

West Gloucestershire PCT

**GLOUCESTERSHIRE SHARED PROCUREMENT
SERVICE**

PROCUREMENT STRATEGY

May 2005

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1 Executive Summary

1.1 Following the reorganisation of the county health community on the 1st April 2002 and the establishment of a shared procurement service organisation, from the same date, this procurement strategy has been produced to complement West Gloucestershire PCT's corporate vision and strategic aims.

1.2 This document thus replaces the individual procurement strategy documents approved by the former health organisations. Under Recommendation 2 of the Cabinet Office Review of NHS Procurement, dated November 1998, all Trusts are expected to have an approved procurement strategy in place.

1.3 The purpose of this document is to clearly set down a management framework designed to positively influence procurement activity effecting the total non pay spend of the Trust. It also seeks to support the departments and wards in delivering high quality healthcare to patients and the community, through a philosophy of continuously improving practice. It has been developed to address the total supply chain and:

- provides a strategic vision and initiatives for the next 5 years;
- is flexible to meet the changing needs of the local health community and wider NHS;
- satisfies legislative compliance and public sector policy;
- does not differentiate between goods, works or services;
- will deliver savings recurrently as a contribution to annual business planning.

1.4 The key components of this strategy are:

- Long term objectives – what is to be achieved?
- Roles and responsibilities;
- Extending procurement influence over the range of goods and services;
- Commitment and involvement of clinical and senior managerial staff;
- Relationships with key suppliers;
- Greater collaboration and moving towards Purchasing Confederations;
- Strategies for IT;
- Supply chain management;
- Staff competencies and development;
- Product and supplier rationalisation;
- Environmental sustainability
- Communicating the strategy.

1.5 The full benefits from this strategy will come from the commitment and priority given by the West Gloucestershire PCT Board and through positive support and contribution from staff at all levels.

2 Introduction

2.1 The reorganisation of the Gloucestershire health economy on the 1st April 2002 and the formation of a shared procurement service, available to West Gloucestershire PCT, provides opportunities to deliver significant improvements in procurement practice.

2.2 This strategy has been developed to compliment the wider vision that these opportunities present and to produce a service that is directed to patient care, which is of good quality, effective, timely and provided in an efficient way. It presents the aims and objectives of the West Gloucestershire PCT in taking forward procurement over the next 5 years. It offers cost control, systems integrity and collaboration to achieve improved value and to support the local service plans and the wider implications of the NHS Plan.

2.3 Procurement efficiency is increasingly seen by the Government as an important contributor to financial control and it is understood that performance targets will shortly be introduced as part of the assessment process under which Trusts will be assessed for “star” ratings.

2.4 The proper management of the supply chain is essential to the efficiency and effectiveness of clinical and support services. Quality patient care and other corporate objectives cannot be delivered without the assured availability of high quality equipment, material and services. At the same time public service accountability expects that the expenditure of taxpayer’s money is based on sound economic and ethical decisions which extract the maximum health outputs from every pound spent.

2.5 This strategy document represents the PCT’s commitment to systematically address the issues involved in managing the supply chain and recognises the contribution of all NHS staff in accomplishing this. Importantly, the document addresses the recommendations of the Audit Commission’s Report “*Goods for your Health*” and HSC 1999 /143 “*Review of NHS Procurement*”.

2.6 The strategy encapsulates all the activities expressed in the four level supply intervention model included at Annex 1.

3 Background

- 3.1 In recent years, the management of procurement activity in the county has been mixed with some Trusts contracted with the (now defunct) NHS Supplies Authority and others directly employing a purchasing team. From 1999 and prior to the reorganisation, three procurement teams provided services to the county based on the former Trusts.
- 3.2 These three teams provided good quality local procurement support to their respective organisations but with only limited joint contracting between all three, and little sharing of information. Each Trust had its own IT strategy and different procurement systems were used by each team.
- 3.3 The structural changes in the local health community from April 2002 in support of “*Shifting the Balance of Power*” have included the reconfiguration of procurement to create a shared service providing procurement support and operations to all the new organisations (Trusts and PCT's) in the county. The three teams merged in August 2002 and relocated to the shared services HQ at Victoria Warehouse under a revised management structure.
- 3.4 In line with these local developments, the NHS Plan and the Ministerial Modernisation Agenda for procurement, it is now appropriate to review and present a strategy that supports an inter-trust shared service and one that can work within emerging initiatives, such as Foundation Trust status. The respective Boards and the Health Community Steering Group have approved the design and establishment of the shared service as a means to deliver greater benefits to the NHS and to ensure that the procurement function continues to contribute to the corporate aims and business objectives of the participating Trusts. It should be noted that the Gloucestershire Shared Procurement Service meets all of the criteria set by the NHS Purchasing and Supply Agency (PaSA) for Confederations although most pilots established to date are based on a larger grouping of trusts within Strategic Health Authorities boundaries.

