Procurement Functional Review

Illawarra Shoalhaven Local Health District
August 2018

Commercial in confidence

The better the question. The better the answer.
The better the world works.

EY
Building a better
working world

Table of Contents

EY

Extensive engagement has been undertaken across the district for this review
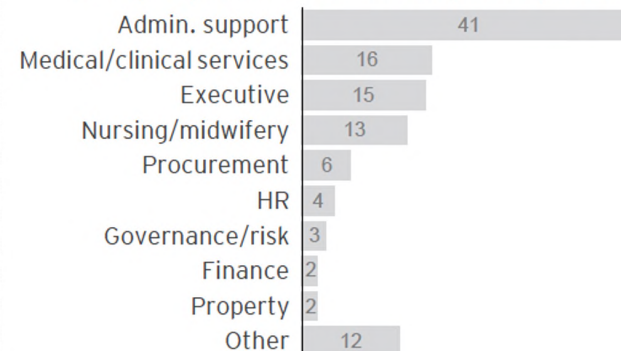## Stakeholder Engagement Details

Online Survey

In addition to face-to-face interviews, EY conducted an online survey to assess the current procurement capabilities of staff across the district, with 114 respondents.

Survey Representation – Participants by Role

Role	Count
Admin. support	41
Medical/clinical services	16
Executive	15
Nursing/midwifery	13
Procurement	6
HR	4
Governance/risk	3
Finance	2
Property	2
Other	12

20 1 to 1 interviews conducted

114 Participants in an online survey

EY

The Procurement function needs to develop a clear role within ISLHD
Procurement Review Key Findings

Strategy & Governance

Procurement is perceived as a **compliance function** within ISLHD. There is no procurement strategy in place to provide **direction and focus** and to demonstrate how procurement can contribute towards organisational priorities beyond compliance.

Organisation

The procurement function is **heavily centralised** resulting in the backlog of activities being incurred. Procurement policy and procedures are accessible but not user-friendly therefore contribute towards the high level of non-compliance.

People

Procurement staff are **constrained** in their ability to conduct value-adding activities in line with their job description. ISLHD staff **require formal training** in procurement to support capability development and awareness of policy and procedures.

Performance Management

There are **minimal performance metrics** and a lack of reporting in place, making it difficult to track procurement performance against financial and non-financial targets.

Category Management

Category management has been identified as a strategic initiative for the district however has not been effectively implemented. There is a lack of regular category spend reporting and **no forward procurement plan** to deliver category initiatives.

Tactical Procurement

Procurement approval processes are perceived to be **too slow and cumbersome**. Stock management is a major concern throughout the district resulting in a significant time being invested by staff across the district to resolve.

Supplier Relationships

Suppliers are not prioritised or actively developed. Relationships with suppliers are perceived to be **transactional in nature** rather than in partnership.

Contract Management

Contracts are **not proactively managed** through regular performance meetings. There is a lack of real-time reporting throughout the business on contract status and individual contract responsibilities.
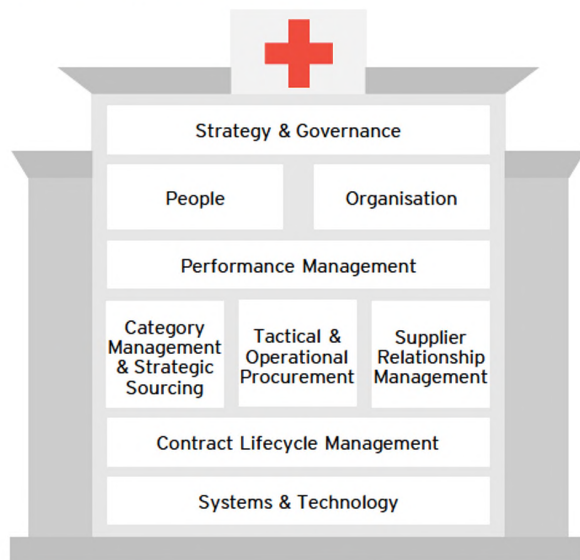
Systems & Technology

Multiple systems are being used across the district however are **not being effectively utilised** to their full capabilities.
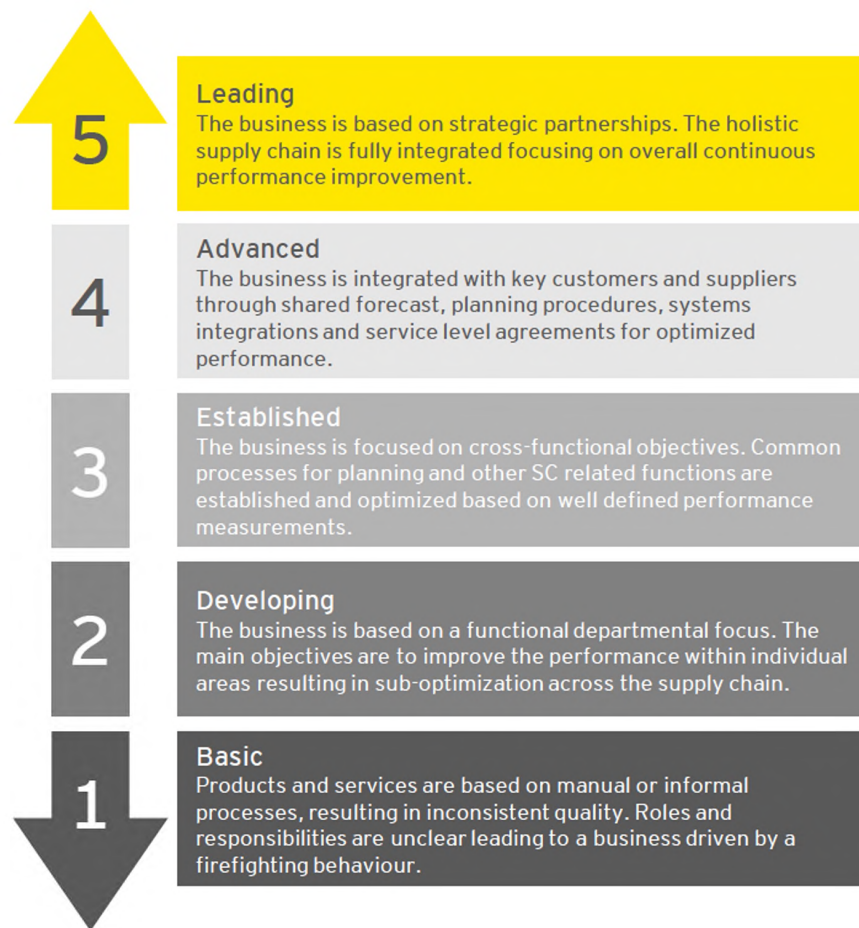
EY
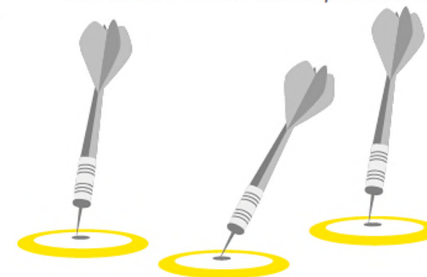
We assessed Procurement's operating model maturity against a 5-point scale
Sustainability Maturity Assessment

► In assessing the maturity of the procurement function at ISLHD, we have rated the current procurement functions against a 5-point scale, with 1 indicating informal or no processes, and 5 representing leading practice.

► Organisational data and documents, as well as interviews with stakeholders, a survey and benchmarks against industry best practice, formed the basis of the assessment to determine how ISLHD is positioned in each of these functions, and to identify possible opportunities for improvement.

EY Healthcare Procurement Operating Model

Strategy & Governance

People

Organisation

Performance Management

Category Management & Strategic Sourcing

Tactical & Operational Procurement

Supplier Relationship Management

Contract Lifecycle Management

Systems & Technology

5 — Leading
The business is based on strategic partnerships. The holistic supply chain is fully integrated focusing on overall continuous performance improvement.

4 — Advanced
The business is integrated with key customers and suppliers through shared forecast, planning procedures, systems integrations and service level agreements for optimized performance.

3 — Established
The business is focused on cross-functional objectives. Common processes for planning and other SC related functions are established and optimized based on well defined performance measurements.

2 — Developing
The business is based on a functional departmental focus. The main objectives are to improve the performance within individual areas resulting in sub-optimization across the supply chain.

1 — Basic
Products and services are based on manual or informal processes, resulting in inconsistent quality. Roles and responsibilities are unclear leading to a business driven by a firefighting behaviour.

EY

Our recommendations transition ISLHD to an established function
Procurement Review Key Recommendations

Legend:
- ○ Current state
- ○ Transition state (yellow outline)
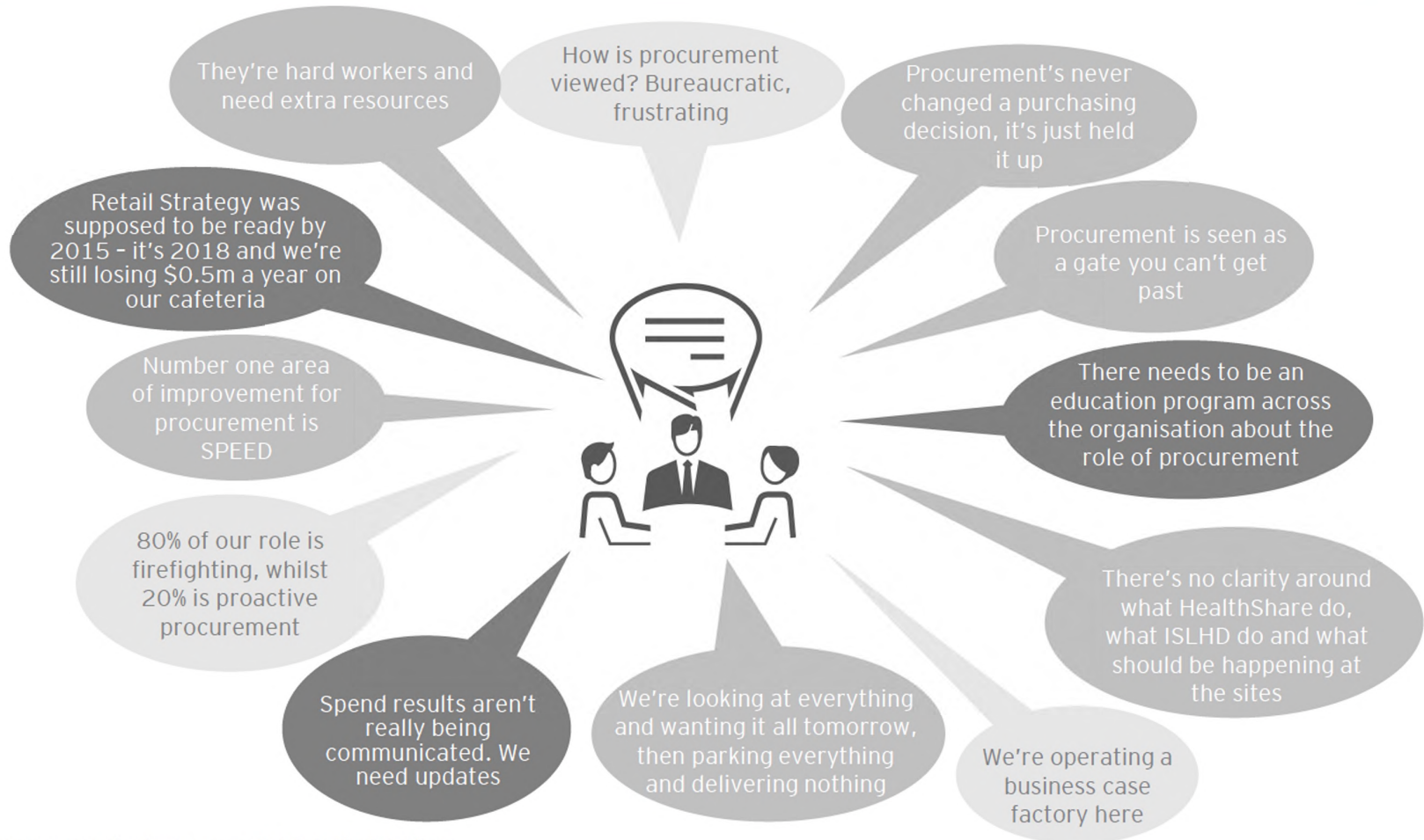- ● Future state (yellow filled)

Operating model component	Basic	Developing	Established	Advanced	Leading	Recommendations to develop to Transition State (Year 1 Recommendations)
Strategy and Governance	Current		Transition	Future		▸ Develop Procurement strategy which aligns to the 2018-20 ISLHD organisation strategy with full exec backing ▸ Procurement roadshow across ISLHD sites
Organisation		Current	Transition	Future		▸ Implement new "centre-led" procurement structure ▸ Develop "user-friendly" procurement procedure manuals
People		Current	Transition	Future		▸ Develop a district-wide training plan and start roll out ▸ Utilise and enhance peoples skillsets in accordance with their roles and capabilities
Performance Management	Current	Transition		Future		▸ Define procurement performance metrics across savings, efficiency, compliance and quality with RACI
Sourcing & Category Management	Current		Transition	Future		▸ Undertake full spend diagnostic to determine spend by category ▸ Develop category strategies and future roadmap
Tactical and Operational Procurement		Current	Transition	Future		▸ Establish Procurement Intranet page as one-stop-shop for procurement templates and questions ▸ Develop forward plan for inventory management initiatives
Supplier Relationship Management	Current	Transition	Future			▸ Establish a Supplier Relationship Management Framework ▸ Segment Supplier base and develop strategy for each segment
Contract Lifecycle Management		Current	Transition	Future		▸ Develop contract management framework ▸ Prioritise development of Contract Management Plans
Systems and Technology		Current	Transition	Future		▸ Establish regular spend reporting across the district to educate end users on buying practices ▸ Migrate all contracts to single real-time contract management solution

