



briefing

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Supply Chain Excellence Programme

Collaborative Procurement Hubs

Summary

NHS Collaborative Procurement Hubs (CPHs) are a key strand of the Supply Chain Excellence Programme launched by the Department of Health's Commercial Directorate in March 2004.

CPHs will provide economies of scale for the NHS, greater co-ordination for suppliers and, by 2007, annual savings of £270 million.

The CPH model was established in consultation with supply management confederations and will build on their work.

CPH implementation will commence with three pathfinders and any learning will be shared with the supply management confederations.

Pathfinders will refine and prove the CPH model whilst achieving tangible financial results.

It is intended that the next phase of CPH rollout will start in the second Quarter of 2005.

Introduction

Every year the NHS spends over £14 billion on non-pay goods and services, making the NHS a key player in local and regional economies. All too often in the past, variations in purchasing practices and a lack of a strategic approach to supplies management have meant opportunities to improve value have been lost.

In June 2003, the Department of Health (DH) established the Commercial Directorate (CD) to lead on its dealings with the independent sector and to improve commercial management practices. This led to the NHS Supply Chain Review that identified potential savings of £500 million a year through strengthening the national procurement function, accelerating the implementation of collaborative trust procurement and streamlining distribution of goods throughout the NHS. The NHS Supply Chain Excellence Programme (SCEP) was established as an outcome of the review with the aim of maximising value for money and of improving frontline patient care.

This *Briefing* looks at one strand within SCEP – Collaborative Procurement Hubs – and the benefits they will provide for the NHS, its suppliers and stakeholders.

Collaborative Procurement Hubs

The establishment of Collaborative Procurement Hubs (CPHs) is a key strand of SCEP and represents a major step change in the approach to NHS purchasing.

It is envisaged that CPHs will have an operational role for several types of expenditure:

- spend covered by national contracts, including those handled by logistics, for which the role of the CPH in promoting take-up and compliance must be considered

Supply Chain Excellence Programme (SCEP)

Launched in March 2004, the programme comprises four project strands:

- National Contracts Sourcing
- Collaborative Procurement Hubs (CPHs)
- a review of the NHS Logistics Authority
- NHS PASA (Purchasing and Supply Agency) redesign

and will continue over the next three years.

NHS Supply Chain Excellence Programme

National Contracts Sourcing

- Achieve net savings of £24 million in FY 2004/05
- Improve sourcing of central products



£240m NHS gross savings p.a.

Collaborative Hubs

- Drive strategic sourcing process
- Leverage national contracts



£270m NHS gross savings p.a.

NHS Logistics

- Look for greater efficiencies
- Consider outsourcing



£5-10m NHS gross savings p.a.

PASA redesign

- Streamline for efficiency
- More focused activity

These savings will be achieved by:

- optimising innovation and looking at best practice in the NHS supply chain and procurement activities
- delivering efficiencies and effectiveness in line with the objectives of the Office of Government Commerce to improve the way we do business
- releasing savings across the supply chain
- introducing new ways of working that meet the needs of the modern NHS and reduce clinical risk
- developing centres of procurement excellence that provide collective support and improved standards for poorly performing trusts.

- spend for which the procurement role of the CPH would be the best solution
- opportunities for cross-government collaborative purchasing.

Establishing the concept of collaborative procurement hubs

In April 2002, NHS PASA published *Modernising supply in the NHS*. This highlighted the fact that NHS purchasing performance overall was inconsistent and was failing to secure best value for its non-pay expenditure, leaving trusts open to financial penalties for failure to follow proper procurement processes. '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,' said the report.

The report stressed the need for a collaborative approach to supply activity at local level and proposed the establishment of supply management confederations. Membership would comprise all acute trusts in the defined geographical strategic health authority (SHA) area, all primary care trusts (PCTs) within that boundary, and mental health, ambulance and care trusts. There are now 26 supply management confederations across England.

