



# Casterton Memorial Hospital

**Title:** Procurement Strategic Process

**Manual:** Hospital Policy & CMH Procurement **Type:** Policy

## Procurement Strategic Analysis

Is defined as the level of planning and documentation for procurement activities within Casterton Memorial Hospital and must be commensurate with the complexity and value of each individual process.

- The purpose of the procedures is to ensure that:  
HPV Collective Purchasing Agreements are utilized where appropriate;
- Approved procurement processes are followed for all Casterton Memorial Hospital procurement activities;
- Value for money in procurement is achieved;
- Procurement approval and delegations are adhered to and documented appropriately;
- Ethical purchasing and probity requirements are met;
- Purchasing risk assessment is undertaken and risk management strategies are applied, and
- Critical incident procurement procedures are used where necessary.

## Complexity Assessment

To achieve the best value for money, Casterton Memorial Hospital must:

- Identify its procurement spend profile, and
- Assess the complexity of a procurement activity before it begins.

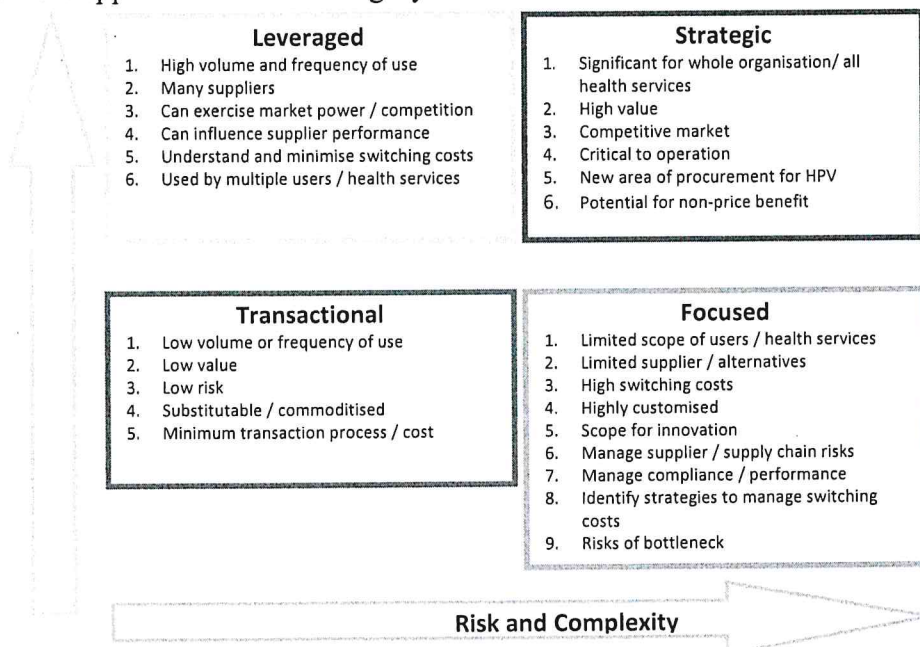
The complexity assessment must be applied to:

- Relevant high level categories of procurement, and
- An individual procurement activity that is strategic or “high risk”.

The complexity assessment tool will be utilized to plot defined spend categories or individual procurements on the complexity matrix below;

### Complexity Matrix

The outcome of the complexity assessment will allocate procurement categories and individual procurements into one of four categories of complexity, and guide the market and contract management approach for each category.



**Transitional** - Small value and low-risk transactions where approved suppliers (e.g. HPV collective agreements) are not available or viable.

**Leveraged** - Frequently used goods/services in a competitive marketplace that are 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 or limited market that are high value, where business criticality is high, and /or where the goods/service is of State significance.

Where there is an existing HPV collective agreement in place for an identified category, Casterton Memorial Hospital **must** observe the rules for the agreement.

### **Market Analysis Review**

The objective of market analysis is to understand the capacity of the market to supply the goods and services. The Market Analysis tool should be utilised.

There are several considerations when undertaking a market analysis, they are:

- Consider the outcome of the complexity assessment;
- Conduct further market analysis;
- Reassess each procurement requirement with regard to market analysis;
- Undertake further complexity analysis at the level of the procurement activity;
  - Where a category assessment is inconclusive; or
  - When an individual procurement is considered high risk and/or high value;
- Consider engaging an independent probity advisor or auditor (based on risk / value = complexity); and
- Prepare a business case which supports the decision to proceed with the procurement and identify the optimal market engagement strategy.

Once the business case is approved the level of complexity should guide the procurement planning process.

### **Capability Assessment**

The CEO **must** ensure that Casterton Memorial Hospital has, or has access to, an appropriate level of procurement expertise, resources, systems and process that enable procurement activities to be completed successfully.

