



# NHS procurement: Raising our game

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<b>Contact Details</b>	John Warrington Procurement, Investment & Commercial Division 4th Floor Skipton House 80 London Road, London SE1 6LH john.warrington@dh.gsi.gov.uk  <a href="http://www.dh.gov.uk/health/category/qipp-procurement/">http://www.dh.gov.uk/health/category/qipp-procurement/</a>
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# Foreword



The NHS is a national success story. It is woven into the fabric of our society and is a public expression of our social values. At its best, the NHS is world class. The Commonwealth Fund's regular international surveys consistently score the NHS as one of the world's leading health systems for quality and the very best value for money. But it can and must improve.

## The Challenge

Throughout its history, the NHS has faced increasing demands: a growing population with an extending lifespan; an increase in its own capability, fuelled by advances in knowledge, science and technology; and ever-increasing expectations from the public it serves. The NHS has responded to these demands in part through the creativity of its staff to find or devise new tools and better ways of working. At the same time industry, often working in partnership with the NHS has made available a constant supply of new medicines, devices and technology. Now and for the foreseeable future, we must meet these demands from within our current real terms funding, whilst at the same time improving quality. This means we cannot afford to continue as we have always done. If that is going to happen we will need better, smarter and more efficient procurement.

## What we need to do

The Government's Procurement Pledge is a demonstration of our commitment to ensure that the public sector is faster to do business with and maximises opportunities to drive economic growth and stimulate innovation. The NHS promise is to make this a reality. Procurement should be central to driving quality and value in the NHS, but for many years it has simply not been a priority. That must change. The recent NAO report on procurement in the NHS demonstrated the scope for improvement and cost savings, but it is more than just that, we need to drive improvements in the way we procure services and products to ensure patients get the highest quality care possible. Procurement accounts for over £18bn of the NHS' annual expenditure, how we use that resource should become a priority for all NHS Boards and Chief Executives. Anything less would fail the NHS, our patients and the public.

*This report - NHS Procurement: Raising Our Game* - sets out the steps that the NHS must take to respond to this challenge. I want to see every part of the NHS make an immediate start.

We must make the best possible use of the huge spending power the NHS has. The NHS must share data so that we can see the prices that different organisations are paying for the same goods and services, and it must do more to make collaborative

procurement a reality. I want to see Trusts publish all tender and contract information for contracts over £10,000, and I want to see good procurement practice spread quickly and effectively – in particular the use of GS1 coding. There is much that the centre can do to help. The Department of Health will create a dashboard of procurement indicators to help make benchmarking easier, and will work with Monitor to strengthen Trust accountability for procurement. It will also develop an independent diagnosis and accreditation system to allow the NHS organisations to assess their procurement capability.

But, we must also do more. It is vital that we have a procurement function that is not only better, but is world class. It should be focused on outcomes, not just cost, and must be responsive to creative ideas from suppliers, procurement specialists, clinicians and managers. We have the potential to transform procurement in the NHS, enhancing quality and value. Our collective challenge is to work together to realise that potential. I have asked Sir Ian Carruthers OBE, Chief Executive of the NHS South of England to lead this work, which will start with an 'Open Call' for evidence to be published alongside *NHS Procurement: Raising Our Game*.

I would like to thank the many hundreds of people in the NHS who contributed to '*NHS Procurement: Raising Our Game*', I know I can count on your continued support and involvement as we move forward.

Sir David Nicholson

NHS Chief Executive

# Executive summary

The Government believes procurement can play a valuable role in both dealing with the deficit and stimulating growth in the economy; this is particularly true in the NHS due to its spending power. We believe there is scope for the NHS to save £1.2 billion through improved procurement, but we also know that there is no silver bullet to deliver these efficiencies and benefits. It requires leadership at all levels, but most importantly direction and involvement at board level.

Recent reports suggest NHS procurement is lagging behind industry procurement performance, and this cannot be allowed to continue in a time when resources are at a premium. Trusts need to collaborate, share data and harness the immense purchasing power that the NHS represents. Failure to do so will add to the financial pressures already faced by trusts.

This document describes the actions that the Department of Health and trusts should take to improve NHS procurement. These actions will address the recommendations made by the National Audit Office (NAO)<sup>1</sup> and Public Accounts Committee (PAC)<sup>2</sup>.

There are six areas for improvement:

1. Levers for change
2. Transparency and data management
3. NHS Standards of Procurement
4. Leadership, clinical engagement and reducing variation
5. Collaboration and use of procurement partners
6. Suppliers, innovation and growth

Each of these areas contains a number of proposed actions directed at trusts and the Department. These actions – 12 for trusts and 15 for the Department – are designed to raise the game of NHS procurement. However, nothing will change unless trust chairs and Chief Executives and their Boards treat this as a priority. Chief Executives should table this document at their Board meetings and consider the actions contained herein, as they have an obligation to demonstrate that they are spending taxpayers' money wisely and will need to assure commissioners, the public and themselves that money is not being wasted that could be better spent on patients.