EY

Findings and Recommendations
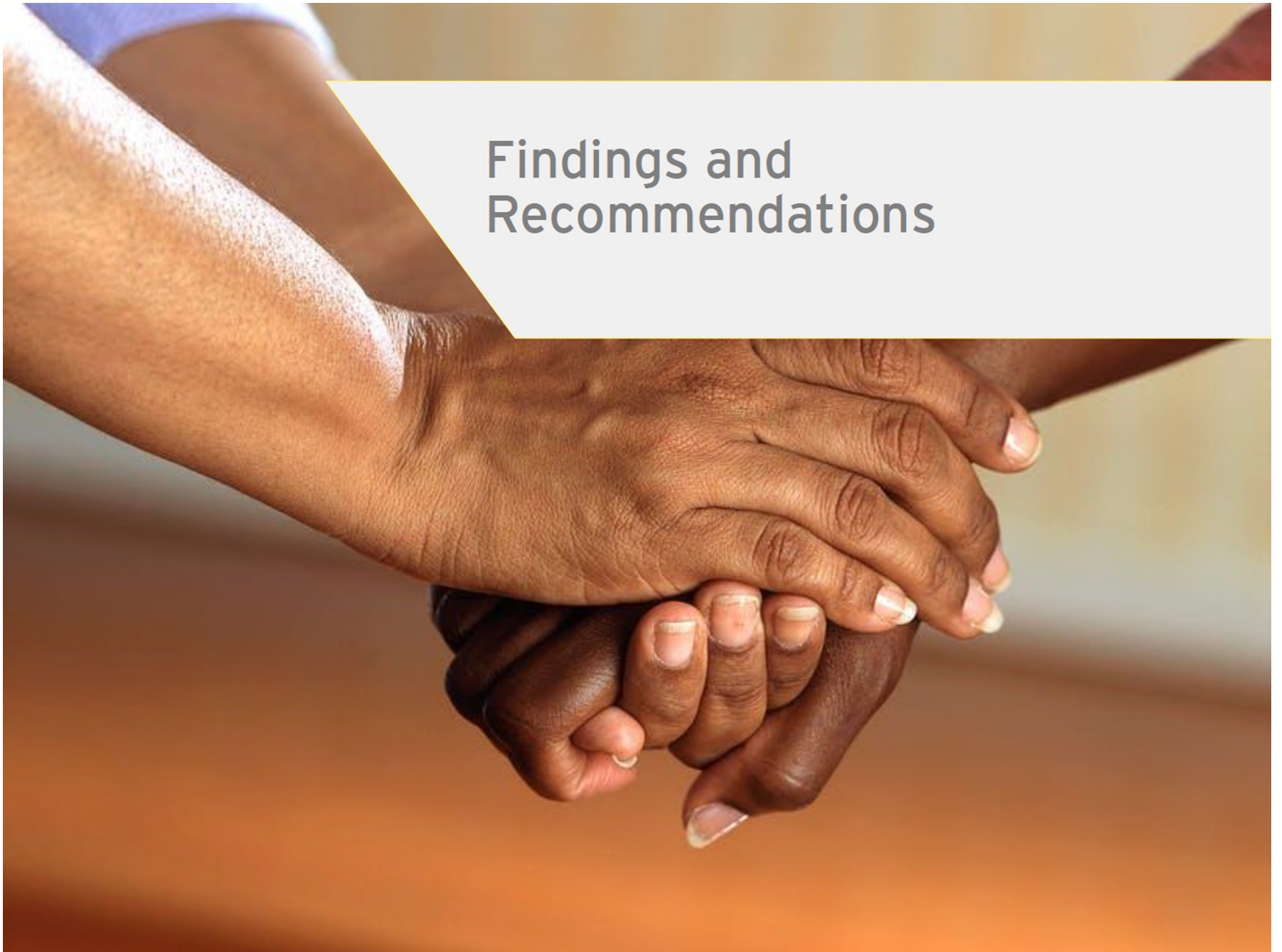
Stakeholders share similar perspectives on the effectiveness of Procurement
Stakeholder Quotes

They're hard workers and need extra resources

How is procurement viewed? Bureaucratic, frustrating

Procurement's never changed a purchasing decision, it's just held it up

Retail Strategy was supposed to be ready by 2015 – it's 2018 and we're still losing $0.5m a year on our cafeteria

Procurement is seen as a gate you can't get past

Number one area of improvement for procurement is SPEED

There needs to be an education program across the organisation about the role of procurement

80% of our role is firefighting, whilst 20% is proactive procurement

There's no clarity around what HealthShare do, what ISLHD do and what should be happening at the sites

Spend results aren't really being communicated. We need updates

We're looking at everything and wanting it all tomorrow, then parking everything and delivering nothing

We're operating a business case factory here

Anonymous quotes from a range of stakeholder interviews

EY

A Procurement Strategy is required to provide clear focus and direction
Strategy and Governance

Benefits

- ▶ Establishes a common vision on how to achieve value for money
- ▶ Agility to move with organisational direction and market movements
- ▶ Procurement risks are actively identified, mitigated and managed at each level of the business

Stakeholder Feedback

"A strategic and operational plan is what this place is missing"

"Do we really need all these approvals? The level of compliance creates a case not to do anything"

"Procurement has never assisted a purchasing decision; all they do is hold things up"

	Focus Area	Key Observations	Rating
?	Role of Procurement	No clear understanding of the role of the procurement within the district aside from a compliance function. Procurement is perceived to be a blocker rather than source of value-add.	🔴⚪⚪
X	Strategy	There is no defined procurement strategy. The draft ISLHD Operational Plan identifies procurement savings and efficiency targets but is lacking quality outcomes, and is unsupported by a forward plan.	🔴⚪⚪
✓	Governance	A Delegations manual is accessible on the intranet and updated on an annual basis. The efforts to establish a Procurement Advisory Board hasn't been successful so far.	🔴⚪⚪
✓	Risk Management	Risk management is reactive with no clear risk strategy. There is a lack of risk management frameworks or risk assessment tools comprising ratings, mitigation plans and accountabilities. A Gate Keeper has been installed to manage risk.	⚪🟡⚪

Current Rating

1

Recommendations

📅 1 Year Plan
- ▶ Develop Procurement strategy which aligns to the 2018-20 ISLHD organisation strategy
- ▶ Procurement roadshow across ISLHD sites

📅 3 Year Plan
- ▶ Implement standard ISLHD risk management framework
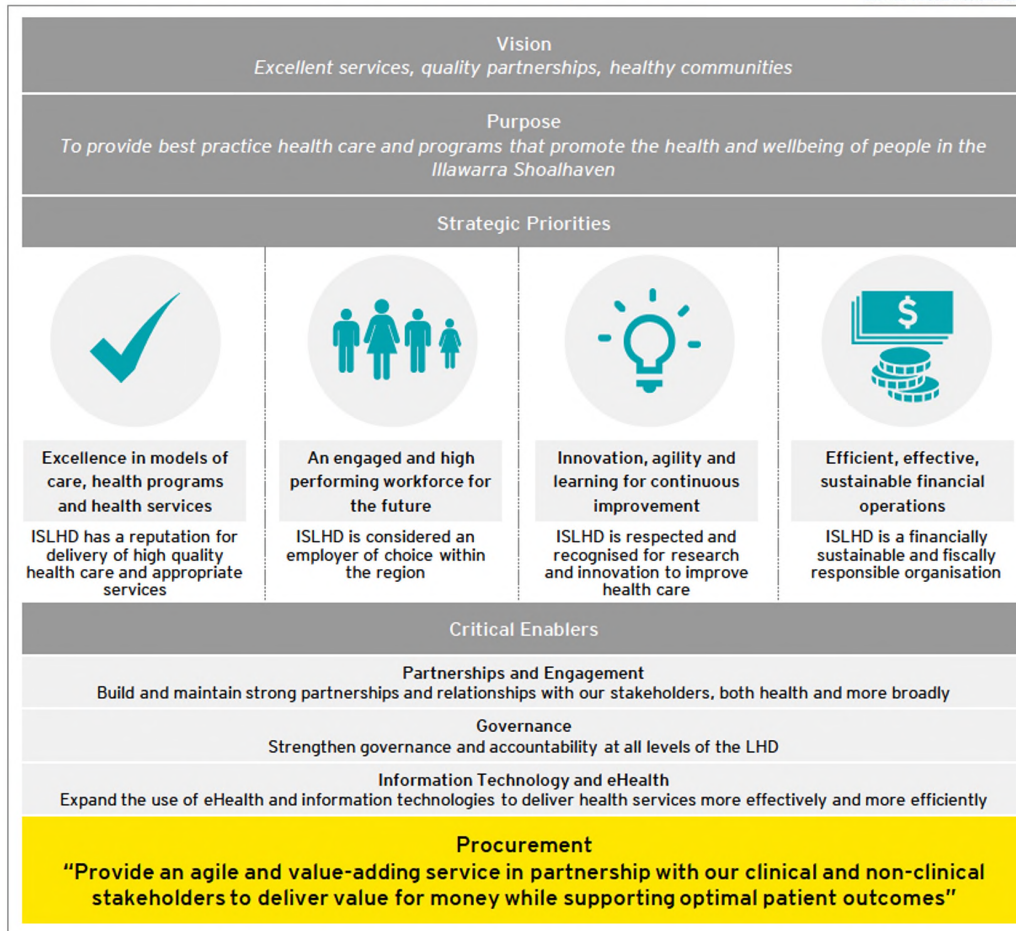- ▶ Development of Procurement Governance framework

📅 5 Year Plan
- ▶ Procurement strategy is being reviewed on an annual basis against goals, targets and initiatives at the board level

EY

A Procurement Strategy will provide accountability for Procurement
ISLHD Strategic Priorities

Illawarra Shoalhaven Local Health District Strategy Overview

NSW Health Illawarra Shoalhaven Local Health District

Vision
Excellent services, quality partnerships, healthy communities

Purpose
To provide best practice health care and programs that promote the health and wellbeing of people in the Illawarra Shoalhaven

Strategic Priorities

Excellence in models of care, health programs and health services	An engaged and high performing workforce for the future	Innovation, agility and learning for continuous improvement	Efficient, effective, sustainable financial operations
ISLHD has a reputation for delivery of high quality health care and appropriate services	ISLHD is considered an employer of choice within the region	ISLHD is respected and recognised for research and innovation to improve health care	ISLHD is a financially sustainable and fiscally responsible organisation

Critical Enablers

Partnerships and Engagement
Build and maintain strong partnerships and relationships with our stakeholders, both health and more broadly

Governance
Strengthen governance and accountability at all levels of the LHD

Information Technology and eHealth
Expand the use of eHealth and information technologies to deliver health services more effectively and more efficiently

Procurement
"Provide an agile and value-adding service in partnership with our clinical and non-clinical stakeholders to deliver value for money while supporting optimal patient outcomes"

Current Procurement Strategy

► Procurement at ISLHD is designed to meet compliance with *NSW Health Goods and Services Procurement Policy and Manual* and a draft *ISLHD Operational Plan 2018/19*
► ISLHD has an organisation strategy in place, but there is no evidence of a procurement strategy, vision or operational plan in place

What good practice looks like…

► Guidance from overarching ISLHD strategic direction incorporating the procurement function and procurement generally throughout the organisation
► ISLHD specific policies, procedures, guidelines and templates that align procurement processes with Ministry policies and the ISLHD 2017-20 strategy
► Risk identification processes and risk management plans for key categories and high-impact procurement areas
► Procurement approvals plan including separation of duties management

EY

We propose to develop a procurement strategy aligned to strategic priorities
Future Procurement Strategy Suggestions

We developed a number of potential strategic targets and initiatives for procurement that align with the ISLHD's 2017-20 Strategic Priorities.

ISLHD Strategic Priorities	Excellence in models of care, health programs and health services	An engaged and high performing workforce for the future	Innovation, agility and learning for continuous improvement	Efficient, effective, sustainable financial operations
Procurement Goals	*Provide greater access for patients to better quality products and services with timely access to care*	*Build a Procurement Function with the right culture, capability and capacity to support the organisation's Strategy*	*Provide practical, innovative and integrated end-to-end Procurement services to internal customers*	*Promote the delivery of value for money through sustainable end-to-end procurement solutions*
Target	Reduce the average revision rate of Orthopaedic prosthetics implanted at ISLHD by 25%	Achieve an employee satisfaction rating for procurement of > 7/10	Establish continuous improvement KPI's with top 10 strategic suppliers	Deliver cost savings of >2% of total addressable spend per annum
Initiatives	▶ Undertake spend analysis of Orthopaedics expenditure ▶ Present analysis to clinicians to educate on current buying practices and understand clinical selection rationale ▶ Define and develop a procurement strategy for Orthopaedics working underneath the state-wide agreement ▶ Execute strategy and manage contract performance	▶ Build the capability and capacity of Procurement to drive delivery of the ISLHD Strategy ▶ Define the strategic, tactical and operational accountabilities and responsibilities across the procurement lifecycle ▶ Assess the capabilities of the Procurement team and relevant stakeholders and implement a training program to address identified gaps	▶ Define and communicate accountability for each procurement category ▶ Develop a comprehensive program of procurement initiatives, aligned with clinical stream priorities, research and the innovation planning cycle ▶ Proactively and regularly collaborate with stakeholders across the District through cross-functional teaming with Facility representatives	▶ Conduct annual review of addressable spend through procurement ▶ Develop forward procurement plan on an annual basis ▶ Establish financial benefits definitions ▶ Implement benefits realisation framework

A full ISLHD Procurement Strategy needs to be developed with consultation across the business through a design thinking approach to identify and address the business priorities.

