



Department
of Health

NHS Procurement: Key Terminology

November 2013

You may re-use the text of this document (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit

www.nationalarchives.gov.uk/doc/open-government-licence/

© Crown copyright

Published to gov.uk, in PDF format only.

www.gov.uk/dh

NHS Procurement: Key Terminology

Prepared by
Procurement, Investment & Commercial Division

Contents

Contents.....	4
Introduction	5
Key Terminology List	6

Introduction

The purpose of this document is to explain the meaning of key terminology used throughout documents issued in relation to procurement, for example, the NHS Standards of Procurement and the NHS Procurement Dashboard.

This document will aid the understanding of readers with no previous procurement knowledge, and ensure consistency across publications.

Key Terminology List

Benchmarking

The process of comparing quantitative or qualitative information, often related to practices, performance or prices, against a point(s) of reference. A point(s) of reference might be, for example, an agreed standard, established targets, or the performance of other organisations.

BS11000 – Collaborative business relationships

The aim of this British Standard is to provide a strategic framework to establish and improve collaborative relationships ensuring they are effective, optimised and deliver enhanced benefits to the stakeholders.

Business Continuity Event

Any event or issue that could impact on the operations of the Supplier and its ability to provide the Services including an influenza pandemic and any Force Majeure Event

Business Continuity Plan

The Supplier's business continuity plan, which includes its plans for continuity of the Services during a Business Continuity Event

Category management

A concept in which a range of products / services purchased by a business organisation is broken down into discrete groups of similar or related products; these groups are known as product categories. It is a systematic, disciplined approach to managing a product category as a strategic business unit.

CO₂e

Carbon Dioxide equivalence is an indexed measurement methodology that allows quantities of greenhouse gases with different global warming potentials to be expressed in common units. Further information is freely available through the DEFRA National Sustainable Public Procurement Programme – Carbon Literacy e-Learning Resource.

Commercial Partnering

Partnering with private or public sector organisations, where there is a financial commitment on the side of one or more of the parties. This may take the form of a joint venture, a private finance initiative (PFI), a public private partnership, or third-sector organisation

Confidential Information

Information, data and material of any nature, which either Party may receive or obtain in connection with the conclusion and/or operation of the Contract including any procurement process which is:

- (a) Personal Data or Sensitive Personal Data including without limitation which relates to any patient or other service user or his or her treatment or clinical or care history;
- (b) designated as confidential by either party or that ought reasonably to be considered as confidential (however it is conveyed or on whatever media it is stored); or
- (c) Policies and such other documents which the Supplier may obtain or have access to through the Authority's intranet

Key Terminology

Contract Management

Contract management is the management and measurement of contracts. This includes ensuring compliance with the terms and conditions, as well as documenting and agreeing any changes or amendments that may arise during its implementation or execution. It can be summarised as the process of systematically and efficiently managing contract execution, and analysis for the purpose of maximising financial and operational performance and minimising risk.

Contracts finder

The Government portal where central government and the wider public sector advertise contract opportunities and closed procurements – tender and contract documents.

<http://www.contractsfinder.businesslink.gov.uk/>

Cost benefit analysis

The process for calculating and comparing the costs and benefits of a product or activity.

Cost to Procure

The cost incurred by the organisation in obtaining the right goods, services and works so that they are available in the right condition, at the right time and right place. It includes costs associated with:

- Purchasing (including costs of business case development supporting surveys or specialist advice).
- Payment
- Materials management, storage, handling and internal distribution
- Stock holding (including opportunity costs and value of stock write offs)
- Logistics (from factory gate to point of delivery)

Note: The NHS Procurement Dashboard identifies specific inclusions and exclusions in its definition of cost to procure that reflect the practicalities of data collection and verification.

Critical supplies

An essential product or service is one that will have an immediate disrupting effect on a department's operation (or an effect within days) or which would interrupt a critical service to the Trust.

Critical suppliers

Critical suppliers are those that, in the event of their failure, would interrupt a critical service.

Data Protection Legislation

The Data Protection Act 1998 and any other Law relating to the protection of personal data and the privacy of individuals, including where applicable the guidance and codes of practice issued by the Information Commissioner

Data.gov

The government website where public data is held. It is focused on bringing transparency from the public sector to the wider population. <http://data.gov.uk/>

Key Terminology

Demand management

The pro-active approach to managing demand, for example standardisation initiatives. This could include product masking (see definition) or it could include the adoption of specific processes for spending authorisation.

Doing it Well

Term used within the NHS Procurement Dashboard to describe the key objective of procurement to enable business continuity, by ensuring that the right products and services are available at the right time and the right place.

Doing it Efficiently

Term used within the NHS Procurement Dashboard to describe the key objective of procurement to secure value for money through the operation of efficient procurement systems.

