

Modernising supply in the NHS

NHS Purchasing and Supply Agency

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Executive summary

Every year the NHS in England spends approximately £11 billion on goods and services essential to the running of the health service. The NHS Purchasing and Supply Agency (NHS PASA) is charged with modernising and improving supply management across the English NHS to help ensure that that money is spent to best effect. Over the past year the Audit Commission has, in conjunction with NHS PASA, been conducting a study of NHS procurement as a follow-up to its 1996 report, *Goods for your health*. The report, to be published in May, will highlight significant differences in purchasing performance across the NHS.

To address this situation, NHS PASA is leading a fundamental re-organisation of purchasing and supply throughout the NHS. This centres on the creation of a 'middle tier' of purchasing to bridge the gap between national (NHS PASA) and local (individual trust) level purchasing. It is recommended that the mechanism for achieving this will be inter-trust collaborative groups known as Supply Management Confederations. They will be formed on a geographical basis within (but not necessarily coterminous with) the Strategic Health Authority boundary. Whilst there is no prescribed model, Confederations will be expected to operate in accordance with agreed principles and to cover a number of functions.

For example, Confederations could pool information, expertise and resources to achieve a joint approach in such areas as strategic sourcing, product and supplier rationalisation, stock management, supply chain management, information management, staff development, best practice and contracting. Confederations will be trust led and will encompass all NHS organisations (including PCTs) within the local health economy. NHS PASA working with the new Strategic Health Authorities will actively support these confederations. This approach is expected to deliver a number of benefits, including:

- purchasing savings and reduced costs through economies of scale and increased leverage
- development of centres of procurement excellence
- improved career prospects for supply professionals
- collective support and raised standards for poorer performing trusts.

Delivering change – a summary of key recommendations

To implement this change programme, NHS trusts, in concert with their prospective partners in their Supply Management Confederation need to:

- ensure 'organisational readiness' for inter-trust supply management, for example by committing to NHS PASA contracts and ensuring trust procurement strategies and workplans are in place
- agree the configuration and terms of reference of their Confederation
- develop project implementation plans for collaboration
- harmonise corporate governance arrangements
- agree and commit to the sharing of risks and benefits
- develop an inter-trust strategy and workplan, ensuring that all non-pay spend is considered, and commit to the outcomes

- monitor and feed back performance data as required, using national performance indicators
- share and disseminate information with regard to best practice.

PCTs should seek inclusion in their local Confederation and not set up separate supply arrangements.

Strategic Health Authorities, working with NHS PASA, need to assure themselves that:

- coherent purchasing and supply arrangements exist within their boundary and are actively supported
- performance measurement is integrated into their wider performance management agenda
- they work with NHS PASA to help trusts meet national standards and improve their performance.

NHS PASA will:

- provide guidance and ongoing support in delivering inter-trust supply management
- support Confederations in drawing up and implementing plans to improve performance
- organise improvement teams to achieve raised standards
- promote and share best practice across the NHS supply community
- assist in the establishment of a network of confederations to share best practice and co-ordinate supply in fragile markets
- provide specialist advice on organisational development and staff training issues
- advise on the appropriate levels of purchasing intervention
- establish strategic procurement groups comprising NHS PASA and representatives of Supply Management Confederations
- work with Strategic Health Authorities to ensure appropriate arrangements are in place and are monitored.

NHS PASA is also pursuing a number of national initiatives that will underpin and support change locally. These include:

- standardising common processes – for example, terms and conditions
- developing an e-commerce solution
- inputting to the shared financial services initiative
- developing a best practice framework
- delivering an extensive programme of training and development to raise professionalism
- introducing a performance measurement framework.

NHS Logistics will:

- implement the range of e-commerce supply chain solutions it has developed
- implement a supplier performance regime
- assist the evolving Supply Management Confederations in equipping themselves with the necessary supply chain arrangements and skills.

The following report sets out in more detail how all of the above can be achieved. It is a challenging time for all involved in NHS purchasing and supply activities but there are also great opportunities to influence the future direction of the profession and to support the delivery of patient care across the English NHS.

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Part one: context and rationale

1. Introduction

Every year the NHS in England spends approximately £11 billion on goods and services essential to the running of the health service. In addition to the regulatory requirements, efficiency in purchasing and supply will maximise the money available to fund direct patient care.

In April 2000, the NHS Purchasing and Supply Agency (NHS PASA) was established to bring a national focus to health service procurement. Unlike its predecessor, NHS Supplies, NHS PASA has a remit to ensure effective supply management across the whole of the NHS in England. This is a multi-faceted role, which encompasses:

- improving purchasing and supply performance across the NHS
- leading the modernisation of the supply service
- improving efficiency and reducing cost in the supply chain
- raising the profile of the purchasing and supply function
- ensuring that all non-pay expenditure is subject to professional purchasing and value for money practices
- encouraging new and innovative suppliers, especially SMEs*.

As an Executive Agency of the Department of Health, NHS PASA has a mandate to develop and implement policies to improve NHS procurement. Indeed, it is expected to identify anomalies in the current system and both to deliver and enable change where this is necessary.

A key player in NHS supply is the NHS Logistics Authority, also established in April 2000. NHS Logistics provides the primary supply route for consumable products into the NHS in England (with a current value of around £600 million per annum) and is also developing its new role as supply chain manager for the NHS. NHS PASA and NHS Logistics work in partnership to achieve purchasing and supply goals.

