

# Casterton Memorial Hospital



# Contract Management Strategy

## Document history

## Document location

This document is only valid from the day it was printed and approved. The electronic copy of this document will be stored on the Applications Tab – PROMPT section of the Casterton Memorial Hospital intranet.

## Revision history

Version	Revision Date	Summary of Changes	Prepared By	Approved By
1.0	2023 December	Update to reflect new HSV Purchasing Policies (Jan 2023)	Jason Wass <sup>1</sup>	Internal Audit & Risk Committee

## Distribution

Name	Title	Date of Issue	Version

## Related documents

Title	Author	Date of Issue	Version
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*Refer to Related Documents List contained at the end of this Policy.*

Issues Register	CPO	December 2023	V1.0
HSV Transition Plan	CPO	December 2023	V1.0

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<sup>1</sup> Regional Procurement Program Lead

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## PURPOSE

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HealthShare Victoria's Purchasing Policies framework supports a more strategic and efficient approach to procurement and has reformed the way in which procurement is conducted within the Victorian Public health sector.

The purpose of this document is to detail Casterton Memorial Hospital's plan for the short and medium terms to ensure:

- the delivery of best value for the contract management function
- that it aligns to Casterton Memorial Hospital's aims and objectives
- that it conforms to the HealthShare Victoria's Purchasing Policies

Casterton Memorial Hospital's Contract Management Strategy (CMS) must also be read in conjunction with the Casterton Memorial Hospital Procurement Strategy and the Casterton Memorial Hospital Guide to Contract Management, as well as Casterton Memorial Hospital's own policies and guidelines on Conflict of Interest: Gift Bribes and Benefits and Complaints Management. All the relevant documents can be found on the Casterton Memorial Hospital Intranet on Prompt.

The strategy sets out:

- the scope of the plan and its strategic context
- the contract management aims and objectives
- the principles that underpin Casterton Memorial Hospital's contract management activity
- the use of category segmentation to match procurement complexity to the contract management activity
- the plan ahead for the short term and the medium term

## SCOPE

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The Casterton Memorial Hospital CMS considered five critical questions in the contract management planning context. These include:

1. What are the minimum actions that Casterton Memorial Hospital needs to take to ensure that appropriate capability exists to undertake contract management?
2. What are the minimum controls needed to determine if supply is at risk and what back up arrangements might be required to ensure the continuity of the service(s) / goods?
3. What are the systems and processes that Casterton Memorial Hospital needs to monitor value for money?
4. What are our supplier engagement obligations and commitments?
5. What method of performance review will be established to ensure a consistent framework for managing contracts and the broader procurement process(es)?

Casterton Memorial Hospital has developed a forward plan to manage the achievement of both short and medium term contract performance. The strategy covers five components within its structure that focuses on:

1. People
2. Policy strategy and communications
3. Contract management systems and processes
4. Engaging suppliers
5. Performance management and evaluation

The strategy compliments the more practical Casterton Memorial Hospital *Guide to Contract Management* (*refer to HSV Purchasing Policy 4*) that has been developed to assist Casterton Memorial Hospital to manage contracts better and contain useful plans, checklists and templates.

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# THE STRATEGIC CONTEXT

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## Plan, Priorities and Strategies

Contract Management has a primary focus in the context of Casterton Memorial Hospital's overall procurement priorities.

This CMS forms part of Casterton Memorial Hospital's procurement strategy. The procurement strategy includes information on Casterton Memorial Hospital's procurement profile and governance structure and its contribution to a shared vision with other *Barwon South Western region* health services that also adds to the context for more effective contract management and broader procurement management (eg: the region's central supply model).

## Legislative Environment

The framework of legislation that Casterton Memorial Hospital must comply with in delivering its CMS is the *Health Services Act 1988 (the Act)*. Casterton Memorial Hospital also needs to ensure compliance with the HealthShare Victoria (HSV) Procurement Policies, mirroring the requirements established by the Victorian Government Purchasing Board and other government departments such as Department of Treasury & Finance.

