

# HEALTH PURCHASING VICTORIA

Procurement Strategy 2018 -2022

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# Executive summary

A sector-wide approach to strategic procurement across the state's health sector is essential to delivering safe, affordable and sustainable healthcare to all Victorians.

Health Purchasing Victoria (HPV) is committed to working in partnership with Victoria's health sector to implement an agile approach to procurement. This procurement strategy incorporates constructive feedback from health services reflecting their diversity and the distinctive requirements of metropolitan and regional hospitals.

HPV's strategy, as outlined in this document, is designed to be implemented in stages, enabling new approaches and concepts to be developed in consultation with health services before longer-term solutions are put in place.

Historically, the primary objective of HPV's procurement function has been to achieve value under contract. Taking a fresh perspective on procurement, this strategy considers a broader definition of value delivery to drive outcomes that align to health service and broader government objectives. Benefits may be direct or indirect, and must be measurable, relevant and of sufficient importance to health services. Examples include – though are not limited to – improved clinical outcomes, supply chain improvements, and increased efficiency.

HPV has enhanced its internal capacity and capability to support a more informed approach to health services' individual procurement objectives. HPV aims to become a 'centre of excellence' that provides health services with the procurement support and expertise they need to deliver the best possible patient outcomes.

Recognising the expertise and experience present within health services, this strategy focuses on increasing the level of collaboration to share expertise for the benefit of Victoria's health sector. HPV is exploring how the sector can make the most of its combined capability and resources, while working within health services' resource limitations.

HPV recognises the keys to success for both HPV and health services are:

- Working together to agree and collaborate on the right strategy.
- Engaging early in the contract process.
- Maintaining transparency and clearly defining desired outcomes.

The strategy also improves outcomes across the sector by centralising categories best suited to state-wide procurement, while supporting groups of health services with specific requirements to collectively procure products and services using cluster sourcing procurement methods. An example of cluster procurement currently underway is the regional health solar photovoltaic project. HPV will continue to provide governance and guidance, advice and direction to assist health services in their procurement activities.

HPV has engaged experienced clinicians to support their health service colleagues in delivering better patient outcomes, and is working with appropriate agencies such as Safer Care Victoria (SCV) to better understand the issues and how the procurement process can assist and add value in improving outcomes.

A supplier relationship management framework will better monitor and manage supplier performance and extract greater value from mature categories over time. This framework is being developed with health services, and presents an opportunity for the sector to be more united in the marketplace. Once established, the framework will drive consistent expectations of suppliers, ensuring greater value as a whole.

As a result of the consultation and dialogue with health services HPV's procurement strategy:

- Aligns the HPV procurement function to health services' wider strategic objectives.
- Transforms HPV transactional purchasing methods to a more agile procurement model with a strategic sourcing focus.
- Develops a supplier relationship management framework that better monitors, measures, and manages supplier performance.

- Broadens the definition of value to align to health service and HPV strategic goals.
- Examines how HPV engages with health services to achieve fit-for-purpose solutions.
- Provides an overview of HPV's clinical engagement road map.
- Outlines HPV's intent to meet the objectives of the Victorian Government Social Procurement Framework.

HPV values the continued input of health services in developing operational plans to support this strategy and encourages the ongoing collaboration of Victoria's procurement professionals and clinicians to ensure we meet the requirements of Victoria's health sector.

## Introduction

Health Purchasing Victoria's (HPV's) procurement strategy combines several operational elements to drive greater value throughout the procurement lifecycle of contracts, namely by:

- Instituting structured and measurable strategic category management.
- Implementing an enhanced supplier relationship management framework.
- Introducing a more agile form of procurement to enable approaches such as shared management or cluster sourcing.
- Establishing HPV as a 'centre of excellence'.
- Effective analysis, systems and reporting.
- Increased stakeholder engagement.
- Defining value beyond cost.

## Strategic category management

HPV will work closely with health services to introduce a more strategic category management approach to deliver greater value throughout the contract lifecycle.

