

Chapter 42

Procurement in the HSE

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42.1 The HSE is the largest purchaser in the State, spending in the region of €7.2³²⁸ billion in 2010 on a diverse range of goods and services. These goods and services range from food to professional services, to medical and surgical supplies.

42.2 Ultimately, around €1.3 billion of the 2010 spend is amenable to ongoing procurement management with the remainder accounted for by

- voluntary hospitals³²⁹ who had a non-pay spend of approximately €800 million
- drugs and medicines costing approximately €2 billion and which are covered by an agreement between the HSE and the Irish Pharmaceutical Healthcare Association (IPHA) on the pricing and supply of medicines to the Irish Health Service that came into effect in September 2006³³⁰
- payments to contractors (GP's, Pharmacists, Dentists, Optometrists and Ophthalmologists) of approximately €80 million under the general medical services scheme and other community drug schemes
- other payments of approximately €1.1 billion comprising, *inter alia*, nursing home and contract beds, capitation payments, clinical indemnity insurance, foster care and other allowances
- grants to other outside agencies of approximately €1.1 billion.

42.3 This chapter relates to ongoing procurement and does not extend to the specific arrangements outlined above.

Organisational Structure

42.4 In 2007, the HSE established a Procurement Directorate with responsibility for managing its entire procurement function. The Procurement Directorate which became operational in November 2010 has three delivery divisions³³¹. At March 2011 those divisions were

- Portfolio and Category Management
- Logistics and Inventory Management
- Communications, Training, Customer Relationship Management and Business Support.

42.5 The HSE has stated that the procurement restructuring was designed to

- strategically source goods and services and centralise the tendering and contracting processes to increase contract coverage
- improve service to customers
- provide better visibility and control of stocks
- improve efficiencies in terms of reduced staffing

³²⁸ This figure is based on the HSE accounts for 2010.

³²⁹ For the voluntary hospitals, there is a Hospital Procurement Services Group (HPSG) in place. The HPSG provides a forum for the voluntary hospitals to work together to lever their purchasing power.

³³⁰ This framework is in place until March 2012. It applies to all medicines that can be prescribed and reimbursed under the community drugs schemes and all medicines supplied to the HSE, HSE hospitals, voluntary hospitals and other State bodies that provide medicines.

³³¹ The delay was due to industrial relations issues.

- improve sourcing options
- reduce surplus stockholding by improving logistics and inventory systems
- promote a professional approach to procurement with education and training
- implement a procurement shared service to provide support to the procurement divisions and other stakeholders.

42.6 The restructuring involved combining 360 staff with dedicated procurement and logistics roles with around 320 other staff that had full-time procurement roles. Prior to the change a large number of staff also had partial procurement roles. By June 2011 the vast bulk of procurement personnel were operating within a single directorate³³².

42.7 The new operating model was to be underpinned by defined procurement processes and procedures throughout the HSE with a particular emphasis on

- having procedures for putting frameworks in place as well as a process to allow full visibility of spending
- standardisation of the processes of requisitioning, ordering and master data maintenance
- having procedures in place to deal with parliamentary questions and customer queries and a structured training process for all procurement staff.

Chapter Focus

This chapter reports the results of a review of

- the extent to which framework agreements and contracting have been implemented since 2007
- the changes in inventory management
- information systems to support procurement management
- the savings being achieved on procurement adjustments by the HSE.

It also examines conformance with Department of Public Expenditure and Reform Circular 40/2002 (see Chapter 9 for a general outline of that matter).

The audit findings are based on reviews carried out in March and July 2011. The operation of procurement was reviewed in two hospitals and two local health areas.

The scope of this chapter is limited to ongoing procurement of goods, supplies and services excluding arrangements for the purchase of drugs and medicines and services from doctors, dentists, voluntary hospitals and voluntary bodies.

³³² The move was facilitated by a Labour Relations Commission agreement of November 2010. Around 50 staff still have to be transferred.

Framework Agreements and Contracting

42.8 The principal contribution of the Portfolio and Category Management Division is the putting in place of central contracts to facilitate procurement. While contracting is effected through a number of procurement officers, the aim of the reforms were to introduce an element of centralisation by creating a directorate that would put national and regional contracts and framework agreements in place and provide contracting support at local level (when frameworks are not applicable).

