



Feidhmeannacht na Seirbhíse Sláinte
Health Service Executive

Feidhmeannacht na Seirbhíse Sláinte
Rannán Gnóthaí Parlaiminte
Oifig an Ard-Stiúrthóra
Bloc D, 2 urlár
Ionad Gnó Gheata na Páirce
Sráid Gheata na Páirce
Baile Átha Cliath 8
Teil. (01) 635 2505
Facs (01) 635 2508
Rphost: pad@hse.ie

Health Service Executive
Parliamentary Affairs Division
Office of the Director General
Block D, 2nd floor
Parkgate Business Centre
Parkgate Street
Dublin 8
Tel: (01) 635 2505
Fax: (01) 635 2508
Email: pad@hse.ie

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Ms Eilis Fallon
Committee Secretariat,
Public Accounts Committee,
Leinster House,
Dublin 2.

Re: PAC Ref: S0138 PAC33

Dear Ms Fallon,

I refer to your recent correspondence to Mr. Paul Reid, Chief Executive Officer, Health Service Executive and the request for a note on the timeline for implementation and completion of procurement system.

Please find below for the attention of the Public Accounts Committee members a briefing note on the matter as requested.

If any further information is required please do not hesitate to contact me.

Yours sincerely,

Ray Mitchell
Assistant National Director
Parliamentary Affairs Division

Encl.



HSE Procurement Compliance & the Integrated Financial Management and Procurement System (IFMS)

Response to correspondence received from Committee of Public Accounts (Ref: S0138 PAC33)

February 2021

Purpose of this Paper

The purpose of this paper is to provide an update to the Committee of Public Accounts (PAC) in relation to the **Health Service Executive's (HSE) ongoing work to reform and improve procurement compliance, and specifically, the timelines for implementation of the single national integrated finance and procurement system, IFMS, in the health sector.**

Following its meeting of 4 November 2020, the PAC issued correspondence to the HSE, dated 20 January 2021 (Ref: S0138 PAC33), requesting:

- details in relation to the **timeline for implementation and completion** of procurement system.

This paper provides:

1. key messages;
2. a summary of the **background and context** for the IFMS project;
3. an outline of how the **current systems landscape poses significant challenges** and how the **implementation of IFMS will strengthen the overall control environment**, enabling enhanced procurement compliance; and
4. an overview of key **IFMS project stages and milestones** including the **timeline for implementation**, progress achieved to date and next steps.
5. detail on the current approach to **mitigate procurement compliance risk in the short to medium term** until such time as IFMS is fully implemented across the HSE.
6. a **summary of immediate focus areas** for the Procurement Compliance Improvement Programme, taking into account the impact of the ongoing response to the COVID-19 pandemic.

1. Key messages

- IFMS is a single national finance and procurement system for the entire health sector.
- While the development of IFMS progresses, work continues within HSE (HBS) Procurement to develop a consistent view of, and be in a position to report on, and support our services to address, procurement non-compliance.
- Specifically, the HSE has constructed a single database of all payments over €25,000 made in 2020, and is on track by Q2 2021 to be able to provide an assessment of the level of non-competitive and / or non-compliant procurement within that database, consistent with the requirement under the *Code of Practice for the Governance of State Bodies*.
- IFMS has been developed under the HSE Finance Reform Programme – a significant transformation programme for the health sector in terms of scale and complexity.
- IFMS will involve the operation of standardised financial and procurement processes, through the expansion of the current HSE shared services model, on a single contemporary integrated technology platform.
- From a procurement compliance perspective, IFMS will provide a single integrated view of all purchasing and enable the leveraging of the full procurement capacity of the health sector by reporting aggregated, quality data at a catalogue item and vendor level.
- Key milestones of the IFMS project are Q3 2023, when IFMS will be deployed to cover 40% of the expenditure in health (end of Phase 1), Q4 2024 and Q1 2025, when coverage will reach 80% and 90% of total expenditure respectively. Roll-out is prioritised by areas of significant expenditure.
- COVID-19 has impacted on the progress of the IFMS project as well as on procurement compliance activity. The first wave resulted in a delay of approximately seven months on overall project timelines. This impact was mitigated to a net delay of four months. The third wave has had an estimated impact of two months, bringing estimated net delays over the full project duration, to six months against plan.

2. Background and context for the IFMS Project

The new operating model for Finance is a significant transformation programme for the Health System in both scale and complexity. The Finance Reform Programme (FRP), established under the *Finance Operating Model (FOM) Business Case (June 2014)*, is delivering the programme on a phased basis, incorporating People, Process and Technology. The FOM is underpinned by a new Integrated Financial Management System (IFMS) and a mandated *Irish Health Service Financial Management Framework*, incorporating a national shared services model, in line with the Government mandate to expand and accelerate the use of shared services in the Irish Public Service, as one of the key cross-cutting reform initiatives under the Public Service Reform Programme.

