

Meeting the Procurement Challenge

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The NHS focus following the Francis¹, Berwick² and Keogh³ reports is quality of patient care and outcome. This objective is juggled with the need to reconfigure service delivery models to drive further efficiencies and to seek consequent workforce reform to develop an NHS fit for 21st century needs. All of this is conducted against a backdrop of severe financial restrictions: deflationary tariffs; flat cash despite historic 4% year on year growth in spending and a call for a zero increase in non-pay spend to end 2016.

Since the NHS was founded in 1948, its spending has increased on average by 4% a year in real terms⁴. However, for the decade ahead, the NHS budget is likely to remain flat or, at most, to increase in line with growth in the rest of the economy. Over the same period, demand for NHS health care is expected to rise as people live longer, have more complex health problems and more advanced treatments become available.

These trends in funding and demand will create a sizeable funding gap. Recent projections from the Nuffield Trust⁵ and NHS England⁶ suggest this gap could grow to £30 billion a year by 2021. In short, the sector faces its greatest financial challenge of recent times over the next eight years or so.

To meet this challenge, health services must change fundamentally or the quality of care that patients receive will fall.

In its recent report 'Closing the NHS funding gap: how to get better value health care for patients'⁷ Monitor suggests that there are opportunities to make significant recurrent productivity gains, while protecting and improving patient outcomes, in the following areas:

Delivering the right care in the right setting

Many patients could enjoy better outcomes at lower cost to the NHS if their care were delivered in a more appropriate setting.

Developing new ways of delivering care

Success will also depend on introducing new models of care to services.

Allocating spending more rationally

Redirecting resources to prevention and early diagnosis or rebalancing spend between different diseases could yield important productivity improvements.

Improving productivity in existing services

These include measures to reduce waste and running costs, improve procurement, reduce lengths of stay in hospitals, collaborate better with social services, redesign clinical roles and avoid using procedures or drugs of low clinical value.

Better procurement of clinical supplies and non-clinical services across all settings is identified in the Monitor paper as a key enabler. It is the main focus of **Better Procurement, Better Value, Better Care: A Procurement Development Programme for the NHS**⁸ launched in August 2013. In it, the Department of Health outlined its desire to build a **world-class NHS procurement function and to curb the NHS non-pay bill**. It makes clear that effective management of the **annual £20 billion spend on goods and services**, is vital.

Despite the current financial challenges, non-pay expenditure in trusts increased by more than the rate of NHS activity and general inflation in 2011/12, compared with the previous year. In fact, according to the Department, the increase was 11%, and this continued in 2012/13 with another 10% rise. With non-pay expenditure accounting for **30% of a typical trust's operating expenditure**; trusts have no choice but to prioritise procurement.

This paper aims to outline the core themes of the Better Procurement, Better Value, Better Care report, the key opportunities for sustainable savings and the considerations for making them real.

Effective management of the annual £20 billion spend on goods and services is vital.

Guide to Better Procurement, Better Value, Better Care - NHS Procurement Development Programme

This report contains a four-part plan that will help put the brakes on non-pay spend in the short term and establish 'world-class procurement capability' by 2017.

These four parts aim to:

- Deliver immediate efficiency gains
- Improve information and transparency
- Establish clinical procurement review partnerships to improve outcomes for patients at lower costs
- Improve leadership and capability

Deliver immediate efficiency gains

Call to stabilise non-pay spend for the next three years. In real terms this means over £1.5 – £2 billion of procurement efficiencies

Need for a relentless focus on costs to deliver the efficiencies, which extends to suppliers and clinicians

The enormous potential to achieve economies of scale through centralised procurement and greater aggregation.

Considerations:

- Implement initiatives to combat inflation
- Resist supplier price increases
- Identify immediate opportunities through NHS Supply Chain and GPS to leverage NHS purchasing power
- Focus on establishment costs and learn from central government initiatives
- Review temporary staff costs/usage.

Improve information and transparency

Greater data transparency is vital. To identify savings, share best practice and reduce the variation in prices being paid.

This will be supported by the development of:

- Infrastructure for the adoption of GS1, as the supply chain coding standard
- A best in class NHS Spend Analysis and Price Benchmarking Service
- A dashboard of procurement performance metrics.