4. Long Term Objectives – what is to be achieved?

Overview:

- 4.1 Successful procurement is the bringing together of a series of inter-related factors on a given date which allows the selected supplier to take the highest business risk on the lowest margin return for the agreed sale, with due regard to specification and quality issues. As such it is an inexact business function and relies for success on many interconnected factors.

- 4.2 The management of the supply chain needs to have the interest of Board directors, managers and staff, if the opportunities to deliver real long term improvements are to be realised. The potential opportunities, in monetary terms, are considerable with total non pay expenditure in the county of around £100 million. The vast majority of this expenditure is associated with the procurement of goods against which the Government's procurement efficiency target for Trusts must be met.
- 4.3 Important factors in concluding successful purchasing arrangements are:
- High quality information, e.g., what is needed, the specification of the product / service, the total acquisition costs of the current arrangements, new innovation that can be introduced, etc;
 - Commitment from the buying organisation, rationalised wherever possible to aggregate demand;
 - Commitment from the end user to the total procurement process and honouring the quantities contracted for;
 - Sound, competent and legal procurement practices, e.g. supplier lists, tender documentation, evaluation techniques, relationships with suppliers, fair and ethical processes, good communication, keeping to published timetables, etc;
 - Deploying sound contract management techniques;
 - Maintaining professional relationships with suppliers, e.g. contract review, prompt payment policy, communications.
- 4.4 The shared service will continually strive to meet these standards and to have them at the heart of its culture and practice. Success in these areas demonstrates to suppliers that the organisation is a serious customer and good to do business with. This is more likely to attract innovative suppliers and result in lower overall acquisition and supply chain costs.
- 4.5 Of equal importance will be the level of support and commitment forthcoming from the rest of the health community. The health service is complex with many distinct and different functions, each contributing to the treatment of patients. Budgets are devolved with the cost of many products shared across the organisation and with a wide range of potential users. A lack of ownership or willingness to get involved on behalf of key users / managers can therefore present problems in taking forward procurement initiatives.

4.6 In summary, the 5 year development plan for the shared procurement service will include the following key targets:

- Continual review of the supplier list with year on year reductions in the number of suppliers used;
- Less variety in the product database;
- Reductions in “spot buying” processes and year on year increases in the number of firm contracts;
- Decreases in the number of low value orders placed consistent with the restraints imposed by the IT systems;
- More collaborative contracts linking a number of organisations,(where better value can be demonstrated);
- An annual workplan and contract database;
- Regular and timely management information / reports including KPI monitoring;
- The development of a network of user / product groups;
- Further investment in systems and the roll out of electronic requisitioning / receipting in the west of the county, in line with e- procurement advances;
- Recurring procurement savings;
- Extended procurement influence over the full range of goods and services;
- An annual plan for developing the competencies of staff.
- Continuing progress towards environmental sustainability with regard to products and services.

4.7 Strategy Development:

The sections below set out the main strategic aims.

- Integration and Production of Information:

4.7.1 The provision of reliable purchasing information is vital in improving performance. The analysis of spending patterns, suppliers used, products ordered, prices obtained etc. can help inform future workplan decisions. It also opens up opportunities for reducing the number of suppliers and products used and can help aggregate demand for future contracting purposes.

4.7.2 Efforts will therefore be concentrated on pulling together information from past / present purchasing activity to help inform future procurement activity.

