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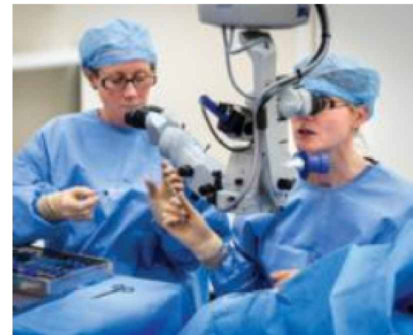
What the doctor ordered?

12 December 2013 | Helen Gilbert

Can the new NHS procurement strategy, which aims to save the health service £1.5 billion over three years, provide the radical change promised? Helen Gilbert investigates.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John Warrington is under no illusion about the magnitude of the task that lies before him. The author of the new NHS procurement strategy which details plans to save the health service £1.5 billion over the next three years, has been told by more than one hospital trust chief executive that procurement will never make it onto their top priority list.

The admission is one the deputy director of procurement policy and research in the Department of Health's Procurement, Investment and Commercial Division finds "staggering" given that the NHS spends more than £20 billion on goods and services, which typically account for around 30 per cent of the operating costs of each hospital.

According to Warrington, who has worked in health service purchasing for almost 30 years, very few senior people in NHS hospitals know what good purchasing looks like and, as a result, investment in efficient, strategic procurement capabilities has not been a priority for many NHS boards.

It's a fact he finds difficult to comprehend considering the health service's purchasing power is greater than any other UK organisation.

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"I had one chief executive say 'you'll never get into my top 10 priorities, so don't even try,'" Warrington tells SM. "I've had that several times.

It's the kind of attitude we're wrestling with."

But change could be afoot thanks to the publication of Better procurement, better value, better care: a procurement development programme for the NHS. The strategy, drawn up by Warrington, government minister Dr Dan Poulter and Rob Knott, national director, NHS Procurement Development, sets out a major overhaul of how health service purchasing should work.

Alongside a distinct lack of buy-in at the top, the report identified little consistency in the way the health service spends its money and flagged up an over-reliance on framework agreements at the expense of the NHS striking radical money-saving deals, such as hospitals collaborating to bulk-buy equipment for a discount. The result is a new blueprint for how the NHS buys everything from rubber gloves and temporary staff to stitches, new hips and building work.

Under the plans, hospitals will be required to publish what they pay for goods and services for the first time, while a price index will enable them to see how much they spend on different products compared with other hospitals and identify where they lag behind.

Poor value for money and bad contracts will be exposed by making more data about the deals the local NHS is signing public; while the Department of Health will be obliged to work directly with top NHS suppliers to strike new, bulk deals for cutting-edge medical equipment like radiotherapy machines and MRI scanners.

Other recommendations include cutting the annual £2.4 billion temporary staffing bill by 25 per cent by the end of 2016, while the good practice currently found in some hospitals will be championed and widely disseminated to demonstrate what can be achieved.

Interestingly, the report warns progress will only be made if the programme is embraced by chief executives and their boards at all levels throughout the trust. It's an age-old problem, so just how will it be addressed?

"We're really keen that trusts appoint non-executive directors (NEDs) to be the champions, to lead on procurement issues for their trust," Warrington says. "Once we've got that, we want to network those NEDs and give them a package of support so they can go back to their trusts and really challenge and champion the procurement function so it improves."

According to Knott, the boards of world-class organisations "absolutely understand" the importance of procurement and it's time the health service followed suit.

"One of the reasons this document is different is because there's a massive focus on raising the profile of procurement to the board of every single trust in the country and making it important," he says.

A Centre of Procurement Development (CPD) will be created to support the new programme, within which an Academy of Procurement Excellence will sit to nurture professional development and leadership. In order to drive better buying practices, an NHS procurement champion is to be appointed.

An oversight board led by Dr Poulter will provide ongoing scrutiny and guidance to the NHS in driving improvements in procurement and productivity gains, while a delivery board comprising key health organisations that have influence over the health service including the DH, NHS England, Monitor, the NHS Confederation and The Foundation Trust Network will also work together to take procurement forward.

