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# Greening up

The focus on reducing the NHS carbon footprint will sharpen over the coming months as the country continues to move towards net zero. An HFMA roundtable, in association with Lexmark, heard how it will affect NHS finance, and how finance managers can support the sustainability agenda. Seamus Ward reports

Climate change is rarely out of the news, and this autumn was no exception with the United Nations climate change conference, COP26, taking place in Glasgow. Accounting for 4% to 5% of the country's carbon footprint, the NHS in England will play a key role in meeting the UK goal of becoming net zero by 2050.

The health service is keen to step up, not just because of its carbon footprint, but also because a deteriorating climate can lead to poorer population health.

NHS social value guidance for trusts is expected, and from April 2022 NHS organisations will be required to take greater account of social value when buying goods and services. A sustainability framework is being developed, with input from suppliers, so that by 2030 the NHS will stop contracting with those that have not met minimum expectations in achieving carbon neutrality.

The *Delivering a net zero NHS* report published last October commits to reducing the NHS carbon footprint (emissions directly controlled by the NHS) to net zero by 2040, with the aim of achieving an 80% reduction by 2028-2032. The health service plans to reduce the indirect emissions from its supply chain that it can influence (the NHS carbon footprint plus) to net zero by 2045, aiming for an 80% cut by 2036-2039.

## Staff focus

Not only do finance staff need to be aware of the policy changes, as it will have an impact on their work with procurement colleagues, but some finance directors are board-level sustainability leads, playing an active role in delivering their organisation's environmental ambitions. The finance role was examined at a recent HFMA roundtable, *How does the NHS finance function embed sustainability in decision-making*, in association with global imaging firm Lexmark. It gathered together senior NHS finance and procurement staff, as well as environmental experts.

Preeya Bailie, director of procurement, transformation and commercial delivery for NHS England and NHS Improvement, told the

## Participants

- Preeya Bailie, NHS England and NHS Improvement
- James Dixon, Newcastle upon Tyne Hospitals NHS Foundation Trust
- Aaron Gillott, University Hospitals of Derby and Burton NHS Foundation Trust
- Nigel Gloudon, Cheshire and Merseyside ICS
- Neil Hind, NHS England and NHS Improvement/Greater Manchester Health and Social Care Partnership
- Rob Knott, Guy's and St Thomas' NHS Foundation Trust and King's College Hospital NHS Foundation Trust
- Ged Murphy, East Cheshire NHS Trust
- Lee Outhwaite, Chesterfield Royal Hospital NHS Foundation Trust
- David Stacey (chair), Torbay and South Devon NHS Foundation Trust
- Sylvie Thomas, Lexmark
- Alan Wain, NHS Supply Chain
- Louise Wall, healthcare industry consultant

roundtable that while the health service often talks about sustainability, central government refers to social value. The latter has a wider definition, and includes local employment, support for local businesses and Covid recovery, as well as reducing the impact of climate change.

Roundtable chair Dave Stacey, who is deputy chief executive and chief finance officer at Torbay and South Devon NHS Foundation Trust, said the NHS has some way to go in terms of embedding a clear definition of social value, adding a challenge to the wider community to think this through. 'We all know the wider determinants of health – quality of housing, education, air – but we never really talk about social value day to day,' he said.

Ms Bailie said central government had defined five determinants of social value (see box overleaf), which she and her

**HFMA  
ROUND  
TABLE**



team have been promoting to the NHS ahead of the requirement to include social value in all tenders from 1 April 2022.

For the NHS, much of the delivery of social value will be about good procurement practice, she said. NHS England and NHS Improvement have been adding at least a 10% weighting for social value on all its tenders since April 2021. 'We went with 10% because it's significant and starts to move and change markets,' she said.

### Social value weighting

All central government procurements have been required to use the 10% social value weighting since January this year. Ms Bailie's team has held discussions with NHS heads of procurement, not just about how to start building the 10% weighting into bid evaluations, but also how to think about specifications in a more sustainable way.

'We have a long way to go. My only nervousness is that we go to the other extreme and start to put a lot of burden on suppliers,' Ms Bailie said. 'Some NHS tenders coming out are asking for environmental impact assessments and a lot of other things – if we are not consistent in the way we ask for that information, it will start to put up costs for suppliers, which then comes back to the NHS.'

However, from the supplier perspective there were differences between national aspirations and day-to-day reality in the procurement process, according to Louise Wall, a healthcare industry consultant who is working with Lexmark.

'Currently, a tender lands in the inbox, and it has at best 5% weighting on innovation and anything remotely to do with sustainability. As much as there is this fantastic vision at national level, at the moment that isn't cascading down to the day-to-day decision-making. I believe this comes back to the challenge with annual financial targets and not necessarily focusing on value-based procurement and social value.'