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<sup>1</sup> National Audit Office – The procurement of consumables by NHS Acute and Foundation Trusts (February 2011)

[http://www.nao.org.uk/publications/1011/nhs\\_procurement.aspx](http://www.nao.org.uk/publications/1011/nhs_procurement.aspx)

<sup>2</sup> Public Accounts Committee – Treasury Minute 35<sup>th</sup> Report (July 2011)

[http://www.hm-treasury.gov.uk/d/hmt\\_minutes\\_29\\_32\\_reports\\_cpas\\_july2011.pdf](http://www.hm-treasury.gov.uk/d/hmt_minutes_29_32_reports_cpas_july2011.pdf)

Whilst the focus is very much on provider organisations, we know that procurement is also a vital ingredient in the commissioning process and can play an important role in shaping healthcare services to meet the challenges ahead. Building on this document, we will be working with the NHS Commissioning Board and Clinical Commissioning Groups to ensure commissioners have access to the skills needed to work with private sector suppliers in the future. As the commissioning function matures, we anticipate commissioners will work more closely with providers and their suppliers to ensure innovation flows from the supply base across the entire care pathway. This shift will blur the historic divisions between hospital procurement and healthcare commissioning, as these functions start to work closer together.

# Introduction

There has never been a time when procurement has been given so much attention. The Government believes procurement can play a valuable role in both dealing with the deficit and stimulating growth in the economy, so it is vital the NHS plays its part and buys wisely. We know there is substantial scope for multi-billion pound cost savings through the application of best practice and standards, collaboration and aggregation and process modernisation. We also know that there is no panacea to deliver these efficiencies and benefits. It will take concerted effort to change the culture and will require leadership across the service, from Boards to clinicians, to the procurement profession and every employee who influences purchasing decisions or spends money with suppliers.

The NHS deserves a world-class procurement function, but recent reports suggest we are lagging behind other sectors. It is estimated some £1.2 billion should be saved, but the clock is ticking and we need to start delivering. Trusts need to collaborate, share data and harness the immense purchasing power that the NHS represents. Failure to do so will just add to the financial pressures already faced by trusts.

This document describes the actions the Department and trusts should take to improve NHS procurement. These actions will address the recommendations made by the NAO and PAC, but in developing them we have learned that NHS procurement can do much more. We received many comments through engagement with stakeholders, and more comments leading up to the publication of *Innovation Health and Wealth*<sup>3</sup>, so we know we can go even further, which is why we will be launching a wider call for evidence and ideas for how we can transform the function to become truly world-class.

The call for evidence will help us define where we need to be in the longer term, but we need to raise our game now, so the system should begin the journey by taking the steps described in this document. Following the call for evidence, we intend to publish a formal strategy for NHS procurement later in the year.

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<sup>3</sup> Innovation, Health and Wealth  
[http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH\\_131299](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_131299)



# Why do we need to improve?

NHS acute and foundation hospital trusts in England spend over £18 billion<sup>4</sup> a year on the procurement of goods and services, dealing with thousands of suppliers ranging from large multinational corporations to smaller specialist firms. All trusts are expected to achieve Foundation status by 2014, giving them the freedom to operate independently. However, independence does not mean trusts cannot operate collaboratively to obtain the benefits of its collective spending power.

The NAO found that the fragmented system of procurement has produced a great deal of waste, with trusts being charged different prices for the same goods and trusts now recognise, following our work with the Foundation Trust Network (FTN), that prices paid bear no correlation to volumes. To put it simply, pricing is based on what trusts are prepared to pay.

The NAO highlighted the lack of any formal mechanism to secure commitment to purchase a single item or class of supplies across the NHS. Whilst all trusts have access to procurement intermediaries such as NHS Supply Chain, the Government Procurement Service and collaborative procurement organisations, there is a dependence on framework agreements, which tend not to address variation and commitment for suppliers. Furthermore, the limited data on what is purchased by individual trusts means they cannot easily identify how the prices they are paying compare with those paid by their peers, and more importantly, whether better prices might be available if they were to engage with the market more effectively.

This lack of data makes it difficult for trust Boards to challenge their organisations on the efficiency of procurement and there has not been sufficient control over procurement practices. Procurement is a profession and skill and we must bring professionals together to work with suppliers to reduce their costs of serving the NHS, but at the same time significantly reducing the cost of goods.

The NAO and subsequent PAC made a number of recommendations to improve NHS procurement. They identified:

- A need for much greater transparency on prices being paid to suppliers by individual trusts
- A requirement for trusts and suppliers to adopt standard bar-coding (GS1), to improve procurement data and enable price comparisons whilst improving stock control and patient safety
- A need for trusts to make greater use of e-commerce systems to improve management information

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<sup>4</sup> Taken from the NHS (England's) summarised accounts and NHS Foundation Trust consolidated accounts (2010-11).