This approach has great potential to deliver more benefits to the state, however its complexity requires expertise from both HPV and health services. To facilitate this, HPV's current processes and procedures will be reviewed to ensure the sector can harness collective benefits throughout the procurement cycle.

HPV and health services may benefit from a strategic approach to mature categories where it is difficult to extract further value from a simple approach to market.

HPV will undertake an in-depth analysis of more mature categories, such as medical categories which have reached a fifth or sixth reiteration to market. This will support a more strategic approach, and will be presented to health services for consultation and feedback. An accompanying review of relevant processes and procedures will identify gaps and requirements as well as associated risks.

To extract additional value over the longer term, HPV will enhance its existing contract ownership with stronger management processes and governance mechanisms being implemented across the current portfolio and applied to all new contracts, ensuring suppliers are meeting their contractual obligations.

HPV will work closely with its established Executive Reference Groups (ERGs) to develop appropriate strategies over the longer term three- to five-year period.

Greenfield opportunities will be considered in a more strategic way in consultation with health services, to identify those categories which are most appropriately managed at a state-wide level and those which are better suited to a regional or local approach.

## Increasing collaboration

Recognising the considerable experience within health services HPV has prioritised the need to make the most of this expertise across the sector. HPV will work with health services using shared management models to develop solutions that meet their requirements and deliver local, regional and global benefits.

Specific categories HPV will explore include:

- Facilities management.
- Prostheses.
- Wound closures.
- Haemodialysis / Peritoneal dialysis.
- Pathology.

HPV will work more closely with health services on the composition of its contract management groups to create strategic supplier partnerships with a focus on an improved service offering and sustainability initiatives.

HPV is moving away from short timeframes and solutions, primarily defined under the Confirmed Annual Sourcing Plan (CASP), to take a longer-term approach through having a category management strategy over several years. This gives health services increased visibility of HPV activities and enables a greater level of strategic planning across the sector.

## Supplier Relationship Management

A new Supplier Relationship Management (SRM) framework is currently under development to underpin this strategy.

A core responsibility of the ongoing contract management function will be to build better relationships with suppliers to support improved performance and outcomes and identify additional value throughout the lifecycle of a contract.

Effective SRM will only work through successful collaboration across the sector. There is opportunity for HPV and health services to be more united in the marketplace. This ensures suppliers are held to account for the contractual commitments they make and delivering value to the sector as a whole. To achieve this health services will have the opportunity to contribute to the development of the framework.

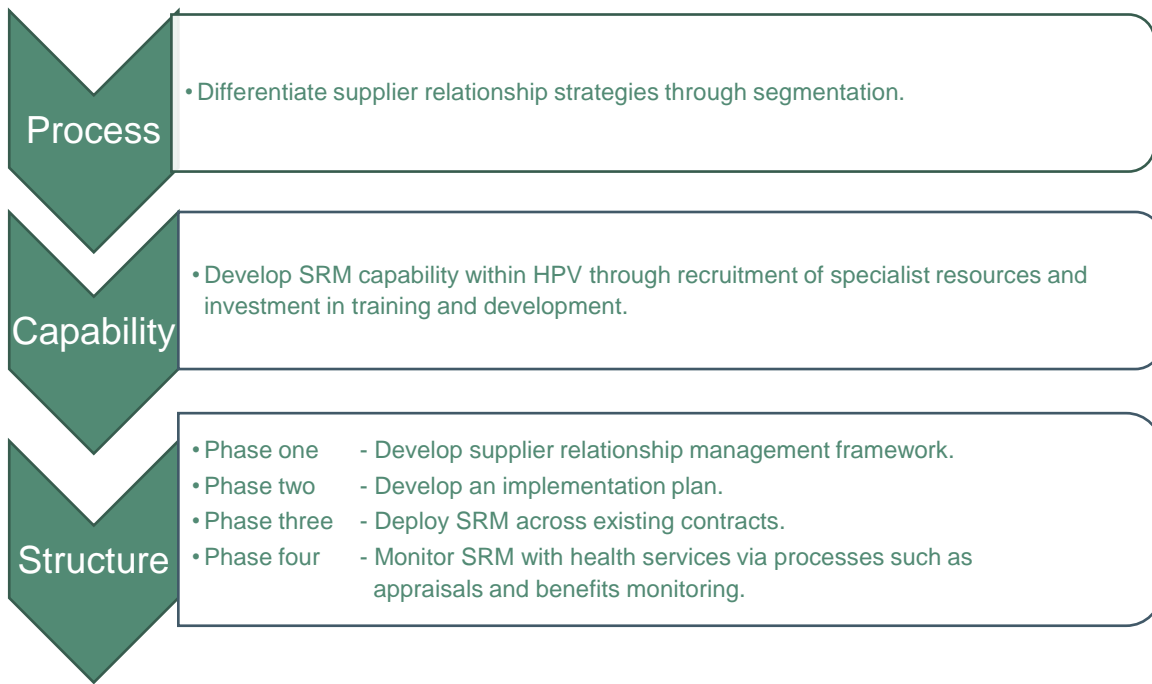
HPV is currently segmenting suppliers based on a range of criteria, including but not limited to:

- The level of spend with a supplier and the cost savings achievable through deeper category management.
- Breakthrough offers through supplier-led innovation that will add value for health services.
- Operational impacts for health services including the cost of transitioning to new suppliers and adapting to product changes.

This supplier segmentation will enable HPV to identify the best SRM opportunities and allocate appropriate resourcing for supplier and category groups that can deliver greater value for health services. HPV will then put in place an implementation plan, and integrate HPV and health service cross-functional processes such as appraisals and reviews to identify further areas for improvement.

Figure 1 outlines how HPV will implement a SRM.

Figure 1: **Supplier Relationship Management (SRM) Framework**



HPV will pilot the program across its existing contracts using performance review meetings as a starting point and map greenfield sourcing opportunities to assess the level of resource required.

SRM governance (management) will be provided by allocating a dedicated HPV resource to manage a supplier relationship. HPV will undertake performance management through continuous tracking of operational and benefit measures.

HPV will evolve the way it reviews supplier performance and build on the success of a new approach applied to the Language Services and Agency Labour categories, incorporating regular category management group meetings to ensure ongoing value is delivered across the contract term. HPV will apply this approach to a range of categories to enhance its monitoring of supplier performance.

The new framework focuses on setting strategy in advance of sourcing events and implementing effective SRM activities to ensure expectations established at the outset are understood and met, and performance is monitored and measured throughout the contract. Suppliers will be required to provide independent evidence of the efficacy of their products and services.

Contracts will clearly define workflows and expected service levels, and HPV category managers will drive systematic contract management to ensure better relationships between HPV, health services and suppliers. The framework will also enable HPV to track supplier performance, better enforce compliance and manage risk.

HPV will develop a supplier engagement plan that provides health services with greater visibility of our procurement activities and opportunities. This plan will outline clear objectives, how the sector will achieve them and provide ongoing opportunities for health service input and collaboration.

The intent is for HPV and health services to collaborate and engage to align their long-term strategies and run joint procurement initiatives where it is prudent to do so.



# Agile procurement

## Cluster sourcing

Groups of health services may derive benefits from buying products and services collectively, particularly indirect products and services at a regional level.

The approach enables health services to pool resources, reduce duplication of effort and achieve better pricing and service delivery.

In 2018, following a successful pilot in Gippsland, HPV adopted a cluster procurement approach for the design, supply and installation of [solar photovoltaic systems](#) at a number of public hospitals across regional Victoria.

There has been regional interest in applying the approach to other contracts, in particular indirect products and services that can be delivered by either large or small companies across regional areas. Examples include:

- Laundry and linen.
- Theatre packs.
- Equipment maintenance.
- Pest control.
- Salary sacrifice services.
- Fire services.

HPV's approach to cluster sourcing provides a framework that enables health services to collectively procure within the parameters of the *Competition and Consumer Act 2010* (CCA).

The approach is flexible and HPV can offer varying levels of support depending on health service resources and requirements.