This paper is about modernising supply organisation and practices throughout the NHS. It outlines NHS PASA's leading role in this and sets out the specific responsibilities of NHS organisations in implementing the reform programme.

It is in two parts: part one highlights some of the anomalies in the current organisation of purchasing and supply in the NHS and outlines what is being done at national level to promote and support change. Part two sets out the changes required at local level to ensure that purchasing and supply is 'joined up', properly controlled and organised in the most effective way to deliver optimum performance as part of the modernisation agenda.

2. Background

The NHS has always been subject to change, but the recent past has seen the scale and pace of that change rise to new levels. Not only does this have significant implications for the way in which purchasing and supply is approached and organised within the NHS, but the procurement function has itself come under greater scrutiny in recent years.

* Small and medium size enterprises

Much of this is encapsulated in a number of key documents, each of which is outlined in brief below.

Wider government

The last two or three years have seen procurement in general rise up the agenda, not just in the NHS but across government as a whole. The most obvious manifestation of this was the creation of the Office of Government Commerce (OGC) in 1999, following the *Review of civil procurement in central government*. Charged with modernising government procurement and improving value for money, the OGC has recently reported savings totalling £1 billion.

NHS as a whole

In July 2000, the *NHS Plan* was published. This sets out a ten-year programme of modernisation and reform – backed by investment and aimed at achieving a patient-centred NHS.

In July 2001, the Department of Health published *Shifting the balance of power within the NHS*. This signalled unprecedented structural and cultural change within the NHS, with considerable power and resources being devolved to clinicians in general and to primary care in particular – in short, supporting frontline staff in securing delivery of the health care agenda.

NHS procurement

In June 1999, the Cabinet Office's *NHS Procurement review* was published. As well as reinforcing the role of procurement at a national level, through the creation of NHS PASA, the report and the accompanying guidance (*HSC 1999/143*) placed the onus on trusts to:

- develop and implement a procurement strategy
- appoint a board level lead on supply matters
- set an overall procurement efficiency improvement target
- progressively extend the procurement strategy to cover all non-pay expenditure.

In addition, the NHS Executive was charged with, amongst other things:

- monitoring collaboration between trusts
- creating a comprehensive and active network of trust procurement managers to share information, promote benchmarking and encourage collaboration.

During the course of 2001, the Audit Commission has been conducting a value for money study on procurement in the NHS, as a follow-up to its 1996 report, *Goods for your health*. NHS PASA has been working in partnership with the Audit Commission to measure progress against the procurement agenda. This has been achieved by assessing trust procurement functions against a set of performance indicators, developed last year as part of NHS PASA's performance measurement framework. The Audit Commission's report is due to be published in May 2002. However the data verified so far shows a mixed picture across NHS trusts and raises concerns about performance overall. This is discussed later in this paper.

Implications

Each of these documents, in its own way, represents a powerful driver for changing the way in which purchasing and supply is managed within the NHS. In the wider

NHS, the move towards empowerment of clinicians and patients, together with the emphasis on whole health economies (working across organisational boundaries) is, in some cases, changing the nature of the procurement decision process, as well as the location of that decision.

In the procurement function itself, it is clear that, while good progress has been made in some areas, there is a long way to go to ensure that quality performance in all aspects of supply management is the norm across the NHS.

It is important to note, too, that it is not just trust supplies departments that are under scrutiny. A considerable amount of procurement in trusts is not influenced by the supplies function but is handled directly by other trust departments or clinicians, such as pharmacy, pathology and estates. NHS PASA has a responsibility to assist trusts in ensuring that all purchasing in the NHS, regardless of where or by whom it is conducted, is properly controlled and represents best value. This is outlined in NHS PASA's Corporate plan.

Overall, the NHS supply family must ensure that it is positioned, equipped and organised to respond effectively to these challenges, so that it is better able to support delivery of the NHS Plan and, ultimately, contribute to improved patient outcomes.

3. The case for re-organisation

The current picture

Looking across the NHS as a whole, it is evident that purchasing performance is inconsistent. Whilst there may be a number of different reasons for this, a common factor is undoubtedly the shortage of suitably qualified and/or experienced procurement managers at both middle and senior level within the trusts.

Certainly, the best performing trusts in procurement terms share certain key characteristics, the most fundamental of which is clear board level commitment to purchasing and supply. This is evidenced not only by procurement being a regular feature on board meeting agendas but, more importantly, by proper investment in people, skills and systems. Those trusts that have demonstrated this commitment are able to attract highly competent procurement managers, who are appointed at a sufficiently senior level to be able to exercise real influence over all non-pay expenditure within the trust. Blackpool Victoria Hospital NHS Trust, Salford Royal Hospitals NHS Trust, Royal Wolverhampton NHS Trust, University Hospital Birmingham NHS Trust, and Addenbrooke's NHS Trust are all examples of where significant investment in purchasing and supply, coupled with strong board level commitment, has resulted in improved performance.

Addenbrooke's NHS Trust has invested in setting up three internal departments: Strategic Sourcing; Procurement and Systems; and Operational Procurement. Clear objectives were set (2000/01) covering areas such as materials management, supply chain development, systems development and e-commerce, performance management and staff development. Active involvement with NHS PASA was maintained.

At the end of the financial year, cash-releasing savings of £1.35 million were reported and the proportion of non-pay expenditure influenced by the Procurement Department had increased from 66% to 73%. The total number of contract arrangements had been reduced through aggregation, and the value of goods covered by materials management had risen from £2 million to £3 million.