- A need to standardise and reduce the variation of products used by the NHS
- A need to improve control over purchasing and ensure that purchases are made using agreed contracts, rather than 'spot' transactions
- A need to assess stock control and its effect on procurement costs
- A need to make better and more professional use of NHS Supply Chain or other procurement partners,
- A need for trust Chief Executives and Boards to consider procurement as a strategic priority
- A need for trusts to collaborate to improve their procurement infrastructure, including sharing of resources

A further NAO report<sup>5</sup> and PAC<sup>6</sup> hearing on *Managing High-value Capital Equipment in the NHS in England* last year, was equally critical of NHS procurement for this particular sector. They found that the NHS is not achieving value for money when it purchases high value equipment and that there is no clear accountability for maximising value across the system. There is no sharing of capital plans and, therefore, no aggregation of requirements. Furthermore, trusts were not making best use of the framework agreements negotiated by NHS Supply Chain and so opportunities were being missed to secure bulk discounts.

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<sup>5</sup> National Audit Office – Managing high value capital equipment  
[http://www.nao.org.uk/publications/1011/nhs\\_high\\_value\\_equipment.aspx](http://www.nao.org.uk/publications/1011/nhs_high_value_equipment.aspx)

<sup>6</sup> Public Accounts Committee – Treasury minute  
[http://www.hm-treasury.gov.uk/d/hmt\\_minutes\\_52\\_55\\_57\\_61\\_reports\\_cpas\\_feb2012.pdf](http://www.hm-treasury.gov.uk/d/hmt_minutes_52_55_57_61_reports_cpas_feb2012.pdf)

# The engagement process

During 2011 and the beginning of 2012, the Department engaged widely on how the NHS might address the NAO and PAC recommendations. A series of meetings and workshops were held with the following organisations and representatives.

- Trust Chief Executives
- Trust Finance Directors
- Foundation Trust Network
- NHS Trust Development Authority
- Monitor
- NHS Commissioning Board
- Health Care Supply Association
- Industry trade associations
- Individuals, including trust Chief Executives, procurement professionals and clinicians
- NHS Institute for Innovation and Improvement
- National Procurement Council
- Procurement partners, including NHS Supply Chain

In addition, we have also established a procurement network to gather interested procurement professionals to discuss the changes needed.

From this engagement we learnt that trust Chief Executives already want to professionalise their procurement function.

## **Chief Executives want to:**

- Be advised of the core technologies and systems required to support better procurement, including technologies to promote price transparency and comparison. They want to see standard coding systems (GS1), national databases for procurement including price comparison and product performance
- Leverage commitment at scale across the NHS, to ensure the NHS purchasing muscle is utilised. They also recommended a ban on non-disclosure pricing agreements as they work against the NHS's and the taxpayers' interests
- Implement easily understood key performance indicators for procurement so they can compare their own trust's performance with their peers
- See a longer term transformational change programme for procurement, including the development of a vision for procurement with performance metrics, leadership programme and accreditation
- Learn from the best in the NHS and elsewhere.

**In addition, NHS procurement professionals want:**

- Greater support from trust Boards and Executives
- Education for Board members on the value of procurement, the role of the supply chain, and development of a common language
- Improved alignment of procurement objectives with trust business objectives
- Investment in e-procurement systems to improve data transparency and spend information
- More engagement from trust Executives in collaborative activities
- Increased opportunities for benchmarking activities, such as product price comparisons
- Procurement partners, including NHS Supply Chain, being more responsive to its customers.

**And Industry wants:**

- Better written and consistent tenders, with specifications focused more on improved health outcomes
- Less burdensome pre-qualification processes, standardised procurement processes and systems including more paper-free systems
- Procurement more aligned with trust objectives
- More professionalism in trust procurement
- Less focus on year-on-year savings, and more focus on long term 'value'
- Greater trust between the NHS and its industry partners
- Standard terms and conditions of contract
- Committed volume contracts rather than framework agreements
- Speedier payments and greater support for SMEs
- More risk-sharing initiatives
- Greater opportunity for industry to present solutions
- Standardised stock management software
- Greater ownership by trust Boards.

# So what needs to be done?

There is no single answer for improving NHS procurement. It requires action at all levels of the system, but most importantly at trust level. Previous strategies have primarily focused on improving the procurement landscape, rather than on procurement in trusts themselves. To deliver the improvements, Boards and their Executives should treat procurement as a strategic priority. Given this, the recommended actions in this document are either focused on trusts, or are designed to support trusts in delivering their responsibility for achieving value for money.

There are six areas for improvement:

1. Levers for change
2. Transparency and data management
3. NHS Standards of Procurement
4. Leadership, clinical engagement and reducing variation
5. Collaboration and use of intermediaries
6. Suppliers, innovation and growth

## 1. Levers for change

Trust Chief Executives and their Boards are accountable for how their organisation spends public money, but it is rare they take the time to discuss whether they are securing value for money. We want to support Boards in giving procurement a stronger focus. For example, Monitor is considering what could be built into the Audit Code, reporting regime and best practice standards allowing Boards to demonstrate they are securing value from their non-pay spend. In addition, the NHS Commissioning Board is considering how to encourage trusts to focus on their procurement, including possible use of CQUIN payments.

