



Department  
of Health



# Combating Inflation - Guidance

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# Combating Inflation - Guidance

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## Purpose

The purpose of this guidance is to provide a toolkit that will enable a consistent approach, to be adopted across the NHS, for combating inflationary pressures.

NHS Providers are being advised by the Department of Health to resist blanket inflationary price increases from suppliers; an approach supported by both the Trust Development Authority (TDA) and Monitor. The NHS has been facing inflationary pressures well above the norm and increasingly NHS Providers are not receiving uplifts in budgets to cover such price increases. Our goal, as a minimum, is to ensure non-pay expenditure is inflation-free until at least the end of 2015-16, to keep a balanced budget and to continue to provide a quality service for patients by protecting the front-line.

This guidance has been developed with the support of a number of NHS Providers and includes some examples of best practice they have implemented to tackle these financial pressures. It is not intended to be a comprehensive guide to supplier management, but does provide some basic processes and templates to support those NHS Providers who are embarking on implementing supplier management in their organisation.

## Introduction

This proposed approach to combating inflation is centred around supplier engagement, and initially involves NHS Providers writing to suppliers to advise of a zero inflation policy. However, it is recommended that this engagement with suppliers is taken further. Suppliers are likely to be facing similar cost pressures and this is an opportunity to work together not only to find ways of avoiding inflationary costs, but also to potentially further reduce costs. Zero inflation should be seen as a minimum target, with the ideal outcome being below inflation costs.

This collaborative approach has numerous benefits for both NHS Providers and suppliers.

Benefits to the NHS Providers include:

- savings generated across the organisation
- sending a clear message to suppliers that price increases are not acceptable under current financial pressures
- giving visibility of the procurement department to suppliers
- the opportunity to identify and deliver further cost-saving initiatives, with buyers and suppliers working together

- raising the profile of procurement, demonstrating that the procurement department can make a difference
- collaborative working across the organisation, with a common goal of making savings to protect front-line staff

Benefits for suppliers include the:

- ability to develop partnership relationships with the procurement team
- opportunity to present new / alternative products
- opportunity to meet decision makers, including clinicians
- potential to introduce mutually beneficial cost-saving initiatives

## Preparation

### Develop Policy and Agree Approach

Before commencing any work in this area, it is important to understand the potential opportunity by analysing the non-pay spend of the organisation. This can help to identify opportunities within particular product categories or suppliers and highlight any trends. For example, is there a particular category of spend that is seeing a higher cost-increase than others?

We recommend that NHS Providers liaise with their procurement partners, as we know that some are already working with suppliers in this area to resist price increases. Please also take account of the Department's Crown Supplier Representative Scheme, and its Key Supplier Management Programme, as it evolves. This will help determine which suppliers you engage with, and will avoid duplication of effort and maximise resources. Then decide which suppliers to contact first, for example you may choose to adopt a phased approach, and will need to consider:

- identifying suppliers by spend (eg top 50, 100, 500 suppliers etc)
- influenceable versus non-influenceable spend
- approaching suppliers by category
- available resource
- contract end dates
- existing work plans

When determining your approach, do not underestimate the amount of work that could be generated by contacting a large number of suppliers. In achieving over £2 million inflationary cost avoidance, Central Manchester University Hospitals NHS Foundation Trust (CMFT) contacted approximately 1200 suppliers, with whom the NHS Provider had direct annual spend of £10,000 and over, and subsequently held

over 50 meetings with suppliers. However, CMFT has a large procurement team and was able to dedicate one full time procurement specialist to this initiative.

With regards to the timing of the initiative, there is no set date by which supplier letters should be sent. However you may wish to take into consideration when your suppliers' financial years end. If you do not have this information, it would be useful to start to collate this data. Another consideration is the contract-end dates, which may inform your planning.

### Policy Approval

Follow your internal processes to gain any necessary approvals to adopt a zero inflation policy and ensure that you have support from your Board and, in particular, the Finance Director.

In requesting approval / support, outline the financial challenges facing the organisation and highlight the likely benefits of following a zero inflation policy, such as inflationary cost avoidance, support for divisional savings targets, and potential new savings opportunities.

As a guide, by adopting a zero inflation policy CMFT generated inflationary cost avoidance of over £2 million in the financial year 2012-2013 and over £1 million has been logged up until January in the financial year 2013-14. The University Hospital of North Staffordshire NHS Trust (UHNS) is targeting £1 million cost avoidance, which is in addition to stretching savings targets from its supplier re-engagement programme.

### Allocate Resource

You need to have the necessary people in place to ensure that the initiative is handled professionally and to maximum benefit. A senior procurement professional will be required to manage the initiative and in particular to follow up on responses from suppliers around meeting requests and potential collaborative cost-reduction activities. Administrative support will be needed to distribute the initial letters to suppliers, track / chase responses and arrange meetings as appropriate. As a guide, UHNS has allocated a full-time senior procurement manager and a part-time administrator to manage this initiative.