Considerations:

- Consider adoption of dashboard of procurement performance metrics
- Publish all procurement data online, including opportunities, expenditure and contracts
- Submit quarterly basket of product pricing data requested by Department of Health
- Consider the recommendations of the future e-Procurement strategy
- Prepare for future adoption and embedding of GS1 data pool into your systems and processes.
- Share best practice.

Greater data transparency is vital. To identify savings, share best practice and reduce the variation in prices being paid.

Establish clinical procurement review partnerships

Greater use of clinical outcome and procurement data and understanding of cost to serve impact to forensically examine best value solutions.

This will involve:

- Ensuring all products are fit for purpose
- Understanding the market dynamics including supplier capabilities
- Establishing the balance between medical benefit and value for money
- Documenting and disseminating best practice.

Considerations:

Review how the clinical/procurement partnership is working in your trust

Seek to combine commercial and clinical outcome data to engage clinicians and inform change.

Improve leadership and capability

Strong leadership required. Non executive directors and trust boards must play a stronger role in championing improved procurement and holding their executives to account. Support package to be developed

Need for capacity and capability review of trusts' procurement functions

Need for procurement functions to maximise expertise from their procurement and supply partners

Outline of central programme delivery and governance structure

Creation of a new centre of procurement development.

Considerations:

Appoint a board executive director to be accountable for procurement and a non-executive director to sponsor the procurement function

Support non executives challenging the board on local prices and performance

Encourage your trust to join regional/trust group level Procurement Development networks.

Review capacity and capability of your trust's procurement function

Ensure your trust is maximising the expertise from its procurement and supply partners.

Curbing non-pay expenditure - Quick Wins?

It is not about using cheaper products - it is about using the most appropriate products for the patient.

The report calls for optimal usage of framework agreements where they exist and maximisation of existing opportunities for immediate savings through NHS Supply Chain.

NHS Supply Chain suggests a three step approach to delivering quick efficiencies from the national contract:

Standardise where appropriate

Sustainable significant savings can be achieved following a review of spend across individual categories to determine where standardisation of product choice, practice and/or supplier is appropriate.

Accelerate CIC (Community Interest Company), formerly the East London Wound Healing Centre, and NHS Supply Chain worked together to put in place an off-prescription community dressings solution. The centralised scheme was for community nurses, GP practices and nursing homes and managed to take 90% off prescription compared with 40%-50% achieved by other schemes. The clinically led scheme started with clinical need rather than the saving to be achieved. It asked, what is the problem and what is the most effective solution to more easily manage and heal the wound? It was not about using cheaper products – it was about using the most appropriate products for the patient. The scheme sought to reduce wastage from unused dressings; provide quicker access to dressings and standardise practice across the area – including infection control practices.

Since then Accelerate CIC has **maintained costs within a budget that has not increased since 2009**, leading to total savings of more than £360,000 from going live to end of

financial year 2012/13. Savings are based on inflation figures for dressings via prescription. This is projected to be in the region of **£600,000 by the end of financial year 2013/14**. This scheme is now being used by more than 30 community healthcare organisations in England.

Pennine Acute Hospitals NHS Trust conducted a review across four sites of theatre packs, reducing the number of different packs stocked at the trust from 130 to 85. A mini competition resulted in **more than £160,000 in savings, 29% year on year**. This was only possible because of clinical collaboration and compromise to share how they used particular theatre packs and identify in what areas standardisation was possible.

Adoption of alternative products⁹ has saved NHS organisations **£14million** (equivalent to 424 band 6 nurses (FTE @ £33,000¹⁰) through the NHS Supply Chain contract since 2011. Better Procurement, Better Value, Better Care: A Procurement Development Programme for the NHS says savings from product substitution exist across the whole £4.5 billion clinical supplies and services budget.

Remove cost from the supply chain

Review and improvement of stock ordering and inventory management process can lead to a better understanding of actual consumption, wastage and just how much cash is tied up in stock holding. It also has the potential to free up precious clinical capacity for front line care.

At Mid Cheshire Hospitals NHS Foundation Trust while materials management systems and processes provided good control and management information on everyday consumables, more specialist areas with higher value items like orthopaedics were managed by clinical staff, using manual processes. Apart from distracting them from their core responsibilities, the processes did not provide the trust with the management information needed to evaluate value for money on the orthopaedic non-pay budget.