We are also keen to explore whether a 'dashboard' of key metrics might encourage trusts to compare themselves with their peers and strive for improvement. These could be very simple and easy to prepare such as the number of cancelled procedures because of the lack of stock. Linked to this would be a number of 'comply or explain' initiatives around these metrics, in particular to create an expectation that national framework agreements are the best and trusts are obliged to use them or explain to their Boards, commissioners and local populations why they intend to use alternative arrangements. We know that contract compliance is a key metric in achieving world-class performance and so we want to encourage trusts to put in place policies and systems that deliver this.

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**Action:** We will work with the relevant bodies such as Monitor to strengthen trusts' accountability for procurement with implementation effective from 2013

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**Action:** By December 2012, we will create a dashboard of indicators and measures to help trust Boards strengthen their accountability for procurement and to ensure the ability to report publicly

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**Action:** We will develop a number of comply or explain initiatives, such as compliance to national framework agreements

## 2. Transparency and data management

The Government believes that open access to information holds public services to account, and this applies to the way we spend public money.

In May 2010, the Government set out its expectations for greater transparency in procurement. It recommended all public services, including foundation trusts should use Contracts Finder<sup>7</sup>, the Government's single portal for publishing tender and contract documentation for contracts valued over £10,000. As a minimum, NHS trusts should be doing this, but we need to go further. We believe trusts should actively share information for the greater good, and ensure we leverage the full power of NHS spend. It is not acceptable for trusts to withhold procurement information believing it jeopardises their competitive position – it does not, as there is no evidence the prices paid correlate to size or status.

Trusts should actively collaborate to share and benchmark their information, particularly purchase information such as prices paid, products bought and volumes. The Department worked with the FTN last year to benchmark prices paid for a sample of medical products from a small number of trusts. The results showed smaller trusts often secured better pricing than larger ones. Many trusts are already using spend analytics services, and we want to encourage more of this, so we will work with the FTN and the NHS Confederation to explore ways in which this can be done more consistently, possibly through an agreed basket of goods as suggested by trust Chief Executives.

E-technology is transforming procurement and supply chains in all sectors, and is an essential part of the journey to world-class performance. The ability to manage expenditure through controlled catalogues, order goods electronically, manage inventory to its point-of-use, and source via the web is increasing the transparency of data and pricing, but NHS trusts are behind the curve and need to invest in e-procurement systems to improve their processes.

In April 2012, the EU announced a commitment to driving full e-procurement for all public purchases. In the context of the modernisation of the European Public Procurement Directives, adopted in December 2011, the Commission has proposed

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**Action:** Trusts should publish all tender and contract information for contracts over £10,000 in Contracts Finder

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**Action:** Trusts should share their procurement data with other trusts for the purposes of benchmarking

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**Action:** We will work with trusts to help them collaborate to benchmark their purchase information such as prices paid

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**Action:** We will develop a suite of case studies of current procurement good practice

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**Action:** We will provide financial guidance to support trusts' investment decisions in procurement technology

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<sup>7</sup> Contracts Finder  
<http://www.contractsfinder.businesslink.gov.uk/>

to make e-procurement the rule rather than the exception, by making it the standard method of procurement in the EU by mid-2016.

Underpinning e-procurement technology is the need for standard coding. Ministers have already stated that we are committed to GS1<sup>8</sup> as our preferred supply chain standard and the Department is working with industry sectors to urge them to adopt the standard. However, trusts need to ensure they make full use of the coding system by investing in technology such as bar-code readers and insist it is used by all suppliers. A reference guide to support trusts with this action can be accessed at <http://healthcare.gs1uk.org/>

Trust Chief Executives tell us they would like to see price and product comparison systems that allow them to benchmark prices and performance, but they are not sure where to invest. Trust Boards can easily play their part by working with GS1 to introduce standard coding of all products, making price comparison easier.

There are still too many inefficient systems in the NHS and stories of obsolescent stock. The NAO found that much trust purchasing is administered in multiple, small purchase orders. As a minimum, trusts should ensure they have access to:

- Electronic-requisitioning and electronic-ordering facilities as part of their Purchase to Pay (P2P) business software
- Electronic-catalogues
- Electronic exchange facilities (i.e. the ability to send orders to and receive e-invoices from suppliers)
- Electronic-sourcing technology

The NHS can make more use of the technology on offer to support procurement and the management of stock. We want to encourage trusts to invest in procurement technology so they can improve their visibility of spend, have real time stock information and be able to share information and compare themselves with their peers.

Whilst we know the NHS has a long way to go to improve its procurement processes and systems, we also know there are pockets of good practice and we will ensure that trusts have access to case studies which demonstrate current best practice.

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**Action:** Trusts should include the requirement for suppliers to provide GS1 GTINs (Global Trade Item Numbers) and associated data as an integral part of any procurement process. In addition trusts should make it clear to their suppliers that provision of GS1 data will be evaluated positively in any competitive situation and over time provision of the data will become a mandatory requirement

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<sup>8</sup> <http://www.dh.gov.uk/health/2012/01/it-systems-coding/>

Ministerial Announcement [http://www.dh.gov.uk/en/MediaCentre/Pressreleases/DH\\_127474](http://www.dh.gov.uk/en/MediaCentre/Pressreleases/DH_127474)

The Department has recently supported North East Patches (NEP) Shared System group, the shared services provider serving trusts in north east England, to put in place a national framework agreement for trusts to use to invest in these technologies.<sup>9</sup> We will issue further advice and guidance to support trusts in their understanding of these technologies to ensure they invest wisely and that systems are compatible for comparison of information.