- Roles and Responsibilities:

4.7.3 In line with HSC 1999 / 143 and the requirement to appoint a Board Lead for procurement, the Director of Finance has been appointed as the Executive responsible for procurement strategy and performance.

4.7.4 The Head of Procurement Shared Service supports the delivery of the strategy in the following ways by ensuring that:

- Properly negotiated contracts are in place in accordance with the workplan, against which orders for goods and services will be issued;
- All procurement activities are conducted ethically, legally and at all times in accordance with public accountability and probity;
- The shared service participates in and contributes to the development of collaborative work within the health community and through wider groupings of Trusts, where this will result in improved procurement practice;
- Systems are in place to ensure that all procurement decisions arising, benefit from sound commercial advice;
- Effective relationships with NHS PaSA, NHS Logistics and major suppliers are maintained;
- Arrangements are in place for effective leadership of significant procurement projects;
- All commercial tenders, offers and quotations are dealt with in accordance with West Gloucestershire PCT's SFI's.

The Head of Service will have access to the monthly county Director of Finance meetings to discuss procurement matters.

4.7.5 The senior Procurement Managers will be responsible for:

- Delivering a central procurement service for both stock and non stock products and capital procurement;
- Providing specialist advice and undertaking the management of special procurement projects;

- Managing the operational staff and maintaining appraisal systems to ensure that all procurement staff, under their control, have personal development plans.

4.7.6 Budget managers in the participating Trusts are responsible for complying with Standing Orders and Financial Instructions in all matters relating to the acquisition of goods and services and for ensuring the same for all staff under their control. Staff within wards and departments will have a special role to play as members of procurement project teams, or product consultative groups.

Role of Shared Services Users Forum (SSUF)

4.7.7 Most routine procurement is delegated to either the Procurement / Purchasing Manager or to nominated managers who are authorised to purchase specialist goods / services within a controlled framework. All contracts are awarded under the scheme of delegation as set out in the Trust's SFI's. Overall procurement performance will be monitored by the SSUF on a quarterly basis and against the agreed Service Level Agreement. West Gloucestershire PCT may establish other review processes to monitor major procurement projects at the initiation stage and periodically throughout the process to ensure consistency with the original aims / objectives and the procurement workplan.

Legally Binding Contracts

4.7.8 All (non construction) contracts that are legally binding on the PCT, even in situations where the service is provided free of charge, should be reviewed by the procurement department before being signed by the appropriate delegated officer.

- Commitment:

4.7.9 The procurement department cannot, on its own, deliver successful supply chain interventions, especially in complex situations. For maximum benefits to be achieved, commitment to the process is required from directors, senior managers, the specialist resource departments and representatives from user departments. Depending on the complexity of the project, the input, typically, will be as follows:

- Specific advice on specifications / product knowledge;
- Information on usage;
- Obtaining commitment and ownership to the new contract;
- Providing technical assistance with evaluations / supplier presentations;

- Sitting on user groups for product selection and rationalisation;
- Assisting with the management of the contract.

4.7.10 Obtaining this support and commitment is therefore a priority and should be seen as underpinning this strategy.

- Extending Procurement Influence:

4.7.11 The procurement function has steadily widened its sphere of influence in recent years with pathology and estate purchasing now largely included within procurement and there is an increasing involvement in pharmacy spend. The new shared service will seek to continue this trend incrementally through discussion and agreement within the health community. The targets for the shared service over the period of this strategy will be:

- An involvement in all non pay expenditure (capital and revenue) on goods including pharmaceuticals, estates, energy, IT and other areas traditionally not influenced by procurement;
- An involvement in all expenditure on services including for example outsourced contracts, works schemes, haemodialysis, energy management, agency staff, orthotic services and consultancy, PPP schemes;
- The provision of procurement management information to appropriate levels to aid service planning and help inform better procurement decisions, within the constraints of the systems used;
- Support for improved contract management regimes;
- The further integration of purchasing and financial systems to roll out electronic requisitioning and invoice matching.

4.7.12 Monitoring the achievements against these targets is seen as an important part of the role of the SSUF and any locally established Procurement Review Group.