- 1) Where there is no health service resource available yet a defined need, HPV can initiate an activity for a restricted number of health services, e.g. Agency Labour.
- 2) Where there is a health service resource undertaking the activity, HPV would provide additional procurement and commercial support according to the complexity of the project. Support could include:
  - a. Templates and tools.
  - b. Reviewing documents and supplier correspondence.
  - c. Attendance and support at industry forums.
  - d. Providing a platform for Invitations to Supply via HPV's procurement portal.

## Shared management as a centre of excellence

A shared management approach to procurement maximises the expertise that exists across HPV and the subject matter experts within health services, creating a 'centre of excellence' model.

Under this approach HPV establishes a pre-qualified supplier panel and provides health services with the tools, templates and guidance to run a specific procurement event independently, producing better results for the health service and the broader sector.

The sector as a whole also benefits when the expertise within a health service is shared. For example, a subject matter expert within one health service can inform the selection of suppliers on a panel and the specifications needed to meet health service requirements. All health services participating in that particular procurement approach benefit through a better quality outcome.

## HPV Medical Imaging Equipment Framework

HPV has established a panel of pre-qualified suppliers for medical imaging equipment. To pre-qualify, suppliers must meet strict organisational requirements and agree to state-wide terms and conditions applying to all participating health services.

This process helps expedite health service efforts to identify suitable equipment by removing the need to negotiate on terms and conditions at the health service level.

HPV works with health services to identify possible opportunities to align multiple health services' demand for medical imaging equipment. Where opportunity for consolidation exists, HPV will undertake a Request for Quote (RFQ) on behalf of multiple health services to achieve greater economies of scale and increase competitive tension amongst suppliers.

Where no opportunity for consolidation exists, individual health services can expedite their process by sourcing pricing information directly from shortlisted suppliers.

Throughout this process, health services always retain autonomy to conduct supplier shortlisting, site visits, technical evaluations and specification/configuration finalisation in accordance with their own policies and processes.

HPV provides guidance and support to health services where necessary, including by providing tools and templates to reduce processing time and assist health services in understanding and documenting their requirements.

The Medical Imaging Equipment Sourcing Framework's focus is on achieving efficiencies associated with collective procurement whilst ensuring health service autonomy. The process must be efficient, flexible and remove barriers that may contribute to duplication of work and delays in sourcing events.

HPV will continue to focus on improved communication with health services and equipment demand planning to maximise health service consolidation opportunities through pre-determined 'group buy' events.

HPV will also continue to develop additional tools and templates to assist health services in the sourcing of high quality equipment that is fit for purpose for their needs.

## Systems and reporting

Accurate data analysis will play an important role in HPV's category management function as it assists, and often drives, the strategic direction.

Accurate data enables HPV and health services to undertake more effective category planning, demand management, spend-based sourcing activities, and contract and supplier management gleaned from performance metrics captured by the HPV Procurement Portal.

Current data projects underway include:

- Transactional data to better understand demand patterns.
- Industry benchmarking.
- Creating a single source of product data via the National Product Catalogue.

The HPV Procurement Portal will capture the information required to enable these initiatives. The portal allows suppliers to maintain their online company profile, providing HPV with industry-wide and specific

supplier details that utilise the internationally recognised United Nations Standard Products and Services Code (UNSPSC) global classification tree.

Contract performance metrics are captured in the platform and allow comparison across suppliers and categories. Supplier development plans will be contained within the HPV Procurement Portal once a detailed SRM framework is in place.

As discussed later in this strategy, HPV is also developing a new procurement benefits reporting methodology to capture the benefits resulting from strategic supplier alliances derived both in the short and long term.

## Stakeholder engagement

### Reference groups

Reference groups provide invaluable input into procurement decision making at HPV and are an inherent part of its evaluation and selection process.

It is sometimes challenging to populate reference groups with the right level of clinical and commercial expertise. Recognising this, HPV will work collaboratively with health services to make it as convenient as possible for health services to participate, recognising their significant day-to-day commitments.

ERGs will inform longer-term strategy for key category streams, for example in Operating Theatre and Prostheses.

