

| VALUE-BASED PROCUREMENT | OPS-MS-110 |
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Overview

Public procurement processes are a valuable tool to promote innovation and improvement within specific sectors of the economy. Value-based procurement (VBP) focuses on achieving value (not products) and measurable outcomes such as quality, safety and cost. It preserves the current principles listed in the *Public Procurement Act* of being fair, open and transparent with vendors. In short, VBP involves qualified and interested suppliers to propose long-term, cost-effective, outcomes-based solutions in response to a healthcare issue or challenge. It occurs when the healthcare system procures a solution to a problem and the patient outcomes are measurable such as shorter wait times or there is a measurable operational outcome such as increased efficiency or cost savings.

Unlike the traditional approach of merely procuring products at the lowest possible cost, VBP actively engages the vendors, sees them as partners to co-design solutions and explicitly shares (through contractual relations) the financial risk and accountability for delivering outcomes. The process involves a closer strategic relationship between purchasers and vendors through the mutual exchange of information where purchasers learn about market solutions and vendors learn about healthcare system needs.

POLICY

VBP is to be used for departmental procurement of goods and services where it is efficient, economical and operationally feasible to do so.

This policy is to be used in conjunction with all procurement related policies of the organization.

VBP requires that bidders focus on suggested solutions to the problem that are predefined by the purchaser. This in turn can lead to solutions that are currently unavailable in the marketplace and potentially reduce costs. This is a fundamental change from previous procurement models as it focuses on “value” for patients and other stakeholders.

There are currently seven approaches, or VBP models, that focus on a call for solutions. Eastern Health supports the use of all approaches, which includes:

(1) Fixed Bundled Payments

The fixed bundled payment approach invites vendors to bid on all activities and procedures related to a specific illness. It can include the initial patient visit, necessary surgery, rehabilitation and follow-up. The resulting value-based response involves analyzing the cost of the service as well as the value of reduced use of services (associated with re-admissions to hospitals) and improvements in quality of life indicators and economic benefits. It can involve setting a predetermined, agreed upon amount for care related to a condition or medical event for a fixed-time period.

This approach is most suitable for conditions or procedures that have clear clinical pathways. It is less ideal for complex cases where there are multiple clinical pathways, low volumes of procedures or few providers of care. This approach requires timely and accurate data across multiple healthcare settings in order to both set the appropriate funding amount as well as assess the cost of outcomes. Strong physician engagement is also critical.

(2) Hypothetical Patient Cases

The hypothetical patient case approach involves the health provider organization creating fictitious patient cases for a specific condition and inviting innovative proposals to address the total cost of care for each case. It is particularly useful in medication procurement where there are multiple medications that are effective in treating a specific condition. The evaluation of bids focuses on the impact of each medication on the costs of the entire episode of care.

(3) Pretender Product Testing

The pretender product testing approach involves allowing several months of testing or evaluation by a health provider of several, alternate approaches by

competing bidders prior to a tender being awarded. The approach involves vendors coming forward with designs of their proposed solutions to healthcare problems prior to contracts being awarded.

(4) Establishing Disease Registries

Potentially contracting vendors to design specific disease registries that contain health outcome data may allow researchers or policymakers to readily identify patient outliers whose health outcomes are far worse than the average. This information can then be correlated with the care they received leading to assessments of variations in treatment patterns in relation to health outcomes. This in turn leads to policies that encourage best practices – promoting value-based outcomes. Vendor responses maybe evaluated based on their perceived ability to improve patient outcomes and cost.

(5) Risk Sharing

Risk sharing involves the health authority and the supplier sharing the financial risk associated with procurement decisions. It is commonly used in instances where implantable medical devices are expected to have a minimum life span. If the device does not achieve the guaranteed life span, suppliers are responsible for its replacement costs (including surgery and recovery costs). It provides a strong incentive for suppliers to provide reasonable life-span guarantees in their bids. It also encourages value by providing incentives for vendors to develop longer lasting medical technologies which benefits patients and purchasers.

(6) Competitive Dialogue

Competitive dialogue involves health authorities communicating with potential suppliers during the tendering process and prior to a bid being awarded. It is useful when there is a good understanding of the outstanding problem and the perceived desired outcome; however, purchasers are unaware of the best way to resolve it. It allows health authorities to make better assessments of alternative approaches.