- Greater Collaboration and moving towards Purchasing Confederations:

4.7.13 There have been a number of collaborative procurement projects undertaken in the county in the past and Gloucestershire has worked with Trusts in Avon and also with Hereford on bespoke projects. The introduction of this shared service provides the incentive and opportunity to link up the purchasing power of the entire county to deliver a “once for all” service with all the inherent benefits that policy should bring. It will only be delivered, however, with the full backing of the participating Trusts / PCTs who will be prepared to share the risks and benefits of collaborative procurement.

4.7.14 A further level of collaborative development is emerging with the creation of pilot Purchasing and Supply Confederations, as a result of an initiative from PaSA. Gloucestershire will need to determine how to engage with these changes and what is the best level of supply intervention for each case. Aggregated demand purchasing can achieve positive results but the extra consultation involved can lengthen and complicate processes. Suppliers must also subscribe to these initiatives and derive benefit from them or offers received may not be any more advantageous than could have been delivered locally.

- Strategies for IT

4.7.15 The service is dependant on IT and is a major user of PC based operations.

4.7.16 The shared service inherits three different IT strategies for procurement systems. Major work to establish the shared finance service has already resulted in a convergence of the Smartstream system used in the west of the county from two systems to one, but from the inception of the service in Victoria Warehouse, the team has been using EROS for orders from the east and Smartstream for the west.

4.7.17 EROS is backed up by a comprehensive IT network with all users having access to electronic requisitioning. Most users in the west now have network connections, but the roll out of the Smartstream system is only partially complete with many users reliant on paper requisitions. There are also two different approaches for invoice certification (manual coding in the east and electronic matching in the west) and this is an added complication for both Procurement and Creditor Payments staff.

The different systems have a direct bearing on procurement activity, as follows:

- an inability to consolidate requisitions onto one order,
- difficulties in consolidating purchasing information,
- lack of flexibility in deploying staff and the effective creation of two purchasing sections within the department.

Clearly the operation cannot be as efficient using two systems as with only one, but with the level of investment in both systems, it has not been possible, at this stage, to move solely to one system.

4.7.18 A comprehensive review of these arrangements has taken place, and it has been agreed that the county will move to a single system based on Smartstream during 2005/06.

- Supply Chain Management

4.7.19 The county already takes advantage of the service provided by NHS Logistics and opportunities to enhance and develop this service will be explored. The Department of Health's intent is that NHS Logistics will become the logistics partner for West Gloucestershire PCT with increasing volumes of consumable items passing through this supply route. There are several advantages - reduced transaction costs, monthly consolidated electronic billing, the breaking of bulk and delivery of smaller quantities and reduced lorry movements at sites.

4.7.20 To ensure that supply chain costs are properly evaluated and considered, procurement staff will review the different options on a case by case basis. For example, unit prices from NHS Logistics carry a mark up to reflect the cost of their service and it is sometimes possible to source the same items direct from the supplier at a reduced cost. At first examination this would appear to offer better value for money, but the added cost of order processing, receipt, distribution and invoice payment may outweigh the Logistics on cost.

4.7.21 The service will also work with strategic suppliers and users to reduce supply chain costs and to explore innovative ways of reducing process.

- Staff Competencies and Development

4.7.22 Nationally, it is recognised that the procurement function has fewer qualified or part qualified staff than other similar resource departments, e.g. HR / Finance. This probably reflects the rather outdated view of procurement as a reactive, back office processing department. Many cutting edge organisations are now seeing that strategic procurement is a professional discipline demanding specific skills, knowledge and experience and that investment in staff development pays dividends.

4.7.23 The delivery of this procurement strategy will, therefore, depend increasingly on the skills of the procurement staff working in partnership with other staff and it will require a continual investment in training and development. Consequently, each member of staff will

have a personal training and development plan and all opportunities will be used to deliver year on year improvements to overall competency levels. Progress towards this will be reported to the Shared Services User Forum.

- **Product and Supplier Rationalisation**

4.7.25 There is a history in the county of user consultative and commodity specific working groups. These have delivered savings, well supported decisions on variety selection and reduced the overall number of suppliers. A new framework of groups with appropriate membership has been establishing as part of Financial Recovery Plans.

4.7.26 Participating trusts will need to consider whether they want to send representatives to the relevant group or, in certain circumstances, host their own groups. The approach adopted should, however, be consistent, wherever possible, with the principles of a shared service and the aim of doing things once.