EY

Clear roles and responsibilities are required to improve effectiveness
Organisation

Benefits

- ▸ Better understanding of the business priorities and challenges
- ▸ Clear roles and responsibilities reducing bottlenecks and duplicate efforts
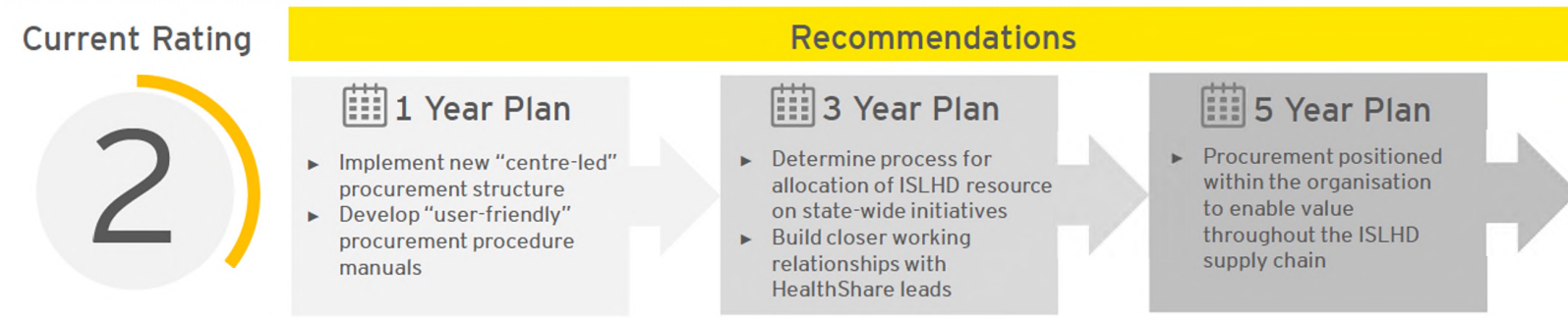- ▸ Clear accountability and integrity for procurement activities

Stakeholder Feedback

"Procurement is paralysed from being resource constrained"

"Procurement should empower people rather than having everything pass through it"

"I have to go through HealthShare when I've got the expertise to do my own tenders. We're getting hamstrung a lot by going through them"

	Focus Area	Key Observations	Rating
✓	Organisational Structure	Centralised procurement structure in place. Procurement function is constrained with operational matters leaving little time for category management/strategic sourcing.	○●○
✓	Collaborative Procurement	HealthShare lead state-wide strategic procurement and central warehousing. Uncertainty as to ISLHD role in the execution of state-wide strategies along with ISLHD specific benefits.	○●○
?	Roles and Responsibilities	There is unclear delineation of roles and responsibilities between the Ministry of Health, HealthShare, district-wide and individual sites, which is causing confusion and inefficiencies.	●○○
✓	Policies and Procedures	Policy and procedures have been developed and are accessible however ISLHD find the documents not user-friendly therefore results in a high volume of non-compliance.	○●○

Current Rating

2

Recommendations

1 Year Plan
- ▸ Implement new "centre-led" procurement structure
- ▸ Develop "user-friendly" procurement procedure manuals

3 Year Plan
- ▸ Determine process for allocation of ISLHD resource on state-wide initiatives
- ▸ Build closer working relationships with HealthShare leads

5 Year Plan
- ▸ Procurement positioned within the organisation to enable value throughout the ISLHD supply chain

EY

The ISLHD procurement function needs to align with WofG direction
ISLHD Procurement Environment and Key Considerations

Procurement Framework in NSW

Areas of Focus

Overarching Procurement Policy
Procurement Reform
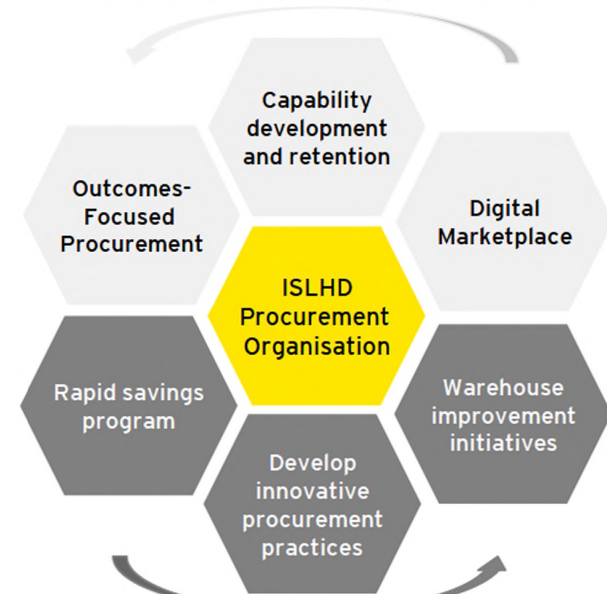Procurement Accreditation

NSW Procurement

Responsibilities

► Administer the Procurement Accreditation Scheme
► Lead procurement transformation program
► Facilitate whole-of-government arrangements

NSW Health Policy
State-wide Arrangements
Shared Services

Ministry of Health HealthShare

► Provide shared services to agencies through HealthShare
► Govern procurement for NSW Health
► Establish contracts for strategic categories of spend

ISLHD specific policy

ISLHD Procurement ISLHD Operations

► Govern procurement at ISLHD
► Ensure patient needs are met
► Execute on broader government strategic directions
► Provide operational rules and processes specific to ISLHD

The ISLHD Procurement structure should *align with strategic policy directives* and *promote better outcomes* through collaboration across NSW
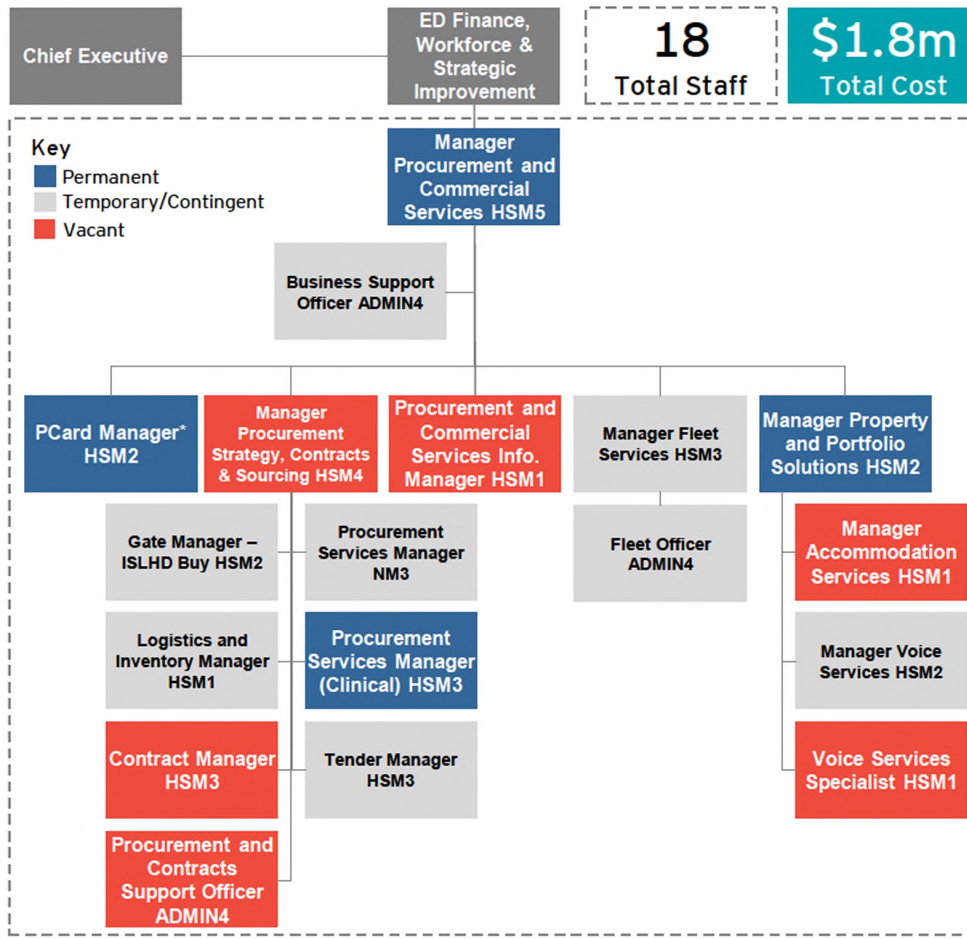
NSW Procurement Strategic Directives

- Outcomes-Focused Procurement
- Capability development and retention
- Digital Marketplace
- ISLHD Procurement Organisation
- Rapid savings program
- Develop innovative procurement practices
- Warehouse improvement initiatives

HealthShare/Ministry Strategic Directives

EY

Multiple vacancies exist within the Procurement organisational structure
Current Organisational Structure

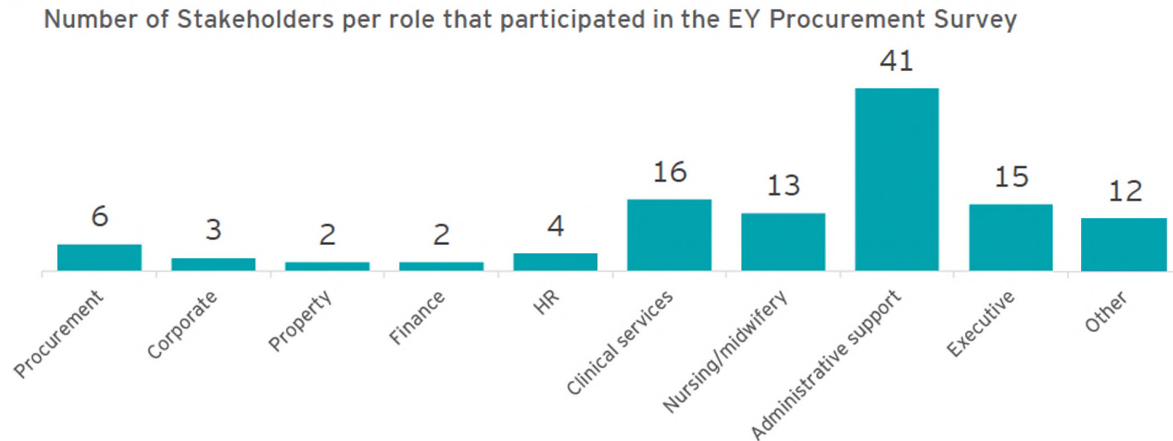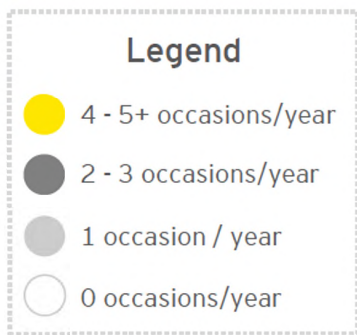## Current ISLHD Procurement Organisational Structure (as at 16 July 2018)

18 Total Staff

$1.8m Total Cost

Key
- Permanent
- Temporary/Contingent
- Vacant

Chief Executive

ED Finance, Workforce & Strategic Improvement

Manager Procurement and Commercial Services HSM5

Business Support Officer ADMIN4

PCard Manager* HSM2

Manager Procurement Strategy, Contracts & Sourcing HSM4

Procurement and Commercial Services Info. Manager HSM1

Manager Fleet Services HSM3

Manager Property and Portfolio Solutions HSM2

Gate Manager – ISLHD Buy HSM2

Procurement Services Manager NM3

Fleet Officer ADMIN4

Manager Accommodation Services HSM1

Logistics and Inventory Manager HSM1

Procurement Services Manager (Clinical) HSM3

Manager Voice Services HSM2

Contract Manager HSM3

Tender Manager HSM3

Voice Services Specialist HSM1

Procurement and Contracts Support Officer ADMIN4

*Pcard Manager role currently sits with Finance on a temporary basis while the function is transitioned across.

Key Observations

Limited capacity for Category Management
The current function has **yet to implement category management roles** and is instead built to manage purchasing, specific contracts and commercial functions.

Tactical vs Strategic Procurement
Current roles and/or tasks undertaken are **operational in nature rather than strategic**, limiting opportunities to deliver innovation, wider ISLHD support and value-add through strategic, agile procurement.

High Employee Turnover
Of the 18 FTE, there are **only four permanent staff members**. Seven roles are vacant with the remaining filled by temp or contingent staff. Recent recruits have left their roles early into their tenure.