Framework Agreements

42.9 Frameworks allow the HSE to place contracts with suppliers that are party to the framework without having to carry out multiple open tendering procedures. Where frameworks are put in place the aim is to provide an economic and efficient means of purchasing goods and services. This is potentially achievable through the opportunity it affords to place contracts with suppliers for multiple requirements with value being gained through

- reduced administrative costs of tendering
- bulk buying
- moving away from local to regional or national pricing and
- targeting areas where economies can be gained through awareness of market conditions.

42.10 Frameworks can also encourage competition by allowing suppliers to group together in submitting tenders or by having the purchase requirement broken down into lots.

Framework Agreements

Expenditure by the HSE is governed by national rules, EU procurement rules and HSE procurement policy. Within the EU procurement rules, framework agreements were introduced as a means of facilitating cost effective procurement of goods and services. The Directive^a provides guidance on the procedures for setting up frameworks, the types of frameworks that can be used and the procedures for awarding contracts based on a framework.

A framework is defined in the Directive as *‘an agreement between one or more contracting authorities and one or more economic operators, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price and, where appropriate, the quantity.’* Framework agreements can be with one or more participants. A one party agreement for the provision of works, supplies or services can be put in place with a single supplier based on a competitive tendering process. A multi-party framework can be established by inviting and selecting suitable parties to participate.

Note: a Directive 2004/18/EC

42.11 The frameworks used to date by the HSE are multi-party frameworks agreements. The criteria for the award of subsequent contracts are set out in those frameworks and as requirements arise, the HSE contacts the participants in the framework and invites them to submit competitive bids in mini-competitions. An appropriate timeframe must be allowed for the submission of bids for the mini-competition. However, this timeframe is not prescribed. Bids received are evaluated and contracts awarded on the basis of award criteria indicated under the rules of the framework.

42.12 At July 2011, the HSE had 52 framework agreements in place. These frameworks fell into the categories outlined in Figure 168.

Figure 168 Frameworks by Purchase Category

Purchase Category	Number in Place
Pharmaceutical and medical ^a	4
Professional services and office supplies	14
Hotel type services	9
Equipment, laboratories and diagnostics	25

Note: a The products in question are outside the IPHA agreement.

42.13 In regard to overall use of frameworks, it is estimated by the HSE that 97 mini-competitions have taken place to the value of €217 million between May 2008 and July 2011.

Use of Framework Agreements

42.14 From sampling conducted in two hospitals there was scope for extending the use of frameworks in that goods and services procured from 21 suppliers out of a sample of 45 were considered to be suitable for framework arrangements. The products which would be suitable ranged from waste disposal and X-ray products to printing and stationery. The spend in 2010 for these suppliers was approximately €6.47 million.

42.15 Overall, it was found that most hospital procurement was not done under frameworks. In the testing, three framework agreements were found to be in use. The reason for limited use appeared to be due to the fact that the use of framework agreements by procuring officers is not mandatory and HSE staff (outside of the Procurement Directorate) making purchases indicated that they were unaware of their existence. On the other hand, the HSE Procurement Directorate stated that all frameworks are mandatory when they meet the requirement of the end user.

42.16 In the two local health areas reviewed, 27 of 101 suppliers were contracted under framework agreements (approximately 19% of the value of a sample of procurement had been sourced under framework agreements). Four companies made up 58% of the purchases under frameworks. These purchases were mainly incontinence products, bedding and mobility aids.

42.17 The Accounting Officer stated that the HSE plans to increase the use of frameworks in all categories as appropriate. The precise level will be determined as part of the roll out of a portfolio and category analysis strategy. He stated that it is not possible to provide an exact figure until each category is fully analysed.

Conclusion – Framework Agreements

The audit noted considerable scope to extend frameworks to other categories of procurement.

At hospital level, there appears to be room for further extension of frameworks to supplies and services where they are not currently utilised. It was noted that supplies and services from 21 of 45 suppliers reviewed would be suitable for framework arrangements. The products which would be suitable ranged from waste disposal and X-ray products to printing and stationery.

Contracting Arrangements

42.18 It was found that hospital level procurement was not covered by valid, in-date, contracts in the case of 25 of the 45 suppliers reviewed.

42.19 In the two hospitals, eight of the 45 suppliers had no contracts in place³³³ (approximately 21% of the value of the sample). A further 17 suppliers had contracts that were out of date (approximately 26% of the value of the sample).