The assessment of capability **must**:

- Be carried out by people with appropriate knowledge and expertise;
- Be carried out by people with capacity to undertake the procurement and meet planned timelines;
- Identify the capabilities needed to carry out procurement;
- Identify whether capabilities in Casterton Memorial Hospital need to be developed or supplemented to undertake procurement.

An assessment of capability **must** be based on:

- The whole organisation; or
- A particular business unit.

Where the internal capability does not match the procurement complexity; the CEO must ensure the required level of capability is secured from external sources.

## **1. Market Approach**

The **CPO** is to be consulted when determining the optimal approach to market for any procurement identified as strategic or high risk. The approach to market **must** be approved according to the Casterton Memorial Hospital procurement governance framework. Approval of all documents is to be aligned with Casterton Memorial Hospital Delegation of Authority which defines the level of approval and all approvals must be finalized before proceeding to market.

The market approach process must ensure all potential suppliers are treated fairly, have access to the same information and that standards of probity, confidentiality and security are applied in the conduct of all actions between Casterton Memorial Hospital and suppliers.

Casterton Memorial Hospital has developed and will apply an appropriate market approach that:

- Will encourage participation;
- Be cost effective;
- Apply a market approach that engages with potential suppliers in a fair and equitable manner which will eliminate unnecessary barriers;
- Ensures confidentiality and security of supplier bids;
- Provides sufficient time for potential suppliers to prepare and submit bids;
- Ensures all material changes to a procurement requirement are available to all suppliers registered in that process

There are several other key considerations that Casterton Memorial Hospital must also take into account when approaching the market:

- Note and action any real or perceived conflicts of interest prior to commencing a procurement process;
- Clearly indicate all conditions of participation;
- Foster innovative or alternative solutions;
- Structure specifications to have relevance to local Small Medium Enterprisers (SMEs) and businesses;
- Specify applicable broader government policy and Australian standards and/or regulations, where relevant, including but not limited to any supplier charters or codes of conduct, appropriate standards and or regulations;
- Adopt an evaluation plan for under taking supplier selection;
- Specify the criteria and any weightings to be used in the evaluation plan;
- Indicate if any shortlisting process is to apply; and
- Must not adopt any strategy that unfairly precludes relevant suppliers.

The required minimum information on an invitation to supply **(ITS)** document is;

- Name and address;
- Headline details of the supply requirements;
- Details of the timelines associated with the procurement;
- Address and method for which information can be obtained; and
- Details of the contact person.

Casterton Memorial Hospital ITS templates should be used where possible.

## **Management of submissions**

In the planning phase of procurement consideration is to be given to how submissions are received. This is to include the security of the submissions. Other considerations are to include:

- A secure facility (physical and or electronic)
- Process for recording submissions received
- A process for informing suppliers that their submission has been received; and
- The process in relation to the receipt of late submission in accordance with protocols.

### **Evaluation, negotiation and selection**

The evaluation, negotiation and selection involve identifying the supplier(s) offering the best value for money option(s) to satisfy the health service's requirements. Casterton Memorial Hospital may decide not to proceed with engaging a supplier if the evaluation and negotiation process cannot satisfy the requirements of the procurement activity.

### **Evaluation**

In preparing for and conducting evaluation of bids/information submissions from suppliers, Casterton Memorial Hospital must:

- Follow evaluation plan (including the details of an evaluation panel) which reflects the level of complexity of the procurement activity;
- Conduct the evaluation process with high standard of probity, fairness, consistency and impartiality and evaluate against the same specified criteria and weightings;
- Clearly define the role of the probity auditor / probity advisor and/or advisory groups formed to advise and assess the elements of the submission;
- Separate the roles of the probity auditor and probity advisor for procurement activity that is critical and /or high risk;
- Note and action any real or perceived conflicts of interest prior to commencing an evaluation process;
- Document all decisions so if a situation arises there is an ability to support the decision that was made;
- The evaluation process only considers bids that meet the mandatory requirements of participation;
- Alternative offers are submitted and evaluated in conjunction with other conforming offers; and
- The capability of the evaluators is adequate for the complexity of the procurement.

### **Negotiation**

When undertaking negotiations with shortlisted suppliers Casterton Memorial Hospital is to ensure that:

- Negotiation Plans are developed in consultation with stakeholders prior to any negotiations commencing;
- The negotiation process is to be transparent, recorded and conducted in a manner that is fair and equitable for all parties shortlisted; and
- Negotiations which are seeking further information or improvements to a supplier's bid, or request to submit best and final offers are to be conducted in a consistent manner and that any acceptable improvements are within scope of the market approach.
- Ensure negotiation outcomes are clearly defined and documented

### **Supplier Selection**

During the selection/evaluation process suppliers are to be:

- Informed of the status of the process;
- Debrief unsuccessful suppliers in relation to their submission if requested;
- Develop a formal agreement between parties of the selected supplier(s); and
- Inform unsuccessful suppliers within five (5) business days of decision/acceptance of an offer(s).

