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# Looking into the future

**The Department of Health's response to Lord Carter's challenge to improve procurement is the Future Operating Model, but it is already up and running for some products. Steve Brown reports**

When Lord Carter set his £5bn productivity challenge for the NHS, procurement of basic goods, such as stationery and everyday medical consumables and high-cost medical devices, was very much in his sights. He suggested that £700m of the £5bn overall target by 2020/21 could come from better procurement and went further by targeting a reduction of 'at least 10% in non-pay costs' by April 2018.

The Future Operating Model (FOM) is how much of this will be delivered. In essence, it is a re-procurement of the current NHS Supply Chain – although it will also involve significant transformation of the existing model. It is part of a wider Procurement Transformation Programme (PTP), the launch of which predates the publication of the Carter report. However there is clear alignment between the objectives of the PTP and Lord Carter's challenge.

The variation in prices paid by NHS providers for often basic goods and consumables has been a long-running story. Back in 2011, the National Audit Office estimated £500m a year could be saved if trusts got together to buy consumables in a more collaborative way. It identified an average 10% variation between the highest and lowest prices paid – with much bigger differences for some items. Trusts were also buying too many different types of the same product.

NHS Supply Chain was originally set up in 2006 to provide an outsourced end-to-end supply chain for the NHS. As part of a contract extension, adding two years to the original end date of September 2016, it has been tasked with delivering £300m of cash-releasing savings by September 2018 and, as of September this year, reported that it had already achieved £250m. However, a fundamental problem has been the low proportion of NHS spend that goes through this system.

Of the £5.7bn spent on goods across NHS England, only 40% (£2.2bn) is going through NHS Supply Chain. The rest is being procured by procurement hubs (40%) and some 200-plus trust procurement teams (20%). By taking a fragmented approach to procurement, the NHS as a whole is not believed to be getting the full benefits of its considerable buying power.

The clearly stated aim of the FOM is to increase the market share going through NHS Supply Chain to 80%, eliminating the significant variation in prices paid by different NHS providers for the same goods and releasing £615m in funds annually from 2021/22.

The new design of the NHS Supply Chain service sees different types of goods divided into 11 category towers, sitting under an NHS-hosted management function known as the Intelligent Client Coordinator. Consolidating more purchasing through NHS Supply Chain will create further efficiencies through the use of a single national logistics provider and consolidated invoicing.

These will be underpinned by a transactional services provider – providing accounts payable/receivable and query management – and an IT service provider to ensure the supporting technology infrastructure is in place.

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Within the 11 category towers, there are six medical towers. For example, one covers ward-based consumables, while another covers orthopaedics, trauma and spine, and ophthalmology. The two capital towers cover diagnostic equipment – divided into large and standard equipment. The three non-medical towers cover office solutions, food and hotel services.

The towers, which could be run by public hubs or private companies in deals lasting initially three years, will manage all the goods in their category. There is no competition between towers as they are dealing in different types of goods. The benefits for trusts come from having category tower providers that understand the markets, the demand patterns, and the clinical needs of the NHS. Clinical evaluation will take place on an industrial scale within all product categories.

All these factors contribute to the rationalisation of the NHS product catalogue to better meet the needs of the NHS, says Howard Blackith, PTP programme director at the Department of Health. According to Lord Carter's productivity report in 2016, a sample of 22 trusts were using 20,000 different product brands and more than 400,000 manufacturer product codes.

The first tower covering office

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# How Barcoding is Boosting Efficiency and Safety in the NHS

## Genesis Automation explores five ways in which inventory management is delivering big wins for NHS Trusts

In 2014, The Department of Health announced its £12m Scan4Safety initiative to test how barcoding can help acute NHS Trusts track and trace medical supplies, from the point of receipt to the patient. This pioneering programme is designed to improve patient safety, increase clinical productivity and drive operational efficiency. Originally launched in six pilot sites – Royal Cornwall, Salisbury, Plymouth, Leeds and Derby, North Tees and Hartlepool – it was hoped that Scan4Safety could deliver savings of £800 million over seven years. A year after tests began, that estimation was increased to £1 billion.

As a company selected to help three of the six pilot sites, Genesis Automation is at the centre of this transformation. Our market-leading solutions are helping to drive a fundamental change in how Trusts take control of their supply chain in order to improve safety, compliance, cost audits and traceability. We are now working with 23 NHS sites which are now seeing real and measurable benefits.

What are those benefits? Here are just five areas where real advantages are already being realised, with potential to be replicated across the NHS.

### 1. Tackling waste

Saving money by reducing waste is probably the biggest reason the NHS wants to overhaul supply chain management. The Carter Review in 2016 estimated that the NHS wastes £1bn on procurement. A more efficient approach to buying drugs – including cutting back on wasted stock – could save another £1bn, according to the review. At Aintree University Hospital NHS Trust which began working with Genesis in September, the technology enabled a 38% reduction in stock on shelf. Cutting waste like this equates to cost savings of £90,000, says the Trust. Another Genesis customer, Doncaster & Bassetlaw NHS Trust, saved £700,000 on Loan Kits over 12 months. Across the six demonstrator sites, reduction in wastage and obsolescence has already saved nearly £500,000.