### Customer engagement

HPV recognises the diversity of Victoria's health services and the need for procurement approaches to be scalable, taking into account the size and capability of rural, regional and metropolitan health services. HPV is committed to making it easier for health services to do business. It is therefore vital that HPV maintains dialogue with a diverse range of health services to ensure its operational strategy outputs are fit-for-purpose.

In 2017, HPV increased its level of engagement with health services through the establishment of a dedicated customer engagement team to better understand health service requirements across the state.

HPV's Customer Relationship Managers (CRMs), allocated to specific groups of metropolitan and regional health services by geographic region, provide a primary point of contact for each public health service across Victoria. HPV procurement category managers and CRMs meet regularly to ensure health service feedback is followed up and enacted.

CRMs will continue to play a vital role in the development and implementation of the operational outputs of this strategy as they work with health service procurement professionals and clinicians to build a trusted professional relationship and freely share insights and understand issues.

HPV will develop a procurement engagement plan that provides health services with greater visibility of our procurement activities and opportunities over the longer term. HPV category managers will engage with health services procurement professionals to share this information, with the intent being that HPV and health services align their long-term strategies and run joint procurement initiatives where practical.

### HPV helpdesk analysis

HPV is undertaking monitoring and analysis of all procurement helpdesk enquiries to provide a more comprehensive understanding of the issues raised by health services. This health service feedback will contribute to a more effective assessment of supplier performance and assist in progressing supplier development plans.

## Defining value beyond cost

HPV will continue to shift the procurement function from being tactical to strategic, to ensure it considers the opportunities and benefits that can be achieved throughout a contract lifecycle.

To support this aim, HPV is developing a benefits management framework which will change the way we validate financial benefits by including new benefit categories such as indirect benefits, including those which satisfy local employment objectives, improve environmental sustainability metrics, or have another positive social outcome.

The identified benefits must align to both HPV and health service strategic goals to achieve real and measurable results for the sector as a whole.

### Benefits reporting framework

A key element of HPV's new procurement approach is a redesign of its benefits reporting framework to encompass HPV's strategic goal to expand the definition of 'best-value' procurement to better meet health service needs and support improved patient outcomes.

An updated benefits reporting framework will help to deliver both financial benefits and benefits at the patient bedside by addressing the limitations of the existing principles and methodologies used to calculate the quantifiable financial benefits of the total value under contract.

Significant revisions to these methodologies will include changes in the way HPV validates financial benefits, together with the introduction of new categories.

As shown in Figure 2, benefits generated through HPV sourcing activities may be direct or 'indirect' – reflecting non-financial health service benefits such as local employment opportunities or improved safety outcomes – and are measurable and relevant to health service strategic goals.

Benefits are pursued based on the expected value they will deliver. A new HPV benefits reporting framework therefore involves a holistic approach that re-evaluates what is reported and how it is reported, as well as the data sources underpinning it.

Both HPV and health services have a role to play in realising these benefits.

Benefits will be reviewed throughout the contract lifecycle, and their monitoring and reporting integrated into HPV and health service management activities.

HPV's benefits reporting framework revision is being developed in close consultation with health services to ensure benefit types and categories are agreed and accepted. Timeframes for the design, build and implementation of the framework are outlined in Figure 3.

Figure 2 below outlines the approach HPV has taken to categorising benefits.

