

Health Purchasing Victoria Benefits Management Framework 2018

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Health Purchasing Victoria

Health Purchasing Victoria (HPV) was established by the Victorian Government in 2001 as an independent authority to improve the collective purchasing power of Victorian public health services, public hospitals and other health agencies to establish “best value” in the procurement of goods and services and equipment through common use contracts.

The Board of HPV is responsible to the Minister for Health and the operations of HPV are subject to a Statement of Priorities (SOP) between the Department of Health and Human Services (DHHS) and the Board of HPV. The SOP details key responsibilities and are aligned to health services strategic plans and aligned to government policy directions and priorities. The day-to-day relationship of the SOP is managed in conjunction with the DHHS.

HPV is a service-based organisation who delivers sourcing activities to the health services within Victoria under their Statutory Authority. Its primary customers are made up of Victorian public health services, mandated hospitals and non-mandated agencies, with actual or potential access to HPV’s services and agreements.

Executive Summary

Since 2013, HPV has provided the health services with an annual benefits report outlining financial benefits and value delivered through HPV's strategic sourcing activities carried out on behalf of Victoria's health sector. Based upon feedback received from the sector, HPV has initiated a project that will see a redevelopment of the current 'benefits management framework', ('the framework') addressing the limitations of the existing principles and methodologies HPV uses to calculate quantifiable financial benefits of total value under contract.

The current categories reported on are financial benefits delivered from sourcing activities which is made up of four sub categories, Cost Reduction (CR)¹, Cost Avoidance (CA)², Further Opportunities (FO)³ and FO – CA. The report has previously calculated financial benefits using forecasted volumes against the HPV contracted price. Note this methodology has been applied to products, services and capital purchases.

As part of the redevelopment work, significant revisions to methodologies will include changes to the way financial benefits are validated using both actual volumes based on the estimated/forecasted volumes so figures represented are realised benefits where applicable. The initiative will also introduce new benefit categories such as indirect benefits generated by HPV through its sourcing's activities which may or may not be represented with dollar savings at the health service. The full scope of the project will involve a holistic approach that re-evaluates, what is reported, how it is reported, a revision of definitions as well as re-establishing data sources to derive to the final output. The project will be delivered across three phases. This document focuses on phase one 'design phase' which includes the development of a set of benefit profiles that will make up the 'benefits management framework 2018'. This phase does not include within its scope the actual build and capabilities to generate the report which will be the focus of phase two.

The redevelopment of this work will include a consultative approach working in collaboration with the health services for critical feedback and input. The process will involve an initial internal review by HPV, followed by consultation with key stakeholders from the health services before the engagement of a consultancy as an independent third party review.

The purpose of this document is to draft a framework that clearly documents and outlines a set of revised benefit profiles including a clear description and calculation formula for each benefit.

¹ Cost Reduction Cash releasing cost reductions to health services by accessing a HPV contract. This is a Benefit Category. The cost difference between the 'previous' and 'updated' contract prices for Direct Match. Where Direct Match is not available, Best Match is used. This is calculated based on historical 12-month usage volumes. It refers to the cash releasing aspect of the Sourcing Event.

² Cost Avoided, achieved by accessing HPV contracts fixed pricing. This is a Benefit Category. If HPV did nothing, this is the likely price change that would have occurred.

³ Further Opportunity: Identified savings if a health service were to choose a different (but functionally / clinically equivalent) product from the contract at a lower price. Alternatively, meeting clinical guidelines may offer an opportunity (e.g. drug-eluting stents usage versus bare metal stents usage). Further Opportunity benefits commence on a designated publication date and are reported for the 12 months following the publication date.

1. Introduction

Each financial year, HPV generates a benefits report which outlines the total financial benefits HPV has delivered through its sourcing activities. HPV has initiated a project that will see a revision to the way it calculates benefits and reports back to the health sector. This framework document has been developed as an initial 'benefits management framework 2018' where by it includes a set of benefit profiles that clearly define 'what' benefits HPV can report on in a future state including revised calculations and methodologies. The framework includes benefits from the existing framework as well as an introduction of new categories such as indirect benefits which will be represented in financial terms.

A set of guiding principles have been developed to ensure clear alignment of benefits where by each benefit profile aligns to a guiding principle.

The project initiated to revise the framework will include three key phases from design, build to implement. The project is currently in its early phases of 'Design' and is expected to see further iterations as the revised framework is socialised with health services for direct input along with consultation from the independent review.

During the 19/20 FY all benefits will be reported based on previous volume estimates as is the current methodology. Following this the 20/21 FY benefits will be compared to forward predicting analysis and will be validated with actual data.

2. Purpose

The purpose of the framework is to provide;

- A practical framework outlining the approach to be taken by HPV in determining benefits achieved through its sourcing activities.
- A clear description of benefit types and benefit categories that is widely understood and accepted by key stakeholders.
- The development of a standard approach to calculation methodologies.
- Transparency into the benefits calculations.
- An outline of the guiding principles used by HPV to qualify benefits.

The framework is aimed at those who are interested in obtaining a detailed understanding of the methodologies HPV uses to report its annual benefits.

3. Principles

A set of guiding principles were developed to ensure a consistent approach is taken in the development of the methodologies used within the framework.