In reality, however, such trusts are the exception rather than the rule. And the cumulative effect across the NHS is that up to half of the total non-pay spend is not currently subject to rigorous, professional purchasing and value for money processes.

This situation carries considerable risk – both for individual trusts (in some cases) and for the NHS as whole. Not only is the NHS failing to secure best value overall from its non-pay expenditure, but failure to follow proper procurement processes leaves trusts open to legislative (financial) penalties; this, in turn, means that some trusts may not be able to meet their business plan and/or procurement strategy targets. Certainly, opportunities to control or reduce costs, maximise savings, performance manage suppliers and take a strategic approach to sourcing are being lost.

Clearly, of the 275 NHS trusts in existence (plus over 300 PCTs from April 2002) not all are in a position to make the necessary investment in purchasing and supply. Even if this were the case, high calibre individuals do not currently exist in sufficient numbers to attract into senior procurement positions. From a trust point of view, therefore, it makes good economic sense to share scarce expertise in a collaborative manner.

From a national perspective, in order to improve supply performance overall and ensure that all non-pay expenditure is subject to good procurement practice, it is important that the NHS takes a more joined up approach to procurement within the boundaries of each Strategic Health Authority. This includes primary care trusts and care trusts who have little or no experience of purchasing and supply.

Delivering change

Action is already taking place on a number of fronts to deliver the change agenda. A number of national initiatives are being implemented to support change across a variety of procurement-related activities. These are outlined in Section 4 of this paper.

As far as contracting is concerned, different interventions need to be made at different levels to achieve the optimum procurement mix.

First, NHS PASA is committed to increasing the proportion of expenditure covered by national supply arrangements from 20 to, at least, 34 per cent. It is, however, important to note that national contracts will only be put in place where there are clear benefits to be gained from doing so. Consideration will continue to be given to the potential for aggregation of demand, economies of scale and market management when making this assessment. Gaining 100 per cent commitment from trusts to national supply arrangements is an essential part of this process.

Where the supply characteristics of a particular market, or commodity, do not lend themselves to national arrangements, there are two main options.

- a) Local (trust level) supply management – where requirements are specific to an individual trust or to local circumstances and where no national arrangements are in place or planned. Currently, between a quarter and a third of all NHS procurement is controlled locally. In line with the principles of *Shifting the balance of power*, it is important that purchasing continues at this level where it is appropriate to do so, provided good procurement practices are followed. However, the scope of procurement influence on non-pay spend needs to be increased significantly.
- b) Inter-trust supply management, where a group of trusts in the same geographical area and with similar needs collaborate to pool expertise, avoid duplication of effort, and maximise value for money and the potential for savings. At present, there is no structured mechanism and no nationally recognised or recommended models for such collaboration, although a

number of consortia arrangements have been developed by trusts on an ad hoc basis. Trust 'ownership' and commitment is a key success factor.

NHS PASA believes that properly structured and managed inter-trust supply management has a significant role to play in ensuring that scarce resource is used to best effect for the benefit of the NHS as a whole. This is not intended to be a panacea, and will not be appropriate in all circumstances. However, this suggested structure, together with increased national contract coverage and increased activity at local level, can make a substantial contribution to ensuring professional supply management at a sub-national level.

The remainder of this paper is devoted to:

- outlining the benefits of inter-trust supply management
- explaining what action is being taken at national level to support change
- giving guidance on implementation.

Potential benefits of inter-trust supply management.

As well as benefits for individual trusts, there are a number of potential gains for the NHS as a whole. Key benefits are summarised below:

- 💡 economies of scale and lower total costs through volume aggregation, reduced duplication and sharing of costs
- 💡 increased purchasing leverage and reduced cost of ownership/ use of products through aggregation of demand
- 💡 purchasing savings (as result of above)

King's College Hospital NHS Trust and Guy's & St Thomas' Hospital NHS Trust have undertaken a number of joint purchasing exercises, thereby increasing their leverage in the market, promoting a consistent approach to suppliers and sharing the workload and expertise of both procurement teams. A recent contract for catheter lab consumables realised joint cash-releasing savings of over £350K per annum (22%).

The shared approach created an environment where medical professionals were able to openly discuss experiences and products. This encouraged networking, sharing of best practice and the confidence to try unfamiliar products.

The two procurement teams now compare arrangements and jointly consider opportunities for consortium tenders, alternating the contract administration between the two trusts to minimise duplication. Current projects include dental consumables, radiology consumables and other cardiac products. Collaboration is now moving beyond simple joint contracts to sharing ideas and approaches on supply management and supply strategy.

- 💡 shared risk
- 💡 shared purchasing resource and expertise and improved career prospects for purchasing and supply professionals
- 💡 development of centres of procurement excellence
- 💡 opportunity to rationalise/standardise products, systems and processes more widely

- 💡 opportunity to raise standards through benchmarking of performance and prices
- 💡 opportunity to view procurement requirements (both products and processes) across primary and secondary care and develop an integrated approach
- 💡 provide a more focused approach for suppliers (and e-business solutions)
- 💡 joined-up approach, providing better focus for communication with Strategic Health Authorities
- 💡 collective support and raising the standards and performance of weaker trusts.

A joined up approach to supply management is being taken across South and West Devon, incorporating two acute trusts and four PCTs. The group is led by the head of procurement in one of the acute trusts, with performance being reported to board leads in all constituent trusts.