## **Critical Incident**

The process of all procurement activities undertaken during a critical incident allows for the coordination of relief efforts in response to a disaster or emergency and to maintain the operation or to restore the functioning of a department as soon as practicable. This allows for exemption of compliance with existing procurement policies.

A Critical Incident can be defined as follows:

- An emergency within the meaning of the Emergency Management Act 1986,
- An incident that causes the mandated health service's business continuity plan to be activated,
- An incident that represents a serious and urgent threat to the health, safety or security of a person or property, or
- A situation that represents a serious or urgent disruption to services, including patient care, provided by the health service.

## **Implementation** (*Refer: CMH Critical Incident Procurement Procedure*)

Critical incident protocols and processes are invoked when the Chief Executive Officer declares a critical incident to exist in relation to the operation of procurement and processes. Normal Casterton Memorial Hospital policies and processes are to be re-applied at the conclusion of the emergency or relief effort as determined by the person that activated the policy.

## **Procurement Protocol**

Procurement process adopted during a critical incident and should be undertaken in accordance with the core principles of the health service, and all decisions taken must be governed by the overriding principles of integrity, non-corruptibility and impartiality.

Casterton Memorial Hospital has adopted a format for recording minimum information with a view to being accountable for decisions relating to a Critical Incident (utilize Critical Incident Procurement Records template). The policy provides a streamlined and flexible process to ensure that all necessary actions can be implemented during a critical incident.

Casterton Memorial Hospital will maintain a register and report annually to the Board the following information regarding procurement activity during a critical incident:

- Total value of goods and/or services purchased
- The nature of the critical incident to which the procurement values relate
- The date, as defined by the CEO, at which procedures under the critical incident ceased

## **2. Contract Management**

Contract management is the systematic and efficient management of contract creation, execution and analysis for the purpose of maximising financial and operational performance and reducing risk.

Casterton Memorial Hospital manages its contracts at two distinct levels:

- At the level of the organisation through its Contract Management Strategy (CMS) based on the four tiers of the Complexity Matrix; and
- At the level of the individual procurement through a specific Contract Management Plan if the complexity analysis of the individual procurement identifies it as Strategic (high risk/value).

The CMS identifies how individual contracts in a procurement category are managed. It positions contract management issues at the beginning of the procurement planning cycle and allows for the

effective allocation of resources.

Development of a CMS is part of the procurement strategy planning process and at a minimum the CMS should include the following:

- The overall approach that will be used to manage contracts for categories or procurements in each complexity quadrant;
- Processes to ensure people with sufficient capability are allocated to manage each contract;
- A description of how performance measures (i.e. Key Performance Indicators (KPIs)) will be established and monitored for contracts in each complexity quadrant;
- Processes for identifying and managing risks in contracts, including contingency planning; and
- Processes to ensure any potential additional value is achieved through continuous improvement.

Contract management as a function can extend beyond the current term of the contract; where there are on-going obligations associated with the contract for example confidentiality, liability, guarantees, warranties or maintenance agreements.

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 and performance standards and review mechanisms.

Casterton Memorial Hospital is to manage its contracts in a manner that is appropriate for the complexity of the procurement activity.

At a minimum, Casterton Memorial Hospital must develop:

- A CMS for categories that represent a significant proportion of the health services spend; and
- A Contract Management Plan (CPM) for each individual procurement activity that is critical and/or high risk.

The CEO must ensure that contracts:

- Are managed by people who have sufficient skills sets and capability; and
- Clearly define the deliverables, performance standards, and review mechanisms required of the supplier/s.

The Casterton Memorial Hospital is to ensure that:

- All relevant records are kept and that a contract register is maintained;
- Contracts are monitored to ensure they are being managed effectively including:
  - The contract expiry date, by initiating the necessary procurement action well in advance of expiry,
  - That timely decisions are made with regard to any contract option available,
  - The expiry date of insurance or other relevant certificates and that new certificate are obtained prior to the expiry.
- That contract management plans are implemented and monitored effectively.

### **Health Purchasing Victoria Collective Agreements**

Health Purchasing Victoria is responsible for:

- Establishing HPV collective agreements;
- Any formal variations of the agreements;

- Managing supplier performance, including resolution of any formal disputes and breaches of contract.

Casterton Memorial Hospital is responsible for :

- The day-to-day purchases under the agreements;
- Resolving any local Service Level Agreement (SLA) or supplier performance issues that arise,
- Report as required on supplier performance to HPV.