Reality check

But how do NHS buyers feel about the plans and, more importantly, how practical and realistic will they be to implement?

Simon Walsh, head of procurement and e-commerce at the Central Manchester University Hospitals NHS Trust, which has an operating budget of £890 million, of which £310 million is on non-pay goods and services, backs the proposals. His trust has achieved annual savings of £5 million over the past four years through inflation-fighting and cost-reduction measures. “The NHS is a big buyer. When you add collective scale together there’s got to be something on a national steer to support how the NHS spends that money,” he says.

However, he cautions the strategy is not without its challenges, particularly as the health service isn’t a single buyer but a devolved organisation made up of individual, autonomous bodies, such as foundation trusts, that make their own decisions.

“The NHS does not have a centralised command and control purchasing system; you can’t easily find or press buttons to change NHS procurement. That’s the nature of the beast,” he says. “That’s a challenge for this review to be successful; NHS trusts and foundation trusts will really have to get behind procurement for the strategy to work.”

Warrington insists solutions are being sought to remedy the situation. “All trusts will soon have foundation trust status, which means they’re independent and we can’t tell them what to do. We’ve got to put a compelling case together so they can’t ignore it. We recognise we need to bring grit into the system to make this happen.”

Meanwhile, Andy O’Connor, director of commercial procurement services at the Countess of Chester Hospital NHS Foundation Trust, backs the strategy but calls for its immediate mobilisation. “We need to make sure the people within the system already are the people that deliver the outcomes of the strategy. There’s a risk that the private sector will step into the breach if the people within the NHS don’t act and take it forward.

What will happen is the money that should be reinvested in procurement within the NHS will find its way streaming out into the private sector.”

He calls for everybody within the profession to use the strategy as a way to step up to the mark, and develop their teams. “That needs to happen sooner rather than later. There needs to be a programme for reviews put in place to start highlighting where champions sit within the system.”

Detail on Clinical Commissioning Groups (CCGs) and Clinical Support Units (CSUs) was notably lacking in the policy document – a deliberate omission, Warrington says, to ensure the focus remained on helping trusts improve their procurement on non-pay spend.

Even so, O'Connor worries the development of CCGs and CSUs could result in the formation of new procurement departments, which may steal the best people away from trusts.

"My fear is that when CCGs advertise their procurement jobs they will be paid at a much higher level than what is seen as the norm for trusts and there could be a stripping out of champions and the core procurement people into other areas of the NHS. That will give us a huge shortfall of good people to actually put in place all the learning and the relevant standards. We just have to be so careful."

Other concerns play on the mind of Nicola Hall, managing director of IT solutions provider Ingenica Solutions, who stresses the importance of having the right systems in place to collate data.

"They need to have consistency of data that they're reporting on. The problem with pricing is that it becomes quite convoluted. Some of the deals that trusts get might include additional services for free of charge, and some of those value added services that they get as part of the package make it very difficult to compare like for like. Suppliers have got very clever about implanting people into organisations to help train, to provide all sorts of add-ons that mask the real price. I think the other issue is sometimes some of the larger suppliers will give very favourable pricing because they're trying to gain market share, and that's an aspect you'll never see just from looking at pricing."

Meanwhile, framework agreements concern Peter Harrison, Siemens Healthcare's UK managing director, who calls for greater scrutiny of the roles of some procurement intermediaries and the fees they charge.

"My beef here is there is very little or no regulation," he says. "The problem is that you're dependent upon the framework operator engaging appropriately with the market and ensuring that framework operator isn't – by virtue of their own fee structure – on the one hand reducing the cost of procurement but then perhaps substituting that with their own fee, so the net gain to the buyer isn't as evident.

"Everybody that engages in the supply chain needs to ensure they're delivering value commensurate with anything they take out by way of a fee structure or anything else."

A key plank of the strategy is trust collaboration around the purchase of goods and it is one that Peter Osborne, managing director at LOC Consulting, will watch keenly.