Table 1: Guiding Principles

	Principle	Implementation Consideration
Principle 1	Benefits are outcomes that align to health services and HPV's strategic goals. The decision to pursue any activity must be based on the benefits it will deliver.	HPV's strategic goals are easily accessible and to the extent they align with health services goals can represent those goals. Aligning to all 76 health services goals would be difficult. The requirements for health services SOPs as determined by the DHHS could be substituted. Establishing the potential benefits of a sourcing activity may be difficult given the limited data available,

Principle		Implementation Consideration
		particularly for greenfield activities. HPV has not diverted significant resources to opportunity analysis in the past so this is a significant change to our approach.
Principle 2:	Benefits may be direct or indirect but must be measurable, relevant and of sufficient importance to the health services	<p>Direct benefits remain important and are easier to measure. Indirect benefits may be just as (or more) important.</p> <p>Indirect benefits are to be expressed in financial terms: e.g. an efficiency in terms of person-hours can be converted to a dollar value by applying an hourly rate.</p> <p>For a benefit to be measurable it must have a current (or potential future) measurable baseline and a calculation methodology: i.e. data must be available, or reasonably easily acquired, from health services or other source e.g. suppliers.</p> <p>Health services must be involved in selecting the benefits to be measured. They may also have a role in collecting the data required to measure the benefit. It is better to agree on and measure a few significant benefits rather than a large number of smaller benefits.</p>
Principle 3:	Health services 'own' the benefit via Reference Groups and should endorse the benefits as an outcome of a market event.	A benefits plan should form part of the category management plan and be signed off by the reference group. The anticipated benefits should form part of the submission of the sourcing and outcome proposals to the HPV CEO, Procurement Committee or HPV Board.
Principle 4:	Realising the benefits of HPV's procurement activities is the responsibility of both health services and HPV.	HPV's role is in developing the category management strategy and negotiating the contract, whilst health services are responsible for implementing the contract to realise the benefits identified, with the support of HPV. HPV and health services share the role of managing the relationship with suppliers.
Principle 5:	Benefits should be reviewed throughout the contract lifecycle. Benefits estimated at the commencement of the process will almost certainly be different from those actually realised.	<p>Benefits should be estimated to support the business case for proceeding at both opportunity analysis and sourcing proposal stages and at the outcome proposal following the negotiation of contracts. The most recent data available should be used at each stage.</p> <p>Actual benefits realised should be measured throughout the life of the contract, at a frequency agreed between HPV and the health services, and at the end of the contract. Data for some benefits may only be available once the contract has commenced.</p> <p>Benefits reporting during the contract will assist in implementation of the contract and category management. There will be varied capability amongst health services to implement and measure the benefits of individual contracts.</p>
Principle 6	Monitoring and reporting of benefits must be integrated into the management activities of and shared by, HPV and health services.	The process of monitoring benefits for individual categories should be agreed by HPV and the health services involved and benefits reported integrated into the normal management reporting at both HPV and health services. The benefits realisation report at the end of the contract will inform the lessons learned for re-sourcing.

4. Benefits

HPV's benefits types can be made up of direct and indirect benefits. The below diagram illustrates the benefits broken down into the following components and sub categories.