Non-Procurement Activities
Some roles within the team cover **non-procurement activities** including the management of Fleet, Accommodation, Voice Services and P-Cards*.
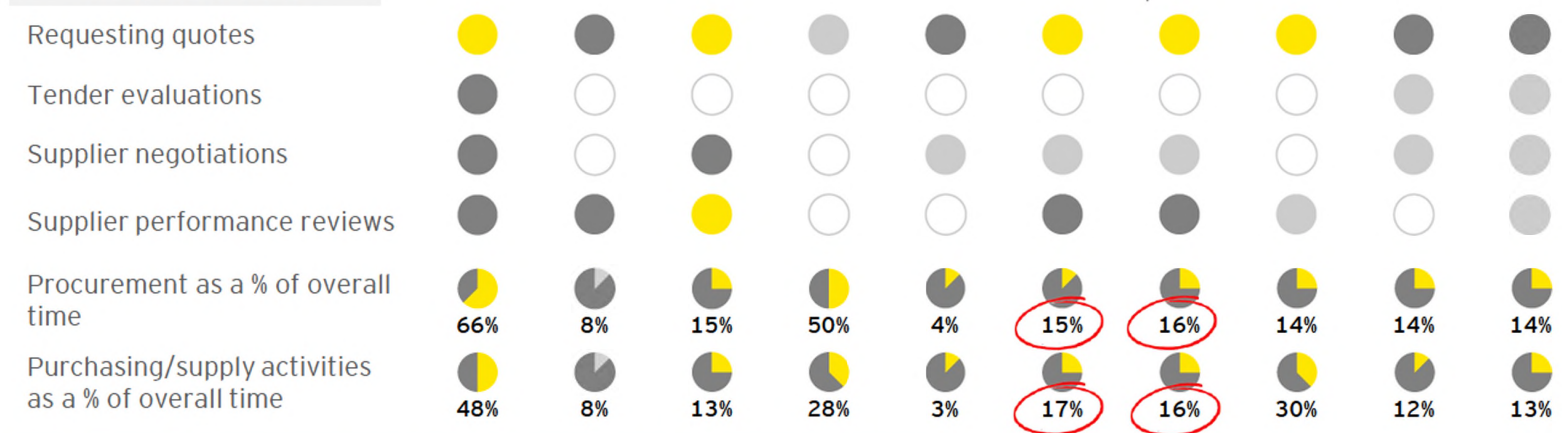
The wider business is active in procurement and purchasing activities
Procurement Responsibilities

Legend

- 🟡 4 - 5+ occasions/year
- ⚫ 2 - 3 occasions/year
- ⚪ 1 occasion / year
- ⚪ 0 occasions/year

Number of Stakeholders per role that participated in the EY Procurement Survey

Procurement	Corporate	Property	Finance	HR	Clinical services	Nursing/midwifery	Administrative support	Executive	Other
6	3	2	2	4	16	13	41	15	12

Responsibilities

Responsibility	Procurement	Corporate	Property	Finance	HR	Clinical services	Nursing/midwifery	Administrative support	Executive	Other
Requesting quotes	🟡	⚫	🟡	⚪	⚫	🟡	🟡	🟡	⚫	⚫
Tender evaluations	⚫	⚪	⚪	⚪	⚪	⚪	⚪	⚪	⚪	⚪
Supplier negotiations	⚫	⚪	⚫	⚪	⚪	⚪	⚪	⚪	⚪	⚪
Supplier performance reviews	⚫	⚫	🟡	⚪	⚪	⚫	⚫	⚪	⚪	⚪
Procurement as a % of overall time	66%	8%	15%	50%	4%	15%	16%	14%	14%	14%
Purchasing/supply activities as a % of overall time	48%	8%	13%	28%	3%	17%	16%	30%	12%	13%

Non-procurement roles e.g. Nursing spend a significant portion of time on procurement and purchasing, suggesting potential bottlenecks in processes and opportunities for efficiency improvements.
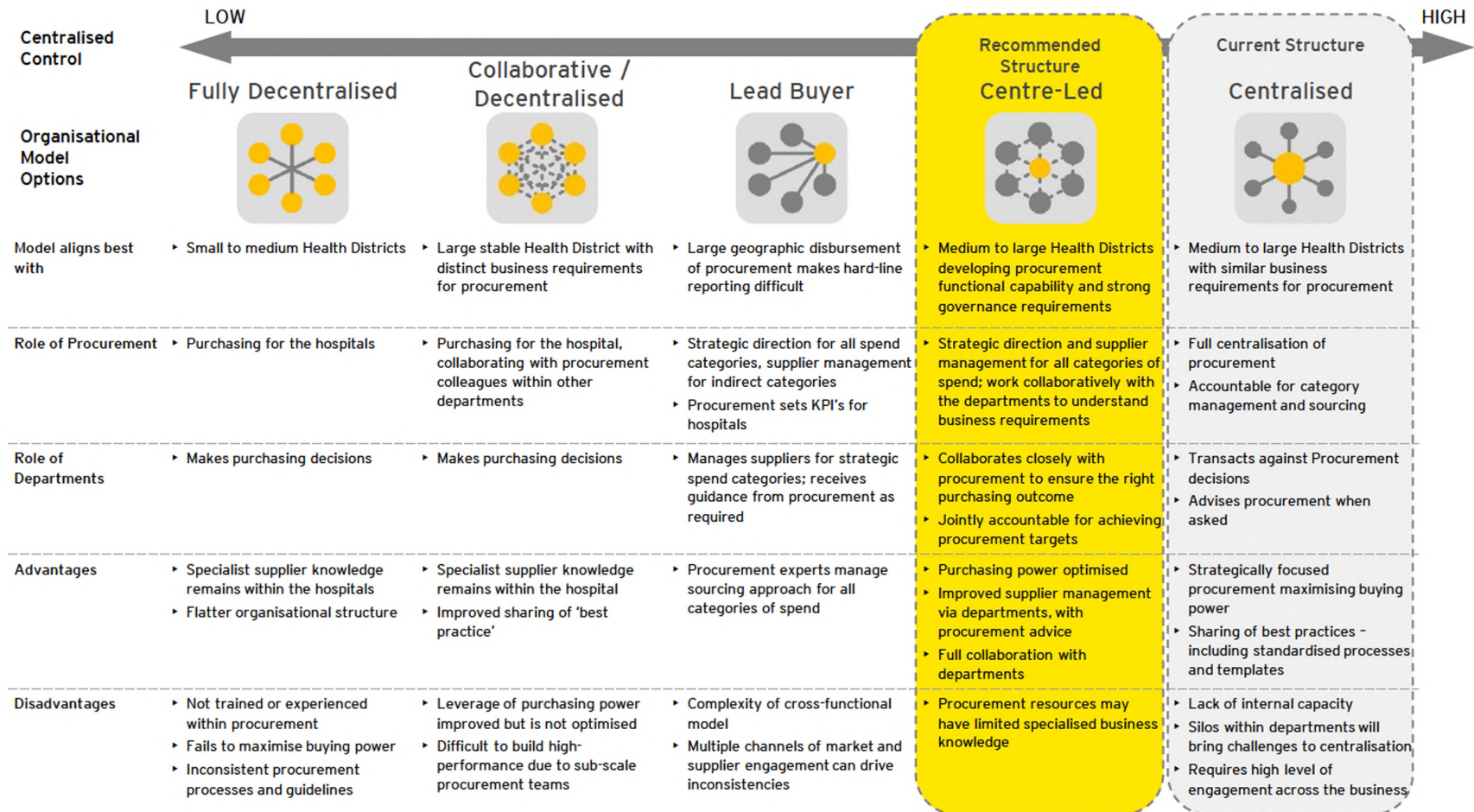
EY

ISLHD have a similar level of investment in Procurement to other Metro LHDs
Procurement Organisation Benchmarking

Illawarra Shoalhaven LHD

x18

$223 million

- ▶ Manager Procurement and Commercial Services
- ▶ Reports to Exec Director Finance
- ▶ Centralised model
- ▶ Unknown number of local contracts
- ▶ State contracts available
- ▶ P2P and S2C systems in place
- ▶ $223m total non-labour spend
- ▶ Addressable spend % unknown

NSW Health Metro LHDs

Organisation A
x 18
$469 million
- ▶ Director Supply Chain
- ▶ Report to Exec Director Finance
- ▶ 7 Category Managers
- ▶ Htrak manager
- ▶ 82% addressable spend

Organisation B
x 12
$435 million
- ▶ Procurement Manager
- ▶ Report to Deputy Director Finance
- ▶ Centre-led model
- ▶ Fleet Services
- ▶ Material management
- ▶ 79% addressable spend

Australian Regional Public Health Services

Organisation C
x 11
$371 million
- ▶ Procurement Director
- ▶ Report to Exec Director Finance
- ▶ Sourcing and Contract Management teams
- ▶ 73% addressable spend
- ▶ Use of GPO contracts

Organisation D
x 4
$125 million
- ▶ Procurement Manager
- ▶ Report to Exec Director of Finance
- ▶ Contracts and Contestability Manager
- ▶ Clinical products advisor
- ▶ 66% addressable spend

Private Health Providers

Organisation E
x 6
$239 million
- ▶ Head of Procurement
- ▶ Basware P2P
- ▶ New ERP system
- ▶ 45% addressable spend
- ▶ Centralised Model
- ▶ No use of GPO contracts

Organisation F
x 26
$478 million
- ▶ Director of Procurement
- ▶ ERP with P2P
- ▶ Bravo S2C
- ▶ 57% addressable spend
- ▶ Policy and Procedure
- ▶ No use of GPO contracts

EY

We recommend ISLHD transition towards a Centre-Led Procurement Model
Recommended Procurement Structure

Centralised Control — LOW ← → HIGH

Organisational Model Options	Fully Decentralised	Collaborative / Decentralised	Lead Buyer	Recommended Structure Centre-Led	Current Structure Centralised
Model aligns best with	‣ Small to medium Health Districts	‣ Large stable Health District with distinct business requirements for procurement	‣ Large geographic disbursement of procurement makes hard-line reporting difficult	‣ Medium to large Health Districts developing procurement functional capability and strong governance requirements	‣ Medium to large Health Districts with similar business requirements for procurement
Role of Procurement	‣ Purchasing for the hospitals	‣ Purchasing for the hospital, collaborating with procurement colleagues within other departments	‣ Strategic direction for all spend categories, supplier management for indirect categories ‣ Procurement sets KPI's for hospitals	‣ Strategic direction and supplier management for all categories of spend; work collaboratively with the departments to understand business requirements	‣ Full centralisation of procurement ‣ Accountable for category management and sourcing
Role of Departments	‣ Makes purchasing decisions	‣ Makes purchasing decisions	‣ Manages suppliers for strategic spend categories; receives guidance from procurement as required	‣ Collaborates closely with procurement to ensure the right purchasing outcome ‣ Jointly accountable for achieving procurement targets	‣ Transacts against Procurement decisions ‣ Advises procurement when asked
Advantages	‣ Specialist supplier knowledge remains within the hospitals ‣ Flatter organisational structure	‣ Specialist supplier knowledge remains within the hospital ‣ Improved sharing of 'best practice'	‣ Procurement experts manage sourcing approach for all categories of spend	‣ Purchasing power optimised ‣ Improved supplier management via departments, with procurement advice ‣ Full collaboration with departments	‣ Strategically focused procurement maximising buying power ‣ Sharing of best practices – including standardised processes and templates
Disadvantages	‣ Not trained or experienced within procurement ‣ Fails to maximise buying power ‣ Inconsistent procurement processes and guidelines	‣ Leverage of purchasing power improved but is not optimised ‣ Difficult to build high-performance due to sub-scale procurement teams	‣ Complexity of cross-functional model ‣ Multiple channels of market and supplier engagement can drive inconsistencies	‣ Procurement resources may have limited specialised business knowledge	‣ Lack of internal capacity ‣ Silos within departments will bring challenges to centralisation ‣ Requires high level of engagement across the business

EY

Option 1 establishes Category Management within the team
Alternative Procurement Organisational Structures – Option 1

Future State ISLHD Procurement Structure - Option 1

19 ▲1 — Total Roles

$1.9m ▲$0.1m — Total Investment

Chief Executive

ED Finance, Workforce & Strategic Improvement

Director Procurement & Commercial Services HSM5

Business Information Officer ADMIN5

Manager Procurement Strategy, Contracts & Sourcing HSM4

Manager Fleet Services HSM3

Manager Property & Portfolio Solutions HSM3

Senior Category Manager (Services) HSM3

Gate Manager – ISLHD Buy HSM1

Fleet Officer ADMIN6

Manager Voice Services HSM2

Senior Category Manager (Corporate) HSM3

Gate Manager – ISLHD Buy HSM1

Voice Services Specialist HSM1

Senior Category Manager (Clinical) HSM3

Procurement Analyst HSM2

Manager Accommodation Services HSM1

Category Manager NM2

Procurement Analyst HSM2

Inventory and Logistics Manager HSM1

Procurement Services Officer ADMIN5

Key Developments

Establishing Category Management
- ► 4x new Category Managers accountable for end-to-end category management, sourcing and contract management
- ► Removes the need for dedicated tendering and contracting resources

Additional Gate Manager Support
- ► Additional Gate Manager to support with addressing the high volume of operational work channelled through to Procurement
- ► Gate Manager will provide purchasing support and guidance to the wider organisation

Expanding Analytical Capabilities
- ► 2x new Analyst roles responsible for providing data and analytical expertise
- ► Role will provide regular performance reporting to appropriate procurement stakeholders, helping to inform strategic and category management decisions

Realignment of Resources
- ► Existing Clinical Product Manager will become a Category Manager providing support to Senior Category Manager (Clinical) alongside Inventory and Logistics Manager
- ► Commercial Services remains mostly unchanged and will continue to operate alongside Procurement

EY

Option 2 devolves inventory and purchasing to free up capacity
Alternative Procurement Organisational Structures – Option 2

Future State ISLHD Procurement Structure - Option 2

23 ▲5
Total Roles

$2.4m ▲$0.6m
Total Investment

- Chief Executive
- ED Finance, Workforce & Strategic Improvement
- Director Finance
- Director Procurement & Commercial Services HSM5
- Business Information Officer ADMIN5
- District Manager Procurement HSM4
- Manager Fleet Services HSM3
- Manager Property & Portfolio Solutions HSM3
- Hub Finance Business Manager HSM4
- Senior Category Manager (Services) HSM3
- Category Manager HSM1
- Fleet Officer ADMIN6
- Manager Accommodation Services HSM1
- Inventory & Purchasing Controller NM2
- Senior Category Manager (Corporate) HSM3
- Procurement Analyst HSM2
- Manager Voice Services HSM2
- Inventory & Purchasing Controller HSM2
- Senior Category Manager (Clinical) HSM3
- Procurement Analyst HSM2
- Voice Services Specialist HSM1
- Inventory & Purchasing Controller HSM2
- Category Manager HSM1
- Procurement Services Officer ADMIN5
- Category Manager NM2
- Inventory & Logistics Manager HSM1

Procurement Function

Inventory & Purchasing Function

Key Developments

Establishing Category Management
- ► 6x Category Managers accountable for end-to-end category management, sourcing and contract management
- ► Removes the need for dedicated tendering and contracting resources

Decentralised Purchasing and Inventory Support
- ► 3x new Inventory & Purchasing Controllers covering each ISLHD geographic region to provide operational support at site level – removing the need for a Gate Manager
- ► Core Procurement focuses on category management and commercial services

Expanding Analytical Capabilities
- ► 2x new Analyst roles responsible for providing data and analytical expertise
- ► Role will provide regular performance reporting to appropriate procurement stakeholders, helping to inform strategic and category management decisions

Additional funding required
- ► Additional $0.6m required to support the overall proposed structure
- ► Most additional funding will go towards the introduction of new Procurement roles and decentralised Purchasing Support function; Commercial Services remains mostly unchanged and will continue to operate alongside Procurement

EY

こ

Option 3 streamlines roles with focus on delivering district-wide benefits
Alternative Procurement Organisational Structures – Option 3 (Recommended)

Future State ISLHD Procurement Structure – Option 3 (Recommended)

16 ▼2 **Total Roles**

$1.6m ▼$0.2m **Total Investment**

Chief Executive

ED Finance, Workforce & Strategic Improvement

Procurement Function

Director Procurement and Supply HSM5

Senior Category Manager HSM3

Clinical Category Manager HSM2

Clinical Category Manager HSM2

Corporate Category Manager HSM2

Procurement Data Analyst HSM1

Procurement Support Officer ADMIN5

Governance and Contracts Manager HSM2

Contracts Officer HSM1

Supply Chain Manager HSM2

Clinical Products Manager NM2

Inventory and Logistics Officer ADMIN5

Director Corporate Services

Commercial Services Manager HSM3

Manager Property Services HSM2

Manager Voice Services HSM2

Manager Fleet Services HSM2

Commercial Services Function

Final structure of Category Management and types of roles (i.e. Full Time, Part Time, Contingent) to be confirmed after full spend diagnostic.

