



HSV Purchasing Policy 2

Strategic analysis

Determining the market dynamic, the complexity of procurement and aligning capability

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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)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: Strategic analysis principle and requirements

2.1 Strategic analysis principle:

Health services are to determine the complexity of the procurement activity and the corresponding capability level required to complete a successful procurement.

2.2 Strategic analysis associated requirements:

- a) Health services are to understand the complexity of both internal and external factors of procurement activities.
- b) Health services are to systematically review market analysis, including the characteristics, capacity and capability of the supply chain.
- c) Health services are to assess procurement capability, ascertaining the right match of people, resources, systems, and processes to the complexity of the procurement for the most appropriate value outcomes.

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)*.

Part 3: Strategic analysis supplementary material

3.1 Complexity assessment before beginning a procurement including profile, relevance of category, strategy and any high risks for the health service

- 3.1.1 To achieve the best value for money, a health service needs to first assess the complexity of a procurement activity. This assessment may be supported by a risk matrix that provides an objective criterion.
- 3.1.2 The assessment of complexity should be applied to:
- a) relevant categories of procurement; and
 - b) any individual procurement activity that:
 - i. does not fall into a relevant category; and
 - ii. is strategic or high risk to the business of the health service.
- 3.1.2 Carrying out an assessment of complexity at the category level can identify individual procurement(s) and strategic and high-risk procurement(s) that require an individual complexity assessment.
- 3.1.3 An assessment of complexity will analyse:
- a) internal and external factors that affect the procurement;
 - b) the characteristics of the good or service being procured;
 - c) the capacity, capability, and motivation of the market;
 - d) the value created by the procurement to the health service;
 - e) opportunities to improve value for money;
 - f) the potential for aggregating purchasing demand;
 - g) the potential to improve the opportunities for Australia and New Zealand small to medium sized enterprises to participate in government procurement; and
 - h) the best way to approach the market that is cost-effective to suppliers and buyers while considering opportunities for local businesses to participate.
- 3.1.4 When the complexity assessment has been completed, procurement categories and individual procurements will be allocated into 1 of 4 quadrants.

Complexity category	Description
Transactional	Small value and low-risk transactions where approved suppliers (e.g. HSV collective agreements) are not available or viable.
Leveraged	Frequently used goods/services in a competitive marketplace 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 significance.

- 3.1.5 The health service's **CPO is to be consulted** when determining the approach to market for any procurement identified as strategic or high risk. Consideration should also be given to engaging a probity advisor or probity auditor.
- 3.1.6 Health services are not required to carry out an assessment of complexity of a procurement activity where the procurement is from an aggregated demand contract where it is a sole supplier arrangement.

Options for small and rural health services	Options for metro and regional health services
- A health service's procurement spend profile has been identified prior to the completion of the complexity assessment - a complexity assessment has been completed before a procurement activity begins for each procurement activity. - Multiple health services may work together in their region to establish and document a complexity assessment with individual spend profiles.	- A health service's procurement spend profile has been identified prior to the completion of the complexity assessment - a complexity assessment has been completed before a procurement activity begins for each procurement activity.

3.2 Market analysis and approach is to understand the capacity of the supply chain and embed policies, processes and procedures for the end-to-end supply and disposal of a procured item(s).

- 3.2.1 Market analysis and review follows the assessment of complexity of the procurement activity either at the category level or at the individual procurement level where the procurement activity falls outside of a category or is critical or high risk.
- 3.2.2 Health services may:
- consider the outcome of the complexity assessment to determine if the assessment at the category level establishes the basis to approach the market;
 - undertake further complexity analysis of the individual procurement activity where the category assessment provides insufficient detail to determine the optimal approach to market;
 - conduct market analysis to identify the capability and capacity of the market to supply and identify opportunities for market-based solutions;
 - reassess the procurement requirement regarding the market analysis; and
 - prepare a statement of grounds or business case, which supports the decision to proceed with the procurement and identifies the optimal market engagement strategy.
- 3.2.3 Approaching the market is predominantly a process task to ensure all potential suppliers are treated fairly, have access to the same information and that standards of probity, confidentiality, and security are applied in all interactions between the health service and suppliers.
- 3.2.4 A sourcing process is not required when purchasing from a sole entity purchase contract or a state purchase contract where there is an arrangement in place.

Options for health services
- Market analysis is conducted for procurement categories and individual procurement activities that fall outside a category or are strategic or of high risk to the health service. - A business case or statement of grounds is appropriately documented with required approvals and a review process that aligns with the health service's governance framework.

3.3 The Accountable Officer is accountable for entity's resourcing the expertise required for successful procurement outcomes

- 3.3.1 The Accountable Officer (AO) ensures that the health service has access to the appropriate level of procurement expertise, resources, systems, and processes that enable procurement activities to be completed successfully.
- 3.3.2 Health services should not carry out procurement where there is an insufficient level of capability.
- 3.3.3 The assessment of capability will:
- be carried out by people with appropriate knowledge and expertise;
 - identify the capabilities needed to carry out the procurement activity; and
 - identify whether the capabilities in the organisation need to be developed or supplemented to undertake the procurement activity.
- 3.3.4 An assessment of capability may be based on the whole organisation or on particular business unit.
- 3.3.5 Where the health service's capability does not match the procurement complexity, the AO ought to ensure the required level of capability is secured from external sources.

Options for small and rural health services	Options for metro and regional health services
- A capability assessment and a capability plan are in place, regularly reviewed and approved as per the governance framework. - The governance framework makes the roles and responsibilities clear, including who conducts the capability assessments. - A small or rural health service may choose to work with other health services in the region, if the right capability can be achieved.	- A capability assessment and a capability plan are in place, regularly reviewed and approved as per the governance framework. - The governance framework makes the roles and responsibilities clear, including who conducts the capability assessments. - The organisational chart identifies the procurement function. - The health service outlines their capability and if it is deemed insufficient for the level of procurement required, ought to demonstrate that external sources are/have been engaged.

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	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: • 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. 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.
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 a mandated health service purchases goods or services under a HSV collective agreement and then re-supplies the products to another entity. This includes the provision or sale of products or services to a separate entity (for example, another health or related service or non-health entity) through the provision of warehousing and logistics services or otherwise, including where products or services are provided at no cost. This could be under the terms of another agreement, for example, provision of clinical or non-clinical services, tenancy or public private partnership (PPP). For clarity, where a public hospital supplies products or services purchased under HSV Collective Agreements to their wholly owned entities, this is not considered to be on-selling for the purpose of the HSV Purchasing Policies.
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	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. (Victorian Public Sector Commission)
Potential conflict of interest	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. (Victorian Public Sector Commission)
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.

Terminology	Definition
Procurement Strategy	A Procurement Strategy contains the following elements: • Procurement Activity Plan: a detailed list of procurement activities anticipated to be taken to market in the next 12-18 months. • 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). Note: The Procurement Strategy may consist of the above elements but may or may not be called the Procurement Strategy.
Secondary procurement	Secondary procurement refers to any activity which would result in one or more health services obtaining further or additional value in connection with goods or services purchased under a HSV Collective Agreement. Value includes any advantage, benefit or incentive, including but not limited to: • reductions in HSV-contracted pricing (including by way of discounts, credits, rebates, additional stock); • additional equipment whether provided on loan or transferred in ownership — contingent on the purchase of an agreed volume of goods or services under a HSV Collective Agreement; and • training or education, including conference travel and hospitality.
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