Figure 2: HPV benefits reporting framework

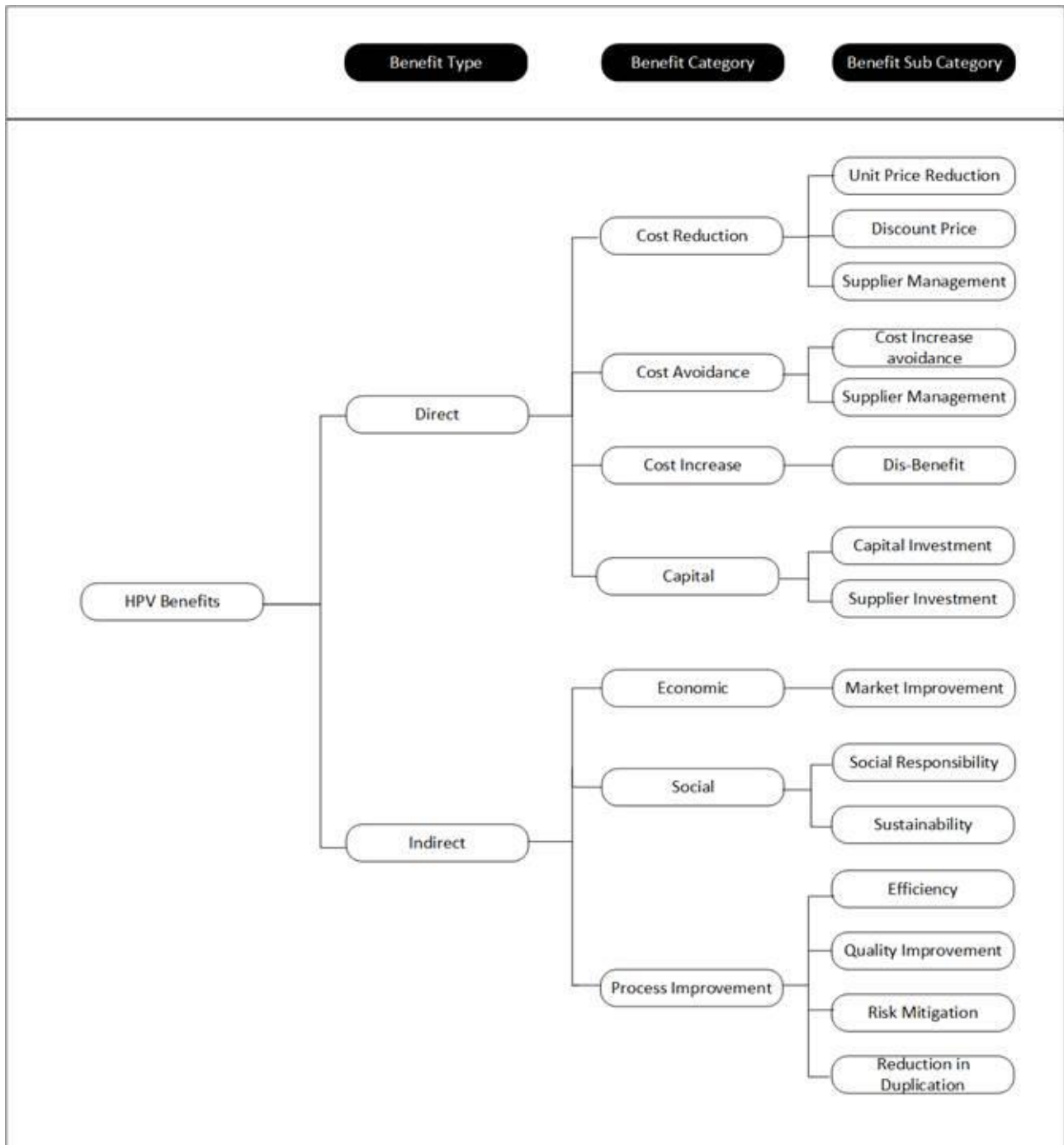
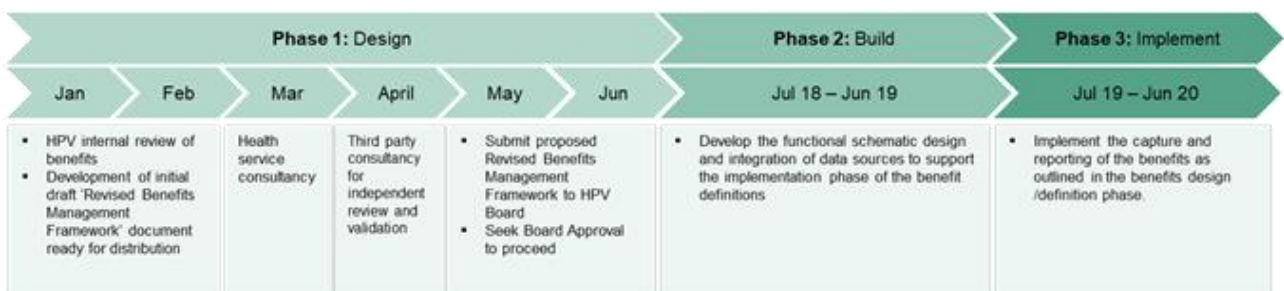


Figure 3: Benefits reporting framework timeframes



## Clinical engagement

There is considerable opportunity to apply procurement data and knowledge to drive value which contributes to clinical quality improvement and ultimately better patient outcomes.