Key Developments

Establishing Category Management
► 4x Category Managers accountable for end-to-end category management, sourcing and contract management
► Removes the need for dedicated tendering and contracting resources

Governance and Contracts Management
► New role focusing on ISLHD-wide governance and risk management, and ensuring on-track delivery of benefits
► The wider organisation must be accountable and equipped to tackle operational procurement. This includes providing adequate tools and processes, and clearly communicating the role of Procurement

Expanding Analytical and Supply Chain Management Capabilities
► 1x new Analyst role responsible for providing data and analytical expertise. Role will also provide regular performance reporting to appropriate procurement stakeholders
► 1x new SCM role focused on delivering inventory management and improvement initiatives and supported by current Inventory and Logistics Officer

Realigned Commercial Services
► Commercial Services Function realigned to Finance to accommodate for transition of Procurement to a centre-led, strategic advisor

EY

The Procurement Function needs to relinquish control of some responsibilities
Draft ISLHD Procurement Charter

ISLHD role of Procurement

✓ Identifying and implementing **category management initiatives** across the district whilst optimising WofG contracts where available

✓ Identifying and undertaking **strategic sourcing initiatives** where no WofG contract provision is available

✓ Providing **regular spend reporting** throughout the district to educate end users on buying practices to enable more informed decision making

✓ **Managing ISLHD procurement policies and procedures** whilst establishing and maintaining the supporting infrastructure to proactively drive compliance

✓ Leading on **strategic initiatives to optimise the supply chain** whilst mitigating high importance day-to-day operational risks e.g. stock-outs

✓ **Developing partnerships with strategic suppliers** to achieve contractual benefits and enable further innovation

Transition out from Procurement

▶ **Purchasing management** e.g. purchase order and invoice management

▶ **Operational roles** for non-procurement functions e.g. fleet

▶ **Low risk, low value** sourcing initiatives that can be executed by the business through available self-service options

The ISLHD procurement function should become a centre-led function to the business through performing strategic procurement initiatives and supporting the operations for tactical and operational procurement

EY

A new structure and clear strategy will empower people to deliver results
People

Benefits

- ► Better qualified and supported staff who can deliver improved value for money outcomes
- ► Reduction in duplicate efforts managing third party expenditure and relationships
- ► Lower attrition rate of staff with necessary skills

Stakeholder Feedback

"No one is keen on change here"

"There are so many changes and we've lost so many people. The guys outside don't know who to turn to"

"People in the Procurement Team are working outside of the role description and not to their best fit"

Focus Area	Key Observations	Rating
✓ Training & Development	ISLHD stakeholders identified the need for formal training across the procurement lifecycle with varied understanding of procurement policy, procedures and systems.	🔴⚪⚪
✓ Staff Engagement	There is a good awareness of the procurement team across the district however the full contribution of procurement is not widely recognised.	⚪🟡⚪
✓ Skills and Capabilities	Existing skills and capabilities are not fully utilised within current roles There is no formal procurement training plan linked to enhancing procurement capability.	⚪🟡⚪
✓ Recruitment & Retention	There is high turnover of procurement staff derived from working outside of job description, the concern of becoming deskilled and the considerable workload.	🔴⚪⚪

Current Rating

2

Recommendations

📅 1 Year Plan
- ► Develop a district-wide training plan and start roll out
- ► Utilise and enhance peoples skillsets in accordance with their roles and capabilities

📅 3 Year Plan
- ► Build the image of procurement
- ► Implement communication plan for better publicity of procurement wins

📅 5 Year Plan
- ► Become an employer of choice for Procurement personnel within Health, seeking to attract talent at various levels.

EY

The business will benefit from structured and accessible training programs
Training & Development

A large portion of staff across ISLHD report receiving little or no Procurement training

Q What type of formal training related to Procurement have you received over the past 12 months?

%

Role	None	On the job only	On the job with additional training	Total responses
Admin support	27	15	59	41
Governance/risk	100			3
Executive	53	7	40	15
Finance	50		50	2
HR	50	25	25	4
Medical/clinical services	50	13	38	16
Nursing/midwifery	54	8	38	13
Other	42	33	25	12
Procurement	17	17	67	6
Property	50		50	2

Legend: ■ None ■ On the job only ■ On the job with additional training
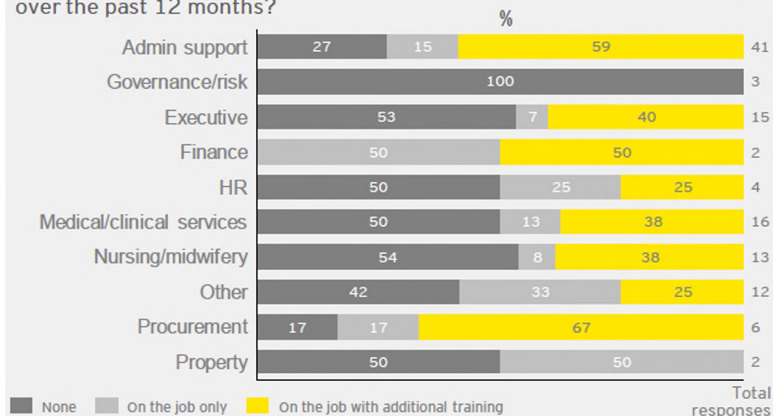
Q What training opportunities would you like to see?

- Procurement 101 for managers would be helpful
- We need more face to face training
- A training manual to have on had and actual classroom training to guide you instead of guessing on the job
- Training in procurement theories such as economies of scale. These are being lost in decentralisation
- We need far more education for staff for staff including review of new processes & policies

85% of all surveyed respondents performed procurement responsibilities

44% of respondents who perform procurement have received both on the job and/or additional training recently

16% of respondents who perform procurement have received on the job training only

39% of respondents who perform procurement have not received any Procurement training recently
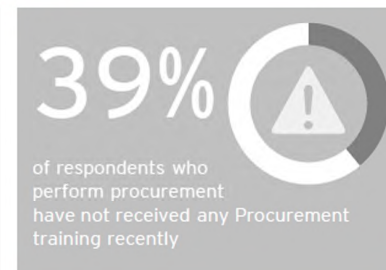
It is recommended that ISLHD:
1. Commence development and roll out of district-wide procurement training
2. Utilise and enhance people's skillsets in accordance with their roles and capabilities

EY

The Procurement Function is currently perceived as the "gatekeeper"
Procurement Satisfaction and Performance

Only a few respondents are highly satisfied with support received from Procurement

Q How would you rate your overall satisfaction with the procurement function (ISLHD and HealthShare)?

	Average rating out of 10	% 9 or 10	# Respondents
Corporate governance/risk	8	33%	3
Procurement	6	17%	6
Property	6	0%	2
Medical/clinical services	6	13%	16
Administrative support	5	5%	41
Executive	5	7%	15
Nursing/midwifery	5	0%	13
HR	4	0%	4
Other	4	17%	12
Finance	3	0%	2

Q How could your overall satisfaction be improved?

Need clearer discussion about when procurement needs to be involved.

More transparency on what achievements or projects they are working on

There are many opportunities to be more efficient but the experience of many staff is that Procurement is a barrier rather than an enabler to the process

At times the Procurement Unit a quite slow in responding to requests for information regarding contracts and tenders.

The current system is large, cumbersome, often confusing and not efficient for a time poor and under resourced work force and service such as health

5/10
Overall satisfaction with the Procurement Function

8%
Percentage of staff who rated their satisfaction with Procurement 9/10 or above

"I have experienced major time delays in the procurement procedures which has greatly affected the conduct of a research project funded by NSW Ministry of Health.

The Procurement function is optimised when the **wider business can see the value in the fuction**

It is recommended that ISLHD:
1. Build the image of Procurement
2. Implement a communication plan for better publicity of Procurement wins

EY

Procurement requires measurable targets which are reported to Leadership
Performance Management

Benefits

- ▶ Creates a focus on outcomes rather than activity based procurement
- ▶ Provides a framework to manage and monitor continuous improvement
- ▶ Provide incentives and motivation for better staff retention rates

Stakeholder Feedback

"There's a perception that there's no savings"

"We need updates. We hear about savings they've made but I haven't seen a report on where they've achieved them"

"I've never seen a list from HealthShare in terms of projects or plan for achieving their targets. As such. Our budgets don't account for them activities"

	Focus Area	Key Observations	Rating
?	Procurement Metrics	Minimal performance metrics in place with a lack of reporting in place to track performance. NSW WoG procurement accreditation requires all agencies to report on outcomes.	○●○
?	Benefits Framework	Cost reductions and cost avoidance forecast benefits sheet in place from recent sourcing initiatives. No definitions framework for financial and non-financial benefits.	●○○
X	Benefits Reporting	No tracking of benefits realisation taking place. Unclear as to the level of savings that have been realised from recent sourcing initiatives.	●○○
✓	Employee Appraisal	Performance reviews are conducted annually per organisation PED cycle but inconsistently applied, with no evidence of assessment against procurement-specific targets or KPIs.	○●○

Current Rating

1

Recommendations

📅 1 Year Plan
- ▶ Define procurement performance metrics with RACI

📅 3 Year Plan
- ▶ Establish benefits definition (financial and non-financial) framework
- ▶ Develop benefits reporting Build procurement employee appraisal process

📅 5 Year Plan
- ▶ System integration for benefits reporting
- ▶ Procurement performance metrics reported to board
- ▶ Achieve best in class ROI

EY
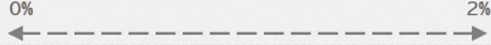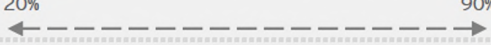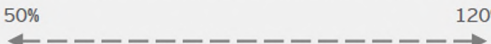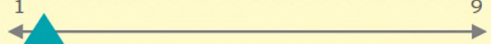
We propose critical performance metrics to be monitored moving forward
ISLHD Procurement Performance

	Metric	ISLHD	Sub-Standard	Best in Class	Comments
Savings	Annual Cost Reduction Savings (addressed spend)	11.2%	1%	15%	$1.5m Procurement & Contracts actual savings against $13.4m FY16/17 spend*
	Annual Cost Reduction Savings (addressable spend)	0.1%	0%	5%	$1.8m Total Procurement actual savings against $223m FY16/17 spend
	Annual Cost Avoidance (addressed spend)	0.2%	0%	3%	$0.3m Procurement & Contracts cost avoidance savings against $8.4m FY16/17 spend*
Efficiency	Annual Efficiency Savings	Unknown	0%	2%	
	Source to Contract Average Cycle Time	Unknown	15 months	3 months	
	Suppliers accounting for top 80% of spend	3.4%	2%	20%	80 suppliers of 2388 active in 2016. Average spend = $2.2m
	Tender Throughput Per Annum	Unknown	2	15	
Compliance	Spend Under Contract	Unknown	20%	90%	
	Compliance to Preferred Suppliers	Unknown	25%	85%	
	Realisation of Savings Forecasted	Unknown	50%	120%	
Quality	Strategy Review Frequency	N/A	6 years	6 months	No current Procurement Strategy
	Customer Satisfaction Ratings	51%	25%	90%	Based on findings from EY Procurement Survey
	Contract Performance Meeting Frequency	Unknown	12 months	3 months	Meetings take place however no formal structure and process
ROI	Procurement ROI	1.38	1	9	$1.8m savings, $1.3m PCS expenditure FY16/17

EY

The implementation of Category Management requires clear focus
Category Management and Strategic Sourcing

Benefits

- ► Clear structure on how to obtain best value for money from the market
- ► Cross-functional engagement to leverage category buying power
- ► Better protocols for market conduct to reduce probity risk
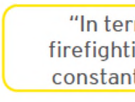
Stakeholder Feedback

"We don't have a lot of resources to interrogate data"

"No one can write a spec, no one knows what they want. They're just get convinced they need it"

"In terms of split of procurement role, 80% is firefighting and 20% is proactive. And that 20% is constantly disrupted by more reactive requests"

	Focus Area	Key Observations	Rating
X	Market Analysis	Market analysis is not undertaken. ISLHD do not hold subscriptions with market analyst companies, requiring procurement staff to rely on public data and in a limited capacity.	🔴⚪⚪
X	Category Strategy	Category management approach is yet to be implemented. Go-to-market rationale is reactive and based on contractual status rather than where better value can be obtained.	🔴⚪⚪
X	Total Cost of Ownership	There is a lack of visibility as to what is bundled into the agreements/pricing for some products and services (e.g. contracts for dialysis PPT are "secret")	🔴⚪⚪
√	Sourcing Process	Formal processes for go-to-market exercises are limited. RFx templates used with standard terms and conditions have been developed.	⚪🟡⚪

