


<b>Title</b>	<b>Procurement Governance Framework</b>			
<b>Department</b>	<b>Corporate</b>	<b>Section</b>	<b>Organisation</b>	
<b>Approved by</b>	<b>CEO</b>	<b>Document Type</b>	<b>Policy</b>	

## BACKGROUND

Staff in public sector organisations must be able to demonstrate high levels of integrity in processes while pursuing value for money outcomes in relation to expenditure of public funds and meeting the public interest.

South Gippsland Hospital (SGH) requires a documented framework to outline principles and practices that govern the organisation's procurement activities for the acquisition of all goods and services.

## POLICY

SGH is committed to ensuring a fair, ethical and accountable environment for the conduct of procurement activities with suppliers, contractors and goods and services providers.

SGH's Procurement Policy shall be based on the principles of value for money, probity, open and effective competition and well structured, ethical processes. These principles are intended to provide consistency in the approach to SGH's procurement and a transparent basis upon which procurement decisions are made.

SGH will deliver a cost effective, transparent and accountable procurement system that complies with all relevant laws, regulations and standards.

The SGH Procurement Policy is aligned with Health Purchasing Victoria (HPV) Policies, SGH's business plan and strategic goals and will provide visibility and a tool to manage procurement activities across the health service.

## RELATED DOCUMENTS

South Gippsland Hospital:

- Contract Management Policy and Procedure
- Asset Management Policy
- Instrument of Delegation
- Gift, Benefits & Hospitality Policy
- Complaints, Compliments and Suggestions Policy and Procedure
- Code of Financial Practice
- Code of Conduct Policy

This policy must also be read in conjunction with the HPV Procurement Strategy, the HPV Purchasing Policies and associated guidelines, and HPV's own policies and guidelines on conflict of interest; hospitality, gift and benefits; complaints management; and exemption.

## SCOPE


All SGH staff and the policy applies to all SGH procurement activities.

## PURPOSE

The purpose of this policy is to


- outline the overarching structure of procurement activities including planning, sourcing and contract management at SGH; and
- articulate the base principles that apply across all policies in the framework that governs procurement and contracts; and
- provide an understanding and interface to the purchasing policies of Health Purchasing Victoria; and
- ensure compliance with internal procurement procedures and the organisation objectives.

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## DEFINITIONS

<b>(CATEGORY) ANALYSIS</b>	The analysis conducted to understand the category (or an individual procurement) in terms of the demand profile, total cost, business needs, specification of requirements for the goods or services, market dynamics, in particular the number of potential suppliers and level of market competitiveness, the social, technological, political, legal and economic environment of the category, the complexity and risks.
<b>CAPABILITY</b>	Competence, capability and capacity are often used interchangeably to describe an individual's or organisation's ability to perform tasks or activities effectively. In the context of managing procurement activity, the term 'capability' is increasingly used to describe the combination of an organisation's expertise, resourcing, systems, policies and processes to execute and manage specific procurement tasks and activities.
<b>CHIEF PROCUREMENT OFFICER (CPO)</b>	The CEO works with the CPO to provide strategic expert advice and oversight of the procurement function to drive and ensure value-for-money outcomes in the organisation. The CPO is responsible for developing and monitoring a number of strategic procurement activities.
<b>CONTRACT MANAGEMENT</b>	The process of ensuring the contractual obligations of successful suppliers are 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 KPI's and contract activity, and may involve regular meetings with stakeholders and/or suppliers. Proactive management will also seek to work with supplier to identify opportunities for additional benefits from the contract.
<b>COMPLEXITY</b>	Complexity refers to the level of difficulty and risk involved in procuring a good or service and requires analysis of the dynamics of the supply market. Assessment involves: <ul style="list-style-type: none"> <li>- Setting out the business requirements of the goods or service being purchased including the importance to the organisation and any risks involved.</li> <li>- Identifying and measuring internal and external factors that affect the procurement.</li> <li>- Assessing the capacity, capability and motivation of the market to supply the item.</li> <li>- Analysing opportunities to improve value for money.</li> <li>- Analysing the potential for aggregating purchasing demand.</li> <li>- Investigating the best way to approach the market that is cost effective to suppliers and buyers and considering opportunities for local businesses to participate.</li> </ul> There are four (4) complexity levels – Transactional/Leveraged, Focused, Strategic. Market Analysis Tool (Complex) can be used to determine the quadrant.
<b>EVALUATION</b>	Evaluation is the systematic consideration of the value, quality, importance or worth of something or someone. Procurement processes often require judgements to be made, for example deciding whether to approve a potential supplier, deciding which offer represents best value, or deciding whether to single source or adopt a different strategy. This means that the decision-making processes to evaluate alternative options need to be systematic and repeatable, and because of the obligation to demonstrate probity, decision-making also needs to be transparent and recorded.
<b>HEALTH PURCHASING POLICIES</b>	A set of rules to promote best practice in conducting and documenting procurement practices in public hospitals or health services.
<b>INVITATION TO SUPPLY / APPROACH TO MARKET</b>	The process involved in engaging the market to provide a proposal(s) to supply the good or services to be procured. This includes the process of evaluating responses and recommending one or more suppliers to negotiate a final agreement or contract.
<b>PROCUREMENT</b>	It is to be noted that procurement is the combination of all actions necessary in the acquisition of goods, equipment, pharmaceuticals or services ("the Requirements") that are required by SGH, from the time when the need is identified until the Requirements have been provided and all associated administrative functions (including procurement processes and contract performance management) are completed. <p>This includes: Specifying and documenting of the requirement - Approval of funding source - Assessment of risk and complexity - Selection of a procurement pathway - Obtaining quotations or calling invitations to supply - Evaluation of quotations or offers - Procurement activities required to order and receive goods - Selecting the supplier - Raising a purchase order number - Purchase order/ Procurement Process, and Contract approvals as per the Instrument of Delegation - Putting a contract or pricing agreement in place - Warehouse and inventory management - Provision of goods to customers - Managing the supplier's performance - Certifying receipt of goods or completion of services - Processing of invoices and payment of claims- Evaluating the contract at the end of life cycle.</p>