Figure 1: HPV Benefit Categories Diagram

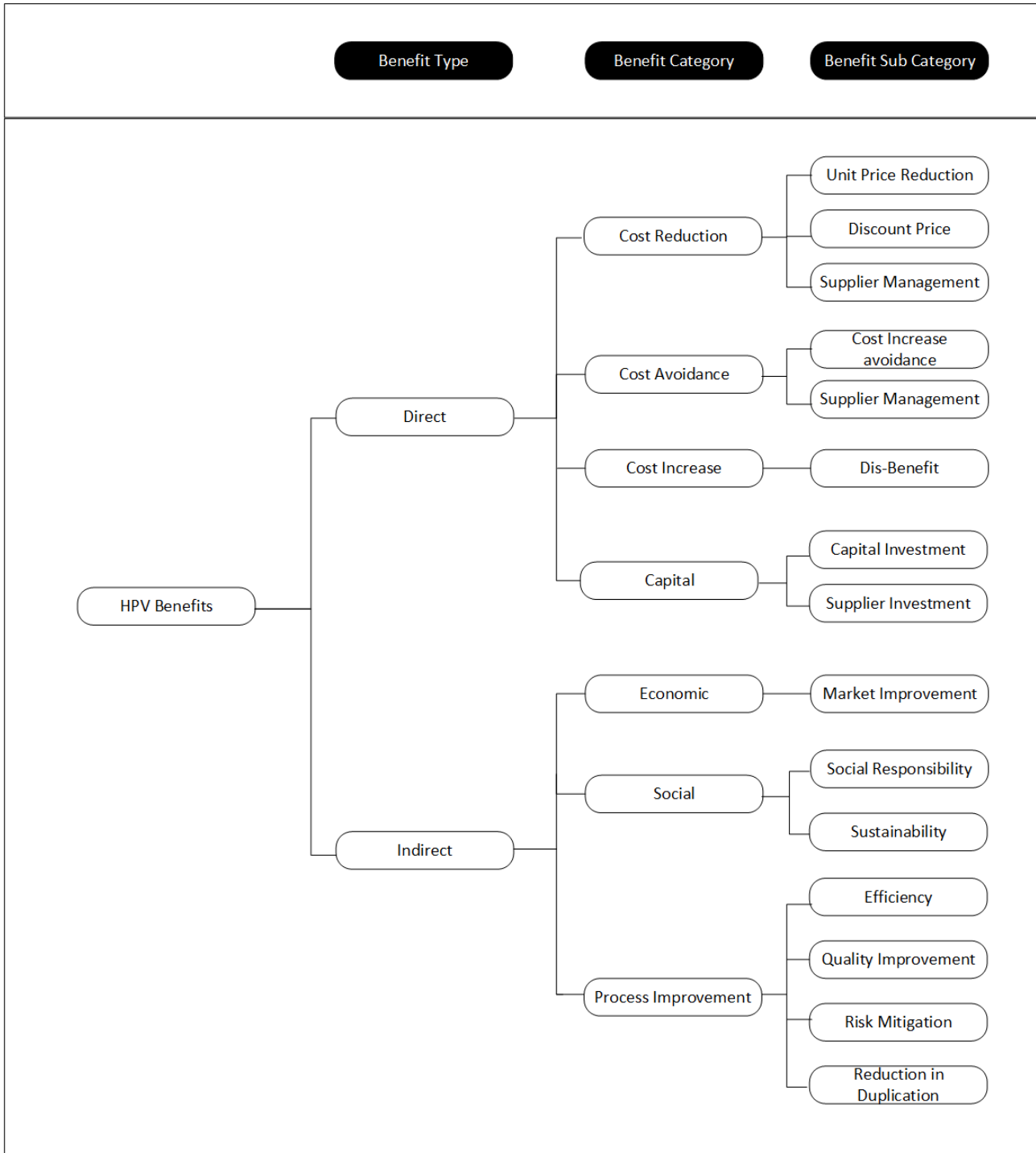


Table 2: Benefit Component Descriptions

Component	Definition
Benefit ID	A unique identifier. Each benefit is allocated a unique identification number made up of alpha numeric values to assist in tracking and updates.
Benefit Name	Descriptive name given to each individual benefit
Benefit Description	A description of the individual benefit that clearly describes what is included in the benefit.
Benefit Type	Each benefit can fall under one of two benefits types; <ol style="list-style-type: none"> Direct Benefit: A direct benefit is a direct financial outcome achieved from HPV sourcing activities and the benefit can be directly related back to a health service. A direct benefit is converted to a dollar value to represent the benefit achieved. Indirect Benefit: An indirect benefit is a benefit provided to the sector as a result of HPV sourcing activity. The benefit can be represented in either financial dollar value to the health service, or more broadly the financial impact to the Victorian economy.
Benefit Category	Benefit categories assist in grouping benefits that have shared characteristics.
Sub Category	Sub benefit categories assist in grouping benefits that have shared characteristics.

Table 3: HPV Benefits Summary Table

A summary of all the benefits profiles included in this document

No.	ID#	Benefit Type	Benefit Category	Sub Category	Benefit Name
1.1	DB.001-1	Direct	Cost Reduction	Unit Price Reduction	Best Match
1.2	DB.001.2	Direct	Cost Reduction	Unit Price Reduction	Direct Match
2	DB.002	Direct	Cost Reduction	Unit Price Reduction	Product Switch
3	DB.003	Direct	Cost Reduction	Discount Price	Bulk Purchasing Savings
4	DB.004	Direct	Cost Reduction	Discount Price	Construct Price
5	DB.005	Direct	Cost Reduction	Discount Price	Group Buy Savings
6	DB.006	Direct	Cost Reduction	Discount Price	Free Stock
7	DB.007	Direct	Cost Reduction	Discount Price	Purchase Rebates
8	DB.008	Direct	Cost Reduction	Discount Price	EDI (Electronic Data Interchange)
9	DB.009	Direct	Cost Reduction	Supplier Management	Reduced Payment Terms
10	DB.010	Direct	Cost Avoidance	Supplier Management	Extended Payment Terms

No.	ID#	Benefit Type	Benefit Category	Sub Category	Benefit Name
11	DB.011	Direct	Cost Avoidance	Cost Avoidance	Cost Increase Avoidance
12	DB.012	Direct	Cost Increase	Dis - Benefit	Transition Costs
13	DB.013	Direct	Capital	Capital Investment	Bulk Purchasing Savings - Capital
14	DB.014	Direct	Capital	Capital Investment	Group Buy Savings - Capital
14	DB.015	Direct	Capital	Capital Investment	Cost Avoidance - Capital
15	DB.016	Direct	Capital	Supplier Management	Reduced Payment Terms
17	DB.017	Direct	Capital	Supplier Management	Extended Payment Terms
18	ID.001	Indirect	Economic	Market Improvement	Enhancing Market Competitiveness
19	ID.002	Indirect	Economic	Market improvement	SME's and Local Suppliers
20	ID.003	Indirect	Social	Social Responsibility	Encourage Social Enterprises
21	ID.004	Indirect	Social	Sustainability	Reduced environmental Impact
22	ID.005	Indirect	Process Improvement	Efficiency	Reduced Patient Length of Stay
23	ID.006	Indirect	Process Improvement	Efficiency	IT System Improvements
24	ID.007	Indirect	Process Improvement	Efficiency	Reduced Procurement Process Time
25	ID.008	Indirect	Process Improvement	Efficiency	Vendor Rationalisation
26	ID.009	Indirect	Process Improvement	Quality Improvement	Additional Services
27	ID.010	Indirect	Process Improvement	Quality Improvement	Improved Patient Outcome
28	ID.011	Indirect	Process Improvement	Quality Improvement	Improved Service Delivery
29	ID.012	Indirect	Process Improvement	Quality Improvement	Training and Education
30	ID.013	Indirect	Process Improvement	Reduction of Duplication	Category Management
31	ID.014	Indirect	Process Improvement	Reduction of Duplication	Product Rationalisation
32	ID.015	Indirect	Process Improvement	Risk Mitigation	Patient Safety
33	ID.016	Indirect	Process Improvement	Risk Mitigation	Workplace Safety