'We've got to start looking at things with a longer-term perspective to successfully build in sustainability as a core requirement.'

Neil Hind, NHS England and NHS Improvement sustainable procurement lead in the North West of England, asked if the NHS was ambitious enough aiming for 10% weighting for social value when in local authority tenders it is often 20% or 30%.

Suppliers are keen to support sustainability, he said. 'They are saying we need to challenge them more. We need to put it in

### Social value model

At the end of 2020, the government set out five determinants of social value.

- **Theme 1: Covid-19 recovery** Help local communities to manage and recover from the impact of Covid-19
- **Theme 2: tackling economic inequality** Create new businesses, new jobs and new skills. Increase supply chain resilience and capacity
- **Theme 3: fighting climate change** Effective stewardship of the environment
- **Theme 4: equal opportunity** Reduce the disability employment gap and tackle workforce inequality
- **Theme 5: wellbeing** Improve health and wellbeing

Alan Wain, formerly of NHS Supply Chain, said the themes distil down to 140 KPIs that can be measured across a procurement exercise, though only a selection of the KPIs would be included in any one exercise. The metrics will be different for a global market compared with a local one involving SMEs, he said.

'In social value assessment criteria, it's not a case of one size fits all. We've got to ask which are the most important aspects of social value to each category of spend. It will vary. I advise limiting the number of KPIs you put into any one procurement, so it has the most impact and drives the behaviours of suppliers rather than being a tick-box exercise.'

He also urged the NHS to develop a database of suppliers' environmental credentials, accessible to all NHS bodies, providing the same information to keep the bureaucratic burden and costs down.

the tender spec and make them evidence it.'

Ms Bailie said there was a balance to be struck, and the NHS must understand which markets are ready to push forward with the sustainability agenda. Medicines suppliers are already taking significant steps, she said, but others are not yet ready.



**"We went with the 10% social value weighting because it's significant and starts to move and change markets"**

Preeya Bailie

Adjusting the procurement process by introducing pre-selection of potential suppliers can boost the achievement of social value, suggested Sylvie Thomas, Lexmark's head of sustainability policies, corporate and social responsibility, and circular economy. 'Pre-selection can help you move beyond 10%, which can be your minimum level,' she added.

Rob Knott, chief commercial officer, digital, at Guy's and St Thomas' NHS Foundation Trust and King's College Hospital NHS Foundation Trust, took up the theme, sharing his experience of pre-tender engagement while working on the London Olympics. 'We hardwired social value criteria that included a range of sustainability and environmental targets, and also the creation of jobs and employment of local people,' he said.

A number of large facilities management and construction companies were keen to bid for these long-term contracts and, as a result of the social value criteria, two decided to create unique social enterprise subsidiaries to win the tenders. 'It requires break-through thinking,' he said. 'If we run our tenders in the same old way, we shouldn't be too shocked when we get the same old answers.'

'Through a pre-procurement market engagement process, we can share with the market the outcomes we want to achieve, and we can understand what the market is capable of delivering. And then we must back up our commitment with funding.'

### Balancing priorities

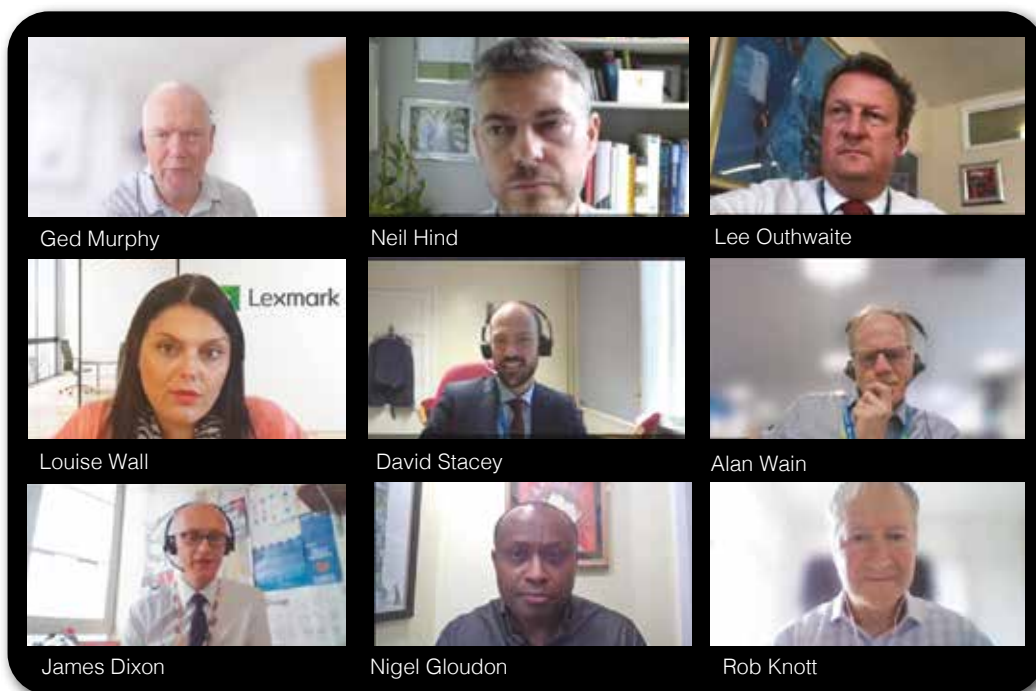
Finance directors questioned how the service can square the circle of cost reduction, quality improvements and being sustainable. Some said sustainability can feel optional, especially when the regulatory focus will be on elective waiting list recovery and cost improvement programmes (CIPs).