## Commissioning

In developing the CMS, Casterton Memorial Hospital will consider the following issues, in relation to the procurement:

- nature, scale and significance of the requirement to Casterton Memorial Hospital
- value of the requirement
- type of specification - input or output
- complexity of the requirement
- attractiveness to the market and market capacity (including opportunities to engage social benefit suppliers as part of the market activity)
- timescale and phasing, including the product/service lifecycle
- level of understanding of the requirement by stakeholders and potential suppliers

Casterton Memorial Hospital will use category segmentation to assist in guiding the CMS, the nature of any negotiations required and the form of supplier relationship following the award of the contract. For each procurement category, Casterton Memorial Hospital will undertake a complexity assessment (where necessary) at the commencement of the planning phase to match procurement complexity to the contract management activity. The recommended contract management approach related to each complexity quadrant is shown in *Appendix 1*. This is a guide only and may need to be tailored to the requirements of individual categories and the needs of stakeholders. For further details regarding complexity assessment refer to the Casterton Memorial Hospital *Procurement Strategy*.

Casterton Memorial Hospital's Procurement Team along with other staff and health service stakeholders responsible for the management of a contract will play a vital role in this new approach ensuring that lessons learned from sourcing and contracting will be fed back into the commissioning cycle.

## CONTRACT MANAGEMENT STRATEGY AIMS AND OBJECTIVES

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The objectives of this strategy are to:

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- establish a clear strategic direction for contract management that aligns to the Casterton Memorial Hospital *Strategic Plan* and the Casterton Memorial Hospital *Procurement Strategy*, which includes a list of the procurement objectives for the organisation aligned to the strategic goals
- deliver robust principles that underpins a common, corporate process of strategic sourcing and contract management (including supplier relationship management outlined in the Casterton Memorial Hospital *Supplier Engagement Plan*)
- ensure the value created in the sourcing process is delivered in the implementation of contracts through continuous review and improvement
- align resources devoted to contract management with the risk, complexity and potential value to be realised in each Category
- reap the benefits of collaboration with and between suppliers and other health services
- increase the proportion of Casterton Memorial Hospital spend against contracted and approved suppliers (i.e. reduce non-contracted suppliers)
- ensure that current legislation and best practice is applied to Casterton Memorial Hospital's management of contracts, in particular probity
- periodically review Casterton Memorial Hospital's approach to contract management, i.e. monitor and review the CMS to identify opportunities to ensure that the impact of Social Procurement Framework (covering socio-economic and environmental sustainability objectives) are considered in Casterton Memorial Hospital's contract management approach, and that all we do supports the delivery of the Casterton Memorial Hospital vision
- ensure (where applicable) that Casterton Memorial Hospital procurement process incorporates Local Jobs First requirements based on the regulated threshold
- ensure (where applicable) that Casterton Memorial Hospital procurement process incorporates Fair Jobs Code requirements based on the regulated threshold

## KEY PRINCIPLES OF THE CONTRACT MANAGEMENT STRATEGY

Several key principles have been established to support the delivery of Casterton Memorial Hospital's core values and objectives through the CMS. These are:

- Contract management at Casterton Memorial Hospital is undertaken in a professional manner to ensure the highest standards of probity, transparency, accountability and fairness
- Each contract is effectively managed to achieve the completion of service delivery on time, within budget and in accordance with the specification
- Encourage competition for suppliers to help develop a varied and competitive market place
- Agree contracts for appropriate periods of time to ensure value for money, stability and return for providers and to promote healthy competition
- Ensure flexibility within contracts so that every contract and particularly those that run for a number of years, is able to provide for continuous improvement throughout the contract period
- Work with local suppliers to maximise benefits to the local economy and sustainability where possible
- Achieve compliance and efficiencies in all contract management processes
- Align Casterton Memorial Hospital's contract management processes, where possible, to best practice methods, including HSV's guidelines on complexity, risk and market approach
- Reduce transaction costs as appropriate e.g. through collaboration to find solutions
- Encourage suppliers to demonstrate or deliver social and sustainable objectives prioritised for the procurement activity
- Actively manage supplier performance through the whole of life contract approach, using those measures agreed in the contract
- Ensure that contract management input is directly proportionate to the complexity value and risks associated with the contract
- Continually explore opportunities for revenue protection and income generation
- Maintain appropriate KPI reporting in line with the Social Procurement Compliance Plan (or) Social & Sustainable commitments and delivery of Local Jobs First commitments

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# STRUCTURE OF THE CONTRACT MANAGEMENT STRATEGY

In developing the CMS, consideration has been given in the structure to planning for the short term (6 to 12 months) and medium term (12 to 24 months) needs of Casterton Memorial Hospital. The five components of the structure are detailed below.