"Trusts tend to get nervous when asked to collaborate because they're worried it will expose them or their operations and potentially poor efficiencies in their practices. So there's an element of 'if you share, you expose', and if you expose you highlight that you may have a problem."

However, Knott is keen to stamp out any such anxieties and explains there will be some stress testing in the coming months to determine how price information is exposed across the system and to the wider public. "The diagnostic analytics and performance hub will ensure that we measure each and every trust on a fair and open basis. We can't afford to have scenarios where we expose something in the trust that is an area of underperformance without first understanding why it exists.

"It's not just about benchmarking price, it's about benchmarking process. If you've got an organisation and there are 20 people in procurement; they're all highly skilled category managers, they've got category teams lined up and systems and processes in place. At another trust with only four in it, you're going to see a dramatic difference in performance. It's not just about saying 'hey, look you're paying a much lower price', it's saying to the trust boards here's the reason for it."

Overall, the proposed Academy of Procurement Excellence has been warmly welcomed by buyers. David Lawson, director of procurement at Guy's & St Thomas' NHS Foundation Trust, whose organisation has been praised for its work in halving implant costs in some categories [see right], describes it as the recommendation of "most interest".

Given the fact that the NHS has on average 90-plus complex spend categories and sub-categories, the largest being mental health and circulatory problems, compared with a bank for instance, which perhaps has 35, the difficulty of attracting new recruits is an historic problem.

According to Knott, it might take a graduate working in the NHS three to five years to cut their teeth, while they'll also be required to learn world-class purchasing, understand EU procurement regulation and the complexities
of the health service.

"We think we can find a graduate fresh out of university and put them into this academy and get them at the coalface in a tenth of the time," he explains. "One of our prime aspirations is not only to increase and improve capability but to increase capacity out there in the system around procurement and supply chain. There are not enough of us out there. There are 162 major hospital trust providers and 90 complex categories. That's an enormous footprint."

Warrington believes the new structure, systems and processes will help develop the "really good procurement people" who are wondering what to do next. "We're kicking around the concept of a 'top leaders' programme; we want to help them operate at a higher level." Exactly how far could they go? "Maybe one day we'll see another procurement person become a chief executive. As far as I know it's only happened once in the health service," Warrington says enthusiastically. Watch this space; change could be on the horizon.

Hip, hip hooray: savings in orthopaedics inventory

In 2011 Guy's & St Thomas' NHS Foundation Trust standardised to one supplier and established a partnership relationship focused not just on reducing unit cost but working with industry in a collaborative way to reduce unnecessary waste and improve efficiency.

In return for delivered commitments on growth, implant costs in some categories have halved over the past two years.

To date, savings of more than £1 million have been achieved through a combination of unit cost reduction and lean inventory management.

The trust is now working with industry to help develop a new patient pathway to improve length of stay. The early results from the pilot are showing a dramatic reduction in length of stay across the full spectrum of patients.

David Lawson, director of procurement at Guy's & St Thomas' NHS Foundation Trust explains: "We had a situation in terms of hips and knees where we used to have two suppliers on the shelf. We worked closely with the clinical team and standardised down to one and in the second year we committed to deliver volume growth; in return, they reduced the price and invested time to help streamline the management of inventory.

"Often with orthopaedics you find two or three brands on the shelf, and that adds cost in terms of not getting the best price because you're not giving one supplier the volume commitment and added complications with duplicate instrument sets and risk of excess inventory.

"Over and above orthopaedics, inventory in general represents a major hidden cost for hospitals. Clinical supplies are sterile wrapped and that's time dated. If you haven't got systems that can control and monitor this inventory you are under real risk of stock expiry because you are not matching reordering with actual consumption.

"Before, we had theatre sisters spend a day a week writing paper requisitions, we had inventory everywhere and no visibility. We estimate up to 25 per cent of clinical spend is at high risk of waste without good inventory control. Now it's an automated, just-in-time system, which orders on a daily basis. The inventory is held at the point of consumption and the product is delivered and replenished overnight."