CPHs will formalise these relationships, accelerate benefit realisation and deliver maximum purchasing savings through economies of scale and increased leverage. The hubs will be owned by the participating trusts and PCTs within a SHA and they will be

'Shropshire and Staffordshire health economy is delighted to have been selected as one of three pilot sites for the exciting and innovative CPH programme. We will strive to play a dynamic part in shaping and refining the hub model for the benefit of future hubs as well as contributing to the SCEP national priorities. Regionally, we will stretch our capabilities to realise early savings benefits for our partner trusts, further develop clinical governance in procurement and sharpen the focus of the new organisation on the value chain that leads from service excellence through to improved patient outcomes.'

Joe Gibson, Director, CPH Pathfinder Project, Shropshire and Staffordshire Strategic Health Authority

governed by a board representing all participating trusts.

The success of CPHs will depend on the active involvement of all member trusts and close working with clinicians and clinical networks. To maximise the projected benefits they will need to build a collaborative culture in local health economies where capacity and capabilities may vary widely. They will have an important innovative role in their local economies by focusing on regional and local procurement and have the potential to build effective relationships with suppliers.

Designing the CPH

In early 2004 the CD set up a project team dedicated to delivering the CPH concept. The first priority was to establish design and reference groups, in conjunction with NHS PASA, to develop the CPH model. With the intention that CPHs will supersede confederations, all 26 supply management confederations were invited to participate in the design process and were subsequently given the opportunity to apply for pathfinder status prior to a national rollout of CPHs, to prove and define the hub model.

The design team has developed a robust, flexible and sustainable CPH model using best practice from the commercial sector. CPHs will be medium-sized, independent organisations that are to be sponsored by participating trusts on a geographical basis. They will fill the gap between national and local activity.

The pathfinder approach to implementation has been chosen to ensure that trusts will commit to working together and that the model works. On 3 August 2004 the DH announced three pathfinders, representing different ends of the confederation maturity spectrum, had been selected. They are:

- the Healthcare Purchasing Consortium in the West Midlands
- the Greater Manchester Supply Collaborative
- the Shropshire and Staffordshire Procurement Project.

The three pathfinders are now testing the CPH design. They will refine the model as benefits are delivered and this experience will be the basis of the national rollout next year.

Key characteristics of a CPH

A CPH:

- is owned by participating trusts and primary care trusts within a strategic health authority and is governed by a board representing all participating trusts
- holds strategic responsibility for all pay and non-pay spend involving a commercial transaction
- works to performance targets, including the achievement of tangible savings for its members
- is focused on regional and local procurement and the uptake of national contracts
- has a high degree of clinical and trust user interaction
- is proactive and innovative in driving significant and sustainable cost improvements and a range of benefits
- is a vehicle for cross-government regional procurement.

They will need to demonstrate strong governance for their member NHS trusts to enable them to operate effectively. They will also need to engage with clinical networks to draw clinicians into collaborative purchasing.

Suppliers to the NHS will benefit from a clearer system for selling into the NHS, with more co-ordination, less duplication and fewer fragmented orders.

The success of a CPH in delivering change and significant cost benefits will depend on high-level support, strong governance, clinical involvement, comprehensive strategic management of spending and commitment to contracts.

Once the pathfinders have comprehensively tested and refined the CPH model, funding will be provided by the DH, with support from external consultants, to mobilise and implement them. The first priority for CPHs will be to undertake the first wave of collaborative contracts and implement the new national contracts to deliver early savings. It is anticipated that this stage will take until Spring 2005.

'Innovation by CPHs will be encouraged. They should work in a way that will be beneficial to both the purchasers of healthcare and the local business community.'

The CPH model will then be rolled out in several stages.

Benefits for stakeholders

Collaborative purchasing can offer many benefits at both local level and for the NHS as a whole. CPHs will also support the citizenship role of the NHS by improving the local economy, providing a strategic approach to sustainability and facilitating cross-government partnerships.

How collaborative purchasing operates

Effective management of purchasing and supply is essential to the efficiency of clinical and support services. The existing

What will CPHs deliver for the NHS and its suppliers?

Nationally, SCEP will deliver annual savings of £500 million by 2007/08; the CPH share of this is £270 million, or around £10–12 million per year for the average SHA. CPHs will provide a robust and sustainable collaborative environment, improved benefit from NHS spend and economies of scale.