Current Rating

1

Recommendations

1 Year Plan
- ► Undertake full spend diagnostic to determine spend by category
- ► Develop category strategies and future roadmap

3 Year Plan
- ► Develop TCO framework and strategy
- ► Provide access to market industry reports (i.e. IBIS world)

5 Year Plan
- ► Implement real-time market analysis and category management system
- ► All RFx exercises to be conducted via tender portal

EY

Each segment requires a different level of involvement from ISLHD

Sourcing Accountability Segmentation

	① HealthShare led	**② HealthShare led – ILSHD optimised**	**③ ISLHD led**
Attributes	▶ HealthShare is leading the end-to-end procurement process ▶ Single pricing is implemented across the State ▶ LHD's are mandated to use Contract ▶ Centrally managed	▶ HealthShare is leading the end-to-end procurement process to establish a state-wide framework with flexible pricing models ▶ LHD's are able to optimise pricing through subsequent RFQs or utilising pre-defined price bandings	▶ ISLHD is leading the end-to-end Procurement process ▶ Scope and specifications are tailored to ISLHD needs ▶ ISLHD needs to comply with NSW Procurement Policies
Responsibilities HealthShare	✓ Leading Procurement Process from Data Analysis, Strategy Creation, Evaluation and Negotiation to award ✓ Manage and maintain iProcurement catalogue ✓ Manage Contracts with Suppliers	✓ Leading Procurement Process from Data Analysis, Strategy Creation, Evaluation and Negotiation to award ✓ Update iProcurement with ISLHD Pricing on request	✓ Support ISLHD with Tender Management ✓ Update iProcurement with ISLHD Pricing on request
Responsibilities ISLHD	✓ Support HealthShare with Specification development and Evaluation process ✓ Manage Category locally to optimise through product change and standardisation	✓ Support HealthShare with Specification development and Evaluation process ✓ Actively manage category to achieve best price for the district ✓ Manage local agreements with Suppliers where established	✓ Leading Procurement Process from Data Analysis, Strategy Creation, Evaluation and Negotiation to award ✓ Manage Category locally to optimise buying practices and optimise practice ✓ Manage Contracts

EY

Most procurement activity is led by HealthShare and optimised locally
ISLHD Category Segmentation Analysis

* Category segmentation based on FY16 data
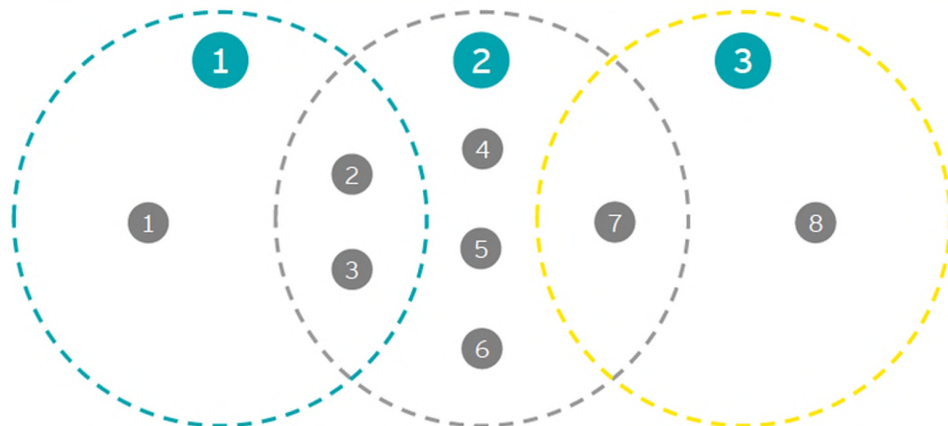
Segmentation

1	HealthShare Led
2	HealthShare Led – ISLHD Optimised
3	ISLHD Led

Categories	Current State
1 Pathology	State-wide service (NSW Pathology), therefore no sourcing or category management opportunities
2 Medical Consumables	Predominantly state-wide contracts with one price for all, however some new contracts offer local commitment options (i.e. wound closure)
3 ICT	Majority of requirements covered by eHealth and WoG schemes i.e. ProcureIT. Some opportunity for local optimisation
4 Prosthetics	Flexible state-wide contracts with options for local commitment
5 Pharmaceuticals	State-wide distribution contracts in place, however options to optimise contracts locally
6 Medical Equipment	State-wide contracts however provision for mini-competitions underneath
7 Corporate	State-wide contracts established by NSW Procurement (DFSI) and HealthShare. Local sourcing requirement for ISLHD specific requirements
8 Medical Services	Currently not part of the HealthShare portfolio therefore new contracts would be established by ISLHD

> Regular spend analytics need to be created and communicated across the business in order to understand what ISLHD spend now and how ISLHD could spend better

EY

Category strategies with up to date spend data need to be developed
ISLHD Category Levers

Category FY16 Spend Profile and Levers suggested by stakeholders

Prosthetics

$15m

FY16 spend

▶Cap potential number of suppliers
▶Negotiate better pricing through market share agreements
▶Engage with clinicians to understand supplier Preferencing

Pharmaceuticals

$37m

FY16 spend

▶Introduce a common formulary across each hospital
▶Promote the use of cheaper generics where possible
▶Benchmark prices charged against other regions to reduce unit costs

Pathology

$30m

FY16 spend

▶Explore new opportunities to outsource to private providers and reduce charges

Medical Consumables

$24m

FY16 spend

▶Rationalise number of products and suppliers where possible e.g. multiple scissors
▶Explore opportunities for consolidating orders
▶Collaborate with HealthShare

Medical Equipment

$15m

FY16 spend

▶Benchmarking against state-wide prices
▶Supply chain optimisation via OneLink warehouse

Corporate

$74m

⚠ FY16 spend

▶Develop Retail Strategy to inform how loss-making cafes should be managed
▶Release food services tender
▶Improve fleet utilisation by sharing resources across departments

ICT

$20m

FY16 spend

▶Strategically source and transition to cloud-based eProcurement system
▶Local optimisation of state-wide contracts e.g. Telecommunications

Medical Services

$7m

FY16 spend

▶Somewhat constrained so limited levers
▶Further ~$3m (and rising) spend across locum agencies with opportunity to consolidate
▶Explore ways to reduce dependency on locums

Category strategies need to be developed to determine the potential benefits and then how categories can be prioritised based on where the LHD will get the best return on investment

⚠ Spend figure provided is unusually high and should be investigated further

EY

Processes and procedures need to be streamlined to become more agile
Tactical and Operational Procurement

Benefits

- ► Channelling of routine purchases ensures compliance with agreed contract pricing
- ► Reduction in the duplication of effort throughout the supply chain
- ► Transparency of good and service purchased identifies rogue spend

Stakeholder Feedback

"Finance needs to take ownership of purchasing"

"Major area of improvement for procurement is speed. I'm surprised at how long it takes to get little things done"

"Part of the tension with procurement is the level of noise around consumables, making it difficult for procurement to engage with something more complex and strategic"

Focus Area	Key Observations	Rating
✓ Buying Channels	Ordering is conducted through iProcurement and P-Cards. Number of P-Cards are above average. Standing orders are prevalent and continue to limit spend visibility.	⚪🟡⚪
✓ Delegations for Approvals	There are delegations of procurement and financial authority, but there has been notable inconsistencies in the interpretation and application.	⚪🟡⚪
✓ Inventory Management	Broader inventory management issues at a Facility level (e.g. inventory turnover, obsolete stock visibility of pricing).	⚪🟡⚪
✓ Supply Management	Issues with the level of service received by Onelink (e.g. decanting of stock, receiving and returning wrong stock, frequency and cost of deliveries) impacting staff utilisation.	🔴⚪⚪

Current Rating

2

Recommendations

📅 1 Year Plan
- ► Establish Procurement Intranet page as one-stop-shop for procurement templates and questions
- ► Develop forward plan for inventory management initiatives

📅 3 Year Plan
- ► Review procurement and financial delegations
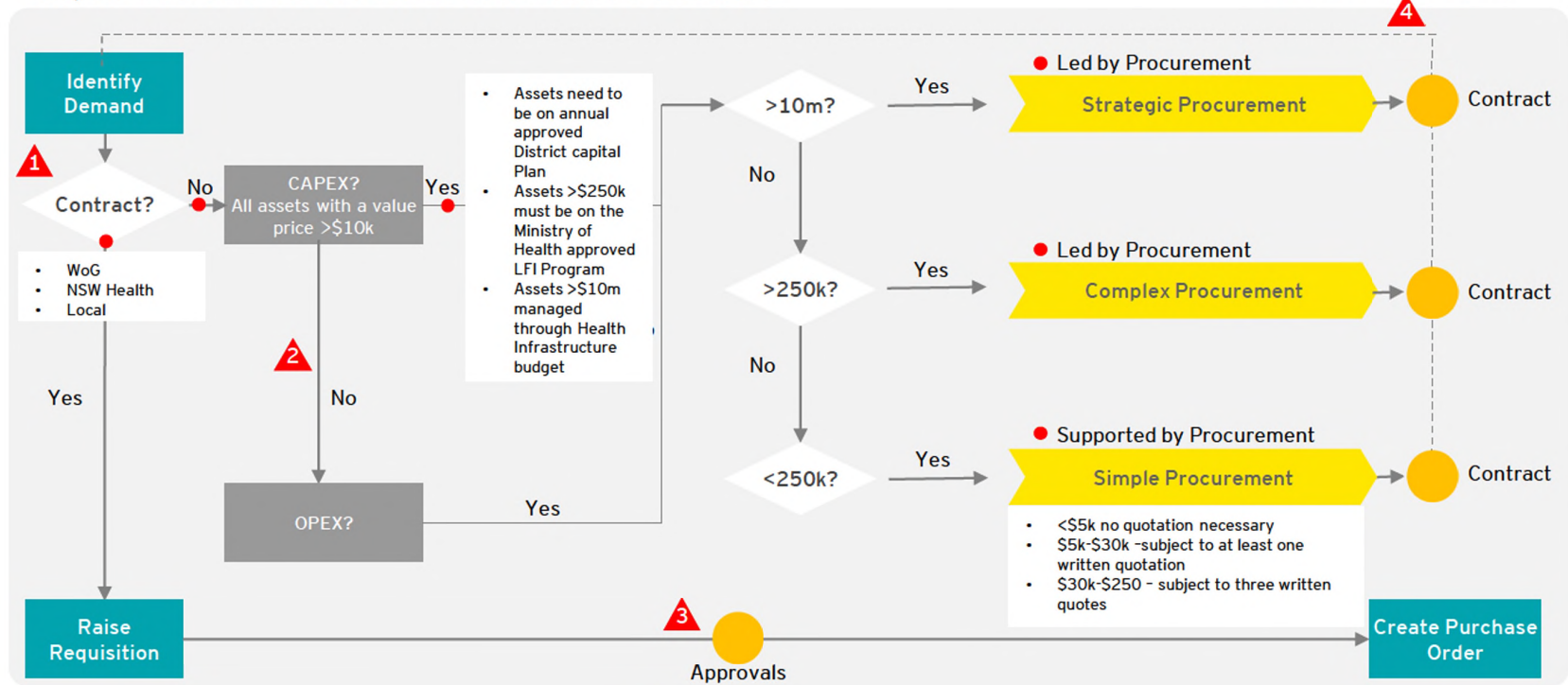- ► Undertake training programs across the district with operations

📅 5 Year Plan
- ► Develop inventory management strategy

EY

Process flow is bottlenecked due to lack of understanding in the business
Procurement Process Map

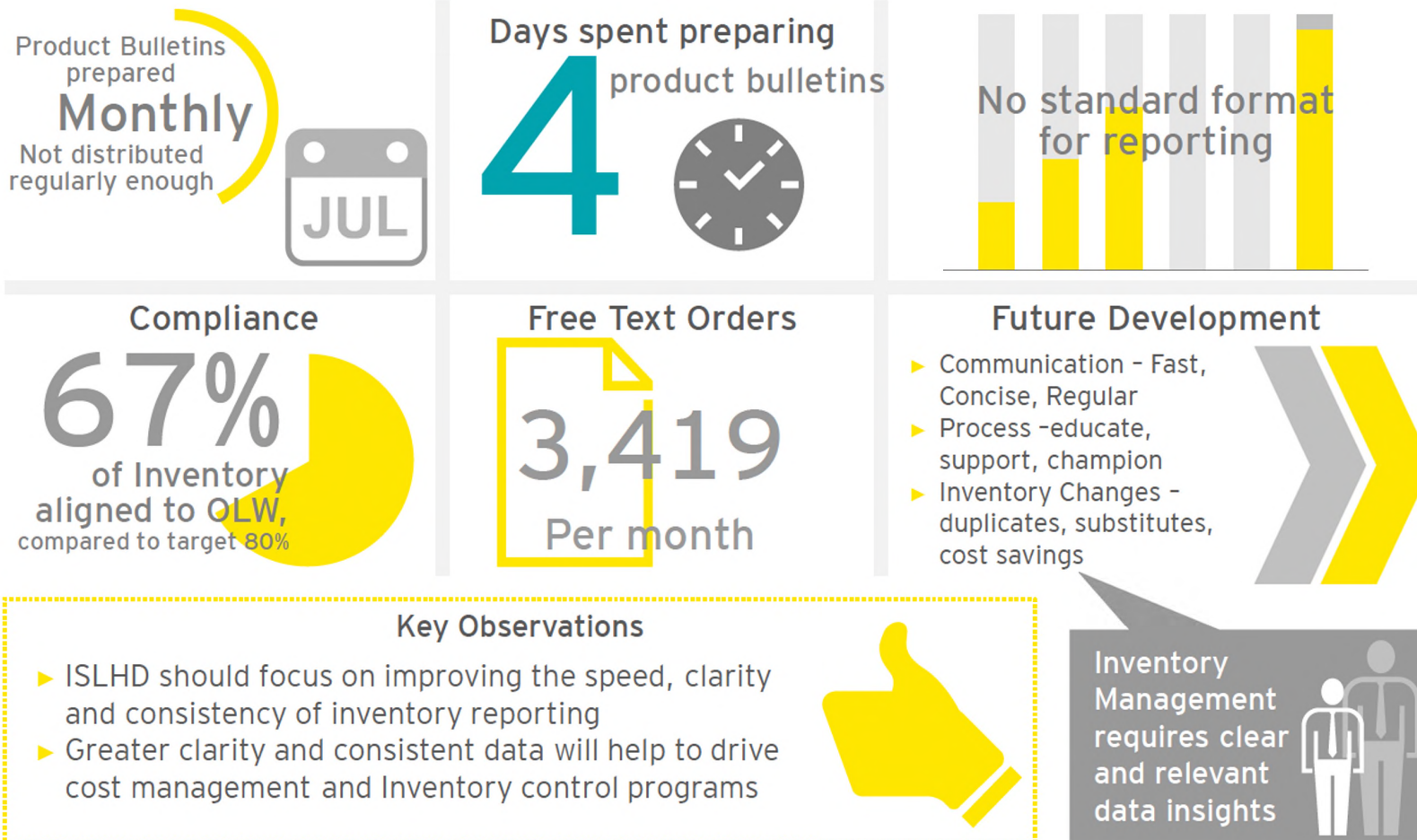**Simplified ISLHD Procurement Current State Process Flow**

