finance's Asset Management and Accountability Framework for guidance and compliance regarding assets.

## 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.<br>( <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.<br><br>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.<br><br>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.<br>( <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"> <li>• endangers or threatens to endanger the safety or health of any person;</li> <li>• destroys or damages, or threatens to destroy or damage, any property; or</li> <li>• endangers or threatens to endanger the environment.</li> </ul> <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"> <li>• Procurement Activity Plan: a detailed list of procurement activities anticipated to be taken to market in the next 12-18 months.</li> </ul>   |

| Terminology     | Definition  |
|-----------------|---|
|                 | <ul style="list-style-type: none"> <li>• Capability Development Plan: steps to improve the capability to undertake procurement needs.</li> <li>• 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.</li> <li>• Supplier Engagement Plan: processes, systems, and communication strategies to maintain good relationships with suppliers (existing and prospective).</li> </ul> <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  |