To address this, regulation had to be aligned with the environmental aspirations. Nigel Gloudon, deputy director of finance at Cheshire and Merseyside Integrated Care System, said it felt like people had been left to their own devices in trying to balance sustainability with regulatory requirements.

'Where the challenge of meeting a regulatory requirement and hitting the financial performance measures is butting up against something that is not quite defined in regulatory terms at this stage, will accountability be qualified in so far as you have sacrificed some of your financial delivery for something that is very valued?' he asked.

'The agendas don't blend together. Part of that is due to the regulatory interface. I'm not using that as an excuse,' continued Mr Gloudon. 'It's a real issue that organisations





will face, so we probably need to look at the regulatory landscape again and reconsider how social value finds its way into there.'

Mr Hind suggested a change of emphasis in performance management. 'I think there's a massive role for finance, and finance can help the procurement teams in trusts. Do we need to move away from giving procurement teams a savings target every year? Maybe we could give them a reduction in carbon footprint target instead.'

Others thought procurement and finance should be focused on whole-life cost models, not price. 'It's absolutely essential that the financial criteria align to the outcomes you want to achieve over the lifetime of the contract, and the contracts are of a duration to achieve those outcomes,' said Mr Knott.

Ms Bailie reassured the roundtable that 'conversations with regulators are happening now about how we build sustainability into accreditation.'

Newcastle upon Tyne Hospitals NHS Foundation Trust associate director of sustainability James Dixon said measuring social value and sustainability was complex, and each procurement was different. Some tenders are carried out centrally, which the trust can't influence, but in locally procured contracts there is a greater opportunity to embed sustainability into the contract specification and evaluation criteria.

In a local procurement, the trust can focus on the detail of the specification, he said. 'How can we be clever and say we need, for example, circular economy principles, digital transformation, lower-carbon transport

and logistics? If we get that in as requirements, all the bidders know what's needed, and you already have a lot of good sustainability content in there.'

The evaluation of bids is more difficult, he continued. 'Historically, it's been: "Do you have a certificated environmental management system? Do you have an environmental policy?" That isn't going to truly evaluate the sustainability offering from the supplier. It's not easy to do blanket statements for 5% or 10%, so we approach it on a case-by-case basis, putting more effort into contracts we know will have a big sustainability impact.'

### Electric bus service

One example he gave sparked much debate. The Newcastle trust tendered for two bus services, for patients and staff.

'We couldn't possibly get electric buses in that procurement if we'd gone for traditional procurement methods,' Mr Dixon said. 'So we went out and said this was our aim, and that we wanted their lowest price for the cleanest Euro 6 diesel, a hybrid and electric. The contract for the clean diesel was five years, the hybrid seven, and the electric buses 10.'

Doing the right thing doesn't necessarily mean higher cost, and the new bus service contract cost less than the previous contract.

Ms Bailie added that in national procurement of fleets, bus or delivery services, tenders have included social value weighting higher than 10%. 'Social value is not just about the metrics of emissions that we are now



weighting and monitoring with those suppliers, but it's also around what they are doing locally, such as local employment, supporting that wider definition of social value, and how they are being efficient in their journey times.'

This is how the NHS will begin to shape the market, she added.

Alan Wain, former NHS Supply Chain chief operating officer, proposed that procurement teams should help finance colleagues by introducing a quantitative rather than qualitative assessment of the social value weighting. 'You can put a pound note sign against most of these items of social value or sustainability. You can even put a pound sign against the cost of carbon, because if you want to offset, there is a price for that.'

Financial values for sustainability measures make it easier to argue in favour of the environmental case, he insisted. 'You can say it's worth paying a bit more because this is the offset we get in sustainability value. But it comes down to CIP plans, and a recognition of that value or that saving you've made on the carbon footprint in the submissions going back to the centre. Unless the centre recognises it, and will offset a CIP plan pound note saving against a carbon saving, then you are going to be struggling against competing forces.'