## People

Casterton Memorial Hospital will develop the necessary skills and knowledge for selected Casterton Memorial Hospital staff to deliver robust contract management and ensure the benefits of its sourcing activity is realised in the delivery of the subsequent contract.

Timeframe	Activity
Short term	<ul style="list-style-type: none"> <li>Ensure relevant staff, suppliers, partners and stakeholders are aware of the Casterton Memorial Hospital CMS (as part of the broader Casterton Memorial Hospital <i>Procurement Strategy</i>) and understand how it relates to them</li> <li>Develop a training/awareness program, for all those with contract management responsibilities, on the requirements for effective contract management and how to develop effective contract management strategies and plans for procurements. This is addressed in the Casterton Memorial Hospital <i>Capability Plan</i> which is also a component of the Casterton Memorial Hospital <i>Procurement Strategy</i></li> <li>Capture learnings and share with key stakeholders to develop a culture of continuous improvement and knowledge management</li> </ul>
Medium term	<ul style="list-style-type: none"> <li>Actively promote key messages to all staff, suppliers and stakeholders of their individual accountability for compliance and probity within the CMS</li> <li>Further develop the skills and knowledge of Casterton Memorial Hospital staff with contract management responsibilities through training, specialisation, coaching and other support mechanisms to ensure more effective and efficient contract management in the implementation of the Casterton Memorial Hospital <i>Capability Plan</i></li> </ul>

## Policy, Strategy and Communications

In developing the category management model for its procurement process, Casterton Memorial Hospital has developed a CMS to ensure the benefits from its sourcing activities are realised throughout the procurement lifecycle, including the contract management phase.

Timeframe	Activity
Short term	<ul style="list-style-type: none"> <li>Casterton Memorial Hospital will deploy a CMS that aligns the resources and contract management approach for individual categories to the risk and complexity of the procurement, utilising the complexity assessment and risk analysis tools</li> <li>The Procurement Process Model provides for increased focus on analysis and development of the contract management plan as part of the sourcing strategy, with a view to ensuring better understanding of the contract requirements by both parties. It also provides for identification of opportunities for continuous improvement through the contract management phase</li> <li>A detailed guideline on contract management (see Casterton Memorial Hospital <i>Guide to Contract Management</i>) has been developed for Casterton Memorial Hospital. As the Casterton Memorial Hospital <i>Procurement Strategy</i> is implemented additional processes and tools will be tested and improved, and detailed procedures developed</li> <li>Share best practice, lessons learnt, current issues etc. with stakeholders</li> </ul>

<b>Medium term</b>	<ul style="list-style-type: none"> <li>• Ensure compliance and probity is embedded in all contract management activities</li> <li>• Develop guidelines for reducing sustainability impacts, focusing on high value/high risk/high opportunity areas</li> <li>• Further develop relationships with other regional health services and other public sector organisations and partners to share key learnings about effective contract management and best practice</li> </ul>
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## Contract Management Systems and Processes

Casterton Memorial Hospital has reviewed the contract management processes in line with the Procurement Process Model. The Casterton Memorial Hospital Guide to Contract Management details the processes to ensure that Casterton Memorial Hospital staff with contract management responsibilities and other key stakeholders understand and implement best practice for managing contracts.

Timeframe	Activity
<b>Short term</b>	<ul style="list-style-type: none"> <li>• Ensure contract management planning is implemented as part of the procurement planning process and incorporated into the development of the sourcing strategy</li> <li>• Develop and embed the whole-of-life costing approach to contract management at Casterton Memorial Hospital</li> <li>• Introduce contract management plans and develop a range of agreement templates, aligned to the complexity of the procurement</li> <li>• Promote robust, fair and transparent procedures for all contract management activities and supplier performance management appropriate to each Category (with consideration to each individual procurement)</li> </ul>
<b>Medium term</b>	<ul style="list-style-type: none"> <li>• Develop contract management strategies to encourage collaboration with suppliers to optimise the delivery of goods and services under contract with additional, non-price and/or price benefits to Casterton Memorial Hospital</li> <li>• Undertake regular analysis of contract activity and spend to identify opportunities for improved contract management to maximise value delivered and identify and address risks and non-compliance</li> <li>• Continually improve documentation, guidelines, templates and communication, taking account of legal and best practice developments</li> <li>• Procure and implement an electronic System to enhance the efficiency and effectiveness of Casterton Memorial Hospital's contract management practice in: <ul style="list-style-type: none"> <li>○ enhancing relationships with suppliers</li> <li>○ improving the development of agreement documents</li> <li>○ storage and management of legal documents and certificates, such as contracts, insurance certificates and other agreements</li> <li>○ streamline routine contract management and administrative tasks</li> </ul> </li> </ul>