4.1. Benefit Type

Reported benefits can be either direct or indirect. Direct benefits are financial benefits directly related to health services procurement and indirect benefits are benefits received by the sector or health service process improvement.

4.1.1. Direct Benefits

Direct benefits are reported under the following categories

- Cost Reduction
- Cost Avoidance
- Cost Increase
- Capital

4.1.2. Direct Benefit Categories

4.1.2.1. Cost Reduction

Table 4: Direct Benefit Category – Cost Reduction

Cost Reduction	
<p>Cash releasing cost reductions to health services by accessing a HPV contract. The cost difference between the 'previous' and 'updated' contract prices for Direct Match. Where Direct Match is not available, Best Match is used. This is calculated based on historical 12-month usage volumes. It refers to the cash releasing aspect of the Sourcing Event.</p> <p>Cost reduction benefits would not normally be expected to be present beyond the initial 12 months after a Sourcing Activity—however, some contracts allow for health services to 'sign on' after the start date of the activity. This scenario is sometimes referred to as 'staggered start dates' and may mean that Cost Reduction is attributed as a benefit more than 12 months after the start date of the overall Sourcing Activity.</p>	
Sub Category	
Unit Price Reduction	A cost reduction in the unit price of a 'Best Match' product (good or service) as part of an ongoing contract. When a 'Direct Match' is not available (superseded, no longer manufactured, not offering best value and so on), the 'best match' is considered to be the most likely replacement for the baseline item in the contract.
Discount Price	A cost reduction in the unit price (awarded) when the purchase of a large volume or a good or service has been committed.
Supplier Management	A cost reduction in price of goods or services as a result of strategic supplier relationship management.

4.1.2.2. Cost Avoidance

Table 5: Direct Benefit Category – Cost Avoidance

Cost Avoidance	
Cost avoided, achieved by accessing HPV contracts fixed pricing. If HPV did nothing, this is the likely price change that would have occurred.	
Sub Categories	
Cost Increase Avoided	Cost increase avoided in price of goods or services.
Supplier Management	Cost increase avoided in price of goods or services as a result of strategic supplier relationship management.

4.1.2.3. Cost Increase

Table 6: Direct Benefit Category – Cost Increase

Cost Increase	
An increase in cost of goods or services seen as a negative benefit as a result of implementing a HPV contract.	
Sub Category	
Dis-benefit	An estimate of the impact on health service operations of transitioning to a new mandated HPV contract.

4.1.2.4. Capital

Table 7: Direct Benefit Category – Capital

Capital	
Assets purchased and owned by health service	
Sub Categories	
Capital Investment	Savings generated based on a price reduction due to the consolidation of more than one health service equipment purchasing requirements, or due to a bulk purchase undertaken by an individual health service.
Supplier Management	Reduction in the unit price of equipment based as a result of strategic supplier relationship management.

4.1.3. Indirect Benefits

Indirect benefits can be reported under the following categories:

- Economic
- Social
- Sustainability
- Process Improvement

4.1.3.1. Economic

Table 8: Indirect Benefit Category – Economic

Economic	
The economic benefit category includes all benefits contributing to the development of the local economy where the benefit is achieved indirectly as a result of HPV sourcing activity outcome. A local economy could represent regional, state or national.	
Sub Category	
Market Improvement	An improvement in the local economic market.

4.1.3.2. Social

Table 9: Indirect Benefit Category – Social

Social	
Any indirect benefits received by a social group that can be reported at a state wide level.	
Sub Category	
Social Responsibility	An indirect benefit resulting in an increase in reported social responsibility obligations of a health service due to HPV sourcing Activity that can be reported at a state-wide level.

4.1.3.3. Sustainability

Table 10: Indirect Benefit Category – Sustainability

Sustainability	
Any indirect benefits that increase the level of sustainability either applicable to a health service or to the local social economy.	
Environmental Sustainability	Any indirect benefits that increase the level of environmental sustainability responsibility of a health service due to HPV sourcing activity represented at a state wide level.

4.1.3.4. Process Improvement

Table 11: Indirect Benefit Category – Process Improvement

Process Improvement	
All benefits associated with improving a process typically by reducing steps to achieving the same result or changes that result an increase quality to the outcome.	
Sub Categories	
Efficiency	All benefits achieved that result in an increase or improvement in the level of efficiency to a process, generally as an indirect outcome of a HPV sourcing activity.
Quality Improvement	An increase in the level of quality of a good or service as determined by the reference group.
Improved Service Delivery	All benefits achieved that improve the level of service provided delivered by suppliers to health services.
Reduction of Duplication	An estimate of the administrative benefit of collective procurement at the state-wide level. This compares the time in motion to carry out sourcing and category management independently by health services in the absence of a collective agreement, with the effort required to put a collective agreement in-place.