IFMS will involve the operation of standardised financial and procurement processes, through the expansion of the current HSE shared services model, on a single contemporary technology platform (SAP S/4 HANA). The system will be adopted by all HSE directly provided services, all voluntary organisations funded under S.38 and larger S.39 funded organisations (> €3-€10m).

3. How IFMS will address current challenges

Prior to IFMS implementation, the lack of appropriate ICT capacity and systems integration has been a key constraint in terms of our ability to accurately and effectively track and mitigate procurement non-compliance. Other challenges, including from the evolving nature of organisational structures and operating model in the health system over many years, are also a major contributing factor in this regard. The current health procurement environment covers a vast scope, is hugely complex, and can be characterised by a number of key legacy issues such as:

- Multiple, fragmented legacy finance and procurement systems;
- geographical variation and non-standard processes;
- a lack of timely, relevant management information;
- inability to aggregate expenditure for vendors and products due to data inconsistency across legacy systems;
- extensive manual order processing;
- non-standardised and inconsistent product coding at a local level, leading to extensive data interrogation, tracking and reporting constraints;
- the lack of availability of suitably skilled and competent public procurement resources; and
- a lack of integrated budget holder procurement planning.

The impact of these legacy issues currently creates a substantial challenge to the HSE in presenting a consolidated view across the health procurement environment.

The deployment of IFMS - a single standardised financial and procurement system across the entire health sector - will, for the first time, provide quality, timely and standardised financial and procurement information across both statutory and voluntary services. Improved, transparent and better-supported governance, data governance, compliance, performance and accountability at local, regional and national level are central to the design and delivery model for IFMS. From a procurement compliance perspective, it will provide a single integrated view of all purchasing and enable the leveraging of the full procurement capacity of the health sector by reporting aggregated, quality data at a catalogue item and vendor level.

4. IFMS Project Timelines, Stages and Milestones

COVID-19 Impact on IFMS Project

Given the recent surge in cases of COVID-19 in the community and the related increase in outbreaks, including in nursing homes, hospitalisations and ICU admissions, there is unprecedented pressure on key IFMS project stakeholders who are involved in the delivery of services. Project governance on 22 January invoked a contract suspension mechanism to achieve a no-penalty pause in the IFMS project, for the minimum 30 working day period provided in the contract. The Systems Integrator was formally issued with the required notice to give effect to the minimum suspension period from 22 February until 7 April 2021 after which time it is anticipated that the current extraordinary service pressures will hopefully have abated and participation of key service stakeholders in the system design can resume.

While the temporary suspension is regrettable from a Project perspective, it is considered the most appropriate response in the circumstances to support our services and temporarily remove, to the greatest extent possible, any non-essential burden on our colleagues and the essential patient facing services they are delivering. Clearly there is a degree of uncertainty around any assumptions made in relation to the course of the disease and the Government's response to same so the timelines around suspension and resumption will be kept under continuous review.

Please note that where project dates are referenced in this document, these are taken from the current approved project plan. Detailed re-planning is underway to take account of the impact of the suspension period and other COVID-19 impacts on the project. This revised plan for the impact of the third wave will be recommended to governance for approval on resumption of the project in April 2021.

The combined impacts of COVID-19 equate to project delays of approximately six months against original timelines. The project was replanned in 2020 after the impact of first wave, with the delay estimated at seven months but mitigated to a net delay of four months. The incremental impact of the third wave is estimated at approximately two months. Clearly there is a degree of uncertainty around any assumptions made in relation to the course of the disease so the timelines around suspension and resumption will be kept under continuous review.

IFMS Implementation Timelines

Following a properly-procured public tender process SAP was selected as the software platform for IFMS in June 2017. The procurement process for a System Integrator (SI) to support the HSE with the detailed design, build and testing of the system within SAP was concluded in September 2019 and accordingly the Board approved the appointment of the SI in December 2019.

Notwithstanding some delays and disruption to the project plan as a result of the COVID-19 pandemic, detailed design of the national system was progressed during 2020 with the commencement of the six-month build and test phase scheduled for April 2021, after which operational deployment across the health system will commence. It is anticipated that the IFMS will have successfully been deployed to cover 40% of the expenditure in health by Q3 2023 (end of Phase 1), 80% by Q4 2024 and 90% by Q1 2025, with roll-out prioritised by areas of significant expenditure, see Figure 1 and Figure 2, below.