42.20 The audit noted that there continues to be factors impacting on procurement efficiency. For instance, a consultant may have a clinical preference for a certain product but be unaware of the financial cost of that product in relation to similar products.

42.21 Contracts were not in place for 63 of 101 suppliers in the local health areas (approximately 69% of the value of the sample).

Conclusion – Procurement

There is scope to improve the extent of formal contracting and ensure that contracts are up to date. Only 18 of the 45 contracts reviewed in the two hospitals were covered by a current contract.

As in the case of hospitals, considerable scope exists to use formal contracts and framework agreements in the local health areas.

The Accounting Officer stated that those conclusions are acknowledged by the HSE Procurement Directorate and are key objectives of the HSE's current strategies.

Inventory Management

42.22 A review of logistics and inventory management was carried out by PricewaterhouseCoopers³³⁴. At the time of the review, a variety of manual and computerised requisitioning and replenishment processes were in place across the HSE. Frontline staff were involved in the processes and it was estimated that these processes can take up to a half a day each week to implement in each ward. The processes used and information systems deficiencies led to

- lack of visibility of what was being ordered and by whom
- inability to manage deliveries in an economic way
- using staff to manually match invoices with delivery dispatch docketts.

³³³ The bulk of suppliers examined had supplied goods to a value greater than €25,000. Two procurements were below the limit necessitating formal contracts.

³³⁴ Review of Logistics and Inventory Management April 2010 – PricewaterhouseCoopers.

42.23 The audit also noted that a wide variety of inventory systems are in use across the HSE. Consequently, there is considerable scope for streamlining systems and procedures in order to ensure that a joined-up, timely stock distribution system is in place. The HSE has taken initial steps towards introducing a Point of Use system (POU). As well as facilitating just-in-time replenishment through its on-line capability, the POU model generates stock-holding savings, because only operational usage levels are maintained and these goods are delivered directly to the end users (i.e. hospital wards and other service delivery units).

Point of Use Systems in HSE

The HSE is implementing a Point of Use (POU) stock system at certain sites. The POU model is built on the 'Kan-Ban' system of local bar-coded rolling forward bin systems. These bins are scanned at least on a weekly basis by on-site stores staff and electronic requisitions are produced and processed.

This requires ICT infrastructure and adaptation to replace manual requisitions with automated processes. The HSE estimate that 750 locations would benefit from POU management. By December 2010, a POU system was in place in 146 locations across all four regions. In 2011, 80 other locations are being targeted for implementation.

42.24 It is estimated by the HSE that for every instance where POU has been introduced substantial benefits have been achieved including

- demand for products was reduced by 7% on average over time since stockholding is reduced as users get confident about availability
- once off inventory cash saving of approximately 30%
- a clinical time saving of approximately 10%.

42.25 The Tullamore warehouse has this facility in place and it also exists to degrees in three hospitals³³⁵ in that region. These three hospitals are the only sites currently being enabled for the POU system in this region. During the audit the operation of the POU system in Tullamore was reviewed. The audit found that the system had been put into use and was operating satisfactorily.

42.26 In May 2011, the HSE estimated that approximately 70% of transactions are processed outside the Logistics and Inventory Management systems. Addressing this would require the introduction of either a new centralised ordering system or a user friendly self-service ordering system. Both systems would need a uniform coding system for stock items to be developed and a computerised system that would have the capacity to deal with approximately 12,000 stock items. If a centralised ordering system were introduced, it would require more staff. Accordingly, the Accounting Officer has informed me that rather than centralising spend, which would have resource implications, the HSE medium to long-term strategy³³⁶, is to enable effective self-service requisitioning which, in turn, is dependent on acquisition of a user friendly purchasing system.

³³⁵ The implementation of the POU model is almost finished at Tullamore General Hospital, with both Mullingar General Hospital and Portlaoise General Hospital expected to be finished by the end of 2011.

³³⁶ This is articulated in its National Finance and Procurement System Business Case.

Conclusion – Inventory Management

A wide variety of inventory systems are in use across the HSE. Benefits from introducing computerised inventory systems have been identified. However, these benefits must be weighed against the resource implications. A cost benefit analysis should be done to inform the longer term development of inventory management.