HPV is committed to partnering with health services and government bodies to rationalise products, reduce clinical variability and maintain quality of care.

Clinicians and procurement professionals alike should be involved in early discussions with suppliers to assess the appropriate clinical application of new products being introduced. While already occurring to varying degree, HPV is becoming more proactive about ensuring a robust assessment of product efficacy and/or suitability as standard practice.

This approach aligns with the findings of the 2016 *Targeting Zero: Supporting the Victorian hospital system to eliminate avoidable harm and strengthen quality of care* report and the establishment of Safer Care Victoria (SCV), placing a greater focus on patient safety across the sector.

HPV has increased its internal capability with experienced clinicians to better support health service colleagues in delivering improved patient outcomes. HPV is working with SCV to understand the issues clinicians face in achieving optimal clinical outcomes and how the procurement process can assist and add value.

HPV's current clinical engagement model for its procurement activities relies on health service representatives contributing via an Executive or Product Reference Group in developing its sourcing strategy, evaluation and product award.

HPV plays a facilitation role and contributes to commercial and tender matters, rather than clinical considerations in the procurement process. HPV currently makes limited use of data and analysis to feed into health service clinical and administrative decision making.

There is considerable opportunity to broaden the involvement of HPV and health service clinical product advisors and procurement professionals and this is a key consideration in developing a clinical engagement roadmap.

To make the most of new innovations in patient care, HPV will take a more agile approach to undertaking supplementary tenders during a contract lifecycle and respond to emerging clinical needs alongside changing market conditions to deliver better patient outcomes.

HPV is exploring several new opportunities to work with government agencies and clinical networks to engage in patient safety initiatives.

## Social and sustainable procurement

Victoria's new Social Procurement Framework aims to ensure value-for-money considerations are not solely focused on price, and encompass opportunities to deliver social and sustainable outcomes that benefit the community.

The framework is a Victorian Government initiative and its core purpose is to strengthen social and sustainable procurement, embedding it within ordinary government processes, including planning individual procurement activities and reporting.

Framework requirements are scaled to the size of the sourcing activity.

HPV will produce a clear and actionable plan for implementation across all collective sourcing undertaken through HPV; and will also work with health services to assist their own implementation of the new social procurement requirements within health procurement.

Updated HPV guidelines on social and sustainable procurement will be provided during 2018-19.

## Supply chain efficiency

HPV is committed to ongoing efficiency improvements across Victoria's health supply chain where opportunities are identified and achievable within current sector capability and resource.

For example, HPV is working with Eastern Health and its suppliers to help implement electronic procurement, one of the ways in which health services can create supply chain efficiencies and free up resources for patient care.

Electronic Data Interchange (EDI) enables health services to transmit product order data to suppliers in a seamless way, replacing the manual processes of reading an email, entering details into a system and physically checking for errors.

Supplier Relationship Management will also assist with greater alignment of product catalogues at national, state-wide and local level, freeing resources within health services to concentrate on initiatives that better support patient outcomes rather than the manual administration of multiple sources of catalogue information.

## Next steps

Changes in HPV's procurement approach will be introduced in stages to ensure health services have the best possible opportunity to inform the operational plans that underpin this strategy.

This dialogue commenced at regional Chief Procurement Officer Forums during the first quarter of 2018. HPV's Director of Procurement and Value Delivery will endeavour to meet directly with as many metropolitan health service supply directors as possible in the second quarter of 2018 to further refine the approach outlined in this document.