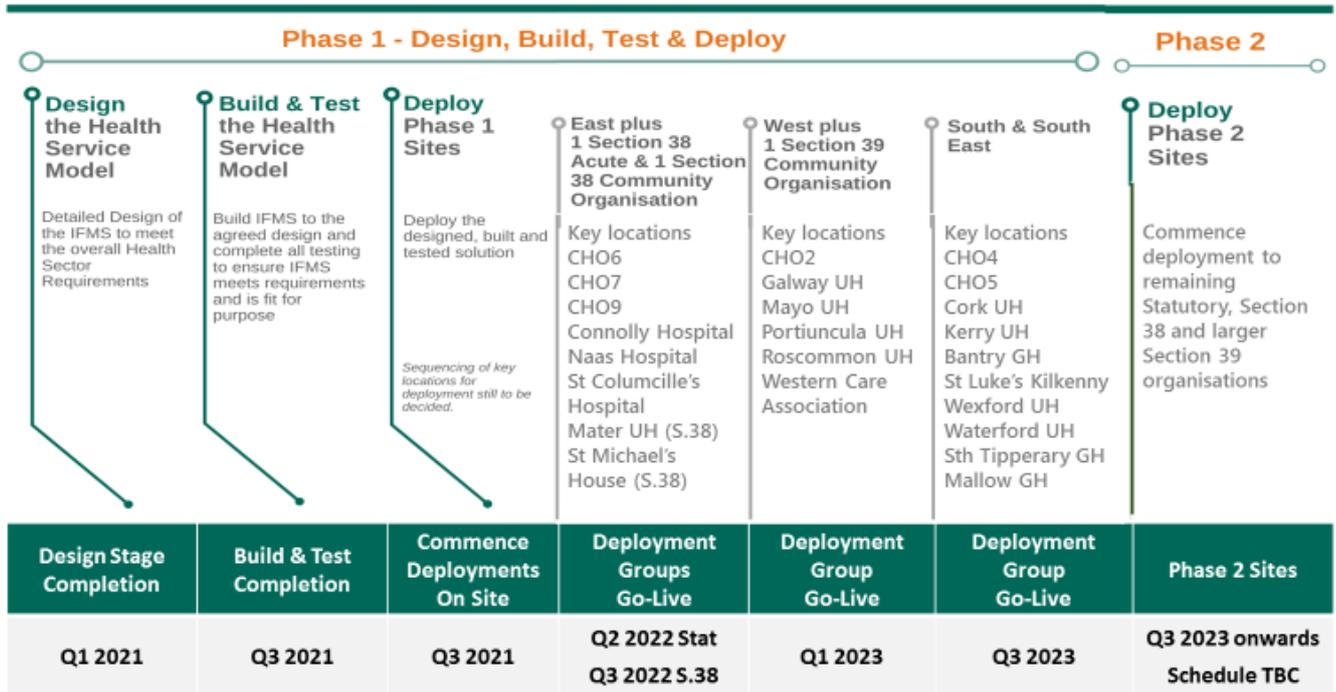


Figure 1: IFMS Phase 1 and Phase 2 deployment timelines

IFMS Deployment Phases & Lots	Work Stream	Phase 2 Lot Indicative Finish Dates	Cumulative % of health funding on IFMS
Phase 1 - Deployment Completed Q3 2023 (Aug)	-		40%
Phase 2 - Lot 1 (balance of HSE areas and PCRS)	1	Q4 2024	80%
Phase 2 - Lot 2 (Large Vol. Acute S38's and CHI)	2	Q1 2025	90%

Figure 2: Indicative timelines for Phase 2 IFMS deployment subject to standing up a second internal implementation team running in parallel across multiple deployment lots/groups.

5. Mitigation of procurement compliance risk pending IFMS implementation

Pending the full operational deployment of IFMS, a key strategic priority for HBS Procurement has been and is to improve the overall compliance of HSE expenditure with procurement regulations, and a robust roadmap is in place for delivering this ambition. The HBS Strategy 2020-22 tasks HBS Procurement with delivering key actions to drive improved overall compliance with procurement regulations across the HSE. These include:

- Expanding the Procurement Compliance Improvement Programme
- Expanding Procurement contract coverage and increase level of spend under management

In addition, the annual HBS Procurement Strategy / Operational Plan provides direction regarding key objectives and targets to be achieved. These include:

- Increasing compliant contract coverage by investing in a dedicated professional national sourcing and contracts division working in partnership with the OGP, and a Corporate Procurement Planning / Capacity Development division.
- Improving visibility, control and compliance for routine stock expenditure by investing and expanding the National Distribution Centre (NDC).
- Implementing and developing Sourcing Plans and Compliance Improvement Plans.
- Increasing in the number of contracts and frameworks to optimise compliant spend.
- Introducing SAP Ariba eProcurement system providing online access to ordering and receiving goods and services from Contracts and Framework Agreements in a highly efficient and regulated environment.
- Proactively engaging with stakeholders to improve procurement compliance awareness.
- Introducing a Competency Framework covering each role in Procurement enabling targeted development of staff / Personal Development Planning (PDP).
- Developing and implementing a bespoke QQI accredited Level 7 Certificate and Diploma for health service buyers (University of Limerick).