Leading procurement organisations understand the importance of compliance with contracts. There is little point in negotiating contracts with suppliers if they are not used, and so a culture of compliance is essential in bringing non-pay spend under control. E-procurement systems can support compliance, by providing information on whether contracts are being used. We recommend trusts analyse their procurement spend and set themselves targets for compliance against existing contracts. We also recommend trusts seek to ensure more of their non-pay spend is covered by e-procurement systems. The Department will issue further guidance on compliance and coverage as part of the dashboard of key performance indicators for NHS procurement.

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**Action:** Trusts should analyse their non-pay spend and assure themselves they are complying with available contracts

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**Action:** Trusts should analyse their non-pay spend and set themselves goals to ensure improved coverage by their e-procurement systems

### 3. NHS Standards of Procurement

A recent CPO Agenda/KPMG report on procurement excellence benchmarking suggests that procurement's overall value creation across all business sectors has progressed hugely. On average, procurement influences 60% of an organisation's spend, and 75% of direct spend is under a contract, with the exception of retail which has a significantly greater level of control. NHS data suggest the NHS is lagging behind with less than 30% of a trust's spend being influenced by procurement, and less than 30% under contract, although it should be recognised that these figures do not include pharmacy spend which does have good controls in place.

Chief Executives have told us they are not sure what good procurement looks like, and in response we are publishing a set of NHS Standards of Procurement with this document. These standards support the recommendations made by the Public Accounts Committee last year by setting out a clear vision of what good looks like and how it can be assessed and measured.

There are 19 standards organised in four domains: leadership, process, partnerships and people. Each one describes the standard itself and how its achievement will improve organisational performance. It also provides a 'maturity matrix' of three levels setting out the characteristics at different stages on the journey to improved

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<sup>9</sup> Contact [Ross.Morrison@nhct.nhs.uk](mailto:Ross.Morrison@nhct.nhs.uk) at NEP for more information.



procurement. The Department has co-designed these standards with NHS procurement professionals and trust Executives to ensure they meet trusts' requirements, both now and in the future. Each standard has a set of suggested indicators, which enable trusts to measure their improvement, and we expect these to evolve as the standards are used and experience shared.

These standards will enable trusts to assess their current position and enable them to plan their improvement. The Department will also explore ways in which trusts can obtain an inexpensive independent assessment of their position (a diagnostic) to create a baseline for improvement. In the longer term, we will work with the Chartered Institute of Purchasing and Supply (CIPS) and the Health Care Supply Association (HCSA) to develop an inexpensive and independent accreditation system for trusts to aspire to and demonstrate their improvement.

A portal<sup>10</sup> for NHS procurement has been launched and is being developed which includes guidance on how to achieve the standards, a library of tools and templates, and national support for each one, where appropriate.

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**Action:** Trusts should appoint a Board executive to be accountable for procurement performance, preferably the operations or commercial director

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**Action:** Trusts should nominate a non- executive director to sponsor procurement

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**Action:** We will launch a set of procurement standards and a portal for the NHS to share best practice

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**Action:** Trusts should review their performance against the NHS Standards of Procurement and revisit their procurement strategies to ensure they align with the trust's business priorities

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**Action:** We will develop an independent diagnosis and accreditation system to allow trusts to assess their procurement capability

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**Action:** Trust Audit Committees should regularly review procurement

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<sup>10</sup> NHS Procurement Portal has been established on the Knowledge hub <https://knowledgehub.local.gov.uk/>

A summary of the standards is shown below.

Leadership	Process	Partnerships	People
<ol style="list-style-type: none"> <li>1. Trust board is accountable and understands contribution non-pay spend can make to bottom line and VFM for taxpayer</li> <li>2. All non-pay spend is governed by and subject to proficient procurement</li> <li>3. All trust staff are engaged in making efficiencies in non-pay spend</li> <li>4. Critical supplies/suppliers are identified and risks are mitigated</li> <li>5. Be transparent on non-pay spend and pricing information</li> <li>6. Innovative technologies and processes are adopted and benefits measured</li> </ol>	<ol style="list-style-type: none"> <li>7. All non-pay spend information is captured and allows complete visibility of products/services, suppliers, prices, volumes, requisitions/orders and receipts</li> <li>8. Inventory and assets are known and managed</li> <li>9. Purchase to Pay processes are effective and efficient</li> <li>10. A procurement process is used that ensures operational/clinical need is identified, and all market and sourcing options are explored before a contracting procedure is undertaken</li> <li>11. Sustainable development is assessed, considered, implemented and monitored in procurement decisions</li> <li>12. All spending is controlled in terms of limits on who can procure and what can be purchased</li> </ol>	<ol style="list-style-type: none"> <li>13. Engagement with other trusts is proactively pursued to maximise VFM for the trust</li> <li>14. Optimise the benefits of working with procurement partners (inc leveraging the collective NHS power)</li> <li>15. Contracts are managed, key suppliers are considered business partners and relationships are suitably managed</li> <li>16. Ensure that opportunities to supply exist for SMEs etc</li> </ol>	<ol style="list-style-type: none"> <li>17. Procurement resourcing requirements are well understood and plans in place to meet needs, now and in the future</li> <li>18. Clinical and non-clinical staff are engaged with the procurement function and understand how it can contribute to delivering outcomes</li> <li>19. The procurement function has a leader who can clearly demonstrate the activities of the function to support the delivery of the trust objectives</li> </ol>