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## PRINCIPLES

### Procurement Principles

The following principles ensure consistency in the approach to SGH's procurement and a transparent basis upon which purchasing decisions are made:

- **Compliance with Statutory Requirements** - All purchasing actions must comply with all relevant laws, regulations and standards. This policy endorses the principles of the purchasing policies released by HPV in 2014.
- **Value for Money** - Value for money relates not only to purchase price, but also to factors such as: fitness for purpose; reliability; availability; delivery cost; whole of life costs; operating and disposal costs; and after sales support and warranties. Decisions on the basis of value for money must be supported by objective evidence of cost, benefits and structured procedural steps documented in a business case.
- **Professional Integrity and Probity** - SGH purchasing should be managed at all times in a manner which ensures ethics, probity, and the highest professional standards. The following six (6) probity principles should form the basis of all SGH business dealings and the organisation's procurement activities must satisfy these principles: Fairness and impartiality; Use of a competitive process; Consistency and transparency of process; Security and confidentiality; Identification and resolution of conflicts of interest; Development of probity plan for tenders valued at more than \$10 million.
- **Open and Fair Competition** - The procurement process should ensure that providers have access to the SGH business, and that there is equity, transparency and confidence in the process. In general, there is a need to show that the following conditions exist when selecting a provider of goods or services: Timely availability of information to prospective suppliers; Independence of action by buyer and seller; Absence of bias and favouritism; Competitive entry for new and small sellers.
- **Well-structured Processes** - Integrity in relation to the procurement process is important because it leads to more efficient and cost effective spending of public funds; it protects credibility and reputation; it maintains consistency with public sector values, statutory requirements, and policies issued by HPV; and the community expects public sector organisations to follow best practice.
- **Accountability & Transparency** - Management controls and systems are established which clearly define responsibility and accountability for procurement actions and decisions. Supporting documentation should be retained to enable independent scrutiny of decisions taken, and to demonstrate the application of requirements including the Instrument of Delegation.
- **Ethical processes** - Applying high ethical standards helps to ensure the best outcome in a procurement process. Ethical behaviour and good probity practices enhance an organisation's reputation, and this in turn increases business confidence.
- **Confidentiality** - Information obtained from prospective providers, either verbal or written, should always be treated as commercially confidential, and must not be disclosed to other providers or staff who are not authorised to receive such information.
- **Customer Service** - Procurement officers have a duty to ensure that within the bounds of procedure and policy, goods and services are provided in the right place at the right time to wards, units, programs and departments.
- **Risk Management** - Risk management should be a key consideration in any procurement activity. Systems and practices should be implemented and maintained to effectively identify and minimise potential financial and other risks (e.g. support, quality, product guarantees) to SGH in the purchasing of goods and services. Risk management processes are guided by SGH Risk Management Policy & Framework. Each procurement activity must have completed a Risk Assessment (with the exception of Oracle catalogued items and consumables and equipment pre-approved Supply Department) to identify and document consideration of all risks inherent in the activity.