It also allows for additional flexibility when the procurement is complex, the solution to an issue is unidentified and it is difficult to articulate the challenges being faced without discussing potential solutions with vendors. It works by allowing health authorities to discuss procurement with suppliers prior to them specifying the project requirements and prior to inviting suppliers to submit proposals.

(7) Vested Outsourcing

Vested outsourcing involves developing outsourcing relationships through a bidding process such that the health authority and its suppliers become “vested” in each other’s success. Under such arrangements, the healthcare authority and the vendor focus on outcomes from procurement, rather than transactions. They also focus on performance expectations without directing how to accomplish them. In such circumstances, the parties limit their expectations to only a few high-level measures of success.

Scope

This policy applies to all individuals who are responsible for procurement within the organization.

Purpose

This policy details the circumstances under which procurement officials would institute VBP processes and outlines the necessary steps.

Procedure

Stage 1: Definition of the Healthcare Challenge or Problem.

The individual(s) that identify an opportunity for VBP should prepare specifications and engage the Shared Services Supply Chain Department (SS-SCD) to review/issue the procurement document (Request For Quotation, Request For Proposal, Tender). Managing the procurement document is the responsibility of SS-SCD. SS-SCD staff in partnership with Eastern Health will review information about the problem or challenge with the individual, including:

- Fully identify a specific problem or issue;
- Quantify, using available data, the extent of the problem over time, the duration of the problem, and possible contributing factors;
- Determine if the policy problem has been compounding in time and to what extent;
- Identify relevant stakeholders – those that are impacted by the problem or its potential solution. This might include medical professionals, patients, or patient groups and healthcare administrators;
- Consult with relevant stakeholders as required; and,
- Identify key desired outcomes from the procurement process.

It is important to be able to quantify the healthcare problem or issue at the outset as this will enable measurement of whether the subsequent solution is effective.

Stage 2: Identifying a Procurement Model or Process

In consultation with Eastern Health management, stakeholders and the SS-SCD, the department responsible for the VBP opportunity selects the appropriate VBP procurement model or process to involve vendors. Vendor bidding commences using a process that is in accordance with Eastern Health and SS-SDC policies and procedures.

This stage, depending on the circumstances, may involve the health authority and/or vendors signing non-disclosure agreements to cover confidentiality and proprietary matters. The SS-SCD in consultation with Eastern Health legal counsel will determine whether such agreements are necessary.

Throughout the bidding process a variety of information, data, or documents may be developed and exchanged with vendors. The individual(s) responsible for obtaining or developing these may include Eastern Health's program manager, Director, VP involved, or SS-SCD.

Stage 3: Awarding the Successful Solution

Following the bidding phase, solutions to the identified challenge(s) may be refined and a solution that is believed to be the best fit is chosen. A contract drafted by Eastern Health's Legal Services is then awarded to the successful vendor(s). The Eastern Health program manager, Director, VP or project lead at SS-SCD compares outcome data to the data identified in Stage 1 that quantifies the baseline healthcare problem or issue.

Bids must be evaluated by a diverse and knowledgeable group of technical people across several domains including product prices; access to insured services; and, specific healthcare outcomes to an individual program or service or the healthcare system generally.

Supporting Documents *(References, Industry Best Practice, Legislation, etc.)*

- *Eastern Health. Value-based procurement strategy document. 2019*
- Government of Newfoundland and Labrador. (2018). *Public Procurement Act*. Retrieved from Office of the Legislative Council Newfoundland and Labrador website: <https://assembly.nl.ca/Legislation/sr/statutes/p41-001.htm>
- Snowdon A., Odette School of Business, University of Windsor, Innovation Procurement: Opportunities to Achieve Value, Presentation January 2019
- Institut du Québec in partnership with The Conference Board of Canada, Adopting Healthcare Innovations in Quebec. Suggested Alternative Models, Publication 8704, March 2017.
- Public Procurement Act, SNL 2016 Ch. P-41.001

Linkages

- OPS-MS-070 Purchasing of Goods or Services
- CH-1327 Approval to Post a "REQUEST FOR PROPOSAL" instead of a Tender

Key Words

Public Procurement Act
Value Based Procurement
Fixed Bundled Payments
Hypothetical Patient Cases
Pre-tender Product Testing
Establishing Disease Registries
Risk Sharing
Competitive Dialogue
Vested Outsourcing

Definitions & Acronyms

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