● Procurement touchpoints

Identify Demand

①

Contract? — No → **CAPEX?** All assets with a value price >$10k — Yes →

- WoG
- NSW Health
- Local

Yes ↓

②

No ↓

OPEX? — Yes →

Yes ↓

Raise Requisition

Assets need to:
- Assets need to be on annual approved District capital Plan
- Assets >$250k must be on the Ministry of Health approved LFI Program
- Assets >$10m managed through Health Infrastructure budget

>10m? — Yes → ● Led by Procurement **Strategic Procurement** → ◯ Contract

No ↓

>250k? — Yes → ● Led by Procurement **Complex Procurement** → ◯ Contract

No ↓

<250k? — Yes → ● Supported by Procurement **Simple Procurement** → ◯ Contract

- <$5k no quotation necessary
- $5k-$30k –subject to at least one written quotation
- $30k-$250 – subject to three written quotes

④

③ ◯ **Approvals** → **Create Purchase Order**

⚠ Key Pain Points

① No central repository of contracts is available, making it difficult for users to identify if a current Contract or demand exists

② Users have difficulties to differentiate between CAPEX and OPEX procurement process. As such, key steps are missed which causes delays (e.g. ensure asset is on district plans)

③ Minimal visibility or traceability of internal approvals, with users often referring to complex and lengthy manuals

④ Multiple Procurement touch points indicate over-reliance on Procurement Function to perform purchasing and procurement tasks that should be pushed out to the business. No central repository including decision matrix and templates is available.

EY

ISLHD should improve their Inventory Management Reporting Program
Inventory Management

Product Bulletins prepared **Monthly** Not distributed regularly enough

JUL

Days spent preparing product bulletins
4

No standard format for reporting

Compliance
67% of Inventory aligned to OLW, compared to target 80%

Free Text Orders
3,419 Per month

Future Development
► Communication – Fast, Concise, Regular
► Process –educate, support, champion
► Inventory Changes – duplicates, substitutes, cost savings

Key Observations
► ISLHD should focus on improving the speed, clarity and consistency of inventory reporting
► Greater clarity and consistent data will help to drive cost management and Inventory control programs

Inventory Management requires clear and relevant data insights

EY

Supplier Relationship Management required to continuously deliver value
Supplier Relationship Management

Benefits

► Lower set up and implementation costs for introducing new suppliers

► Suppliers gain a better understanding of the business therefore are able to propose better solutions

► Minimises the impacts of price volatility through better partnerships

Stakeholder Feedback

"I think we've been easy with suppliers"

"We should have stronger partnerships and relationships with suppliers"

"The relationship with suppliers is transactional in nature with no focus on driving continuous improvement"

	Focus Area	Key Observations	Rating
X	Supplier Segmentation	There is no comprehensive Supplier Relationship Management Framework in place at a ISLHD, and no mechanism for segmenting or managing suppliers by level of importance.	●○○
X	Supplier Rationalisation	Localised management of supplier relationships may result in a significant performance breach not being communicated across the organisation.	●○○
X	Supplier Development	Lack of holistic insight to suppliers capabilities, and how they can best support the organisations needs.	●○○
X	Continuous Improvement	Contracts are not actively managed by Procurement, resulting in a lack of compliance from both the internal organisation and suppliers.	●○○

Current Rating

1

Recommendations

📅 1 Year Plan

► Establish a Supplier Relationship Management Framework
► Segment Supplier base and develop strategy for each segment

📅 3 Year Plan

► Implement continuous improvement KPI with all strategic suppliers
► Reduce the number of suppliers in each category to a maximum of 5

📅 5 Year Plan

► Develop partnerships with key suppliers, focussing on delivering mutual efficiencies and benefits

EY

ISLHD need to develop as a customer of choice within the local health sector
Customer Profile of ISLHD

Supplier Relationship Management will enable ISLHD to control how they are perceived by suppliers...
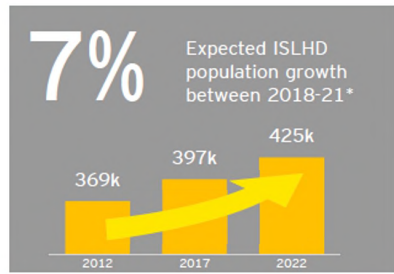
1 **Performance Management**
Deploy balanced scorecards and continually and automatically monitor performance against targets

2 **Supplier Segmentation**
Develop segmentation strategy that segments and prioritizes suppliers based on value and risk

4 **Supplier Collaboration**
Become a customer of choice through collaborative relationships that drive innovation and increased value to all parties

3 **Supplier Governance**
Define and implement supplier management governance framework and establish regular governance meetings

...and drive innovation and maximise the value from supplier relationships

Supplier Value Scenarios

Missed opportunities for value without SRM

Contract award

Value

Time

Different maturities of SRM

1 **Leading**
Recognised as leading practice, in regrated processes across enterprise boundaries, proactive decision analysis

2 **Established**
Standardised processes in place, governance established and maintained, defined strategy

3 **Basic**
Processes not defined, ad hoc controls, reactive and tactical measurement, no strategy

---

7% Expected ISLHD population growth between 2018-21*

425k
397k
369k
2012 · 2017 · 2022

58 Estimated number of tenders sitting in queue waiting to be released

Supplier briefings are conducted but not frequently enough due to the current backlog of work

As demand for goods and services continue to grow, realising value from supplier performance post contract award is becoming more critical

---

ISLHD should focus on leveraging their projected growth with their supply base, in parallel to improving their profile in the market through better management of their procurement activity.

*Source: ISLHD Our Health Care Services Plan 2012-22

EY

Contract Management practices should be delivered across the lifecycle
Contract Lifecycle Management

Benefits

- ► Forecast financial benefits are realised and developed further
- ► Identification of continuous improvement that can take "cost-out" of the business
- ► Proactive management of supplier risk to avoid impacts on the business

Stakeholder Feedback

"Suppliers raise prices due to rebates demanded"

"No contracts management system exists, and there is no checking that contracts are managed for prices"

"Contracts often get signed with no regard to the terms and conditions"

	Focus Area	Key Observations	Rating
✓	Contract Documentation	Contract documents are often incorrectly executed due to insufficient training or guidance, poor controls or lack of accountability.	● ● ○ (amber)
?	Supplier On-boarding	There is no standardised, formal approach to supplier on-boarding. There have been issues in achieving the necessary adoption to new providers.	● ○ ○ (red)
✓	Contracts Register	Whilst contracts are stored on TRIM there is no contract management system or register providing real-time, full oversight of all contracts implemented.	● ● ○ (amber)
?	Compliance & Performance	Difficulties within the business in achieving the desired level of compliance to contracts.	● ○ ○ (red)

Current Rating

2

Recommendations

1 Year Plan
- ► Develop contract management framework
- ► Prioritise development of Contract Management Plans

3 Year Plan
- ► Implement an automated centralised contract management system
- ► Transition all third party contracts to ISLHD T&C's

5 Year Plan
- ► Implement a contract lifecycle management system, that combines contract and supplier performance management

EY

With enough guidance, contract risks can be managed across the organisation
Contract Lifecycle Management

Contract Risks

Strategic (arrow: Strategic → Operational)

Strategic
- Loss of IP
- Damage to reputation
- Technical obsolescence

Commercial
- Non-compliance to key terms
- Contractual gaps/constraints

Continuity
- Financial health
- Product discontinuation
- Health, safety and environmental non-compliance
- Supply failure – force majeure

Compliance
- Over/duplicate payments
- Labour laws
- Sanctions
- Local government regulations

Execution
- Late or short deliveries
- Non-compliance to SLAs
- Quality issues
- Availability of labour

Roles and Responsibilities

HealthShare NSW
- Relationship management and ongoing collaboration with key supplier Maintain market competitiveness
- Executive support for agency initiatives

ISLHD Procurement
- Establish a contract repository
- Provide guidance to Operations including tools and processes around roles and responsibilities, how to use the repository and expected CLM activities
- Manage contract performance through dashboards and reporting
- Renegotiation of contracts
- Resolving escalated disputes

ISLHD Operations
- Inbound supply facilitation
- Maintaining/updating contract repository
- Conducting compliance activities

Escalation Path (arrow pointing up)

Increased contract volumes and contract complexity, amongst pressures to improve operational efficiency are potential risk factors that may impact ISLHD's contract management capabilities

EY

Full S2C and P2P systems are in place however not effectively utilised
Systems and Technology

Benefits

- ▶ Clear visibility of spend which leads to better management and interrogation
- ▶ Automation of processes leads to greater staff efficiency
- ▶ Mitigates errors and the risk of fraud

Stakeholder Feedback

"We need better data"

"There's no asset register so 30 year old equipment needs to be replaced all of a sudden"

"There are issues with Oracle data given spend is not raised under the right code. There's no financial training at ground level which adds to the poor data"

	Focus Area	Key Observations	Rating
X	Spend Analytics	No regular spend analytics in place which lead to lack of education on buying practices and identification of opportunities. Cloudbuy system in place however not effectively utilised	🔴⚪⚪
√	P2P System	Oracle P2P systems in place along with Imprest cataloguing. Poor ordering practices in place through high level of standing orders and free texting leading to lack of transparency	⚪🟡⚪
√	S2C System	Tender portal managed by HealthShare. Multiple contract management systems available to ISLHD however TRIM utilised which is a primarily records management tool with no alerts	⚪🟡⚪
?	Interoperability	Currently not all systems are fully integrated which causes additional work and effort. Missing integration also leads to errors due to manual intervention	⚪🟡⚪

Current Rating

2

Recommendations

1 Year Plan
- ▶ Establish regular spend reporting across the district to educate end users on buying practices
- ▶ Migrate all contracts to single real-time solution

3 Year Plan
- ▶ Full utilisation of Cloudbuy with regular price and practice benchmarking to other NSW health sites
- ▶ Electronic asset register with real-time notifications

5 Year Plan
- ▶ Real-time spend analytics with benefits realisation reporting

EY

There are a number of systems in place to support the P2P and S2C process
ISLHD Systems Overview

	Functions
ORACLE	▶ Requestioning application through a web-based shopping system, with purchasing transaction solution and finance integration ▶ Easy to use interface with ability to streamline employee ordering and enforce purchasing policy ▶ Non-sourced or off-catalogue spending is highlighted
cloudBuy	▶ Integrated solution for automating the P2P process, with spend data analysis, compliance-focused features and eCommerce ▶ Accommodates purchase orders, contracts and invoices ▶ eMarketplace can reduce costs, attain compliance, and provide data to identify potential opportunities for cost savings
iPharmacy	▶ Pharmacy management software covering product purchase, sale, set up and customer, with integrated accounting system ▶ Single database providing pharmaceutical administration including drug dispensing and inventory control ▶ Delivers a solution supporting better care through safe and effective use of medicines
Imprest CE2	▶ Uses barcode scanning mobile computers to allow easy ordering of consumables for hospitals ▶ System specifically designed for NSW Health with functionality including import and viewing location of item data, location barcode label printing, item barcode label printing, scanning item barcodes, transmission of orders to Oracle
AFM Online	▶ Asset and facilities management and information system designed to give facilities management staff the tools to manage, maintain, inspect, schedule and test medical equipment and facilities ▶ Provides certainty for patients and clinicians that assets and facilities will be available when needed
PROcure	▶ Contract management solution to provide real-time alerts on contractual status ▶ Database to store contracts along with performance tracking over contractual term
TRIM	▶ Content management system used to ensure contract management is performed effectively and efficiently ▶ Captures all agreements and contracts that the user is a participating party to
eTendering	▶ Online tender management system where tenders are advertised and responded to ▶ Lists business upcoming, current and closed opportunities with NSW government agencies ▶ Ability to create and publish an RFT, access and download content, and publish contract award notices

EY

ISLHD staff require capability uplift in some of your key systems
Systems and Technology Capabilities

ISLHD staff rated their capabilities on the different Procurement systems as part of the survey. Overall, **iProcurement was the most adopted system** with 77% of survey respondents declaring to be of beginner level or above. **CloudBuy was the least adopted system** with only 1% of respondents having some familiarity with the system.