5. Benefit Profiles

5.1. Calculation Definitions

Table 12: Calculation Definitions

Baseline Price	Weighted average price of the product immediately prior to the start of the period.
Contract Price	Price of the product at the start of the contract that is the awarded price.
Months	Number of months in the period.
Spend Baseline Initial	Annualised baseline spend at the start of the period.
Spend Contract Initial	Annualised contract spend at the start of the period.
Spend Baseline Final	Annualised baseline spend at the end of the period.
Volume	The annualised purchasing volume over the previous 12 month period.

5.2. Direct Benefit Profiles

5.2.1. Best Match

**Direct match and best match are mutually exclusive*

Benefit Profile: Best Match*	
Benefit ID #	DB.001-1
Benefit Name:	Best Match
Benefit Type:	Direct
Benefit Category:	Cost Reduction
Benefit Sub Category:	Unit Price Reduction
Benefit Description:	A reduction in the unit price of a Best Match product (good or service) as part of an ongoing contract. When a Direct Match is unavailable (superseded, no longer manufactured, not offering best value and so on), the 'best match' is considered to be the most likely replacement for the baseline item in the contract. HPV tends to match to the existing supplier however there is an opportunity to identify a 'best match' to an alternative supplier. This matching is done in consultation with clinicians.
Calculation Formula:	Unit Price Reduction Benefit = (Baseline Unit Price – Contract Unit Price) × Volume

5.2.2. Direct Match

**Direct match and best match are mutually exclusive.*

1.2 Benefit Profile: Direct Match*	
Benefit ID #	DB.001-2
Benefit Name:	Direct Match
Benefit Type:	Direct
Benefit Category:	Cost Reduction
Benefit Sub Category:	Unit Price Reduction
Benefit Description:	A reduction in the unit price of a Direct Match product (good or service) as part of an ongoing contract. Exact items matched between the baseline and the contract. Direct match means exact supplier part number match.
Calculation Formula:	Unit Price Reduction Benefit = (Baseline Unit Price – Contract Unit Price) × Volume

5.2.3. Product Switch

Benefit Profile: Product Switch	
Benefit ID #	DB.002

Benefit Profile: Product Switch	
Benefit Name:	Product Switch
Benefit Type:	Direct
Benefit Category:	Cost Reduction
Benefit Sub Category:	Unit Price Reduction
Benefit Description:	A reduction in unit price resulting from changing to alternative but functionally equivalent products that have lower cost.
Calculation Formula:	Unit Price Reduction Benefit = (Baseline Unit Price – Contract Unit Price) × Volume

5.2.4. Bulk Purchasing Savings

Benefit Profile: Bulk Purchasing Savings	
Benefit ID #	DB.003
Benefit Name:	Bulk Purchasing Savings
Benefit Type:	Direct
Benefit Category:	Cost Reduction
Benefit Sub Category:	Unit Price Reduction
Benefit Description:	Reduction in the unit price (awarded) when the purchase of a large volume or a good or service has been committed
Calculation Formula:	Bulk Purchasing Savings = (Contract Price - Discount Price) × Volume OR Bulk Purchasing Savings = (Contract Price × (1 - Discount %)) × Volume

5.2.5. Construct Price

4. Benefit Profile: Construct Price	
Benefit ID #	DB.004
Benefit Name:	Construct Price
Benefit Type:	Direct
Benefit Category:	Cost Reduction
Benefit Sub Category:	Discount Price
Benefit Description:	Savings incurred when a construct is established for the first time, compared to the total cost of the individual components.
Calculation Formula:	Construct Price = (Unit price of the collective individual components - Construct price) × Volume

5.2.6. Group Buy Savings

5. Benefit Profile: Group Buy Savings	
Benefit ID #	DB.005
Benefit Name:	Group Buy Savings

5. Benefit Profile: Group Buy Savings	
Benefit Type:	Direct
Benefit Category:	Cost Reduction
Benefit Sub Category:	Discount Price
Benefit Description:	Savings generated based on a price reduction due to the consolidation of more than one health service equipment maintenance requirements. E.g.. Equipment maintenance as part of multi lot group buy event.
Calculation Formula:	Group Buy Savings Price Reduction Benefit = (Quoted Total Price – Awarded Total Price)

5.2.7. Free Stock

6. Benefit Profile: Free Stock	
Benefit ID #	DB.006
Benefit Name:	Free Stock
Benefit Type	Direct
Benefit Category:	Cost Reduction
Benefit Sub Category:	Discount Price
Benefit Description:	Savings generated by negotiating obtaining products at zero value. E.g. Soap dispenser
Calculation Formula:	Free Stock Benefit = Unit value of the free stock x Volume OR Service = (Number of hours x rate)

5.2.8. Purchase Rebates

Benefit Profile: Purchase Rebates	
Benefit ID #	DB.007
Benefit Name:	Purchase Rebates
Benefit Type	Direct
Benefit Category:	Cost Reduction
Benefit Sub Category:	Discount Price
Benefit Description:	Return of a portion of a purchase price by a seller to a buyer, on purchase exceeding of a specified quantity, or value of goods within a specified period.
Calculation Formula:	Purchase Rebate = (Contract Price - Rebate Amount) x Volume OR Purchase Rebate = (Contract Price x (1 - Rebate %)) x Volume