There are lead purchasing managers in the trusts for different clinical and non-clinical supply areas, offering the chance to develop specialist knowledge and enhance career opportunities. This system is supported by a clinical nurse specialist, working across trust boundaries to share best practice and advise on product rationalisation.

A proactive approach to supplier management and e-commerce has been taken, with major suppliers being brought together in conference to explore opportunities to increase efficiency and reduce processing costs through better use of IT. In addition, the two acute trusts have harmonised their capital equipment replacement programmes, allowing joint tendering across the local health economy.

In North Essex, purchasing and supply services for all non acute trusts are provided by two centres: North Essex Mental Health Partnership NHS Trust and Essex Rivers Healthcare NHS Trust. Between them, they cover the health authority, six PCTs, the remaining PCG, an ambulance trust and a mental health trust. In line with the local shared services initiative, common financial services and procurement systems are used, allowing visibility and control of all procurement expenditure and accounts payable.

Taken together, the points raised in Section 3 of this paper constitute a powerful argument for change. Given all of the circumstances outlined above, NHS PASA believes that inter-trust supply management has a significant role to play in effecting that change – in particular, in optimising use of available resource and raising procurement standards.

4. National action to support delivery of change

NHS PASA is actively supporting re-organisation in NHS supply by establishing a change management programme, led by two new strategic development managers. These managers will provide co-ordination and leadership in the development of shared purchasing and supply service arrangements, work with trusts to promote and support the sharing of best practice concerning evolving organisational models, and provide specialist advice on organisational development and staff training issues. Supportive measures in the poorer performing trusts may include assistance with introducing improvement teams and plans.

In addition, the change programme is underpinned by a range of national initiatives – current and proposed – the main ones of which are summarised below.

'Once-only' approach

NHS PASA has established the principle that there are certain common processes that should be undertaken once only, to ensure consistency and avoid duplication of effort. This was also highlighted in the Cabinet Office review. Accordingly, the Agency has developed a single, national approach to a number of routine – but important – procurement activities. These include the following:

- a standard set of terms and conditions
- a supply policy setting out a framework for – and commitment to - improving not only NHS PASA's own environmental performance but that of the NHS and NHS-contracted suppliers
- a standard risk management framework
- a trust version of the Agency's *Operational purchasing procedures manual* to support a clear and standard approach to basic procedures.

Further details of these initiatives and associated documents for downloading is available online at www.pasa.nhs.uk

NHS PASA will continue to seek to identify any activity whereby the NHS could adopt a standard approach and will share this information across the NHS. This will provide clarity, consistency and a reduction in unnecessary process, whilst freeing trust staff to concentrate on activities that are better carried out locally. It also reduces the burden of bureaucracy for industry.

Shared financial services

Joint provision of support services is nothing new, but the development of IT and the internet has presented new opportunities to share a wider range of services across a greater number of NHS organisations. Launched in October 1999, the initiative centres on financial services (and therefore has implications for purchasing activity) and is aimed at maximising the potential for quality and delivering value for money. Two pilots - one in West Yorkshire and the other in South West Region - will relate to transactional activity within the finance function. This is a Department of Health led initiative sponsored by the National Director of Finance.

E-commerce

NHS PASA is leading the development and implementation of an e-commerce strategy for the NHS. This represents a broad and far-reaching programme of change that will include:

- ☛ undertaking electronically, traditional and discrete procurement-based activities, such as electronic tendering, catalogues and ordering
- ☛ overlapping financial and probity processes, such as invoice receipt and matching, payment of suppliers and audit trail/authorisation procedures
- ☛ generation of management and strategic supply information, such as budget planning, reporting and control, demand forecasting, supply chain performance management, and strategic sourcing and supply decisions.

Although this is likely to be a five-year programme, progress so far includes:

- ☛ the completion of an outline business case (in conjunction with the shared financial services initiative) for a national finance and e-commerce system
- ☛ involvement in the development of an electronic tendering system which is being piloted in partnership with OGC and other government departments
- ☛ working with NHS Logistics Authority, who have developed e-ordering, e-billing and a full electronic catalogue for stock items. These are in the process of being rolled out to trusts in England.

Best practice

Spreading best practice is a major challenge and a priority as part of the NHS modernisation programme. The issues involved in transforming supply mirror those in the NHS as a whole. Best practice work needs to be as concerned with changing behaviours and culture as it is with adopting new working practices, sharing ideas and embedding learning. In support of the NHS Plan and the modernisation agenda, NHS PASA recognises the range of approaches required to support the NHS in order to 'get the basics right'. Alongside this it recognises the good practice and ideas that exist and will continue to encourage all trusts to achieve the level of the best within the next four years. NHS PASA is therefore targeting action on a number of fronts to deliver improvements in this area. For example, it is:

- ☛ using the recently developed national framework for best practice procurement to engage with NHS trusts by means of a collaborative approach. This involves NHS PASA, NHS Logistics and NHS staff working together to share existing areas of good practice work and to encourage project working which develops best practice to be shared and adopted right across the NHS. A copy of the best practice framework is at Annex 1
- ☛ developing a system of, and criteria for recognising, 'beacon' sites for supply – to be in place in 2002
- ☛ committed to an ongoing programme of communication events to disseminate information about new developments and provide opportunities for networking
- ☛ progressively developing and publishing a series of national purchasing and supply strategies covering individual market/commodity areas.