Innovation by CPHs will be encouraged. They should work in a way that will be beneficial to both the purchasers of healthcare and the local business community.

What can collaborative purchasing achieve for the NHS?

- £270 million annual savings across the NHS by 2007
- better quality and value for patients and frontline services
- improved support for clinicians and clinical networks by increasing their involvement in purchasing
- reduced clinical risk and enhanced patient safety strategies
- stronger partnerships with suppliers through commitment to contracts and a focused route into the health economy
- encouragement for innovation and provision of support for R&D in emerging treatments and technologies
- building a robust, sustainable environment for procurement specialists through improved career structure and enhanced recruitment and retention.

'It's not just about saving money. Turning the NHS into an innovative purchaser and deliverer of first-class services is just as important. We do not envisage a reduction in buying power.'

Ken Anderson, Head of the Department of Health's Commercial Directorate

confederations and consortia take responsibility for purchasing areas such as pharmaceutical products, medical supplies and service and maintenance contracts.

They aim to improve:

- demand – reviewing processes, rationalisation, standardisation and supply routes
- selection – choosing the appropriate products
- procurement – ensuring products are ordered and paid for in the most efficient way possible
- price – achieving the best possible prices for goods and services
- stock – ensuring a reliable supply while minimising stock levels
- usage – using the right amount of goods and ensuring there is no waste.

They aim to standardise consumables and equipment used throughout the collaborative hub, plan the purchase of large items of equipment, recognise the environmental impact of purchasing decisions and develop a procedure for testing goods and services.

Next steps

Over the coming weeks, the CD will be working closely with each of the pathfinders as they carry out their opportunity assessments. These will deliver detailed business cases – identifying savings and investment costs, and setting out full implementation plans. After this, each business case and implementation plan will need to be approved by the trusts and PCTs within each pathfinder site.

NHS PASA will continue to work with the confederations to further support their development. In addition, the CD will hold a number of regional briefings to keep the confederations informed of progress.

Management and contacts

NHS PASA will continue to manage and support the supply management confederation programme.

Zoë Greenwell is managing the project on behalf of the CD. Joint working between NHS PASA and the CD will ensure an integrated approach to the rollout of the CPH programme.

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Timescales

Pathfinders appointed	July 2004
Regional briefings	September 2004
Opportunity assessments/ business case phase	September – November 2004
Funding approval for implementation	December 2004
Implementation and mobilisation	December 2004 – January 2005
Findings	April 2005
Rollout	Spring 2005 onwards

'A high-quality implementation programme is needed to reassure staff about the impact of the change.'

NHS Confederation viewpoint

The Collaborative Procurement Hub initiative is an ambitious project with the potential to make widespread

savings across the NHS. The use of a strategic approach to procurement will mean that the NHS can maximise opportunities to improve efficiency nationally and additionally drive forward the citizenship role of the NHS by improving the local economy.

This forward-thinking scheme offers a real opportunity for change but NHS organisations have always been nervous about ceding responsibility to third parties, even those that they

themselves contribute to. There will need to be a high-quality implementation programme and careful change management to ensure that boards and front-line staff are reassured about the impact of the change.

For more information on the NHS Confederation's work in this area, contact:

nigel.edwards@nhsconfed.org

Further Information

For further information on the Supply Chain Excellence Programme, purchasing and a suppliers' forum, see:

www.pasa.doh.gov.uk/scep

Modernising supply in the NHS. NHS Purchasing and Supply Agency, April 2002:

www.pasa.doh.gov.uk/modernisingsupply

A PDF version of this *Briefing* is available at:

www.nhsconfed.org/docs/briefing106.pdf

A conference, *Implementing Sustainable Procurement 2004*, organised by Defra and OGCBuying.solutions, is being held at the QEII Conference Centre, Westminster on 6 October 2004. Speakers include Duncan Eaton, Chief Executive, NHS PASA; Anna Coote, Director of Health Policy, King's Fund; Dr Clare Poulter, Deputy Chief Executive, OGCBuying.solutions. For more information, see:

www.govnet.co.uk/procurement

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