5.2.9. EDI (Electronic Data Interchange)

Benefit Profile: EDI (Electronic Data Interchange)	
Benefit ID #	DB.008

Benefit Profile:	EDI (Electronic Data Interchange)
Benefit Name:	EDI (Electronic Data Interchange)
Benefit Type:	Financial
Benefit Category:	Cost Reduction
Benefit Sub Category:	Discount Price
Benefit Description:	Cost reduction generated in the reduced process time of invoices
Calculation Formula:	EDI Benefit = No. of invoices × (Cost of initial processing time - Cost of reduced processing time)

5.2.10. Reduced Payment Terms

Benefit Profile:	Reduced Payment Terms
Benefit ID #	DB.009
Benefit Name:	Reduced Payment Terms
Benefit Type:	Direct
Benefit Category:	Cost Reduction
Benefit Sub Category:	Supplier Management
Benefit Description:	Savings to price due to discount obtained in reducing payment terms . Eg. 2% discount if paid within 30 days
Calculation Formula:	Reduced Payment Terms = Value of Invoice × Discount %

5.2.11. Extended Payment Terms

Benefit Profile:	Extended Payment Terms
Benefit ID #	DB.010
Benefit Name:	Extended Payment Terms
Benefit Type:	Direct
Benefit Category:	Cost Avoidance
Benefit Sub Category:	Supplier Management
Benefit Description:	Benefit obtained in extending payment terms e.g. 30 days to 60 days.
Calculation Formula:	Extended Payemeny Terms = ((Value of spend × Market interest rate) /365) × No. of days extended

5.2.12. Cost Increase Avoidance

Benefit Profile:	Cost Increase Avoidance
Benefit ID #	DB.011
Benefit Name:	Cost Increase Avoidance
Benefit Type:	Direct

Benefit Profile: Cost Increase Avoidance	
Benefit Category:	Cost Avoidance
Benefit Sub Category:	Cost Avoidance
Benefit Description:	A price increase reflected in the baseline does not occur under contract. A common example is holding prices firm for the life of a contract period thus negating inflationary price rises. Eg. CPI and price fluctuations
Calculation Formula:	Cost Increase Avoidance = (Initial Baseline Spend - Initial Contract Spend + Final Baseline Spend - Final Contract Spend) × months /24 - Cost Reduction

5.2.13. Transition Costs

Benefit Profile: Transition Costs	
Benefit ID #	DB.012
Benefit Name:	Transition Costs
Benefit Type:	Direct
Benefit Category:	Cost Increase
Benefit Sub Category:	Dis-Benefit
Benefit Description:	An estimate of the impact on health service operations of transitioning to a new mandated HPV contract. This dis-benefit is to capture the administrative effort made in transitioning to mandated services and “best match” goods, but excludes non-mandated contracts, “further opportunities” and capital purchases.
Calculation Formula:	Cost of any additional expenses incurred to transition to a contract AND/OR Opportunity Cost of staff directed to implement the contract transition.

5.2.14. Bulk Purchasing Savings - Capital

Benefit Profile: Bulk Purchasing Savings - Capital	
Benefit ID #	DB.013
Benefit Name:	Bulk Purchasing Savings - Capital
Benefit Type:	Direct
Benefit Category:	Capital
Benefit Sub Category:	Capital Investment
Benefit Description:	Reduction in the unit price of equipment based upon the purchase of a volume greater than the contractual maximum volume break
Calculation Formula:	Bulk Purchasing Savings Capital = (Contract Price - Discount Price) × Volume OR Bulk Purchasing Savings Capital = (Contract Price × (1 - Discount %)) × Volume

5.2.15. Group Buy Savings - Capital

Benefit Profile: Group Buy Savings - Capital	
Benefit ID #	DB.014
Benefit Name:	Group Buy Savings - Capital
Benefit Type:	Direct
Benefit Category:	Capital
Benefit Sub Category:	Capital Investment
Benefit Description:	Savings generated based on a price reduction due to the consolidation of more than one health service equipment purchasing requirements.
Calculation Formula:	Price Reduction Benefit = (Quoted Total Price – Awarded Total Price).

5.2.16. Cost Avoidance - Capital

Benefit Profile: Cost Avoidance - Capital	
Benefit ID #	DB.015
Benefit Name:	Cost Avoidance - Capital
Benefit Type:	Direct
Benefit Category:	Capital
Benefit Sub Category:	Capital Investment
Benefit Description:	A price increase reflected in the baseline does not occur under contract. A common example is holding prices firm for the life of a contract period thus negating inflationary price rises. Eg. CPI and price fluctuations.
Calculation Formula:	Cost Increase Avoidance = (Initial Baseline Spend - Initial Contract Spend) + (Final Baseline Spend - Final Contract Spend).