Raising the professionalism of procurement staff

NHS PASA acts as a centre of advice on training and development matters relating to supply. A raft of measures designed to enhance staff competencies are outlined in its Corporate plan, a key target being to have at least 70 per cent of trust procurement managers and their staff (at buyer 1 level or above) having or working towards professional qualifications or having received appropriate training by 2003.

Since April 2000, NHS PASA has delivered for trusts:

- 2000 training days covering basic operational purchasing and supply issues targeted at frontline staff in trusts and delivered by specially trained supplies managers
- 1200 training days delivered by external trainers and targeted at trust supplies managers as part their continuing professional development.

Other key actions taken include:

- the development of a competence framework and assessment process for all trust staff with purchasing and supply responsibilities
- sponsorship of senior trust supplies staff under the Agency Masters Degree Bursary Scheme
- the introduction on 1 April 2001 of a Supplies National Graduate Training Scheme with an initial intake of two staff. The scheme lasts for 30 months and the intention is to gradually increase the annual requirement of graduates to ten. This will result in a maximum trainee cohort of 30 graduates.

The purpose of the scheme is to provide individuals with the competencies and knowledge to obtain senior posts within trust procurement departments and, ultimately, to become the supplies managers of the future. This is achieved through a combination of professional training (to acquire the Chartered Institute of Purchasing and Supply qualification) and a series of structured placements within both government and the NHS.

The programme to date includes placements in the following areas:

- NHS PASA corporate and purchasing sections
- Medical Devices Agency
- NHS Estates
- NHS Logistics
- NHS Health Authority
- various trust purchasing departments
- suppliers.

Supply chain management

The Cabinet Office review recommended that a modern, integrated, cost-effective supply chain should be developed for the NHS. This would include better management of NHS non-pay expenditure on products, determining the most appropriate supply routes and identifying which of these should be owned by the NHS.

NHS Logistics has been tasked with taking this agenda forward. Accountable to NHS PASA, which has responsibility for overseeing this major development, the Authority's

role is to bring order and supply chain management to the current supply channels into the NHS and thereby create and develop the integrated supply chain of the NHS. This involves a substantial change programme, aimed at transforming the NHS Logistics Authority from its wholesaler role to a supply change management organisation and service provider. Substantial progress has already been made, with the NHS Logistics Authority already providing the following services:

- λ supply channel for all consumable products
- λ transaction manager (eg chilled/frozen foods)
- λ emergency services provider
- λ e-commerce supply chain solutions provider
- λ consultancy and support.

To this end, a strategic review is underway involving all stakeholders within the NHS and externally within the supply community. This review will utilise worldwide best practice to identify how this role will operate and to define what benefits this will bring to the NHS. The first phase of the review will report during the first quarter of 2002 and will define a work programme to be implemented quickly in a way that is practical and value adding.

In addition, the NHS Logistics Authority acts as a centre of advice and leadership to trusts, assisting them in pinpointing opportunities to synchronise their own internal supply channels to realise efficiencies and cost savings.

Performance management

Performance management in general has recently had a high profile, particularly with the new star rating system for trusts, and will remain an important theme if the Department of Health is to be able to demonstrate real progress in the implementation of the NHS Plan. Under the current structure, Regional Offices are responsible for performance management, although the new Strategic Health Authorities will assume this function during 2002.

In terms of procurement, NHS PASA has a responsibility to ensure that Strategic Health Authorities are equipped to carry out this function and to actively support the process. To this end, it has:

- developed and launched a performance measurement framework for trusts
- piloted the key performance measures contained therein at nine trusts (see list at Annex 2) and developed indicators of performance
- collected performance data from all acute trusts (in conjunction with the Audit Commission).

NHS PASA will work with the new Strategic Health Authorities to ensure that performance continues to be monitored in an appropriate way against the indicators.

Supplier performance is a critical area but one that has received little attention. To this end, NHS Logistics has taken responsibility for implementing a supplier performance management regime. This will be in place during 2002 for all suppliers of the current consumables catalogue range.

Risk management

Over the last four years, a number of guidance documents have been produced by the Department of Health in relation to the corporate governance agenda. The most recent of these was *HSC 2001/005*, which introduced standards of performance in controls assurance with which trusts are required to comply by 31 March 2001 (level 1), 2003 (level 2) and 2005 (level 3).

Controls assurance standards require boards of NHS trusts and primary care trusts to satisfy themselves that systems, ie internal controls, are in place to ensure that risks are assessed and properly managed. There are over twenty different controls assurance standards, which have recently been updated under the direction of the Controls Assurance Support Unit.

NHS PASA has contributed to the revision of the standards that impact upon purchasing and supply and has specifically led the development of a new standard for purchasing and supply management. The new standard will require trusts to ensure that 'all purchasing and supply activity is managed to meet the needs of the organisation through the consistent delivery of best value and the appropriate management of risk, and complies with relevant statutory requirements'.

NHS PASA has an ongoing role in supporting and advising NHS organisations on compliance with the standards where they relate to, or are affected by, purchasing and supply activities.

Part two: guidance on implementation

5. Shared approach to supply activity

Having established the case for inter-trust supply management, there is a need to identify the *types* of activity that lend themselves to this approach.