Consignment stock added a greater level of complexity to the process, exacerbated by the lack of management information and the failure by some suppliers to manage stock. This resulted in ownership issues on expired stock and additional stock management responsibilities for clinical teams.

Mid Cheshire Hospitals NHS Foundation Trust worked with NHS Supply Chain to develop, a managed inventory system, tailored for orthopaedics. Results of pilot using eDC Gold to date are very encouraging:

- **£5,000** a month saved through **reduced stock obsolescence**, equal to 9% of managed spend
- **74% reduction** in resource required to manage the **requisition process**
- 56% time saving on order processing
- 92% time saving on product recall process
- Total of **20.5 days saved on the annual physical stock take** (16 for clinical staff 4.5 for finance staff).

The traditional method of supplying wound care dressings to patients in the community via prescription produces waste and is time consuming and costly for trusts. **Northumberland Care Trust** initially identified an opportunity to make savings of up to **£300,000 (32%) by reducing waste by up to 40%** and improving efficiency in wound care supply. Community nurses had timely access to appropriate wound care products while patients didn't have to worry about product storage during their treatment and disposal when treatment ended.

Wiltshire Community Health Services similarly moved off prescriptions for its dressings. In addition to cash releasing savings, it reports **18,000 nursing hours per year freed up** across their team of 180 district nurses by not having to pick up prescriptions for wound dressings on patients' behalf. Use of the e-Commerce system, provided a clear audit trail to demonstrate compliance with the formulary which further reduced the administration burden and helped maximise the time available to deliver front line patient care. **Formulary compliance improved to 95%.**

Price stability is also an important component in meeting the financial challenges. NHS Supply Chain is **working with suppliers to mitigate price increases** in 21 savings projects covering areas like packaging, inbound containerised loads, picking up from suppliers premises as well as maximising use of warehouse and trailer space. Results from a similar initiative

undertaken with **Daniels Healthcare** resulted in 46 tonnes of packaging and 938 pallet loads – equivalent to 18 deliveries – removed from one packaging re-engineering project.

Commit and aggregate volume

John Warrington, Deputy Director of Policy and Research, Procurement, Investment and Commercial Division, Department of Health, urges the NHS to leverage its buying power:

'We want trusts to look at their categories, know what they want to do, choose partners for the right reasons and then drive commitment to those partners over a long period of time¹¹.'

Working with the seven Welsh Health Boards and three Trusts across Wales, **NHS Procurement Wales was able to leverage a total spend of £1.06 million on medical pulp consumables.** While the majority were purchasing through the NHS Supply Chain framework and had enjoyed savings resulting from price reductions since December 2011, much higher savings could be achieved through standardisation and volume commitment. **NHS Wales leveraged its collective buying power and saved £111,176 (10.5%) on medical pulp consumables.**

The North West Procurement Development Office (NWPDO) is working in partnership with NHS Supply Chain on an aggregation programme whereby individual

trusts' commitment arrangements are starting to be aggregated to enable them to **maximise commitment discounts** (volume related rebates). The impact of this for the North West region is forecast savings of **£1.3 million for 2013/14, an increase of 18% on 2012/13.**

North Tees and Hartlepool NHS Foundation Trust and South Tees NHS Foundation Trust tackled collaboratively a combined overspend of £192,000 on continence products by implementing **product standardisation across community and hospital**, improving patient pathway and implementing a **controlled formulary** and single supplier approach. This resulted in **£300,000 saving** on continence products and continuity of care for patients.

In March 2012 the Department of Health created a **£300 million fund to allow the NHS to buy capital equipment in bulk** and make the best possible use of the NHS buying power. The fund is managed on a day-to-day basis by NHS Supply Chain, with DH and NHS Business Services Authority (BSA) contributing to the strict governance and oversight process. The fund is generating real cash savings for the NHS. Between March 2012 and the end of September 2013, **186 trusts** across England and Wales purchased **1,234 units** across 14 modalities such as ultrasound machines, bladder scanners, CT Scanners and Linear Accelerators. The fund has produced directly attributable savings of **£15.5 million** and average incremental savings to existing NHS Supply Chain framework prices of **11.1%.**

NHS Supply Chain uses its insight of NHS required capital equipment purchases to inform the negotiation of bulk deals. The wider the insight it can gain from new and replacement capital plans shared by the NHS, the more intelligently it can apply the fund and maximise benefits.