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## Suppliers Principles

The following principles underpin the selection of suppliers. Suppliers must demonstrate they can offer and achieve

- value for money;
- timely responses;
- safety record;
- adherence to SGH's policies, guidelines and regulations;
- participation in a SGH's induction program;
- reliability;
- quality;
- efficiency; and
- compliance with relevant standards, industry regulations and approval of the Therapeutic Goods Administration, or other regulation authority.

## Probity Principles

Probity ensures the integrity of procurement decisions and is necessary to ensure that expenditure of public sector funds is carried out in accordance with government requirements in an economical, efficient, transparent and effective manner.

SGH's probity principles include:

- Accountability of participants and transparency of the procurement processes.
- Fairness and impartiality in carrying out the procurement process.
- Identification and management of actual, potential and perceived conflicts of interest.
- Maintenance of confidentiality and security of documentation and information.
- Attainment of value for money.
- Referencing the whole of life costs for an item, including upfront cost, consumables, servicing, repairs, and output when assessing value and true cost.


## PROCUREMENT GOVERNANCE FRAMEWORK

- The SGH procurement governance framework provides a basis for managing procurement and will define the mechanisms to plan and execute procurement decisions that achieve organisation objectives and ensures procurement best practice.
- The CPO is responsible for establishing and implementing these roles to meet the needs of the procurement governance framework.
- The SGH procurement policy clearly defines our Procurement Governance Framework. There is a clear definition of accountability and auditability of all procurement decision made within our organisation. The governance structure is flexible enough to purchase/source in a timely manner all goods and services required by the organisation and/or to be accessed by public hospitals and health services. It also provides a means of monitoring policy compliance.
- All procurement processes are managed centrally by Facilities Management staff who provide services to all other services across SGH. Some transactional purchasing may occur at a business unit but must be undertaken within the purchase requisition process managed by a supply/purchasing department.

## Roles and Responsibilities

- The roles and responsibilities of the Chief Procurement Officer support procurement governance in the management of programs, projects and business operations to ensure compliance with our procurement policies (aligned to Health Purchasing Policies requirements).
- The CEO is responsible for establishing and implementing these roles to meet the needs of the procurement governance framework.

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- SGH will ensure
  - the establishment, maintenance and embedding of appropriate governance arrangements;
  - the agency is efficient, effective and economical;
  - appropriate processes are in place covering the acquisition lifecycle;
  - has appropriate capability to manage the acquisition throughout the acquisition cycle;
  - is able to demonstrate that any financial commitment, obligation or expenditure delivers value for money for SGH and/or the State; and
  - undertakes investment planning and evaluation of performance when SGH planning has identified the need to acquire significant services, assets or infrastructure.

### Compliance

- SGH will benchmark its policy framework to the Health Purchasing Policies for public hospitals and health services.
- SGH policy requirements must be met and will be monitored on a regular basis by SGH's CPO and reported to the SGH Board.

### Conflict of Interest

- All employees undertaking procurement or contract management activities must declare any actual, potential or perceived conflict of interest as soon as it becomes known, to the relevant Director.
- A record of the disclosure must be kept, and the strategy applied to address the conflict recorded, or if found not to be a conflict, the evidence supporting this assessment must be documented.

## PROCUREMENT

### Process


In all sourcing activities SGH will adopt a strategic approach, using category segmentation to guide the procurement approach for any given good or service, to derive best value for money outcomes.

This requires SGH to

- undertake an analysis of the spend involved and categorise the spend according to similar goods or services and common end users and suppliers;
- analyse the total cost of ownership, market and environmental factors, risk and complexity associated with each category and determine the potential for collective procurement to add value to the category through leveraging market power or other factors, to segment spend categories;
- provide a guide, based on the category segmentation, to the best market approach and contract management strategy for each category;
- match the resource allocation for sourcing and contract management, both in terms of time and capability, to the procurement;
- approval of spend at SGH is managed by a Delegation of Authority approved by the Board.

The CPO must approve the categorisation of spend and the intended approach to market for each category.