Participants agreed there was room for improvement in NHS contract management, ensuring suppliers delivered on their sustainability promises. Some pointed out that free Cabinet Office training on contract management is currently available to the NHS.

‘There is a risk this will be a “tick and forget” type exercise,’ Mr Hind continued. ‘It will be looked at during evaluation, and then never managed by the service user because the service user will be interested in whether they are getting what they need and not so much in whether they are getting the additional social value that was promised.’

He asked: ‘Is there an appetite for finance colleagues to invest in more contract and supplier management, and challenge if they don’t think it has been done?’

Enabling digitisation could help NHS bodies monitor progress, according to Lexmark’s

Sylvie Thomas. ‘This is vital to getting transparency on the materials your supplier is using – is it not only recyclable, but also from sustainable sources? Indeed, Mr Knott proposed the use of digital platforms to increase understanding and improve

monitoring, because a lot of the information on social value is now available in real time. The assembled experts agreed this was a ‘real opportunity’ for the NHS.

Mr Knott also challenged the idea that social value and environmental sustainability always cost more. ‘There are great case studies exposing where it can cost less because you are transforming a market or changing the specification fundamentally. And, measured on a whole-life cycle basis, you save money.’

Ged Murphy, East Cheshire NHS Trust executive director of finance, planning and estates and

the corporate lead for the green agenda, has around 20 years’ experience of implementing green measures across the NHS in the North West of England. He believes COP26 offers an opportunity to move the sustainability agenda ahead in the NHS.

He said the digital agenda is seen as an enabler to the focus on sustainability. The allocation of funding is due to change soon, moving to integrated care systems (ICSs), which will have a more local focus.

‘We had the macro picture of funding and the pepper pot with the global digital exemplars, but I think there’s a great chance at ICS level to build in bitesize chunks within a framework to get things moving.

‘There’s lots of random patterns out there, so the best are really good, while there are other trusts, like my own, still heavily reliant on paper records in a digital age. There are huge disparities, so with this new way of allocating resources there is the potential to get this moving and to get some cohesion.’

### ICS opportunity

Lee Outhwaite, finance director and executive director lead for net zero at Chesterfield Royal Hospital NHS Foundation Trust, saw the introduction of ICSs as an opportunity to embed sustainability in NHS services.

‘The debate is about do we reduce the carbon associated with our as-is service delivery, or is the thing that will make the difference how we defragment and provide integrated care that will consume less carbon because it will be less episodic.’

The NHS must get on and implement integrated care as it will keep patients out of carbon-generating environments, such as hospitals, he added.

Ms Bailie said she was developing a sustainability forum with NHS suppliers. This aimed to support the implementation of the government pledge that, from 2030, the NHS will only contract with suppliers that meet its sustainability ambitions..

The NHS England team has been working to better understand the market, recognising suppliers that have sustainability targets in place, and those that are leaders in the

## “Digitisation is vital to getting transparency on the materials your supplier is using”



Sylvie Thomas

field. This will begin to give the NHS visibility of these suppliers, but with tens of thousands of suppliers it will take time.

Before the end of the year, social value guidance will be published, setting out the areas that could be measured. However, Ms Bailie stressed that NHS organisations should be discussing what they want in terms of social value. ‘A lot of the priorities are local and not just about sustainability. It’s about starting to quantify those, and put a value against them, to help business cases and the decisions we take in the NHS,’ she said.


Lexmark’s Sylvie Thomas called for ‘global system thinking’ on sustainability, with the NHS addressing not only recycling but other outcomes for the goods it uses. This could support the wider social value agenda. Trusts should consider durability, servicing, and managing demand.

Leasing products, combined with maintenance and other services, helps a shift towards more local added value, such as employment, she added. Circularity – manufacturing products to allow easier repair or remanufacturing – can boost local or regional employment. ‘This can create positive loops. As you streamline this process, as you keep the product for longer, you also reduce costs. Recycling is good, but it is not enough.’

The NHS should support local SMEs, which stepped forward to help during the pandemic, Neil Hind said.

‘We have examples of firms in Greater Manchester that stood up, invested, but then couldn’t compete in the market, which is a massive shame.

‘How do we take account of the cost of resilience and the social value these SMEs are bringing? Lots of work has been done in the North East about the local multiplier, known as “sticky money” – where a pound spent in a region gets spent time and time again. Are we missing an opportunity to keep more of our spending in the country?’

Finance managers have a clear central role to play in meeting aspirations on environmental sustainability and social value, and in driving the right conversations all the way to board level. There is much to be done and barriers to be overcome, but also much to gain. 



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