5.2.17. Reduced Payment Terms

Benefit Profile: Reduced Payment Terms	
Benefit ID #	DB.016
Benefit Name:	Reduced Payment Terms
Benefit Type:	Direct
Benefit Category:	Capital
Benefit Sub Category:	Supplier Management
Benefit Description:	Savings to price due to discount obtained in reducing payment terms . Eg. 2% discount if paid within 30 days
Calculation Formula:	Reduced Payment Terms Savings= (Value of spend X Discount %) - (((Value of Spend x Market interest rate) /365) x No. of days reduced)

5.2.18. Extended Payment Terms

Benefit Profile:	Extended Payment Terms
Benefit ID #	DB.017
Benefit Name:	Extended Payment Terms
Benefit Type:	Direct
Benefit Category:	Capital
Benefit Sub Category:	Supplier Management
Benefit Description:	Benefit obtained in extending payment terms e.g. 30 days to 60 days.
Calculation Formula:	Extended Payment Terms = ((Value of spend x Market interest rate) /365) x No. of days extended

5.3. Indirect Benefit Profiles

5.3.1. Enhancing Market Competitiveness

Benefit Profile:	Enhancing Market Competitiveness
Benefit ID #	ID.001
Benefit Name:	Enhancing Market Competitiveness
Benefit Type:	Indirect
Benefit Category:	Economic
Benefit Sub Category:	Market Improvement
Benefit Description:	Encouraging smaller vendors in a monopolistic market, avoiding creating a monopoly through awarding a single supplier. Eg. To manage supply risk of market viability.
Calculation Formula:	Enhancing Market Competitiveness = (Initial market share % of largest supplier - New market share % of largest supplier) x value of spend

5.3.2. SMEs and Local Suppliers

Benefit Profile:	SMEs and Local Suppliers
Benefit ID #	ID.002
Benefit Name:	SME's and Local Suppliers
Benefit Type:	Indirect
Benefit Category:	Economic
Benefit Sub Category:	Market improvement
Benefit Description:	Ensuring SMEs and local businesses have access to opportunities <i>VGPB definition - Small business: actively trading with 0-19 employees, medium sized business and actively trading business with 20-199 employees (headcount not FTE).</i>

Benefit Profile:	SMEs and Local Suppliers
Calculation Formula:	Market Improvement Benefit = Change in No. of SMEs and Local Suppliers on to HPV Contracts AND Change in No. of SMEs and Local Suppliers on to HPV Contracts × Value of spend

5.3.3. Encourage Social Enterprises

Benefit Profile:	Encourage Social Enterprises
Benefit ID #	ID.003
Benefit Name:	Encourage Social Enterprises
Benefit Type:	Indirect
Benefit Category:	Social
Benefit Sub Category:	Social Responsibility
Benefit Description:	Improved access to social enterprises to HPV contracts VGPB includes not for profit organisations, social benefit suppliers and indigenous business within this definition
Calculation Formula:	Encourage Social Enterprises = Change in No. of Social Enterprises on HPV Contracts AND Change in No of Social Enterprises on HPV Contracts × Value of spend

5.3.4. Reduced Environmental Impact

Benefit Profile:	Reduced Environmental Impact
Benefit ID #	ID.004
Benefit Name:	Reduced Environmental Impact
Benefit Type:	Indirect
Benefit Category:	Social
Benefit Sub Category:	Sustainability
Benefit Description:	Reduced environmental impacts through reduced energy or water use, reduced waste or improved waste management.
Calculation Formula:	<i>Reduction in relevant indicators - CO2 emissions, water usage, waste generation/ increased rate of recycling...</i>

5.3.5. Reduced Patient Length of Stay

Benefit Profile:	Reduced Patient Length of Stay
Benefit ID #	ID.005
Benefit Name:	Reduced Patient Length of Stay

Benefit Profile: Reduced Patient Length of Stay	
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Efficiency
Benefit Description:	Reduced length of stay by the selection of more efficient and effective products or services. E.g. Any reduction in length of stay due to innovative solution such as dialysis treatment priming creating additional throughput flowing to increased revenue.
Calculation Formula:	Reduced Patient Length of Stay Benefit = Reduced length of stay of patients × WIES

5.3.6. IT System Improvements

Benefit Profile: IT System Improvements	
Benefit ID #	ID.006
Benefit Name:	IT System Improvements
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Efficiency
Benefit Description:	Selecting supplier who can automate processes to improve efficiency. Eg. Booking processes, NEPT, interpreter services, nurse agency impacting on reduced waiting times or effective use of outpatient appointments etc. This can also extend to implementation of supplier punch out systems.
Calculation Formula:	IT System Improvement Benefit = (Baseline processing hours - Reduced processing hours) × No. of throughput

5.3.7. Reduced Procurement Process Time

Benefit Profile: Reduced Procurement Process Time	
Benefit ID #	ID.007
Benefit Name:	Reduced Procurement Process Time
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Efficiency
Benefit Description:	Reducing time from permission to go to tender and the approval of award by pre-qualification.
Calculation Formula:	Reduced Procurement Process Time = (Baseline processing time - Reduced processing time) × Relevant Procurement FTE hours, or Reduced Procurement Process Time = (Baseline processing time – Sourcing activity processing time)

5.3.8. Vendor Rationalisation

Benefit Profile: Vendor Rationalisation	
Benefit ID #	ID.008
Benefit Name:	Vendor Rationalisation
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Efficiency
Benefit Description:	Reducing the number of vendors health services need to deal with in a particular category, reducing finance overheads which result in a saving of staff time that can be utilised elsewhere.
Calculation Formula:	Vendor Rationalisation = (Initial No. of contracted vendors - No. of current contracted vendors) × Relevant Category FTE