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## Values

### Procurement Categories 1, 2, 3 & 4

- Standard financial delegations and approvals apply with a SGH purchase order constituting the agreement to supply goods and/ or services.
- A formal contract is required for
  - all goods and services over \$ 20,000 ex-GST;
  - all equipment maintenance requirements;
  - if the procurement is for the engagement of a consultant;
  - where the activity involves a level of risk for SGH.

### Category 1 Procurement \$0 - \$1000

- A minimum of 1 verbal quote must be obtained for any procurement activity less than \$1000.

### Category 2 Procurement \$1001 - \$5000

- A minimum of 1 written quote must be obtained for any procurement activity greater than \$1000 and up to \$5000.

### Category 3 Procurement \$5001 - \$50,000

- A minimum of 2 written quotes is required for all purchases between \$5001 and \$50,000.
- Should the lowest quote not be selected, rationale for the decision must be provided and the expenditure approved by the CEO (amounts up to \$25,000).
- All procurement over \$25,000 must be approved by the Board.

### Category 4 Procurement \$50,001 - \$149,999


- A minimum of 3 written quotes, which must be obtained by or in conjunction with the Supply department. Subject to analysis, Supply may recommend to apply the Category 5 approach.

### Category 5 Procurement \$150,000 +

Complexity and risk analysis process to be undertaken which will determine the market approach to be taken.

All Category 5 procurement activity must be conducted via the Business Manager.

- SGH has adopted a procurement process in accordance with HPV's procurement policies.
- Procurement for all goods and services with a Whole of Life (WOL) cost above \$150,000 is undertaken using a category management methodology. This involves researching and understanding the impacts of various market and other factors, including industry and market structure, aggregation of demand, total cost of ownership, product lifecycle and risk. The outcomes of this analysis in turn determine the approach to market.
- Amounts over \$150,000, initial category management begins at opportunity assessment and continues to evolve through engagement, detailed market analysis and the development of a tailored sourcing strategy. Further, category management encompasses the entire procurement lifecycle to ensure the value captured in the sourcing phase is realised and enhanced in the contract management phase and draws on this experience to contribute to the development of the strategy when re-sourcing the category.
- To assist in implementing a structured category management framework, South Gippsland Hospital has adopted the following elements into an eight phase procurement process, made up of:

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**Opportunity assessment** involves the process of evaluating an idea, concept, or opportunity to determine whether there is sufficient strategic, market, and financial merit for continued consideration and the possibility of establishing a collective agreement or consolidating procurement activities within Bass Coast Health.

**Stakeholder engagement** is the process where all stakeholders who may be affected by the decisions made, are given the opportunity to provide subject matter advice and input or can influence the implementation of any outcomes.

**Analysis** involves a detailed examination of the elements involved in or influencing a procurement activity. This includes

- spend analysis - involves understanding Bass Coast Health's current procurement patterns including the total value, categories of spend and any seasonal or other trends. It also helps identify key supplier relationships;
- market analysis - to understand the dynamics of the market, product/service lifecycle and environmental factors, and to help identify the best approach to market;
- risk analysis - to identify and assess factors that may hinder the success of achieving the required outcomes. A risk analysis tool is used to help identify preventive and mitigating actions to manage and track identified risks;
- complexity assessment - using the outcome of these analyses to understand the intricacy and scope of issues involved in procuring the goods or services to derive best value for money outcomes.

**Sourcing Strategy** uses the analysis findings to plan the approach to market. The details are systematic and fact-based for optimising the supply base and improving the overall value for money based on the total acquisition cost. This will include the approach to market methodology whether this is open, targeted or selective.


**Invitation to supply** is the point at which SGH approaches the market requesting potential or identified suppliers to respond to a sourcing need. This may be in the form of:

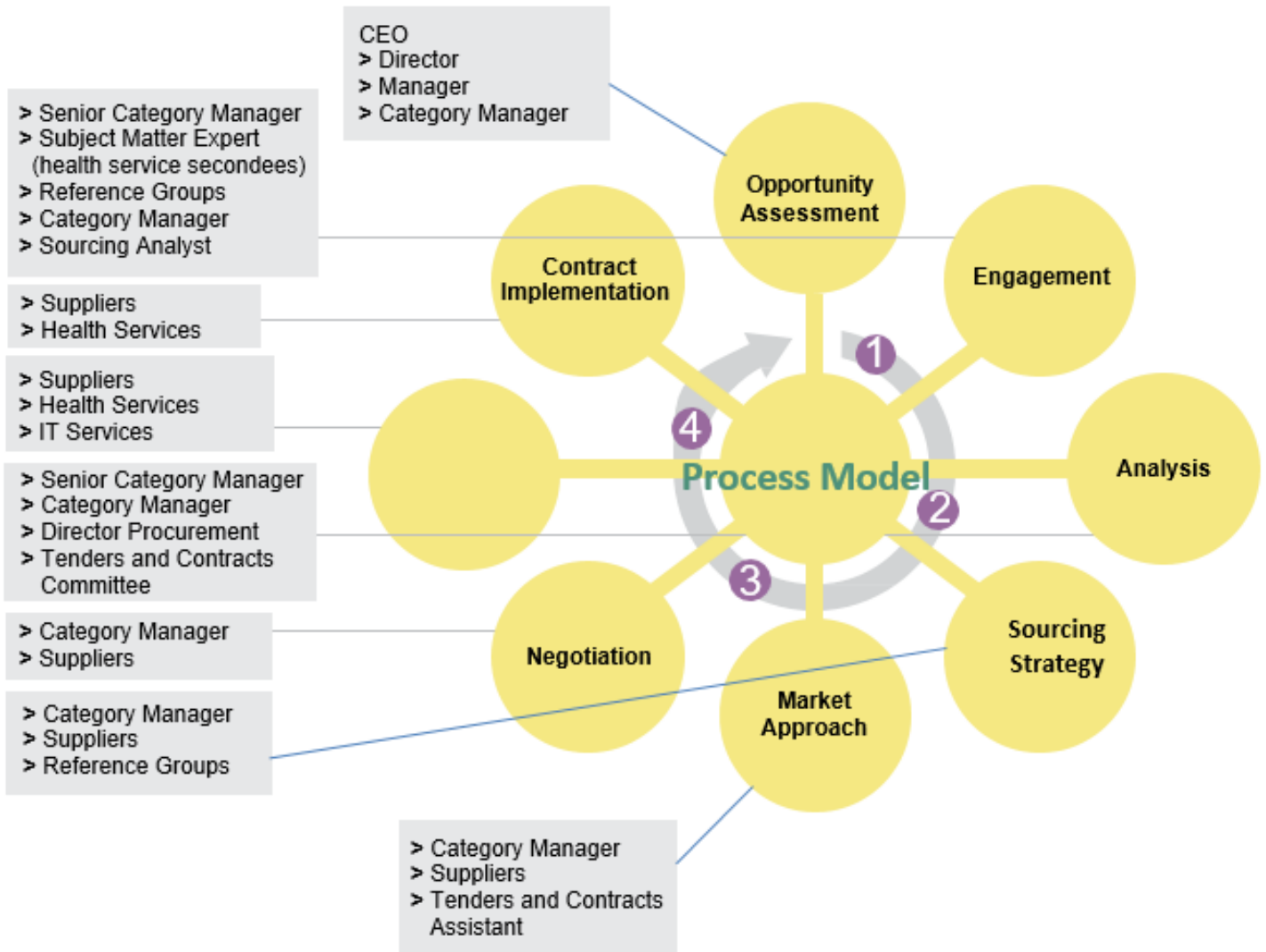
- A Request for Quote (RFQ)
- A Request for Tender (RFT)
- An Expression of Interest (EOI)
- A Request for Proposal (RFP)

**Negotiation** includes the entire process from evaluation of responses to supplier selection & appointment including contract negotiation and execution. During this phase, negotiations may involve improving value for money outcomes for SGH agreeing solutions to contractual differences or requests for best and final offers where there are two or more suppliers who provide equal value for money.

**Contract Transition** is the planning and implementation of all necessary steps to move from one supply arrangement to another whether this be with different suppliers or moving from one agreement to a new agreement with the same supplier.


**Contract Management** are the activities conducted by SGH to ensure compliance with agreed deliverables as part of an established contract and seek opportunities to achieve ongoing value for money outcomes from the contract.