These include the following:

- joint contracting (for products/services that do not lend themselves to national contracting or local tendering)
- rationalisation of equipment and supplies
- supplier rationalisation and key supplier management
- streamlining external and internal supply chain (receipt, storage and distribution arrangements)
- stock and equipment management
- information management, including e-business
- performance measurement and reporting
- resource planning (including training and development)
- sharing information and best practice
- risk management.

It is suggested that the best mechanism for delivering this joint activity will be through inter-trust collaborative groups, to be known as Supply Management Confederations.

6. Principles of good inter-trust supply management

Whilst NHS PASA is not suggesting that there is a single, prescriptive model for inter-trust supply management, there are, nevertheless, certain good practice principles that could be applied to any such arrangements. These are outlined below.

Supply Management Confederations could:

- be trust led, with active support from NHS PASA and Strategic Health Authorities
- be established on a geographical basis and be contained within (although not necessarily coterminous with) Strategic Health Authority boundaries. Some may cross boundaries for clinical networks/specialisms
- be based on, or work in partnership with, whole health economies
- link with Shared Service Centres (currently pilots)
- take account of all non-pay expenditure, not just the areas traditionally covered by supplies departments

- 💡 obtain full commitment (to contracts and other agreed functions) from all participating bodies
- 💡 share savings and other benefits on an agreed basis
- 💡 operate on a non-profit basis
- 💡 share information freely between member trusts
- 💡 support the best practice programme through collaborative project work and adoption of best practice outputs
- 💡 operate within the existing purchasing and supply policy framework (which includes any national purchasing strategies, the relevant controls assurances standards etc)
- 💡 avoid duplicating any areas already covered by national supply arrangements
- 💡 ensure that all activity meets the business plan requirements of member organisations
- 💡 ensure that inter-trust supply management is complementary to, not a substitute for, individual trust level purchasing.

7. Functions of inter-trust supply management

Supply Management Confederations should develop and agree their own objectives and functions in line with the requirements of member organisations, but consideration should be given to the following aspects:

a) *information sharing, management and development*

To operate effectively, member trusts will need to share their procurement strategies and, in particular, data relating to:

- expenditure analyses
- savings targets and savings achieved
- suppliers, supplier performance and terms and conditions of contracts
- e-procurement.

Information about methodologies (for example, for achieving savings, for capturing data, or for assessing risk) should also be pooled.

The development of IT and related systems may also benefit from a consortium approach. As a minimum, groups should:

- keep all member trusts briefed on developments in e-commerce in individual trusts
- examine the potential for developing e-commerce on a consortium basis

- identify and investigate web technology and others ways in which IT can help deliver procurement objectives* .

b) sourcing, selection and rationalisation

As well as comparing member trusts' approaches to this issue, it may be appropriate to:

- develop an inter-trust sourcing policy
- develop and roll out product and supplier rationalisation on a collective basis
- consider ways of encouraging small, local businesses (in line with the government's SME policy)
- develop a strategy for encouraging innovation in the supply chain.

c) supply chain management

Efficiency in the supply chain is essential to ensure timely delivery and proper management of goods and services, as well as the elimination of any unnecessary cost. Supply Management Confederations should:

- review supply chain arrangements for critical and high turnover items
- examine internal supply chain arrangements and identify any areas for improvements
- identify any areas that would benefit from collaboration (for example, inter-trust supply of certain items, shared equipment libraries etc)
- identify collaboration and supply chain development with other public sector agencies
- work with NHS Logistics as the centre for supply chain excellence and supply chain manager for the NHS, utilising the range of services provided as appropriate.

d) development and implementation of contracting workplan

It is recommended that Supply Management Confederations should:

- share and compare member trusts' existing procurement plans
- co-ordinate workplans with national NHS PASA NHS Logistics Authority workplans
- identify areas of spend with potential for a collaborative approach
- share processes, policies and procedures with a view to developing best practice
- develop and implement a formal, joint contracting plan.

e) training and development

To gain maximum benefit from the collective staff resource, Supply Management Confederations should be encouraged to:

- identify training needs amongst procurement staff (and non-procurement staff involved in purchasing and supply within member trusts) - with reference to the competency framework developed by NHS PASA
- develop and implement a joint training and development programme

* Any developments should be consistent with the Department of Health's IM&T strategy and *Building the Information Core*.

- examine ways of providing mutual support around recruitment and retention issues
- utilise the range of purchasing and supply training and development opportunities provided by NHS PASA and NHS Logistics Authority.

f) *risk management*

It is suggested that Supply Management Confederations should:

- share risk assessment plans of member trusts (both content and methodology)
- agree the basis on which risk is to be shared
- based on the consortium workplan, undertake a risk analysis and prepare joint plans as appropriate.

8. **Modus operandi**

Membership and stakeholder involvement

It is expected that membership will comprise, as a minimum:

- Strategic Health Authorities
- all of the acute trusts in the defined geographical area
- all of the PCTs within that boundary
- mental health, ambulance and care trusts.

However, a successful consortium will need to actively engage all stakeholders, as appropriate, in inter-trust supply management and supply issues. This may include:

- the local authority(ies)
- the voluntary sector and patient groups, where relevant
- other public sector agencies.

It is for each group to agree its core membership, taking into account the above suggested principles.

Management and leadership

In keeping with the principles of both *Shifting the balance of power* and the reforms following the Cabinet Office report, there will be no national management of inter-trust supply management groups. Instead, management and leadership arrangements will be locally determined and a number of different models may well emerge.