4.7.27 In addition to this activity, the shared service will seek out opportunities for reducing the numbers of suppliers used, by consolidation and contract placement. This policy will need to be consistent with the requirement to maintain healthy competition in each market place.

- **Environmental Sustainability**

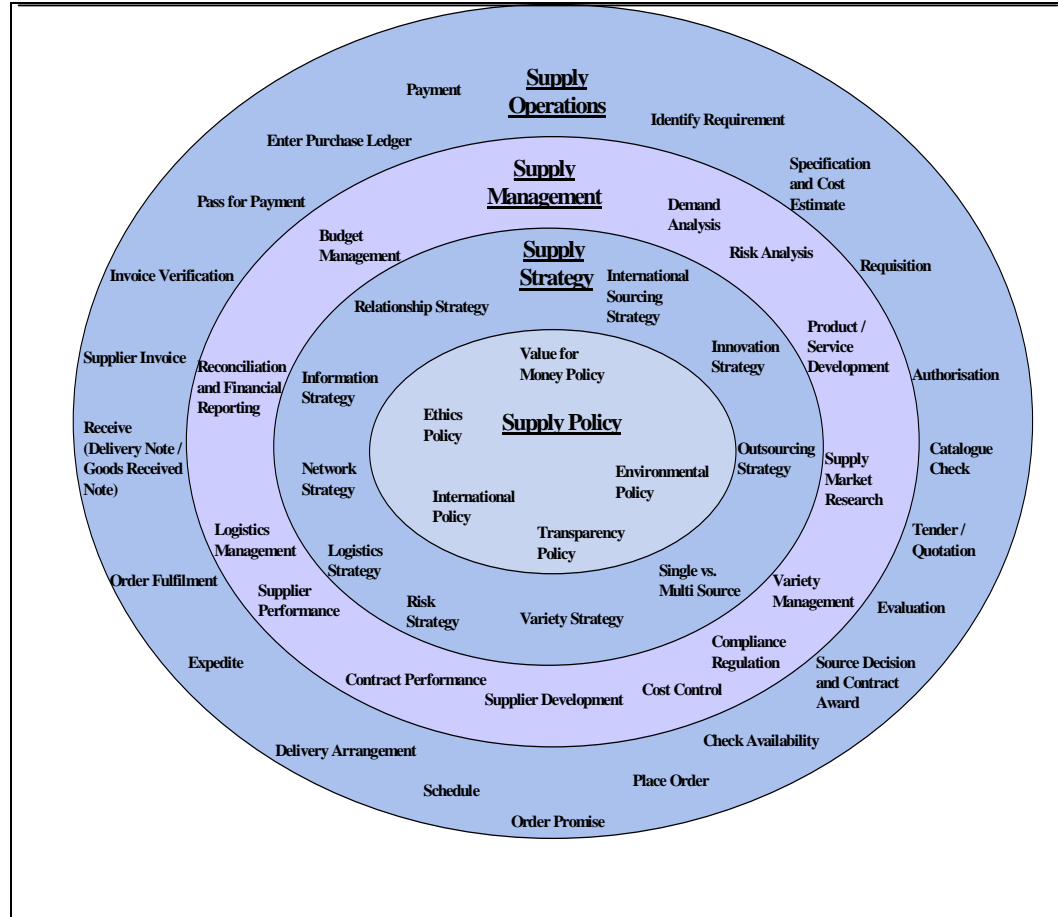
4.7.28 The shared service will seek to ensure that goods purchased are manufactured, delivered, used and managed at end-of-life in an environmentally responsible manner. The departments purchasing activity will contribute to the Government's environmental objectives and to the attainment of minimum standards of environmental performance.

- **Communicating the Strategy**

4.7.29 In accordance with HSC 1999 /143, this strategy should be endorsed by the Board. This will be available on the intranet site and also as a hard copy for circulation.

5. Review

5.1 The SSUF will receive regular reports indicating progress against the range of actions within this strategy. The document will be reviewed each year on the anniversary of its adoption.



Generic model showing types of supply intervention – Harland, Knight & Sutton 2001