Doing it Right

Term used within the NHS Procurement Dashboard to describe the key objective of procurement to mitigating risks, limit liabilities and ensure compliance with regulations associated with procurement activities.

E-class classification

NHS-eClass is a bespoke classification system for products and services, owned by the English NHS. The purpose of NHS-eClass is to facilitate the accurate analysis of expenditure. NHS-eClass is operated for the English NHS and DH and is administered by NHS Shared Business Services.

eCommerce

Refers to the buying and selling of products or services over electronic systems / networks. It includes the entire process of requesting, ordering, delivering, receipting and paying for products and services, supply chain management, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems.

eProcurement

The application of technology to automate the exchange of procurement information throughout the supply chain, encompassing:-

1. **ERP (Enterprise Resource Planning)**: Creating and approving purchasing requisitions, placing purchase orders and receiving goods and services by using a software system based on Internet technology.
2. **eCommerce** (see above)
3. **e-sourcing**: Identifying new suppliers for a specific category of purchasing requirements using Internet technology.
4. **e-tendering**: An electronic tendering solution facilitates the complete tendering process from the advertising of the requirement through to the placing of the contract. This includes the exchange of all relevant documents in electronic format.
5. **e-reverse auctioning**: Using Internet technology to buy goods and services from a number of known or unknown suppliers.
6. **e-informing**: Gathering and distributing purchasing information both from and to internal and external parties using Internet technology.
7. **e-marketsites**: Expands on Web-based ERP to open up value chains. Buying communities can access preferred suppliers' products and services, add to shopping carts, create

Key Terminology

requisition, seek approval, receipt purchase orders and process electronic invoices with integration to suppliers' supply chains and buyers' financial systems.

Electronic Trading System(s)

Such electronic data interchange system and/or web application and/or other application with such message standards and protocols as the Authority may specify from time to time

Environmental Regulations

Any law relating to the protection of the environment

Encouraged enterprises

Small, medium, micro and minority enterprises, charities and other third sector organisations including supported businesses (or other specific types of organisations as defined within Trust policy). Trust to determine which encouraged enterprises to monitor based on its policy, strategy and circumstances.

Equality Legislation

Any and all legislation, applicable guidance and statutory codes of practice relating to equality, diversity, non-discrimination and human rights as may be in force in England and Wales from time to time including, but not limited to, the Equality Act 2010, the Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2000 and the Fixed-term Employees (Prevention of Less Favourable Treatment) Regulations 2002 (SI 2002/2034) and the Human Rights Act 1998

Ethical Procurement for Health

A health and social care focused initiative to develop guidance, tools, training, case examples and other materials to support procurers in identifying and addressing employee and human rights issues (labour standards) within supply chains for good and services procured.

FOIA (Freedom of Information Act)

Freedom of Information Act 2000

Forward commitment procurement

Forward commitment procurement is an approach that defines the need through an outcome specification and then seeks to establish a clear purchasing commitment for an identified solution. The aim is to reduce risks and costs associated with new product and service development for suppliers and consumers, and encourages SME participation.

Fraud

Any offence under any law in respect of fraud in relation to a Contract or defrauding or attempting to defraud or conspiring to defraud the government, parliament or any Contracting Authority;

Good Corporate Citizenship

Is a model for NHS organisations to assess sustainable development performance across their main activities, including procurement, travel, buildings, facilities management, community engagement and workforce.

Government Buying Standards (GBS)

A range of sustainable product standards designed to make it easier for procurers to specify goods and services that address significant sustainable development aspects. The GBS are maintained by DEFRA and can be viewed on their website.

Key Terminology

GS1

Is a means of identifying products, people and locations using a single data standard. The GS1 System is composed of four key standards: Barcodes (used to automatically identify things), eCom (electronic business messaging standards allowing automatic electronic transmission of data), GDSN (Global Data Synchronisation standards which allow business partners to have consistent item data in their systems at the same time) and [EPCglobal](#) (which uses RFID technology to immediately track an item).

Head of Procurement/Procurement Lead

This role may have responsibility for the following activities – materials management, inventory control, purchasing, managing logistics and the movement of goods, receipting of goods and services, accounts payable, contract management, supplier relationship management and supplier development.

Innovation

An idea, service or product, new to the NHS or applied in a way that is new to the NHS, that improves the quality of health and care wherever it is applied. (Innovation, Health and Wealth – December 2011). Innovation can relate to people, processes and technology.

Inventory management

Inventory management is primarily about determining and controlling stock levels to balance the need of availability against the need for minimising stock holding and handling costs. The scope of inventory management is concerned with optimising: replenishment lead time, carrying costs of inventory, asset management, inventory forecasting, inventory valuation, inventory visibility, available physical space for inventory, replenishment, and managing returns. Balancing these competing requirements leads to optimal inventory levels, which is an on-going process as business needs change in response to the wider environment.