HPV will seek input from health service procurement professionals and clinicians as individual components are developed such as the clinical roadmap. Health services are also welcome to provide insights or feedback directly to a HPV CRM or the Director of Procurement and Value Delivery.

HPV will update health services on progress through our newsletters and highlight any opportunities for consultation and engagement.

## Revised activity plan

HPV released a consultation paper in December 2017 outlining a range of activities to underpin the HPV Procurement Strategy. Table 1 below expands on these activities and includes timeframes for major initiatives such as the Supplier Relationship Management Framework and Clinical Roadmap.

This document will be reviewed on an annual basis, and relevant milestones and additional activities updated and communicated.

**Table 1: HPV work plan 2017-2020**

Activity	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
<b>Expand value under contract</b>														
- Develop policies, processes and templates to support health service cluster sourcing														
- Greenfield cluster sourcing														
- Regional solar photovoltaic systems cluster sourcing														
- Medical gas equipment maintenance cluster sourcing														
- Shared management equipment stream sourcing activities														
- Category segmentation map – due September 2018														
- Develop templates and supporting tools for shared management														
- Identify and implement shared management opportunities														
<b>Increase return on investment in contracted categories</b>														
- Review category strategies and procurement plans – due October 2018														
- Supply chain productivity strategy and work plan to identify efficiency benefits														
- Develop and implement SRM Framework pilot – due 30 December 2018														
- Implement SRM Framework to all suppliers from 30 June 2019														
<b>Streamline the sourcing process and data handling</b>														
Drive sourcing and contract management efficiencies in the HPV Procurement Portal via the following initiatives:														
- Improve supplier data and information handling – ongoing work with suppliers														
- Simplify sourcing processes and procedures – identify opportunities in line with SRM Framework implementation														
- Improve data integrity – HPV Indirect Products and Services team works with Supply Chain Information team to increase GS1 system usage by applying GTNs to products														

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Activity	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
- Review procurement platform enhancements														
- Investigate contract authoring for pilot – due August 2018														
- Introduce supplier development plans and company-wide (enterprise) KPI reporting supported by SRM mapping														
<b>Review HPV benefits reporting model</b>														
- Review HPV benefits reporting model – due 30 June 2018														
<b>Improve engagement with clinicians, subject matter experts and other agencies to improve quality, safety and clinical outcomes relating to contracted products and services</b>														
- Develop clinical engagement road map – due December 2018														
- Assess panel arrangements to streamline contracts and reference groups to optimise use of health service time – due October 2018														

Activity	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
<b>Increase collaboration with Customer Engagement team</b>														
- Improve contract and activity information sharing, particularly regarding strategic planning and operational contract transitions														
- Improve timely resolution of health services queries and issues														
- Engage in continuous improvement of customer facing tools, templates and processes														
- Statements of requirements templates available for selected categories														
<b>Ensure probity in all HPV sourcing events</b>														
- Develop probity tools and templates supporting cluster sourcing – due 30 June 2018														
- Improve probity process efficiency, tailoring requirements to type of sourcing event – greenfield, resourcing, option, supplementary and pricing review														
- Apply current tender thresholds														
- Address current tender documentation and probity requirements														
- Embed probity processes for collective sourcing and report compliance														
<b>Support development and data integrity of the common catalogue through contracts and effective supplier management</b>														
- Support rollout of HPV common catalogue via supplier contracts, KPIs and ITS provisions – data governance a mandatory requirement														
- Support improvement of supplier data integrity via supplier relationship and performance management														

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Activity	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
- SRM Framework in place to identify priorities, and aligned to risk and gap analysis – due December 2018														
- Investigate potential to pilot with key suppliers and ability to include services in Victorian Product Catalogue – due June 2018														
<b>Develop HPV capability in strategic categories of greatest importance to health services</b>														
- HPV has specific expertise in the utilities area, has an in-house biomedical engineer for equipment sourcing, and health service pharmacists for the pharmaceutical category														
- Training programs across all HPV procurement streams commencing July 2018, including Chartered Institute of Procurement and Supply (CIPS) training														

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