#### 4. Leadership, clinical engagement and reducing variation

Given the growing importance of procurement, NHS leaders need to give it the attention it merits. This includes leadership at all levels, from trust Boards and Chief Executives, to clinicians and major budget holders, and most importantly for the director of procurement and the procurement profession.

Even though non-pay expenditure represents 30 to 35 per cent of a trust's operating expenses, procurement performance is rarely discussed at Board level. NHS Executives ought to better understand the contribution it can make to their organisations. Leading private sector organisations such as Apple have long since understood the value a high-performing supply chain can bring to their bottom line, and have invested accordingly. Trust Boards need the ability to determine if investments in people, processes and technology can deliver results both in terms of improved patient outcomes and cost reduction.

Trust Chief Executives have asked us what they should do to improve their procurement. The ICARE approach below describes some key first steps. We urge Chief Executives to consider this approach:

- **Invest** their time by showing procurement is important and if need be, invest in the people, processes and technology
- Be prepared to sponsor and, if required, lead **Collaboration** between trusts on procurement issues
- **Appoint** a Board Executive to be accountable for procurement and a non-Executive director to sponsor the procurement function
- Ensure the procurement function gets the attention and **Recognition** it deserves
- Ensure senior managers and clinicians **Engage** in procurement to drive a cost-management culture

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**Action:** Trust Chief Executives should consider using the ICARE approach to lead change in procurement

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**Action:** We will support the HCSA in developing as a professional association that provides leadership to NHS procurement

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**Action:** We will work with HCSA and CIPS to develop an academy for NHS procurement

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**Action:** We will work with trusts and clinicians to identify best practice for reducing variation and managing demand for products and services

The procurement profession must also raise its game and play its part. For many other NHS functions such as finance, professional associations provide an essential leadership role; this has not been the case for procurement. HCSA has a long history of representing the interests of NHS procurement professionals, but it needs to provide stronger leadership to help NHS procurement professionals raise their game. We believe the association – working in partnership with the CIPS – could provide a range of functions that can support the development of procurement in the NHS. These include:

- Learning and development for procurement professionals and staff involved in procurement activities
- Policy advice and communications
- ownership of best practice and the NHS standards of procurement
- Benchmarking facilities, including trust dashboard metrics and price benchmarking
- Guidance on how best to use outsourced procurement partners
- Networking
- Development of an academy for NHS procurement

We are keen to work with the HCSA and CIPS throughout 2012-13 to develop these support functions.

The third area of leadership is the budget-holder level. Whilst traditional price-focused approaches to procurement will deliver savings, far greater efficiencies can be achieved by focusing on areas such as specification or product rationalisation, complexity reduction and demand management techniques. Equipment requests can be 'overheated', with too many types being ordered, for far too large a range of tasks, and at too high a specification – all points emphasised by the PAC report last year. Budget-holders are critical in this regard.

In a typical trust, 50 per cent of non-pay expenditure is spent on clinical and pharmaceutical products. Trust clinicians are at the heart of how this money is spent, but are often unaware of the significant impact they can have on a trust's costs. Devices such as orthopaedic or cardiovascular implants can often represent a significant portion of the national tariff, so bringing them under control can have a direct impact on a trust's bottom line. Clinicians' relationships with suppliers are important, in terms of delivering safe and quality care, but we need to ensure clinicians also play their part in managing costs and the commercial relationship with suppliers.

We want to encourage clinicians and budget-holders to:

- Recognise and own procurement efficiencies in their management of clinical budgets
- Link procurement costs to their service line reporting
- Reduce variation, challenge specifications, and manage demand for products and services

Better performing trusts have 'clinical product selection committees' in place to help them with these issues and some have appointed 'clinical procurement specialists' tasked with rationalising commodity selections. In other cases, trusts have devolved procurement savings targets to budget holders, and then encouraged them to work with the procurement function to deliver the required outcomes. We want to see more of this and so we will work with trusts and clinicians to identify best practice to share across the system, but we also know even more value can be delivered by trusts collaborating on these issues.

## **5. Collaboration and use of intermediaries**

When we think of collaboration we tend to think of pooling NHS demands to achieve better deals with our suppliers (aggregation and framework agreements), but collaboration between NHS trusts can deliver much more than just aggregated procurement. Indeed, one of the most important roles for procurement leaders in any sector today is to source, manage, combine and blend capabilities and resources successfully, from inside and outside the organisation, to achieve their goals.