## Engaging Suppliers

Casterton Memorial Hospital's plan for engaging with current and potential future suppliers is detailed in the Casterton Memorial Hospital Supplier Engagement Plan, a separate component of the Casterton Memorial Hospital *Procurement Strategy*.

Timeframe	Activity
<b>Short term</b>	<ul style="list-style-type: none"> <li>• Improve access to procurement opportunities for suppliers by: <ul style="list-style-type: none"> <li>○ simplifying the contract management process where possible to match the value, risk and complexity of the procurement.</li> <li>○ ensuring compliance and probity requirements are addressed in all contracts</li> <li>○ establish an Issues Register to capture issues raised by suppliers and stakeholders and report annually</li> </ul> </li> </ul>

<b>Medium term</b>	<ul style="list-style-type: none"> <li>• Maintain fair and open access to contract opportunities for all suppliers especially to identify engagement with suppliers across multiple contracts (Refer to the Casterton Memorial Hospital Supplier Engagement Plan)</li> <li>• Target key suppliers and partners to seek their views on Casterton Memorial Hospital's CMS to help inform its future development</li> <li>• Develop demand trends that capture data for supply to be used for future analysis</li> </ul>
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## Stakeholder Engagement

Casterton Memorial Hospital's plan for engaging with stakeholders will provide benefit through increased engagement and provision of timely responses to contract queries. It will also benefit stakeholders if there is a process of improved reporting on sourcing activities to key contacts at Casterton Memorial Hospital.

Timeframe	Activity
<b>Short term</b>	<ul style="list-style-type: none"> <li>• Implementation of Contract Management Plans for all new and re-sourced categories defining the level of stakeholder engagement</li> <li>• Increased engagement with other Barwon South Western region Health Services to: <ul style="list-style-type: none"> <li>○ assist in identifying opportunities for coordinated procurement (ie: through the region's central procurement team / central supply model)</li> <li>○ identify the key contacts in health services for individual Categories</li> <li>○ ensure adequate consultation with other Barwon South Western region Health Services to identify contract management requirements in planning, and ensure contracts are meeting these in the implementation stages</li> </ul> </li> </ul>
<b>Medium term</b>	<ul style="list-style-type: none"> <li>• Improve contract reporting to stakeholders through: <ul style="list-style-type: none"> <li>○ regular reporting of contract activity for Casterton Memorial Hospital and for individual departments for selected categories</li> </ul> </li> <li>• Improve contract management utilising the Strategic Sourcing System to: <ul style="list-style-type: none"> <li>○ capture and report contract performance against contract key performance indicators (KPIs) including Social Procurement Framework (SPF) objectives and Local Jobs First commitments</li> <li>○ capture non-compliance reports from departments for immediate response through the Issues Register</li> <li>○ improve accuracy of supplier data and provide selective access to departments</li> </ul> </li> </ul>

## Performance Management and Evaluation

Performance against this plan will be monitored to ensure that:

- contract management activities deliver value for money by measuring the benefits realised through improved contract management
- Casterton Memorial Hospital contracts and agreements meet probity requirements, align with HSV policies and are compliant with relevant legislation
- Casterton Memorial Hospital contracts and agreements meet the needs of our stakeholders

Casterton Memorial Hospital will review this plan at least annually to ensure that the CMS meets the current and future needs of Casterton Memorial Hospital and its stakeholders.

## STRATEGY IMPLEMENTATION

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Implementation of this strategy is the responsibility of all Casterton Memorial Hospital staff involved in procurement activities and the Executive Leadership Team (ELT) for procurement on behalf of Casterton Memorial Hospital as well as, in particular, the Chief Procurement Officer (CPO).