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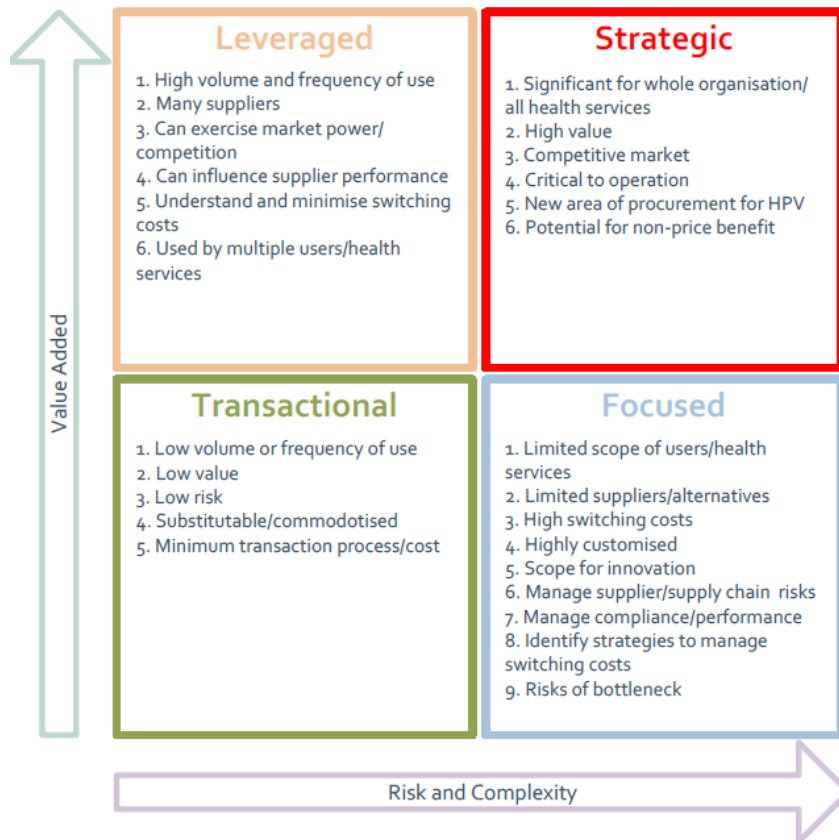
The analysis phase, adopting a category management methodology, will be undertaken using standard tools and templates. This will involve the completion of the following a Complexity Assessment Tool and a Market Analysis Tool. The outcome of this analysis will then determine the complexity of the procurement and then assign a procurement approach based on the complexity quadrant below. This in turn will determine the market approach strategy for each activity



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### Complexity Assessment Framework

The analysis phase, adopting a category management methodology, will be undertaken using standard tools and templates. This will involve the completion of the following a Complexity Assessment Tool and a Market Analysis Tool. The outcome of this analysis will then determine the complexity of the procurement and then assign a procurement approach based on the complexity quadrant below. This in turn will determine the market approach strategy for each activity.



### Market Approach Strategy

#### INVITATION TO SUPPLY


Complexity Assessment Quadrant	EOI	RFI	RFQ	RFT
Transactional	✓		✓	
Leveraged	✓		✓	
Focused	✓		✓	
Strategic	✓	✓		✓

EOI - expression of interest

RFQ- Request for quote

RFI – Request for information

RFT- Request for tender

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## Strategic Analysis

- To assist with planning the strategic direction of procurement an annual analysis of complexity, risk, and of the prevailing conditions of the market is undertaken.
- The outcomes of these assessments inform the approach to market and are to be used as an adjunct to the financial thresholds.
- Staff, systems and processes must be in place to ensure that sufficient expertise and other resources are in place to carry out the procurement successfully and achieve best value outcomes.

## PROBITY

- SGH must ensure probity in its entire procurement process.
- Probity is the evidence of ethical behaviour in a particular process. It contributes to sound procurement processes that accord equal opportunities for all participants. A good outcome is achieved when probity is applied with common sense.
- Probity should be integrated into all procurement planning and should not be a separate consideration.
- The procurement process rules must be clear, open, well understood and applied equally to all parties to the process.
- SGH should not seek to benefit from supplier practices that are objectionable, dishonest, unethical or unsafe.
- Procurement of services should be conducted in a way that recognises that suppliers are accountable for the delivery of services in the same way as if SGH carried out the service itself.
- In carrying out one's duties, SGH staff, contractors and health services participants must not allow themselves to be improperly influenced by family, personal or business relationships.


## Personal and Corporate Sponsorships

- The policies related to Gifts, Benefits and Hospitality Policy.