Key Performance Indicators (KPIs)

A type of performance measurement. An organisation may use KPIs to evaluate its own success, or to evaluate the success of a particular activity in which it is engaged.

Key suppliers / strategic suppliers

Those suppliers that have been identified as important to the success of a Trust and those that are needed to ensure the strategic aims of a Trust are met. Key suppliers or strategic suppliers can be identified by supplier segmentation (Kraljic's supply positioning), which may be based on spend profile, complexity and risk.

Lean

"Lean," is a practice that considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful, and thus a target for elimination.

Logistics

The management of the flow of resources between the point of origin and the point of consumption, including, but not limited to: – requisitioning, ordering, despatch, receipting, storage and handling, distribution; payment; disposal.

Market informed sourcing (MIS)

Is a fundamental change in the strategic sourcing process by using technology to open up the market, instead of narrowing the requirement, where the market is able to advise how they can best meet the need.

Key Terminology

Materials management

Is the process of managing the physical movement and storage of materials / products within the organisation and is directly related to inventory management.

Metric – a quantified measure (or combination of measures) that provide an indication of the level of performance, or the maturity of practices, of an organisation.

- **Core Metrics** - a small set of metrics that all organisations should measure in a consistent manner and report on internally and publicly.
- **Strategic Metrics** – metrics determined at an organisational level to enhance transparency for key stakeholders, balance or qualify 'core' metrics, or to focus on shorter term objectives or issue.
- **Tactical Metrics** – metrics determined at an organisational level to support the operational management of procurement activity.

NHS Procurement Dashboard

A tool developed to improve transparency and understanding of the procurement performance of NHS healthcare provider organisations.

NHS Standards of Procurement

The Standards were first issued by the Department of Health in May 2012, and define good procurement practice through 18 standards arranged under four domains; leadership, process, partnerships and people. A revised set was issued in June 2013.

Non-disclosure agreements / confidentiality agreements

A document that outlines confidential material / information that restricts access to third parties. It is an agreement where parties agree not to share confidential information.

Non-pay expenditure/Non-pay spend

This covers all third party expenditure and includes all clinical and non-clinical supplies and services, pharmaceuticals, capital expenditure, infrastructure works and maintenance, utilities, rent and rates, purchased healthcare from independent sector providers, and professional services. It includes relevant expenditure through NHS Supply Chain and Government Procurement Service purchasing arrangements. It excludes directly employed workers and associated costs such as national insurance, pension contributions and administration costs, CRB checks.

Where other exclusions apply it will be clearly stated in the document.

Outcome based specification

This describes the desired outcome required, and does not identify the inputs for meeting this.

Patient level information and costing systems (PLICS)

Patient-level information and costing systems can be defined by the ability to measure the resources consumed in the delivery of a service line provided to an individual patient.

Peer review

Is a process of self-regulation by a profession or a process of evaluation involving qualified individuals within the relevant field. It is the evaluation of work or performance by others in order to maintain or enhance the quality of work or performance.

Key Terminology

Pre-Purchase Questionnaire

A set of questions intended to supply prospective purchasers with information about equipment being considered for purchase.

Pre-qualification Questionnaire

A set of questions for suppliers to complete regarding their company information, financial situation, expertise and experience.

Procurement

Procurement activities include identifying and specifying the need, acquiring and managing the supply of goods from a third party, purchasing, contracting, contract and supplier management and supply chain management.

Procurement Practice

The approaches and techniques it employed to deliver procurement outcomes.

Procurement Performance

Outcomes achieved as a result of the application of procurement practices (e.g. cost improvement, product and service availability, collaboration, spend with SMEs, carbon reduction)

Procurement Strategy

It is a plan of action detailing how a particular goal / ambition and objectives will be achieved (where do we want to be, how do we get there, how will we know how we're progressing.) It provides a long term focus and direction aligned to meet the overall Trust objectives.

Procurement Governance Group / Non-pay spend group

This is a cross-functional group within the Trust that measures compliance to procurement strategy, policy and procedures. The group ratifies procurement activities across the Trust, including the implementation of procurement initiatives i.e. standardisation projects and approves savings.

Procurement Partner Organisation(s)

There are a number of procurement organisations that provide services to the NHS. These include NHS Supply Chain, Government Procurement Service, collaborative procurement organisations (both NHS and privately owned).

Procurement policy

A set of rules or principles to guide decisions and achieve outcomes. A statement of the overall intentions and direction relating to the procurement practice and performance of the organisation, as formally expressed by top management.

Procurement procedures

Is a sequence of actions, methods or techniques to ensure a consistent approach to procurement practices.