Implementation of the CMS will be undertaken in line with the Casterton Memorial Hospital *Transition Plan* to the HSV Procurement Policy framework. For details refer the draft Casterton Memorial Hospital Transition Plan accompanying the Casterton Memorial Hospital Procurement Strategy.

### Related Documents

- Procurement Strategy
- Procurement Activity Plan
- Capability Development Plan
- Supplier Engagement Plan
- Instrument of Delegation/Delegation of Authority
- Emergency Management Plan
- Other Policies/Procedures
- Conflict of Interest Procedure
- Gifts, Bribes and Benefits
- Procurement Complaints Management
- Code of Conduct
- Financial Code of Practice
- Critical Incident Procurement Procedure
- Asset Management Policy & Procedure

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# Appendix 1

## Contract Management Approach

The recommended contract management approach related to each quadrant is shown below.

Quadrant	Characteristics	Recommended Contract Management Strategy
Transactional	<ul style="list-style-type: none"> <li>Typically low value/low risk items</li> <li>Low volume/frequency of use</li> <li>Typically generic or commoditised items</li> <li>Management of transaction costs - encourage streamlined order/payment processes</li> </ul>	<ul style="list-style-type: none"> <li>Simple Category Management Plan developed and revised as required</li> <li>Annual reporting of contract activity/sales including price audit/review, demand trends for supply, average order value, items in use.</li> <li>Focus on business improvement via process optimisation – Electronic Data Interchange (EDI), &amp; other supply chain efficiencies</li> <li>Annual risk review</li> <li>Ongoing market intelligence</li> </ul>
Leveraged	<ul style="list-style-type: none"> <li>High volume/frequency/spread of use</li> <li>Typically many suppliers</li> <li>Maintaining competition</li> <li>Maintaining supplier motivation and performance</li> <li>Understanding and suppress switching costs</li> <li>Managing transaction costs - encourage streamlined order/payment processes</li> </ul>	<ul style="list-style-type: none"> <li>Simple Category Management Plan developed and revised as required</li> <li>Annual reporting of contract activity/sales including price audit/review</li> <li>Annual Risk Review</li> <li>Supplier profiles prepared as required</li> <li>Identification of spend against single categories and sole source of supply</li> <li>Supplier performance managed through key KPI's e.g., DIFOT, reporting accuracy and timeliness.</li> <li>Issues Register to capture both simple and recurring issues with suppliers</li> <li>Annual meeting with top suppliers, selected by Pareto analysis (80/20 rule) to identify how many suppliers fit into your top 80 percentile in that category</li> <li>Ongoing market intelligence</li> </ul>

Quadrant	Characteristics	Recommended Contract Management Strategy
Focused	<ul style="list-style-type: none"> <li>Limited suppliers/alternatives (“bottleneck”)</li> <li>Limited volume/ frequency/spread of use</li> <li>Potentially high risk to operations</li> <li>Higher level of customisation</li> <li>Scope for innovation</li> <li>High switching costs</li> <li>Identification and management of supply risks</li> <li>Compliance and consistency management</li> <li>Identification and management of switching costs</li> </ul>	<ul style="list-style-type: none"> <li>Identification and implementation of category strategy and development of Category Management Plan revised annually</li> <li>Annual, formalised meeting with suppliers</li> <li>Annual meeting with supplier(s) (or more frequently as required)</li> <li>Potential six monthly risk and issues review and capture of feedback into the Issues Register</li> <li>6 monthly reporting of contract activity/sales including price audit/review</li> <li>Bi-annual risk and issue review</li> <li>Ongoing market intelligence</li> <li>Supplier profiles prepared as required</li> <li>Identification of spend against single categories and sole source of supply</li> </ul>
Strategic	<ul style="list-style-type: none"> <li>High value</li> <li>Competitive market</li> <li>High visibility, affects most areas of business/ health services</li> <li>Critically affects operations</li> <li>Seek to drive value beyond price</li> <li>Identification and management of supply risks</li> </ul>	<ul style="list-style-type: none"> <li>Identification and implementation of category strategy and development of Category Management Plan, revised annually</li> <li>Annual, formalised meeting with supplier(s) (or more frequently as required)</li> <li>Six monthly reporting of contract activity/sales including price audit/review</li> <li>Six monthly risk and issue review</li> <li>Ongoing market intelligence</li> <li>Monthly KPI Review/Reporting</li> <li>Supplier profiles prepared as required</li> </ul>