It is rarely practical for trusts to have their own category management and logistics teams. It makes more sense to share these activities or use specialist procurement intermediaries. Trusts have a history of using procurement partners to support their procurement activities to varying degrees of success, but trusts rarely go through a robust decision-making process to decide what they want procurement partners to provide. Furthermore, they often do not appreciate the range, importance and opportunity procurement partners can provide for improving procurement performance, or indeed that using partners is not about transferring core responsibilities but about gaining additional expertise and resource from outside to support the key functional activities.

The green box suggests activities trusts can collaborate on, with or without using procurement partners. Trusts should analyse their own internal capability for these activities assessing their strength, potential for improvement, and whether procurement partners can support and deliver them more effectively.

The approach to collaboration should be pragmatic and agile; one size will not fit all. However, this flexible approach should consider that many of the benefits of working together could only be achieved through longer-term committed relationships. The key is to match the right type of relationship to the desired outcome. In order to achieve the benefits of collaborative procurement, commitment is required by all stakeholders.

We want to help trusts make best use of procurement partners and avoid duplication in the system, but we believe trust Chief Executives need to show a greater interest and sponsor collaborative activity. Indeed, Chief Executives told us they would like to see clustered activity to discuss things like price and product transparency, committed volume contracts, and a focus on the top 10 spend areas/suppliers. The more trusts work together to agree how best to work with procurement partners, the more likely intermediaries will respond better to their demands.

A precedent has been set with the establishment of 'customer Boards' for both NHS Supply Chain and the Government Procurement Service, where representation mirrors Boards in trusts by involving finance directors, medical directors and nursing staff, and we are already seeing changes in behaviour and a better focus on what trusts' need. We want to encourage more of this and so we will work with the FTN and others to find ways in which we can encourage senior trust Executives to engage in clustered activity to become the intelligent client for procurement partner organisations.

In doing this, we are keen to find ways in which trusts can deliver stronger commitment to procurement deals, so that suppliers have greater certainty of demand, rather than the myriad of framework agreements that currently exist. We are also working with NHS Supply Chain to explore ways in which they

### Suggested activities for procurement collaboration

- category management
- price benchmarking
- logistics
- committing volumes to achieve leverage
- standardisation / rationalisation of products
- supplier information and management
- catalogue management
- improving procurement performance by sharing good practice and comparing Key Performance Indicators

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**Action:** We will work with the FTN and others to find ways the NHS can become a more informed customer in the use of procurement partners

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**Action:** We will work with trusts and their procurement partners to find ways in which firmer commitment can be given to suppliers

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**Action:** We will ask NHS Supply Chain, the Government Procurement Service, and others, to produce information on 'lost opportunities for savings' for trust Boards to consider

can be incentivised to give stronger commitment to suppliers in return for better terms.

Whilst we do this, the NAO and the PAC highlighted that existing arrangements with organisations such as NHS Supply Chain are not being used as well as they might. So we are asking NHS Supply Chain, the Government Procurement Service and others, to produce information on 'lost opportunities for savings' that can be circulated to trust Boards for their consideration.

## 6. Suppliers, innovation and growth

A succession of government policies has highlighted procurement as an important lever for economic growth, a potential driver for better public service and, equally important, a means of stimulating innovation.

The Government announced a package of procurement measures in November 2011, designed to support businesses and stimulate growth. This includes publishing potential business on-line, making it 40 per cent faster to do business with government, and collaborating with businesses much earlier in the procurement process so they do not find themselves excluded from opportunities. Furthermore, Government sees Small and Medium-sized Enterprises (SMEs) as critical to achieving UK economic growth and so it wants to ensure they can access the opportunities from Government and the public sector. All government departments have signed up to a 'pledge' to support this agenda.

### The Government's Procurement Pledge

1. Give potential providers greater certainty of our future demand
2. Work with potential providers to identify and address strategic capabilities in supply chains to ensure providers are prepared to meet this future demand
3. Operate an open door policy for business so that we can develop a more strategic relationship with current and future providers
4. Back UK business when bidding for contracts overseas

The Government is also keen to ensure all public sector tenders are posted on Contracts Finder so that suppliers can access contracts through a single portal. Furthermore, public buyers are encouraged to stop using pre-qualification questionnaires (PQQs) for contracts under £100,000. We are keen for the NHS to play its part in these initiatives and so we encourage trusts to acknowledge the pledge and use Contracts Finder.

The government has also established a mystery shopper service<sup>11</sup> and supplier feedback service that allows suppliers to complain about individual procurements by any public sector organisation. The Cabinet Office has received over 150 complaints since the service started, most of which are directed at overly cumbersome PQQs. In health, we have received in excess of twenty, again mainly criticising the use of

<sup>11</sup> <http://www.cabinetoffice.gov.uk/form/mystery-shopper-feedback-form>

PQQs. Following investigation, nearly all trusts changed their practices to meet government expectations. We are therefore recommending trusts stop using PQQs for low-value contracts.