Learnings to date

If seeking standardisation savings

- Start with the patient – what is the best outcome that can be achieved for the patient whilst delivering the best value for the taxpayer?
- Ensure you have the right people involved, those who can influence practice across a range of settings
- Work with meaningful management information not just data
- Support with evidence to reassure clinical stakeholders on impact of change
- Target early adopters and use their peer pressure to convert doubters
- Use patient safety arguments i.e. fewer systems to learn = fewer mistakes
- Consider budgets as levers i.e. special requirements come from individual budgets; attribute savings to individuals and budgets involved rather than central pots – this can increase buy in to future projects
- Ensure time is dedicated to stock transition – one bad experience and confidence is gone.

When removing costs from supply chain

- Ensure deep engagement with clinical stakeholders and deep understanding of existing processes in defining requirements for the system
- Test usability of data before doing bulk uploads to the system to avoid rework
- Take time and set realistic timescales for implementation, ensuring you allow teams to build their confidence in the system
- Provide training and support not only around the system, but the processes around it, which will ultimately determine whether it succeeds or fails
- Implement the right governance around the processes to embed it into the day-to-day running of the department to deliver the improvements sought.

When committing and aggregating volume

- Investigate whether your trust has a capital plan and whether it is in a state suitable for sharing
- Identify how providing commitment can deliver savings and work collaboratively to aggregate requirements
- Ensure terms of reference underpinning aggregation agreements with peer organisations are robust
- Ensure all the right stakeholders across the organisation are involved
- Consider whether there are sufficient incentives for suppliers to engage
- Consider how much of the care pathway is covered by the project.

Initiatives to combat inflation

Central Manchester University Hospitals NHS Trust started a zero inflation policy early in 2011/12 and avoided costs of **£1.6 million** in 2011/12 and **£2.2 million** in 2012/13. Measures included moving to electronic invoicing to reduce supplier processing costs; making trust's buyers available for product awareness sessions; changing the frequency of orders; acting as a reference site; paying earlier; and offering multi-year deals¹¹.

For all case study evidence please visit www.supplychain.nhs.uk/casestudies

¹ Report of the Mid Staffordshire NHS Foundation Trust public inquiry (the Francis Report) of February 2013

² <https://www.gov.uk/government/publications/berwick-review-into-patient-safety>

³ <http://www.nhs.uk/NHSEngland/bruce-keogh-review/Pages/published-reports.aspx>

⁴ <http://www.monitor.gov.uk/closingthegap>

⁵ The Nuffield Trust (2012) A decade of austerity? The funding pressures facing the NHS from 2010/11 to 2021/22

⁶ NHS England (2013) The NHS belongs to the people: A call to action

⁷ <http://www.monitor.gov.uk/closingthegap>

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/226835/procurement_development_programme_for_NHS.pdf

⁹ NHS Supply Chain internal cash releasing savings report

¹⁰ Agenda for change pay rates, NHS careers

¹¹ Healthcare Finance, Grand Designs Article October 2013

Key points to consider

Assessing your current situation

- How much of the clinical supplies spend ends up being wasted i.e. overstocking?
- How much cash can be freed up from reductions in overstocking?
- How much spend data is accessible and is in a format that can be shared with partners?
- Do you have a capital plan and is it in suitable state for sharing with a procurement partner?
- How much of your team's time is burdened with non-value add procurement activity?
- Could your internal supply chain benefit from independent review?

Working the solution

- Have all easy options been exhausted e.g. commitment discounts for current volumes?
- Where are the most realistic areas for volume aggregation?
- Are conditions right for commitment and aggregation - is demand under control, are ranges standardised where appropriate?
- What finance levers can be used to aid implementation of savings i.e. removal of budget silos?

Maximising value from external partners

- How can resource from external partners be utilised to speed up delivery of savings?
- How can you use your procurement partners to better extend your procurement capability? For example management information, additional resource.
- How aligned is your procurement partner to your trust's cost improvement plans? For example joint savings commitments.
- What extra value could your team deliver if their procurement duties were freed up?
- How many more areas could you target for savings with this time back?

