



# Spending on supplies and services: Where to focus first

A summary from *Spending on supplies and services by district health boards: Learning from examples*, September 2010.

Procurement can be a complex area. With limitations on resources, it is important to prioritise which aspects to focus on first. We have identified the most important improvements that district health boards (DHBs) could make to enhance the effectiveness and efficiency of procurement in contributing to the overall business of the DHB.

## Recognise the significance of procurement

Procurement must be treated as fundamental to the effective and efficient delivery of services. It should be managed strategically, in proportion to its scale, and recognised as involving a significant amount of money.

This means taking a “helicopter” view of the DHB’s procurement activity and dealing with procurement strategically across the breadth of DHB activity now and for the future – both for purchasing and contract management. It also means actively considering what you want to achieve from procurement activity and setting appropriate business objectives.

To set appropriate business objectives, you need to fully understand the total extent of procurement activity throughout the DHB:

- Funding agreements with non-governmental organisations (NGOs) are procurement activity, even though the approach to purchasing services delivered by NGOs may need to be different. Consider strategically the DHB’s best procurement approach for these agreements, both the purchasing approach and the specific approach to contract management (the tools and techniques needed to manage the quality of service delivery).
- Raising a purchase order for supplies or services that are not under a contract is also procurement, even though these purchases are often relatively simple. It may be that a simple purchase order is an appropriate approach for these purchases. However, it

may be that a different approach to these purchases would be more efficient.

- Clinical staff are often involved day to day in raising purchase orders or managing the delivery of a contract. They are therefore involved in procurement.

Consider these issues from your “helicopter” view, and determine an appropriate approach based on a full understanding of how each purchase fits the bigger picture.

Clarify how much risk the DHB is prepared to take (its strategic risk appetite) in procurement matters, and use this guidance to apply the appropriate levels of effort in purchasing and contract management processes.

Allocate adequate resources to the task of procurement. Ensure that you have appropriate information systems to collect and collate information to report on procurement matters, and involve procurement in strategic and business planning.

Recognise that procurement needs to involve an understanding of the business. Therefore, procurement staff need to work with staff involved in service delivery to ensure that procurement staff are purchasing supplies and services fit for their purposes.

## Support procurement activity

Invest in procurement staff and their continuing development. They are a DHB’s best response to procurement risk, but they need to be kept up to date with developments if they are to contribute their best. They will gain exposure to

new initiatives that may deliver better results than current practices. Continuing professional development also works to develop the pool of procurement talent and experience, reducing the risks of turnover of experienced staff.

Share good practice and new ideas within the DHB and with other DHBs. If a new procurement initiative works well once in one DHB, it may well work for others. If the information is shared between DHBs, they may also share information about what worked well for them. All DHBs can potentially save time and effort from avoiding the need to “reinvent the wheel”.

## **Make procurement easier**

Develop information systems to provide procurement information for management. Although many DHBs are improving their management information about purchasing and contract management activities, there is much that can still be done to improve, both in terms of the technology systems to support data gathering and in the analysis of the data to produce information useful to senior management and the Board.

Prepare better guidance for staff on procurement practice expectations. Standardise processes and documents for tailoring to individual circumstances and provide appropriate guidance about tailoring for scale and risk.

## **Manage risk**

Raise the profile of risk management throughout the procurement process, both in terms of purchase risks and risks with managing the delivery of the supplies and services. Consider the possibility of providing a generic risk assessment or a risk assessment workshop to assist those unfamiliar with risk management.

Manage “pockets” of procurement activity according to business needs and risks. Smaller pockets of procurement may need support, but do not need to be overwhelmed by overly

complicated processes. Understand the business needs and risks, and tailor the procurement approach to suit. Develop delegations and purchasing thresholds to suit the business needs and risks.

Manage risks consciously. Sometimes, DHBs are unwittingly accepting procurement risks because they have failed to consider all risks in a systematic way. Actively consider the risks associated with procurement and the responses required to reduce or manage those risks, particularly the risks around the underlying principles of openness, fairness, and value for money.

Consider risk early in the procurement process – more considered thought during planning generally leads to more considered responses to risks appropriate to the likelihood and consequence of the risk event occurring. Document the risk response and monitor whether it has the desired result. Amend the response if it does not. Consider new risks that may arise during the procurement process. Effective risk management is ongoing.

Keep the end objective of the procurement in mind at all times – do not let the process drive the decisions, but make the decisions drive the process).

## **Monitor performance**

Monitor procurement activity in proportion to its scale – give it the attention that an activity representing between 36% and 70% of total spending deserves.

Review procurement activity regularly for compliance with policy and procedure. Review the adequacy of risk management consideration and response.

Report the results of this review activity and the results of the procurement activity (including the measurement of achievement against the business objectives) to senior management, the Audit Committee, and/or the appointed or elected members of the Board (as appropriate).