## CONFIDENTIALITY

- Documents on purchasing and information received from tenderers must be kept confidential.
- The identity of bidders should not be disclosed during the selection process.
- A “clear desk” policy is recommended when handling purchasing information.
- It is the responsibility of the manager of the purchasing process to ensure bids are seen only by appropriate staff.
- All invitations to supply documentation must be kept in a secure location when not in use.
- Negotiations after the closure of the tender must not adversely affect the confidence of participants in the process.
- Manage both written and telephone communication carefully to ensure that all bidders receive the same information.
- Select tender evaluation panel members on the basis of their expertise in and knowledge of the evaluation criteria.
- Establish an official SGH file at the beginning of the process and ensure that all communications with bidders and the deliberations of the tender evaluation panel are properly recorded.
- Brief all panel members on their responsibilities with regard to advising of potential or actual conflicts of interest both before and during the process, and act swiftly when conflicts of interest arise.
- The CPO and the CEO are responsible for monitoring the tender process.

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## COMPLAINTS MANAGEMENT

To minimise or avoid supplier complaints, SGH must

- ensure clarity of sourcing documentation;
- provide sufficient time to allow potential respondents to prepare and lodge a response to an approach to the market;
- ensure that sourcing rules and the evaluation plan are followed;
- ensure that insurance and liability capping requirements are appropriate for the procurement before the process begins.

However, complaints may still arise and SGH must promote a robust complaints management process.

To ensure transparency, accountability and effective complaints handling, SGH must follow the process in the SGH complaints management policy in handling complaints received. Where a complainant is unhappy with the outcome of the complaint investigation or would like to escalate the issue, SGH must provide details of other government organisations that can be approached by the complainant.

## SOCIAL PROCUREMENT

### Access for Small Medium Enterprises (SME)

SGH will participate in procurement practices that facilitate and encourage small medium enterprises to access procurement opportunities at SGH. As defined by the Australian Bureau of Statistics, small to medium enterprises are organisations with 0-199 staff and, for the purpose of this policy, include local businesses, social benefit suppliers and not for profit organisations.

To facilitate SME engagement, SGH is required to (where appropriate)

- allow for continuity of any arrangements with local businesses, where the impact and benefit to the local community is the best value outcome for the particular good or service;
- implement procurement practices that provide opportunities for SMEs to participate in new and upcoming procurement activities;
- encourage supply chain management within existing and new collective agreements to involve more SMEs.

### Sustainable Purchasing

SGH objectives include a commitment to embed sustainable procurement practices into health. This is because over 60% of the environmental impact of healthcare provision occurs as an indirect result of purchased goods and services.


SGH commitment to improve sustainable health procurement practices includes

- identifying those categories within the supply chain and managed by HPV, that have significant environmental impacts, social impacts, or other sustainability risks and then investigating viable means of mitigating these impacts or risks on behalf of health services;
- evaluating environmental management, by potential suppliers, within the assessment of value for money during Invitations to Supply (ITS);
- seeking to procure, within ITS, environmentally-preferred goods and services that meet health service needs and provide value for money;
- reporting to the Department of Health on metrics relating to the environmental sustainability of health supply chain.

## PROCUREMENT PERFORMANCE MONITORING

The CEO is responsible for ensuring SGH procurement policies, strategy and procedures comply with the HPV Health Purchasing Policies, and other relevant government legislation and requirements e.g. the Victorian Industry Participation Policy, and good probity practice.

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All SGH staff are responsible for ensuring that procurement practices within SGH are conducted in accordance with the SGH policy and procurement strategy.

The SGH CEO is responsible for ensuring compliance to the SGH procurement policy, procedures and practices. This responsibility can be delegated to the executive leadership team of SGH.

The SGH Board will conduct regular audits to ensure procurement and probity practices are in alignment with policy and may require the SGH CEO to provide a compliance statement in SGH annual report to the Minister.

Any variation to the process must be authorised by the SGH CEO.

## **ASSET DISPOSAL**

The SGH Asset Management Policy outlines requirements.

## **REFERENCES**

HPV Procurement Policy Strategy

HPV Policies & Procedures

Standing Directions – Health Services Act 1988

Bass Coast Health Procurement Strategy – 20167 (accessed June 2020)

Peninsula Health Procurement Policy – April 2018 (accessed June 2020)

**Reviewed by Chief Executive Officer:**

**Chris Trotman, May 2019**

**Paul Greenhalgh, June 2020**

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