### 2. Delivering accurate patient-level costing

If hospitals don't track items being used on individual patients during their stay, how can they calculate a total cost of treating that patient? The demand for this level of cost transparency has pushed patient-level costing high up the agenda. Point of care barcoding technology has the potential to scan all aspects of patient care including surgical equipment, medicines, linen and food from the moment the patient enters the hospital to when they leave, enabling accurate patient and procedure-level costing.

### 3. Cutting variation in care

If Trusts can clearly see inventory flowing through the system, with insight into which patients are receiving which procedures, drugs or implants (for example) it's possible to iron out disparities in care around the NHS. Variation in care is one of the biggest cost inefficiencies in the NHS – also with major implications for patient safety.

### 4. Boosting safety and compliance

Safety and compliance is another area where major gains can be made. As the PIP breast implant scandal of 2012 showed, an inability to trace patients who have received faulty implants can have dangerous consequences. Barcode scanning – of the supplies and the patient – means everything can be tracked and traced if a recall is necessary.

### 5. Automating labour-intensive tasks

And then there are savings that can be gained by freeing clinical staff from manual tasks that can be automated. For example, an estimated 4,000 nursing hours are spent each year on manual supply chain duties – such as logging stock. Automating this process can deliver those hours back into hands-on patient care.

There are many more advantages and savings to be discovered by using our pioneering supplies management, traceability and analytics solutions. By connecting vital healthcare data throughout the workflow process, we give Trusts accurate information in real-time for better decision making.

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solutions was awarded to Crown Commercial Service and began operating in October.

'Other suppliers should not be able to beat FOM prices on a sustainable basis,' says Mr Blackith. 'This is due to the new category tower providers performing world-class category management and taking advantage of national scale. The FOM will continuously be reviewing prices and benchmarking to identify its position in the market and we would expect our NHS partners to challenge us to be the market leader in terms of price and quality of service.'

Trusts have been encouraged to merge their buying clout before, through hubs or buying off pre-arranged framework contracts. But many trusts have continued to do their own thing, convinced they are getting a better deal on their own. So what is different this time around?

Currently the operating costs of NHS Supply Chain are financed by the addition of a margin on top of the product cost. In effect, an element of the funds that flow into tariff funding (and other funding arrangements) is there to cover this overhead margin.

## Top-sliced funds

But under the new system, the operating costs of the FOM will be top-sliced prior to flowing into tariff and other funding routes, and then allocated directly to the FOM. This will mean an extra adjustment in tariff prices for the year starting April 2019, when the top-slice model takes effect. Until then the existing level of margin will continue to be applied. The Department of Health is currently working with NHS England and NHS Improvement on how the top slicing will be applied.

Having covered the operating costs via the top-slice, the buy price – the price paid by NHS Supply Chain – will be equal to the sell price (the price paid by trusts).

This achieves two things; – increased transparency in pricing and central funding that allows NHS Supply Chain to develop and support the infrastructure required to maximise the buying power of the NHS.

With the top-slice operational, the Department believes the value delivered through the FOM will be completely clear. But it says that even in the run-up to April 2019, the NHS Supply Chain model is beginning to move in the direction of the FOM.

'For example, the current model is partnering with NHS Improvement to determine national strategies on certain product ranges that fall within the Nationally Contracted Products (NCP) programme and is beginning to deliver good value to the NHS,' says Mr Blackith.

The category tower service providers (CTSPs) will be paid using a two-part mechanism. They will be paid operational costs, with an annual target in the contract. A gain share mechanism will also operate with CTSPs only making a profit when savings are delivered. The more savings, the more profit. The contract includes a minimum level of savings and incentives to encourage CTSPs to overachieve on their savings targets.

This will not be an overnight change and trusts will instead see changes over time – apart from the switch over to the top-slice model.

'New category strategies will be developed and framework contracts replaced over time when there are opportunities such as current frameworks expiring or new mini competitions being run,' says Mr Blackith. 'Our aim is not a "big bang" change in the way we interact with our NHS partners. We expect there to be a transition into an improved approach to account management, core services and ultimately price. We will make changes in a way that doesn't risk continuity of supply, is in line with NHS expectations and moves the NHS procurement landscape to a more efficient one.'

## League of their own

Procurement departments now have their own league table after NHS Improvement published rankings for acute providers in November.

While not part of the Department of Health's Procurement Transformation Programme, the league table provides an assessment of the relative performance of procurement departments in acute providers.

Trusts are rated based on their performance against five indicators. Two of these measure process efficiency – for example, the proportion of non-pay spend in NHS Improvement's price comparison tool. Three metrics cover price performance, including the percentage saving if the provider's top 100 products had been bought at the average of the median and minimum price.

The metrics are combined using set weightings.

Using 2016/17 data, a total of 11 trusts were assessed as 'exceeding expectation' overall, 77 met expectation, while 48 were below expectation.

From 2018, the league table will be refreshed on a quarterly basis.

In addition, the table suggests a savings target range for each trust.