Information Systems

42.27 Purchases by the HSE are varied extending to 400 categories of products and services. Most of these categories require a specific approach – for instance, the market for medical and surgical supplies is organised on a different basis to that for food. Across the procurement categories there is variability in the frequency of recourse to the market and the level (national, regional or local) at which that market approach occurs. Within the €1.3 billion spend, the subject of this report, there are three major buying categories that each involve expenditure of over €100 million per annum and a further 12 which involve expenditure of between €25 million and €100 million per annum.

42.28 The three major categories of expenditure (in excess of €100 million per annum) are

- medical equipment, supplies and services including orthopaedic, renal dialysis, dental, ophthalmic, cardiac, medical gases, radiotherapy, continence products, aids and appliances
- professional services including medical, accounting, legal and management services
- office expenses, rent and rates.

42.29 It is difficult to accurately gauge how many different products and suppliers are involved because of the absence of national product and supplier codes.

42.30 The absence of a co-ordinated ordering system within the HSE has hampered the generation of accurate, timely and consolidated information on vendors, products, use and user locations across HSE. This works against the desirable approach of constructing strategies for categories of procurement and tenders that accurately reflect the buying power of the organisation.

42.31 In the absence of a single system with a single national catalogue, there are multiple coding systems. In practice, there is considerable duplication, and in some instances, a single code is used for a group of products. The capacity of the HSE to match these codes between systems is limited. Each time a new contract is put in place it has to be mapped to all the legacy systems which is time consuming and results in duplication of effort. This also makes it difficult to extract information about spend as it is necessary to have extracts from all systems to ensure comparison.

42.32 According to the HSE, although there is automation in some regions, more than 55% of invoices are processed manually. It is estimated that less than 10% of invoices, goods received notes and purchase orders are electronically matched.

42.33 During the period April to June 2011, a functional specification for a computerised National Finance and Procurement System was developed. According to the HSE, further progress will be dependent on initiation and successful progression through peer review. The peer review process has not occurred to date.

42.34 The current status of other technology to support the new operating model is that

- The redevelopment of the e-tenders website to include on-line tendering and bid quote management was being finalised. While it was anticipated that it would be fully operational in December 2011, the procurement process has not yet been completed.
- The development of a procurement portal to provide a single point of contact for all procurement related queries has been completed. An area within the HSE intranet serves as a repository for all standard procurement documents. The portal also provides a facility for procurement e-learning.
- A customer relationship management toolkit to support, capture and track customer queries in the new shared service environment is being tested and it is anticipated that it will be rolled out in late 2011.
- The development and maintenance of a single national material master product list had commenced and up to 32,000 products were recorded and mapped within the category structure. However, this project ceased in 2007. At that time there were still at least another 70,000 products to be mapped.
- A prerequisite to having a master product list is having an electronic system to host it on. Under a financial information system project (FISP), a common version of SAP was to be introduced, upon which the product list was to be hosted, however, FISP was suspended in October 2005, pending a review by the HSE. Currently, there is no platform to hold the national master product list of 12,000 codes³³⁷.
- The development of a single national vendor master file was commenced and the top 100 vendors were identified, but further work is required to complete this project. However, in this case also, a prerequisite to utilising a national vendor master file is an electronic system upon which to host it.

Conclusion – Information Systems

The control and management of procurement arrangements is hampered by the fact that

- a consolidated view of HSE procurement is not available
- timely and relevant information to allow for the better management of purchasing is not available to management
- there is lack of process standardisation
- processes including updating of permanent details of suppliers are duplicated by virtue of the use of 12 different procurement systems
- visibility over stock levels and control over ordering is impeded by the absence of a national centralised inventory system. These deficiencies are compounded by the fact that there are over 140 stores in the system and there are non standard approaches to ordering across product lines.

³³⁷ When the mapping exercise is completed, approximately 12,000 codes will be required to cover all products.

Achievement of Savings

42.35 The HSE has targeted savings in the area of procurement since 2008. It has gradually increased the number of areas targeted.

42.36 The audit found that the savings reported for 2010 were based on calculating

- the savings arising out of the prices renegotiated
- the reduction in prices on the new contracts awarded in that year compared with the 'old prices' in the previous contracts
- savings achieved by reducing stock levels.

42.37 There was no system in place to target all procurement areas in 2010 and there was no integrated system in place to ensure that the reported savings were realised.