The East Lancashire Procurement Board is a collaboration between an acute trust, a whole district trust, the health authority, two PCGs, one PCT, one community trust and one specialist trust. A close partnership has been created across the health economy, with no one trust taking the lead, and new PCTs are keen to join. To date, savings of £1m have been achieved on a combined non-pay spend of £80m. This has been delivered against a three-year plan that included investment in training, development and strategic procurement resource.

Relationship between Supply Management Confederations

In order to ensure a cohesive approach in certain commodity areas, NHS PASA will assist in establishing a network of confederations to share best practice and co-ordinate activities in fragile markets.

Relationship with NHS PASA

Whilst NHS PASA has overall responsibility for overseeing the management of supply in the NHS, it does not intend to adopt a direct management approach. Rather, its role is to develop a common national framework and to be pro-active in advising and assisting trusts in implementation and in advising Strategic Health Authorities on performance management. This is outlined in more detail earlier in this paper.

Accountability and performance management

Lines of accountability for inter-trust supply management groups will depend on the exact model of leadership adopted. Arrangements should be explicit in groups' terms of reference and should take into account the normal line management and accountability arrangements of member trusts.

Similarly, performance management will be in the context of existing arrangements to ensure a consistent and integrated approach. This responsibility will transfer to Strategic Health Authorities during the course of 2002. NHS PASA will seek to work closely with these new bodies to ensure that purchasing and supply is mainstreamed into their agenda and that Strategic Health Authorities are equipped with the necessary information and tools to carry forward their programme of work, as it impacts on – or is impacted by – procurement issues.

9. Conclusion

This document has set out the challenge facing purchasing and supply right across the NHS. It has put forward a programme designed to modernise and reform the organisation of supply management. All trusts and strategic health authorities have a key role to play in translating policy into practice, whilst NHS PASA has a responsibility to facilitate the establishment of the necessary infrastructure, and to provide ongoing support in achieving measurable improvements in supply performance.

The specific recommendations to be taken by each organisation are set out in section 10.

10. Summary of recommendations

NHS trusts

In order to take this agenda forward, there are a number of things that NHS trusts need to do, both individually and in concert with neighbouring trusts who will be partners in the Supply Management Confederation.

First, regardless of any collaborative arrangements, NHS trusts need to:

- λ ensure that arrangements are in place to improve their supply performance and to deliver the requirements of all current guidance relating to purchasing and supply

- λ input into the NHS PASA contract workplan, ensuring 100 per cent commitment to both Agency contracts and the supply route as defined by NHS Logistics Authority
- λ implement the national finance and e-commerce solution
- λ use national purchasing and supply indicators to report performance to Strategic Health Authorities and NHS PASA; establish key performance indicators for operational management and broader strategic monitoring requirements, both for themselves and inter-trust consortia
- λ share and disseminate information with regard to best practice.

Secondly, to move towards the establishment of Supply Management Confederations, we recommend that NHS Trusts, after initial discussions with stakeholders:

- λ jointly agree the configuration of constituent trusts, taking into account clinical specialties
- λ identify and agree implementation arrangements for inter-trust collaboration
- λ harmonise corporate governance to facilitate and support inter-trust procurement and supply chain initiatives (including schemes of delegation and sharing risks and benefits)
- λ agree and commit to the sharing of risks and benefits, ensuring corporate governance is maintained
- λ commit to the outcomes of inter-trust collaboration and agree terms of reference
- λ develop an inter-trust strategy and working arrangements that complement individual trust strategies in line with the recommendations in HSC 1999/143
- λ use national purchasing and supply indicators to report performance to Strategic Health Authorities and NHS PASA; establish key performance indicators for operational management and broader strategic monitoring requirements, both for themselves and inter-trust consortia
- λ monitor and feed back performance data to trust boards, Strategic Health Authorities, and NHS PASA
- λ share and disseminate information with regard to best practice.

Primary care trusts

It is not envisaged that primary care trusts and care trusts will need to establish their own purchasing and supply departments. They should utilise existing departments within their local health economy. In some cases some PCTs will inherit supplies teams from former community trusts – this will require links to be established with neighbouring NHS trusts to maximise the benefits of economies of scale and to ensure that they are included in their local Supply Management Confederation. They should not seek to set up their own supply management functions or arrangements instead of, or in parallel to, the collaborative arrangements set out in this guidance.

As NHS organisations, both primary care trusts and care trusts are able to access NHS PASA's national contracts and framework agreements. Currently, however, such contracts and agreement are not accessible to GPs or other primary care contractors, although NHS

PASA is currently reviewing this position. In doing so, however, NHS PASA will need to ensure that costs to the whole of the NHS will not be increased.

Strategic Health Authorities

Strategic Health Authorities will be established from April 2002, although they will not be fully operational until October. There will be 28 covering England. These bodies will be expected to ensure that the needs of the whole local health economy are taken into account and that all organisations across primary, community, secondary and tertiary care work are brought together to deliver modernised, patient-centred services.

It is important that this approach is reflected across NHS purchasing and supply, and that Strategic Health Authorities and NHS PASA should work together to ensure that this is reflected in both their strategic development and performance management roles.

With this in mind, Strategic Health Authorities should work in conjunction with NHS PASA to ensure that all trusts meet national standards and improve their performance.

Recommended measures are:

- λ coherent procurement arrangements exist within their strategic boundary
- λ performance measurement of purchasing and supply is included within their performance management role
- λ they provide active support and encouragement of collaboration between trusts on procurement issues.