HPV will:

- Ensure adequate advance notification to Casterton Memorial Hospital of the details, including agreement price schedules and key contract terms for:
  - Newly established collective agreements;
  - Agreement renewals, including any options to extend agreements exercised; and
  - Any other variations to agreements, including price variations.
- Provide sufficient time for Casterton Memorial Hospital to transition to any new agreement;
- Assist Casterton Memorial Hospital in identifying best value options in HPV agreements;
- Maintain a database of sales activity under HPV agreements, as reported by suppliers and/or Casterton Memorial Hospital and regularly share this information with participating health services;
- Where agreed with Casterton Memorial Hospital maintain contract performance data reported by suppliers and/or health services;
- Communicate any changes to the rules of use or contract management terms; and
- Take the necessary action in the case of a substantial breach of contract by any supplier that cannot be resolved by Casterton Memorial Hospital.

Casterton Memorial Hospital must:

- Communicate their requirements under the agreement directly with suppliers by issuing a purchase order or similar;
- Where indicated in the HPV agreement, establish SLAs with supplier(s);
- Regularly monitor the performance of suppliers;
- Meet obligations under the agreements, in particular with respect to payment terms and communication with suppliers and in maintaining the security of all confidential and commercially sensitive information; and
- 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**

The following procedures will complement the State government asset management policy requirements and the Victorian health policy and funding guidelines.

Casterton Memorial Hospital CEO 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.

Disposal of assets should be considered when the asset is identified as being:

- Obsolete due to changed procedures, functions or usage patterns;
- No longer comply with clinical or occupational health and safety standards;
- Reaching its optimum selling time to maximise returns;
- Beyond repair; or
- Surplus to requirements.

Disposal of assets can present Casterton Memorial Hospital with opportunities to optimise the use of an asset, including:

- Extending the life of an asset by transferring it to another business unit or organisation;
- Recovering material for recycling prior to sending the asset to landfill; and
- Transferring assets to not for profit organisations.

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) Casterton Memorial Hospital are to be disposed of in a way that takes into account probity, sustainability and transparency, as well as environmental and social factors. Casterton Memorial Hospital must ensure that a disposal process is developed that details:

- Department/business unit responsibilities for managing the process;
- Reasons for the disposal;
- Disposal options appropriate to the nature of the asset and broader government objectives;
- Management of issues of risk, liability, safety and security;
- The process for keeping Casterton Memorial Hospital assets register up to date; and
- Issues of risk, liability, safety and security associated with the use of the asset by other parties when transferring an asset to another location or entity.

The method to which an asset can be disposed of will depend on whether the asset can be:

- Modified to extend the life of the asset;
- Transferred to another party;
- Recycled/disposed;
- Traded-in, or
- Disposed of by way of public auction or public tender.

Casterton Memorial Hospital is to ensure that the 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.

### **Evaluation**

Casterton Memorial Hospital is to ensure that this policy and all other related policies are to be reviewed on an annual basis or as required in accordance with its Governance guidelines.

### **CMH Key Aligned Documents**

*CMH Policy - Procurement Policy Framework*

*CMH Policy - Strategic Procurement Process Policy*

*CMH Policy - Collective Procurement Policy*

*CMH Policy – Collective Procurement Under HPV Contracts*

*CMH Policy – Health Purchasing Compliance Statement*

*CMH Policy - Complaints & Feedback Management Policy*

*CMH Policy - Contract Management Strategy*

*CMH Policy – Contract Management Plan*

*CMH Guidelines - Strategic Procurement & Contract Management Procedures & Guidelines*

*CMH Guidelines - Clinical Incident Procurement Procedure*

*CMH Annual Procurement Activity Plan*

*CMH Supplier Engagement Plan*

*CMH Procurement Capability Plan*

*CMH Policy - Asset Management*

*CMH Instrument of Delegations*

*CMH Financial Management Policy*

*CMH Financial Code of Practice*

## Key Legislation, Acts and Standards

Health Purchasing Policies are made by the Health Purchasing Victoria (HPV) Board in accordance with s134 of the Health Services Act 1988 (the Act). Casterton Memorial Hospital is a Schedule 5 public hospital and must comply with Health Purchasing Policies.

## References

Health Purchasing Policy - Procurement Governance – Establishing a governance framework for procurement, HPV 26 June 2014, accessed at: [www.hpv.org.au](http://www.hpv.org.au)

<b>Category (See CMH Policy)</b>	<b>Risk Rating</b>
Likelihood of Adverse Event occurring. (Almost Certain, Likely, Possible, Unlikely, Rare)	Possible
Consequence (Insignificant, Minor, Moderate, Major, Extreme)	Minor
Overall Risk Rate (Extreme, High, Medium, Low)	Medium

SIGNED OFF: .....

Chief Executive Officer

DATED: ..... 27/6/18 .....

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