Procuring for Carbon Reduction (P4CR)

An NHS project to develop guidance, tools, training, case examples and other materials to support procurers in driving carbon reduction through procurement, contract and supplier management activity.

Key Terminology

Product masking

This is the process of hiding products within e-catalogues, thus limiting choice to pre-selected products and managing product selection (a form of demand management).

Purchase Order (PO)

A document that authorises a purchase transaction, which should carry a unique identification number.

Purchase to Pay (P2P)

This process includes all steps from purchasing to paying for goods and services. This includes order placement, receipt confirmation, invoice handling, and payment. Where other activity is included or excluded it will be clearly stated in the document.

Purchase to Pay (P2P) systems – this includes all of the systems employed to support the P2P process

Purchasing

The acquisition of goods and services from third parties concerned with the agreement of terms and conditions of supply with suppliers, for those goods and services identified by the sourcing team.

Options appraisal

Option appraisal is a technique for setting objectives, creating and reviewing options and analysing their relative costs and benefits. Option appraisal should help develop a value for money solution that meets the objectives.

RACI matrix

A **responsibility assignment matrix**, also known as **RACI matrix** (Responsible, Accountable, Consulted, Informed) describes the participation by various roles in completing tasks or deliverables for a project or business process. It is especially useful in clarifying roles and responsibilities in cross-functional/departmental projects and processes.

Return on Investment

Is the ratio of total spend cost savings (reduction and avoidance) to the cost of procurement (labour, technology, outsourcing).

Scheme of Delegation

This document sets out the approval limit or authority to spend of individuals or departments.

Service Level Agreement (SLA)

An SLA defines the basis of understanding between the buyer and the supplier. It sets the quality of service agreed and provide indicators for the measurement of performance and outlines the characteristics of the relationship (what is being delivered and how).

Shared Services

Refers to the provision of a service / function that has been conducted by one organisation moving to a service / function used by more than one organisation. It may be described as the centralisation or consolidation of similar activities.

SID4Gov

SID4Gov is a supplier information database holding information about suppliers, including pre-qualification information. The service is shared among all purchasing organisations in the NHS

Key Terminology

and is free of charge to all suppliers and NHS users. This is hosted by Government Procurement Service.

Small Business Research Initiative (SBRI)

SBRI is a programme that brings innovative solutions to specific public sector needs, by engaging a broad range of companies in competitions for ideas that result in short-term development contracts.

Sourcing

Identifying potential providers of a product, service, goods, works or solution, in accordance with a specification.

Specification

A set of requirements to be fulfilled by a product or service.

Stakeholder user groups

Groups made up of users and other stakeholders with defined objectives, for example to agree on standardisation initiatives and measure compliance.

Standardisation

The process of establishing a common / standard specification and eliminating excessive variety of products or services that meet that standard specification, limiting the range of suppliers and/or brands.

Supplier development

Collaboration between the Trust and the supplier to improve performance, and / or capabilities for long-term benefit.

Supplier relationship management (SRM)

SRM is a discipline of working collaboratively with suppliers to maximise the potential value of those relationships. In practice, SRM entails creating closer, more collaborative relationships with suppliers in order to uncover and realise new value, and reduce risk. SRM is about developing two-way, mutually beneficial relationships with supply partners that deliver greater levels of innovation and competitive advantage than could be achieved by operating independently.

Supply chain

A supply chain is a system or network of organisations, people, technology, activities, information and resources involved in moving a product or service from supplier to the end user.

Supply Chain Management

The integration of business processes from supplier to end user that provides products, services and information that add value.

Sustainable Development

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Sustainable Procurement

The process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole-life basis in terms of generating benefits not

Key Terminology

only to the organisation, but also to society and the economy, whilst minimising damage to the environment.

Sustainable Procurement Flexible Framework

A progressive model for establishing sustainable procurement systems and practices, developed and managed by the DEFRA, National Sustainable Public Procurement Programme, on behalf of the UK Government and wider public sector

Total Cost of Ownership (TCO)

This is the process of assessing the total costs of product, capital or infrastructure, incurred by the procuring organisation including acquisition costs, delivery, operating costs, maintenance costs and disposal costs.

Value for Money (VfM)

Value for money (VfM) is about obtaining the maximum benefit with the resources available. It is getting the right balance between quality and cost. VfM is about achieving the right balance between economy, efficiency and effectiveness, the **3Es** - spending less, spending well and spending wisely. This means that VfM not only measures the cost of goods and services but also takes account of the mix of cost with quality, resource use, fitness for purpose and timeliness to judge whether or not, together, they constitute good value.

VAT

Value added tax chargeable under the Value Added Tax Act 1994 or any similar, replacement or additional tax.