Legend:
- None
- Beginner
- Intermediate
- Advanced
- Expert

iProcurement - Oracle: 23% None, 6% Beginner, 23% Intermediate, 41% Advanced, 6% Expert

iPharmacy: 96% None, 2%, 2%

Cloudbuy: 99% None, 1%

AFM Online: 73% None, 8% Beginner, 9% Intermediate, 10% Advanced

Barcode Logic - Imprest CE2: 79% None, 6% Beginner, 7% Intermediate, 6% Advanced, 3%

EY
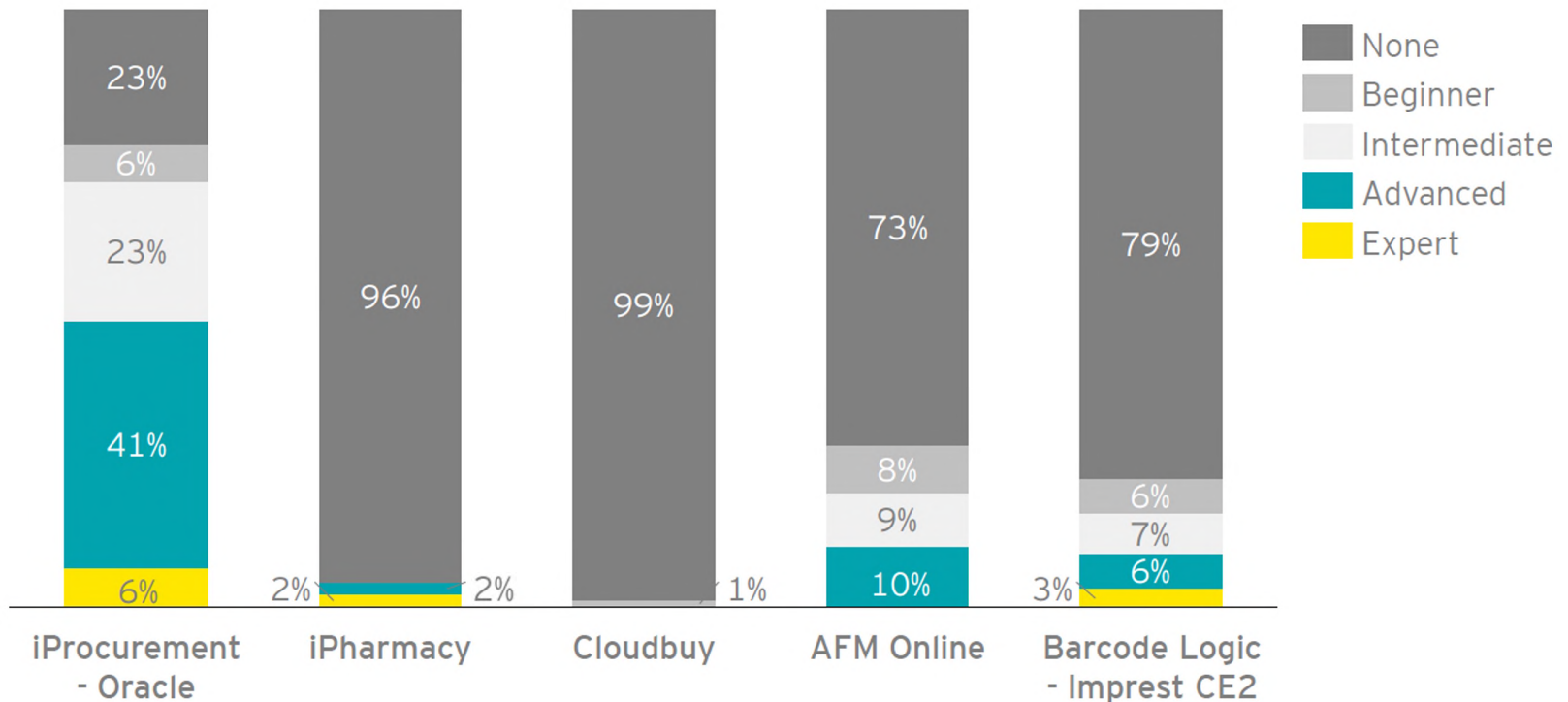
Procurement technology solutions offer different S2C and P2P functionality
Procurement Technology Providers Capabilities

Company	Source to Contract				Purchase to Pay			
	Spend Analytics	Sourcing	Contract Management	Supplier Management	Requisi-tioning	Purchase Order Processing	Receipting	Invoice Processing
ORACLE	✓	✓	✓	✓	✓	✓	✓	✓
cloudBuy	✓	✓	✓	✓				
iPharmacy	✓				✓	✓	✓	✓
Imprest					✓	✓		
AFM Online			✓					
PROcure			✓					
TRIM			✓					
eTendering		✓						

There are multiple overlapping systems providing same or similar functionality. ISLHD have 3 systems available for stand-alone contract management. ISLHD are currently utilising TRIM for contract management however NSW Health direction is to use PROcure.

EY

The major priorities for ISLHD are spend analytics and contract management
Systems Optimisation Plan

Process	Issues					Recommendations	Priority
	Manual Processes	Error Prone	Duplicate Processes	Bottle Necks	Open to Fraud		
Spend Analytics						• Establish consistent spend reporting throughout LHD • Fully optimise CloudBuy	1
Strategic Sourcing						• Automated tender evaluations • eAuction functionality	3
Contract Management						• Transition to PROcure • Automated notifications on contract milestones	1
Supplier Management						• Track supplier performance • Manage supplier risk	3
Requisitions						• Increase number of items available on catalogue	2
Purchase Order Processing						• Eliminate standing orders	2
Receipting						• 3-way match for full visibility and compliance • Control of deliveries	3
Invoicing Processing						• Electronic 3-way match • Introduce standard invoicing format with key suppliers	2

EY

Implementation Roadmap

Our recommendations transition ISLHD to an established function
Procurement Review Key Recommendations

Legend:
- ○ Current state
- ○ Transition state
- ● Future state

Operating model component	Basic	Developing	Established	Advanced	Leading	Recommendations to develop to Transition State (Year 1 Recommendations)
Strategy and Governance	○		○	●		▸ Develop Procurement strategy which aligns to the 2018-20 ISLHD organisation strategy with full exec backing ▸ Procurement roadshow across ISLHD sites
Organisation		○	○	●		▸ Implement new "centre-led" procurement structure ▸ Develop "user-friendly" procurement procedure manuals
People		○	○	●		▸ Develop a district-wide training plan and start roll out ▸ Utilise and enhance peoples skillsets in accordance with their roles and capabilities
Performance Management	○	○		●		▸ Define procurement performance metrics across savings, efficiency, compliance and quality with RACI
Sourcing & Category Management	○		○	●		▸ Undertake full spend diagnostic to determine spend by category ▸ Develop category strategies and future roadmap
Tactical and Operational Procurement		○	○	●		▸ Establish Procurement Intranet page as one-stop-shop for procurement templates and questions ▸ Develop forward plan for inventory management initiatives
Supplier Relationship Management	○	○	●			▸ Establish a Supplier Relationship Management Framework ▸ Segment Supplier base and develop strategy for each segment
Contract Lifecycle Management		○	○	●		▸ Develop contract management framework ▸ Prioritise development of Contract Management Plans
Systems and Technology	○		○	●		▸ Establish regular spend reporting across the district to educate end users on buying practices ▸ Migrate all contracts to single real-time contract management solution

EY

We have devised time bound initiatives to achieve an advanced level of maturity
Recommendations Summary

Transition State	Future State	

1 Year

- Develop Procurement strategy which aligns to the 2018-20 ISLHD organisation strategy
- Procurement roadshow across ISLHD sites
- Design and Implement "centre-led" procurement structure
- Develop "user-friendly" procurement procedure manuals
- Develop and roll-out district-wide training plan Utilise and enhance peoples skillsets in accordance with their roles and capabilities
- Define procurement performance metrics
- Undertake full spend diagnostic to determine spend by category
- Develop category strategies and future roadmap
- Establish Procurement Intranet page as one-stop-shop for procurement requirements
- Continue to work with HealthShare to improve the performance of Onelink
- Establish a Supplier Relationship Management Framework
- Segment Supplier base and develop strategy for each segment
- Develop contract management framework
- Prioritise development of Contract Management Plans
- Establish regular spend reporting across the district to educate end users on buying practices
- Migrate all contracts to single real-time solution

3 Year

- Implement standard ISLHD risk management framework
- Development of Procurement Governance framework
- Determine process for allocation of ISLHD resource on state-wide initiatives
- Build relationships with HealthShare leads
- Build the image of procurement
- Implement communication plan for better publicity of procurement wins
- Establish benefits definition (financial and non-financial) framework
- Develop benefits reporting Build procurement employee appraisal process
- Develop TCO framework and strategy
- Provide access to market industry reports
- Establish Clinical Product teams to address inventory management issues and better manage procurement demand
- Implement continuous improvement KPI with all strategic suppliers
- Reduce the number of suppliers in each category to a maximum of 5
- Implement an automated centralised contract management system
- Transition all contracts to ISLHD T&C's
- Full utilisation of Cloudbuy with regular price and practice benchmarking to other NSW health sites
- Electronic asset register with real-time notifications

5 Year

- Procurement strategy is being reviewed on an annual basis against goals, targets and initiatives at the board level
- Procurement positioned within the organisation to enable value throughout the ISLHD supply chain
- Become an employer of choice for Procurement personnel within Health, seeking to attract talent at various levels
- System integration for benefits reporting
- Procurement performance metrics reported to board
- Achieve best in class ROI
- Implement real-time market analysis and category management system
- All RFx exercises to be conducted via tender portal
- Develop inventory management strategy
- Develop partnerships with key suppliers, focussing on delivering mutual efficiencies and benefits
- Implement a contract lifecycle management system, that combines contract and supplier performance management
- Real-time spend analytics with benefits realisation reporting

EY

The priority is to quantify the benefits that can be achieved by Procurement
Implementation Roadmap – 1 year recommendations

	Aug – 18	Sep – 18	Oct -18	Nov – 18	Dec – 18	Jan – 19	Feb – 19	Mar – 19	Apr – 19	May – 19	Jun – 19
Strategy and Governance		Develop Procurement Strategy				Procurement Roadshow across ISLHD sites					
Organisation		Design and Implement Centre-Led Procurement Team Structure									
			Develop Procurement Procedure Manuals								
People									Develop and Roll-out District-wide Training Program		
Performance Management			Define Procurement Metrics with RACI								
Sourcing and Category Management	Category Strategy Development										
		Rapid Sourcing Program									
Tactical and Operational Procurement		Develop inventory management forward plan		Update and Implement Procurement Intranet page							
				Implement Inventory Management Initiatives							
Supplier Management										Supplier Segmentation Development	
Contract Lifecycle Management						Develop Contract Management Framework		Build and Implement Priority Contract Management Plans			
Systems and Technology			Establish spend reporting across the district								
					Migrate all contracts to real-time system						

EY

Appendix – Salary Guide

EY

NSW Award Rates

Role	Salary Banding	Average Salary
Nurse Manager Grade 2	$117k	$117k
Health Service Manager – Grade 1	$73k - $98k	$85k
Health Service Manager – Grade 2	$95k - $113k	$104k
Health Service Manager – Grade 3	$111k - $126k	$119k
Health Service Manager – Grade 4	$124k - $149k	$136k
Health Service Manager – Grade 5	$146k - $164k	$155k
Administrative Officer – Level 4	$63k	$63k
Administrative Officer – Level 5	$67k	$67k
Administrative Officer – Level 6	$71k	$71k

Source: Health Employees Administrative Staff (State) Award 2018 IRC NSW, Health Managers (State) Award 2018 IRC NSW

EY

Disclaimer

Unless otherwise agreed in writing with EY, access to the Illawarra Shoalhaven Local Health District deliverable is made only on the following basis and in either accessing the Deliverable or obtaining a copy of the Deliverable the recipient agrees to the following terms.

1. Subject to the provisions of this notice, the Deliverable has been prepared for Illawarra Shoalhaven Local Health District and may not be shared across Illawarra Shoalhaven Local Health District, its employees or disclosed to any other party or used by any other party or relied upon by any other party without the prior written consent of EY.

2. EY disclaims all liability in relation to any other party who seeks to rely upon the Deliverable or any of its contents.

3. EY has acted in accordance with the instructions of Illawarra Shoalhaven Local Health District in conducting its work and preparing the Deliverable, and, in doing so, has prepared the Deliverable for the benefit of Illawarra Shoalhaven Local Health District, and has considered only the interests of Illawarra Shoalhaven Local Health District. EY has not been engaged to act, and has not acted, as advisor to any other party. Accordingly, EY makes no representations as to the appropriateness, accuracy or completeness of the Deliverable for any other party's purposes.

4. No reliance may be placed upon the Deliverable or any of its contents by any recipient of the Deliverable for any purpose and any party receiving a copy of the Deliverable must make and rely on their own enquiries in relation to the issues to which the Deliverable relates, the contents of the Deliverable and all matters arising from or relating to or in any way connected with the Deliverable or its contents.

5. The Deliverable is confidential and must be maintained in the strictest confidence and must not be disclosed to any party for any purpose without the prior written consent of EY.

6. No duty of care is owed by EY to any recipient of the Deliverable in respect of any use that the recipient may make of the Deliverable.

7. EY disclaims all liability, and takes no responsibility, for any document issued by any other party in connection with the Project.

8. No claim or demand or any actions or proceedings may be brought against EY arising from or connected with the contents of the Deliverable or the provision of the Deliverable to any recipient. EY will be released and forever discharged from any such claims, demands, actions or proceedings.

9. To the fullest extent permitted by law, the recipient of the Deliverable shall be liable for all claims, demands, actions, proceedings, costs, expenses, loss, damage and liability made against or brought against or incurred by EY arising from or connected with the Deliverable, the contents of the Deliverable or the provision of the Deliverable to the recipient.

10. In the event that a recipient wishes to rely upon the Deliverable that party must inform EY and, if EY so agrees, sign and return to EY a standard form of EY's reliance letter. A copy of the reliance letter can be obtained from EY. The recipient's reliance upon the Deliverable will be governed by the terms of that reliance letter.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

ey.com