5.3.9. Additional Services

Benefit Profile: Additional Services	
Benefit ID #	ID.009
Benefit Name:	Additional Services
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Quality Improvement
Benefit Description:	Where supplier offers additional or broader scope of services at no additional cost. Eg. Complementary services/ swap out bottles.
Calculation Formula:	Additional Services = Value of the additional services × Volume

5.3.10. Improvement Patient Outcome

Benefit Profile: Improved Patient Outcome	
Benefit ID #	ID.010
Benefit Name:	Improved Patient Outcome
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Quality Improvement
Benefit Description:	Products or services which improve patient outcomes in terms of health outcomes or patient satisfaction. Eg. Reduced length of stay or reduced re-admission rates.
Calculation Formula:	Patient satisfaction improvement

5.3.11. Improved Service Delivery

Benefit Profile: Improved Service Delivery	
Benefit ID #	ID.011
Benefit Name:	Improved Service Delivery
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Quality Improvement
Benefit Description:	The suppliers responsiveness to customer enquiries/complaints. E.g. emergency deliveries, Delivery (DIFOT), Test turn around times, percentage fill rates against KPIs over life of contract. Contract management / supplier management.
Calculation Formula:	<i>Calculation is determined by the specific KPI measure.</i>

5.3.12. Training and Education

Benefit Profile: Training and Education	
Benefit ID #	ID.012
Benefit Name:	Training and Education
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Quality Improvement
Benefit Description:	Level of service provided, number of sessions held, innovation e-learning to assist implementation
Calculation Formula:	Training and Education Benefit = Training and education session value × No. of staff

5.3.13. Category Management

Benefit Profile: Category Management	
Benefit ID #	ID.013
Benefit Name:	Category Management
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Reduction of Duplication
Benefit Description:	An estimate of the administrative benefit or dis-benefit of collective procurement at the state-wide level. This compares the time in motion to carry out sourcing and category management independently by health services in the absence of a collective agreement, with the effort required to put a collective agreement in-place.
Calculation Formula:	Category Management = Reduced cost to health service FTE due to HPV contract

5.3.14. Product Rationalisation

Benefit Profile: Product Rationalisation	
Benefit ID #	ID.014
Benefit Name:	Product Rationalisation
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Reduction of Duplication
Benefit Description:	Reducing the range of product in a category to increase standardisation, reduce inventory holdings and simplify catalogues or better patient outcomes
Calculation Formula:	Product Rationalisation = (Initial No. of products - Current number of products)

5.3.15. Patient Safety

Benefit Profile: Patient Safety	
Benefit ID #	ID.015
Benefit Name:	Patient Safety
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Risk Mitigation
Benefit Description:	Products or services which improve patient safety via VIHMS data.
Calculation Formula:	Patient Safety = Initial volume of patient incidents - Current volume of patient incidents

5.3.16. Workplace Safety

Benefit Profile: Workplace Safety	
Benefit ID #	ID.016
Benefit Name:	Workplace Safety
Benefit Type:	Indirect
Benefit Category:	Process Improvement
Benefit Sub Category:	Risk Mitigation
Benefit Description:	Products or services which improve workplace safety e.g. slips or falls
Calculation Formula:	Workplace Safety = Initial volume of OHS Incidences - Current volume of OHS incidences

Appendix A: Delivery Phases

The delivery of the 'benefits management framework 2018' project, will involve three key phases from design, build to implement as outlined below.

Phase 1: Design

- HPV develops initial draft of 'benefits management framework 2018'.
- Consultation and engagement with focus group of health services.
- Third party consultancy for independent review and validation of calculations and methodologies.
- Seek HPV Board approval to proceed into "Build & Implement Phase".

Phase 2: Build

- Develop the functional schematic design and integration of data sources to support the implementation phase of the benefit definitions. This will also include the revision of the Request for Tender (RFT) documents, or like, to support the data capture.

Phase 3: Implement

- Implement the capture and reporting of the benefits as outlined in the benefits design /definition phase.

Delivery Phases:

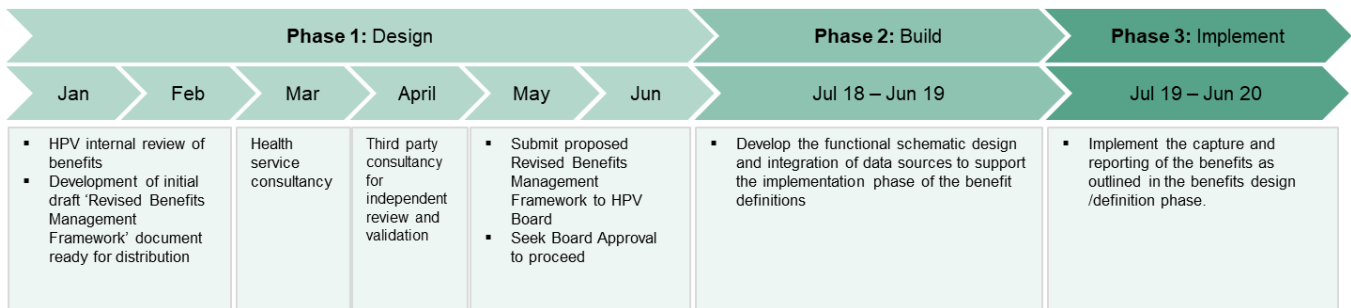


Figure 2: Delivery Phases- Development of a the HPV Benefits Management Framework 2018