NHS Supply Chain: Who we are and what we do

Who operates NHS Supply Chain?

NHS Supply Chain is operated by Deutsche Post DHL (DP DHL).

What is NHS Supply Chain contracted to do?

In October 2006, the NHS Business Services Authority (NHSBSA) entered into a 10 year agreement with DHL. This is for the provision of end-to-end supply chain services incorporating procurement, logistics, e-Commerce and customer and supplier support, to the NHS in England and Wales on behalf of the Department of Health. The scope of the agreement was £5 billion non-pay spend across 11 categories of product, covering consumables, clinical and medical equipment. The agreement is bound by a contract known as the Master Services Agreement (MSA). Under the MSA, NHS Supply Chain has to deliver 20 service visions, with more than 80 measures including savings, value for money and sales.

How is NHS Supply Chain governed?

NHS Supply Chain acts as an agent for the NHS Business Services Authority. The NHS Supply Chain contract is governed by the NHS Business Services Authority and the Department of Health. NHSBSA, has full access to NHS Supply Chain data and systems.

As part of Deutsche Post DHL (DP DHL), NHS Supply Chain is audited from both a control (ISAE3402 (gross profit)) and a financial (EBIT) perspective by Price Waterhouse Cooper.

How is NHS Supply Chain's performance measured?

NHSBSA monitor and performance measure the services NHS Supply Chain provide under the MSA. The NHSBSA has the power to intervene if appropriate and the performance measures form part of the regular operational reviews between

the two organisations. Seven measures provide an indication of the overall health of the outsourced arrangements and objectives:

- Savings
- Customer satisfaction
- Service levels
- NHS spend
- Cost per order line
- Profit
- Innovation.

Our service level is 98.7% (99.5% for critical lines).

What saving targets are in place?

NHS Supply Chain is on target to deliver in excess of £1 billion of savings to the NHS over the 10-year life of the agreement and this is in line with the Department of Health's expectations. To date it has delivered more than £700 million²³ in savings to the NHS.

How much profit does NHS Supply Chain make?

An annual profit cap is in place. Should NHS Supply Chain exceed the annual profit cap then the additional profit would be returned to the NHS as savings. The profit cap is a pound note figure, set at the contract outset, with no inflationary uplift. NHS Supply Chain has not yet reached the profit cap.

NHS Supply Chain's EBIT averages between 2 and 3% as a percentage of sales – this is our total gross profit less all business expenses but before financing costs.

NHS Supply Chain's transactional gross profit averages between 10% and 11% – this is the difference between our product buy and sell prices.

NHS Supply Chain's total gross profit averages between 12% and 13% – this figure includes rebates and any other income.

NHS Supply Chain's pricing always includes delivery costs and VAT where applicable.

How much has DHL invested in NHS procurement?

DHL has invested more than £110m since 2006 and plans to invest more in order to keep delivering the excellent service expected of NHS Supply Chain.

Scope

In practice this translates to managing the sourcing, legally compliant procurement and delivery of healthcare products, medical consumables, surgical instruments, stationery and food for more than 1,000 trusts and healthcare organisations. NHS Supply Chain provides a single point of access to more than 600,000 items across 11 product categories. It consolidates demand orders, deliveries and invoices from more than 850 suppliers on behalf of NHS trusts.

Scale

The scale of the operation is significant: NHS Supply Chain delivers 4.9 million orders to 22,000 delivery points from a network of seven distribution centres or direct from its 850+ suppliers. It currently makes 375,000 consolidated customer deliveries and processes 204,294 consolidated customer invoices annually.

Expertise

NHS Supply Chain currently offers the NHS 246 framework agreements and tenders around 60 frameworks each year. NHS Supply Chain has received certification from the Chartered Institute of Purchasing and Supply (CIPS) in recognition of the business' delivery of globally recognised procurement standards. The company has 40% of its procurement staff with CIPS accreditation and a target of 80% staff with CIPS accreditation by 2016.

NHS Supply Chain is on target to deliver in excess of £1 billion of savings to the NHS over the next 10-year life of the agreement