42.38 Figure 169 sets out the reported results for 2010.

Figure 169 Reported Procurement Savings 2010

Activity	Target €m	Achieved €m
Stock level reductions	8	18
Savings	54	41
Total	62	59

Source: Health Service Executive

42.39 As part of the HSE 2011 Service Plan, €8 million in savings from the Procurement Directorate were targeted.

42.40 The main approaches to the targeting of savings were

- contract renegotiation with existing suppliers to achieve lower prices
- implementing new contracts following either a tendering competition or undertaking mini-competitions under framework arrangements
- stock reduction by reducing central stock levels and implementing POU projects
- reviewing areas of discretionary spend such as maintenance
- reviewing leasing arrangements.

42.41 By mid-2011 the HSE reported having achieved €0 million of the targeted €8 million savings for 2011. Its approach is more intensive than in 2010, since, in 2011, procurement staff are visiting sites to ensure that new contract prices are being implemented and the savings are being realised.

Conclusion – Reported Savings

As part of the audit, a review was done to validate the supporting documentation to ensure proper processes were in place and that projected savings were valid. Projected savings of just over €2 million were reviewed.

It was found that the recorded notified savings were supported by back up documentation and the savings reported were being realised.

Tracking Conformance with Central Government Rules

42.42 Department of Public Expenditure and Reform Circular 40/2002 requires the HSE to complete a report in respect of contracts above €25,000 (exclusive of VAT) that have been awarded without a competitive process. On foot of this requirement, a report was made to the Department of Public Expenditure and Reform and my Office in April 2011. That report recorded 59 instances of departure from competitive procurement. The full report was reviewed and the HSE were requested to validate the information. The HSE sent a revised version with 60 instances. This contained ten instances where the contracts should not have been included (see chapter 9). The HSE has been requested to submit a further revised version. On the other hand, audits carried out indicate that many instances of non-competitive procurement that should be reported are not returned.

- In the hospitals and local health areas reviewed, 63 suppliers were found that should have been recorded on the return but were not.
- In one local health area a return had been made to the relevant line manager but the details were not recorded in the central return submitted to my Office.

42.43 During the audit of Consultancy and External Support reported at Chapter 45, it was found that four cases should have been reported on the 2010 return but were not and in 2009, 12 of the consultancies should have been reported in the 40/2002 return for that year but again were not. Separately, it was noted that payments were made to a firm which should also have been included on both reports.

42.44 Overall, the HSE has no system in place to ensure that all its functions and units have compiled and reported details of their non-competitive procurement and to ensure that returns are consolidated into an organisation wide return. This needs to be addressed by the HSE and the validation procedures suggested by the Department of Public Expenditure and Reform e.g. reviews by internal audit implemented.

Conclusion – Tracking Conformance with Central Rules

The HSE needs to put additional procedures in place to capture the full extent to which procurement is conducted without competition and implement the full requirement of the Department of Public Expenditure and Reform Circular 40/2002. This could also position it to improve its procurement outcomes from a value perspective.

General Views of the Accounting Officer

42.45 The Accounting Officer stated that the HSE has developed proposals for a revised national logistics and procurement strategy. The implementation of these proposals will lead to increasingly effective use of healthcare resources and support the elimination of waste within the health system. The HSE also intends to focus on building its management capacity and capability in procurement. Specific objectives include

- extension of contract coverage through continued roll-out of the portfolio and category management strategy
- increased point of use management at ward level supported by an efficient warehouse distribution network
- development of modern ICT system to improve visibility, control and efficiency.

Conclusion

The HSE is in the initial stages of reorganising its procurement function. Evidence from on-the-ground audit review suggests that

- There is scope to use national frameworks more and ensure that purchasers use existing frameworks.
- Contracting needs to be improved and procurement based on current contracts as opposed to roll over purchasing.
- The HSE is hampered by not having an organised classification of its common purchases nor the dynamic capacity to manage its inventory through joined up computer assisted requisitioning and logistics.

While benefits have been identified in the case of inventory systems a weighing of those benefits against additional cost of new systems would help inform further investment decisions.

Most savings reported to date have been due to contract renegotiation or achieving keener prices in subsequent tendering rounds.

The HSE has not put an adequate system in place to track non-competitive procurement. Audits have noted considerable non-reporting of contracts/purchases in excess of €25,000 which were not the subject of a competitive process and should have been reported.

The change management process involved in the reorganisation of procurement would benefit from the creation of a specific programme with a set of change goals and associated savings targets.