NHS Purchasing and Supply Agency

In order to raise standards of purchasing and supply performance across the NHS, NHS PASA will:

- λ work with Strategic Health Authorities and Directors Of Health And Social Care ensure appropriate supply arrangements are in place
- λ work with Strategic Health Authorities, Directors Of Health And Social Care and the Performance Management Directorate of the Department of health to ensure that performance continues to be monitored
- λ support NHS trusts and Supply Management Confederations in drawing up and implementing plans to improve their supply performance
- λ organise improvement teams to achieve appropriate standards of supply
- λ provide the framework and guidance to deliver inter-trust supply arrangements
- λ instigate, enable and support change in the management of supply
- λ promote and share best practice across the NHS supply community, including emerging organisational models
- λ provide specialist advice on organisational development and staff training issues within procurement
- λ advise on appropriate levels of purchasing intervention

- λ establish strategic procurement management groups made up of NHS PASA and representatives of Supply Management Confederations
- λ assist in the establishment of a network of confederations to share best practice and co-ordinate supply activity in fragile markets.

NHS Logistics

To enable the NHS to obtain maximum value (cost and quality) from the supply chain, NHS Logistics will:

- λ continue to develop its role as the centre of excellence on supply chain matters, providing the wide range of services required by the NHS to support changing needs
- λ implement the range of e-commerce supply chain solutions it has developed as a first important step in moving forward the national agenda
- λ complete the strategic review to shape its new role as supply chain manager for the NHS, defining the value to the NHS and, following approval, implement the required arrangements
- λ implement a supplier performance management regime
- λ assist the evolving Supply Management Confederations in equipping themselves with the necessary supply chain arrangements, skills, knowledge and expertise.

Annex 1

Best practice framework

The enclosed framework illustrates the breadth and significance of professional purchasing at both strategic and operational levels. It can also be provided as an easy to use self-assessment tool for those applying it to enable them to determine where they are and where they need to be. It allows the identification of strengths and areas for improvement and offers a professional challenge and a source of help and advice. It is available as a web-based or electronic self-assessment tool and as a developing web-enabled database in which references of best practice and contacts in specific areas of expertise will be accessible. It will provide a forum to raise issues and a means to keep abreast of the latest news about best practice work in the NHS. It can also be used when considering criteria for beacon sites or to develop a 'virtual beacon site'.

The framework provides individuals and organisations with a focus and motivation to improve their procurement – and in so doing to raise standards of procurement in the NHS as a whole. It requires all those involved in managing and modernising procurement to participate in an inclusive collaborative programme, advocated by the NHS Modernisation Agency as “an improvement method which relies on the spread and adaptation of existing knowledge to multiple settings to accomplish a common aim”.

Within this programme we will seek to address the immediate priorities which are currently being identified through use of workshops and their outputs, using existing expertise within peer groups and apply a project-based approach.

The framework comprises an overall summary together with a series of spreadsheets, one for each of the six groupings provided within the summary. For each of the 'cells' – or subjects shown on the summary there are standards stated which trusts should seek to meet in order to be considered as achieving good practice. For each subject there are then some suggested references which trusts could use to illustrate that they meet the standard although trusts would be able to add their own specific reference sources which could include case studies, reports, procedures, policies etc. The framework is not intended to be prescriptive. It recognises that trusts and other organisations applying it should have flexibility - within the framework - to demonstrate a variety of ways in which they perform good practice and achieve benefits from professional procurement.

Grouping	BEST PRACTICE TOPIC AREAS					
STRATEGIC	Vision Statement Business Integration Influence on Patient Care - VFM	Service Configuration Shared Service Model	Standards of Excellence e.g. Charter Mark Excellence Model	Board Level Ownership Commitment Involvement & Report	Strategic Workplans & Clear Implementation Plans over time period	Resource Plans linked to workplans
	Reference	Reference	Reference	Reference	Reference	Reference
RELATIONSHIP/ PARTNERING		Customer Relations	Suppliers Relations	Healthcare Collaboratives	NHS PASA/wider Gov't involvement	
		Reference	Reference	Reference	Reference	
PROFESSIONAL PRACTICE	Innovation	Performance Measurement Achievement against workplans	Governance, policy procedures	Procurement Processes	Supply Chain Management	
		Reference	Reference	Reference	Reference	
OPERATIONAL PRACTICE		Product/Service Selection Variety Reduction Usage Mgt	Processing	Materials Management Stock Mgt	Equipment Management	
		Reference	Reference	Reference	Reference	
PEOPLE	Vision and Values	Resources	Communications	Training and Development	Selection and Retention	
	Reference	Reference	Reference	Reference	Reference	
SYSTEM APPLICATION	Catalogues Stock/Non Stock Integrated	Integrated Trust Business Systems Requisition/orders GRN/AP General ledger		e-TENDERS e-QUOTES Issue Receipt Evaluation	Information - access - speed - quality	
	Reference		Reference	Reference	Reference	

Annex 2

Pilot sites for performance measurement framework

East Cheshire NHS Trust

Burton Hospitals NHS Trust

Nottingham City Hospital NHS Trust

Gateshead Health NHS Trust

Addenbrooke's NHS Trust

Kings College Hospital NHS Trust

The Lewisham Hospital NHS Trust

Southampton and Winchester Health Supplies

Weston Area Health NHS Trust

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