If you do not have available resource within the procurement department, explore whether resources are available from elsewhere within the organisation to undertake aspects of the project, for example the Finance team may be able to pull together supplier spend information. If your department has limited capacity consider recruiting procurement expertise on a temporary basis. A comparison of the potential cost versus potential benefits may show that this is a viable option on a spend-to-save basis.

# Writing to Suppliers

## Key messages

Having identified your target list of suppliers, you now need to inform them of your zero inflation policy by sending them a personalised letter.

The main purposes of the letter are:

- to advise suppliers that you are facing major financial challenges and, as such, you are not in a position to accept price increases
- to request written confirmation that there will not be any price increases over the coming year
- to invite suppliers to work in partnership with you, to identify potential cost saving activities.

A letter template is in Annex 1. You may wish to tailor this to incorporate details of any specific financial challenges that your organisation is facing.

## Considerations

You may wish to set up a dedicated e-mail address and allocate a telephone helpline number for handling suppliers' responses. If so, include the details in the letter.

Consider who the letter should be signed by within the organisation. This is an opportunity to demonstrate the importance of the initiative, so you may want the Head of Procurement and a Board member to be signatories, if practical. For example, your Chief Executive, Finance Director or nominated Non-Executive Director for procurement.

# Tracking Responses from Suppliers

## Recording Responses

Keep a record of all responses from suppliers in order to identify current project status, what follow-up action needs to be taken and what cost avoidance savings are being achieved. This information will also be useful for internal reporting purposes.

## Tracking Template



Capture all responses on a tracker and update as appropriate. A tracking template, which can be tailored to suit your specific needs, is in Annex 2. The first section of the tracker (left-hand columns) has been designed to capture supplier information, including name, reference number, contact details and annual spend. The template includes a column labelled “supplier ranking” and is intended to show which suppliers will be targeted in phase 1, 2 etc, if you are using a phased approach. You might also want to add a column for contract-end dates and financial year-end dates of each supplier.

The middle section of the template is for recording information about the zero inflation letter and subsequent responses, including agreement to hold prices, meeting requests and meeting dates.

The final section of the tracker (right-hand columns) is designed to record cost avoidance savings and potential cost-reduction initiatives. You may decide to capture such initiatives, and any associated cash-releasing savings, using your existing methods of tracking savings.

## Reporting

The tracker provides useful information that can be used for internal reporting purposes. For example, you may need to provide quarterly or monthly updates to the Board or Divisional Finance Leads. Performance indicators could include:

- total number of suppliers contacted
- number of responses received – positive and negative
- number of meetings held
- savings achieved
- number of potential cost-reduction initiatives identified

## Handling Responses from Suppliers

### Positive Response

If written confirmation is received that a supplier will hold prices, add this information to the tracker, along with the next price review date and the resultant cost avoidance savings. CMFT and UHNS calculate the savings figure using a rate of 3% based on previous year’s annual spend.

You may wish to consider using your organisation’s preferred method of measuring inflation. Check with your Finance team, but these could include the Retail Price Index (RPI), Consumer Price Index (CPI), or the common mechanism used by Government which is the Health Service Cost Index (HSCI).

## Negative Response

If a supplier confirms that they will not hold prices, it is worthwhile engaging with the supplier to understand the rationale for the negative response. Remember that suppliers are likely to be facing cost pressures themselves and there may be unavoidable reasons why prices cannot be held. Try to obtain a cost breakdown and an explanation of where the price increase pressures are coming from. If the supplier remains uncooperative and the spend merits further action, escalate the issue within your organisation or with your procurement partner (if applicable) in the first instance, and then to the Department, if there is still an uncooperative response. (See the section on “escalation” below)

## Nil Response

If you do not receive a response to your initial letter within a reasonable period, be prepared to send a further letter chasing a written response. Consider copying this to more senior management within the company as appropriate. A template letter is in Annex 3.

If the follow-up letter does not receive a response, and if the potential rewards merit the effort, do escalate the issue to the Department. See the section on “escalation” below.

In dealing with negative responses/lack of response from suppliers, do use discretion as to where to focus effort. Allocate resources to those areas where the opportunities for cost avoidance and additional savings are likely to be greatest.

## Positive Requests to Engage

If a supplier has expressed a willingness to work in partnership with you, perhaps in addition to agreeing to hold prices or prior to making such a commitment, add this to the tracker and see the section on “supplier meetings” below.

# Supplier Meetings

## Setting Up Meetings

Arrange meetings with those suppliers that have expressed an interest in working in partnership with you to identify potential cost saving activities. Decide whether or not it would be most useful to have a meeting with a supplier either face-to-face or via a

teleconference. Each meeting is an excellent opportunity for both parties to collaborate to find ways of reducing mutual costs.