In response to comments from industry, we intend to update and publish an NHS standard set of terms and conditions of contract for goods and services.

The Department recognises the value innovation from suppliers can bring to the NHS reforms, as acknowledged by *Innovation Health and Wealth* published in December 2011. We know procurement can ensure the process of procurement and specifications are friendly to innovation and SMEs; send strong and early signals to the market on what the NHS intends to procure; engage with suppliers and actively look for new and innovative solutions; conduct open dialogue with suppliers outside of a procurement process; challenge suppliers to develop new products and solutions to meet known healthcare challenges, for example, through initiatives such as the Small Business Research Initiative (SBRI).

It can also encourage the adoption and spread of innovative technologies and solutions across the NHS, so we are keen to explore ways in which NHS procurement can meet both the Government's objectives and ensure we capture innovation from our suppliers to improve care for patients. We want to ensure the key players in the NHS procurement landscape such as NHS Supply Chain, the Government Procurement Service and procurement partners play their part in supporting the procurement of innovation.

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**Action:** Trusts to acknowledge the Government procurement pledge

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**Action:** Trusts should stop using PQQs for low value contracts (under £100,000)

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**Action:** We will update and publish an NHS standard set of terms and conditions of contract for goods and services

# Summary of recommended actions

## For trusts:

1. Trusts should publish all tender and contract information for contracts over £10,000 in Contracts Finder
2. Trusts should share their procurement data with other trusts for the purposes of benchmarking
3. Trusts should include the requirement for suppliers to provide GS1 GTIN's (Global Trade Item Numbers) and associated data as an integral part of any procurement process. In addition, trusts should make it clear to their suppliers that provision of GS1 data will be evaluated positively in any competitive situation and over time provision of the data will become a mandatory requirement
4. Trusts should analyse their non-pay spend and assure themselves they are complying with available contracts
5. Trusts should analyse their non-pay spend and set themselves goals to ensure improved coverage by their e-procurement systems
6. Trusts should appoint a Board Executive to be accountable for procurement performance, preferably the operations or commercial director
7. Trusts should nominate a non-Executive director to sponsor the procurement
8. Trusts should review their performance against the NHS Standards of Procurement and re-visit their procurement strategies to ensure they align with the trust's business priorities
9. Trust Audit Committees should regularly review procurement
10. Trust Chief Executives should consider using the ICARE approach to lead change in procurement
11. Trusts to acknowledge the Government procurement pledge
12. Trusts should stop using PQQs for low value contracts



### **For the Department of Health:**

1. We will work with the relevant bodies such as Monitor to strengthen trusts' accountability for procurement with implementation effective from 2013
2. By December 2012, we will create a dashboard of indicators and measures to help trust Boards strengthen their accountability for procurement and to ensure the ability to report publicly
3. We will develop a number of comply or explain initiatives, such as compliance to national framework agreements
4. We will work with trusts to help them collaborate to benchmark their purchase information such as prices paid
5. We will develop a suite of case studies of current procurement good practice
6. We will provide financial guidance to support trusts' investment decisions in procurement technology
7. We will launch a set of procurement standards and a portal for the NHS to share best practice
8. We will develop an independent diagnosis and accreditation system to allow trusts to assess their procurement capability
9. We will support the HCSA in developing as a professional association that provides leadership to NHS procurement
10. We will work with HCSA and CIPS to develop an academy for NHS procurement
11. We will work with trusts and clinicians to identify best practice for reducing variation and managing demand for products and services
12. We will work with the FTN and others to find ways the NHS can become a more informed customer in the use of procurement partners
13. We will work with trusts and their procurement partners to find ways in which firmer commitment can be given to suppliers
14. We will ask NHS Supply Chain, the Government Procurement Service, and others, to produce information on 'lost opportunities for savings' for trust Boards to consider
15. We will update and publish an NHS standard set of terms and conditions of contract for goods and services

# Implementation

The 'call for evidence' will deliver a strategy that reaches further than the actions detailed in this document, but we believe the actions herein will raise the game for NHS procurement in the short term.

Everyone in the system should be taking action to improve procurement, but we recognise trusts will need support with mobilisation, so we will establish an implementation Board to support improvement.

The National Procurement Council (NPC) was formed 2 years ago and includes representatives from NHS, trade associations, procurement provider organisations and the professional association for procurement in health, the Healthcare Supply Association (HCSA). It was formed to address issues in procurement in the NHS through discussion in order to agree actions and principles, as well as a forum to consult on developing NHS procurement policy.

This Council will form a support mechanism for the delivery of performance improvement in the short term, and will form working groups along the themes described in this document:

1. Levers for change
2. Transparency and data management
3. NHS Standards of Procurement
4. Leadership, clinical engagement and reducing variation
5. Collaboration and use of procurement partners
6. Suppliers, innovation and growth

These groups will be formed from members of the NPC as well as additional stakeholders and subject matter experts, with the core objective of supporting performance improvement. The groups will report progress to the NPC and we will ensure transparency of this through the publishing of all NPC meeting minutes.