There has been a significant amount of infrastructural work underway for a number of years which has and will continue to facilitate the HSE's efforts to improve compliance efforts. Key initiatives in this regard include:

- The rollout of the Procurement Project Management System (PPMS).
- Continuing development of the Pricing and Assisted Sourcing System (PASS).
- Development of a Procurement Data Warehouse and a related Compliance Improvement Tool (CIT) which will allow the HSE to identify uncontracted expenditure.
- Ongoing training for relevant staff. In addition HSE staff are working with the Office of Government Procurement (OGP) to develop accredited 3rd level professional training specifically tailored for public procurement specialists.
- Mobilisation of the Procurement Planning & Capacity Development Section.
- The establishment and roll-out of the HSE National Logistics / Distribution Service, including the National Distribution Centre (NDC) and the key strategic hubs across the geographic regions.

Reporting on Procurement Non-Compliance for 2020

Work is ongoing within HBS Procurement to develop a consistent view of, and be in a position to report on, and support our services to address, procurement non-compliance.

The Code of Practice for the Governance of State Bodies 2016 (The Code) requires the HSE to confirm that it has procedures and policies to ensure compliance with current procurement rules and guidelines.

The Code requires this confirmation to be included in the annual statement on internal control and appropriately reported by the Chair of the Board to the Minister. Any exceptions or control weaknesses including the level of non-compliance should be disclosed.

Prior to the impact of COVID-19 the HBS had commenced procurement improvement actions (per HBS strategy 2020-2022) intended to ensure that the level of non-compliant procurement could be disclosed in line with the Code. Specifically, the HSE had plans in place to develop a comprehensive database of all payments in 2019 with a value of €25k or more (there are some 20,000 payments of this value), but this work had to be paused because of COVID-19.

Work has commenced to develop a similar database for payments made in 2020 (i.e. those >€25k). For each payment, the database will identify – on the basis of both known information by the HBS Procurement team, and in discussion with HGs, CHOs and other customers – the following:

- The payment was subject to a competitive tender process and was therefore compliant
- The payment was not subject to a competitive tender process but was nonetheless compliant
- The payment was not subject to a competitive tender process and was not compliant.

This work has commenced and it is expected that it will conclude in parallel to finalisation of HSE Annual Report for 2020, expected in May 2021.

6. Key Focus and Next Steps Pending IFMS Implementation

Impact of COVID-19 Response on Procurable Spend

Notwithstanding the volume and complexity of normal procurement activity to meet the needs of the healthcare system, the COVID-19 pandemic has brought very significant urgent requirements in unprecedented supply market conditions. These requirements have arisen across multiple categories including Personal Protective Equipment (PPE), ICU / Medical and Laboratory Equipment, Testing, and other related goods and services. In total, purchase order contracts to the value of circa €1.1bn were issued to >300 suppliers to meet identified requirements in response to COVID-19.

Renewing Focus on Procurement Compliance

Having stabilised our COVID-19 supply lines, the HSE is now re-establishing the focus on procurement compliance. While significant progress has been achieved to enhance procurement compliance in recent years, continued sustained effort is required in this regard. Procurement compliance remains a strategic focus for HSE. Renewed focus is now needed to progress urgent activities, while also managing the ongoing COVID-19 response. Next steps include:

1. Immediate release of Corporate Procurement Planning / PMO Team from COVID-19 PPE work and backfill as required.
2. Commence generation of monthly spend data >€25K for all 33 Corporate Groups.
3. Populate digital Corporate Procurement Plan for each of the 33 Corporate Groups.
4. Procure PM support for expanded Compliance Improvement Programme.
5. Induct each Corporate Group into Corporate Procurement Planning Programme and commence detailed analysis >€25K.
6. Finalise Drugs and Medicines DPS and register this on PPMS Contracts Database (€600m).

Notwithstanding the challenges identified the HSE has a strategic plan in operation designed to improve the overall landscape of procurement compliance in the next three years.

HSE

February 2021