Preparation is essential to get the most out of each meeting. Consider who the relevant decision makers are who should attend each meeting, for example procurement representatives, clinicians and finance representatives. Then arrange the meeting date according to the availability of key people.

When sending out details of the meeting to the supplier (Annex 4), include an agenda (Annex 5) and an opportunity analysis form (Annex 6). Ask the supplier to complete the form by identifying potential cost-reduction initiatives and to be prepared to use this as the basis for discussion at the meeting.

## Data Gathering

In advance of the meeting collate data that will help inform your discussions and decision making. Examples include:

- annual spend value
- line details – what products you are buying from the company
- which divisions are ordering what products
- number of invoices generated over 12 months
- value of delivery charges and urgent delivery charges
- how quickly you are paying the company
- market information e.g. commodity price trends

Consider what cost-reduction activities you think may be feasible, such as forward order commitments and early payment discounts. Also, think about what leverage you can use in each meeting. For example, your organisation may have a particular specialism, it may be able to act as a trial site, or perhaps you could arrange for suppliers to have access to clinical groups.

## Meeting Outcomes

Use the supplier meeting note template in Annex 7 to accurately record what was discussed and agreed, and record the next steps. The template can be adapted for use as either a tool to capture meeting minutes/key actions and/or an internal file note. Also, post-meeting, remember to update the tracker.

One outcome of the meeting may be that an agreement is reached to hold prices for a given period. However, other outcomes could be a range of potentially cost-reducing initiatives that will need to be explored either by the supplier, NHS Provider or both parties. Initiatives may include:

- early payment discounts
- consolidated invoices / deliveries
- stock management

- forward order commitments
- bulk purchase discounts
- extensions to current contracts with improved prices
- product switching / standardisation
- electronic ordering

In handling the initiatives, think about how best to deal with each potential activity and who to involve. For example, you may choose to allocate a particular initiative to the relevant buyer to lead on, and involve finance regarding the cost-effectiveness of payment options, or clinicians regarding the feasibility of product switching.

## Escalation

The Department is committed to supporting NHS Providers through this process to achieve the desired outcomes. We are working closely with the Cabinet Office to maximise the efficiencies available to the NHS through broadening the Crown Supplier Representative Scheme, to manage key suppliers to the NHS through the Key Supplier Management Programme, which is an output from the “Better Procurement, Better Value, Better Care” programme.

We ask that those who receive a negative response and/or lack of co-operation from their suppliers escalate this within their own organisation (or with their Procurement Partner, if applicable), in the first instance. The next escalation point is to contact the Department at [nhsprocurement@dh.gsi.gov.uk](mailto:nhsprocurement@dh.gsi.gov.uk). Include any pertinent information, such as annual spend, relevant product(s)/category and reason for negative response if known. This will ensure we can understand any large-scale or national issues, and decide on the best approach. This feedback can help to shape the Department’s Key Supplier Management Programme, or we may escalate supplier issues to the Procurement Efficiency Delivery Board (PEDB). The Department also intends to launch the “Mystery Buyer” project, following on from the success of the “Mystery Shopper” project, which will provide another escalation route.

## Raising Awareness of the Zero Inflation Policy

Throughout the life of the zero inflation initiative, think about raising awareness of it internally, as well as with suppliers. Internally, it is a chance to reinforce the message that cost savings are necessary, and to raise the profile of the procurement department by showing how procurement is being proactive in fighting price

increases and helping with divisional cost saving targets. Suppliers have many “customers” within the organisation and a consistent message is needed across all contact points. It is also an opportunity to send a message to suppliers that NHS Providers take procurement seriously and achievement of savings is a high priority.

Annex 8 gives an example of a poster created by CMFT. This poster is displayed in locations around the organisation where suppliers and staff are likely to see it, such as procurement offices and theatre areas. You may also want to consider promoting the policy via existing communication channels within the organisation, such as intranet and newsletters.

## Suggested Future Activity

Review meetings should be scheduled with suppliers at appropriate intervals, to review progress against actions and savings delivery. For example, you may wish to meet towards the end of any “price-hold” period, or in advance of contract-end dates.

## List of Available Annexes

There are eight annexes to accompany this document that are available to download from the [www.gov.uk](http://www.gov.uk) website.

- Annex 1 – Zero Inflation Letter Template
- Annex 2 – Tracking Template
- Annex 3 – Follow-up Letter Template
- Annex 4 – Supplier Meeting Invitation Template
- Annex 5 – Meeting Agenda Template
- Annex 6 – Opportunity Analysis Template
- Annex 7 – Supplier Meeting Note Template
- Annex 8 – Zero Inflation Example Poster

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