NHS Procurement Transformation Programme
Future Operating Model (FOM)

Overview

July 2017

More info: FOM@dh.gsi.gov.uk
THE BIG PICTURE

• NHS has the potential, through greater collaboration, to leverage the NHS’s purchasing power on a national scale and deliver better value for money for NHS Trusts and the taxpayer.

• The Carter Review called for adoption of the Procurement Transformation Programme (PTP)

• The Future Operating Model is a key outcome of the PTP

Picture from: Daily Mail Article, By Stephen Adams and Mark Wood For The Mail On Sunday, 18 Feb 2017
**CONTEXT & BACKGROUND**

Today’s spend breakdown across NHS England

£5.7bn spend on “goods” across 4 key areas:
1. Everyday Hospital Consumables
2. Common Goods
3. High Value Healthcare Consumables
4. Capital Equipment

Across NHS England only £2.2bn of £5.7bn spend on goods goes through the national NHS Supply Chain.
CURRENT PROCUREMENT CHANNELS VERSUS FUTURE PROCUREMENT CHANNELS

Effect of FOM

- Hubs: 10%
- NHS Supply Chain: 10%
- Trust Procurement Teams: 80%

- Hubs: 20%
- NHS Supply Chain: 40%
- Trust Procurement Teams (200+): 40%
THE FUTURE OPERATING MODEL STRUCTURE

Current contract expires at the end of September 2018 with the ability to remove some, or all, of the procurement services prior to that date.
IN SUMMARY

Procurement Transformation Programme

- A strategic response to the Carter report
- Delivery of a Future Operating Model (FOM)

Achieve significant benefits for the NHS by:

- Increasing uptake/volume of products purchased via NHS Supply Chain
- Increasing use by the NHS of a standard range of clinically appropriate products
- Using increased buying power to affect purchasing behaviours and lower product costs for the NHS
THE PRINCIPLES OF THE FOM

✓ Single national price
✓ Top slicing - Central payment for supply chain services
✓ Buy price = Sell price
✓ Open book contracts
✓ Savings baselined on a 3-year cycle to encourage innovation and price reductions
FUNDING - TOP SLICE PRINCIPLES

Flow of DH monies to the NHS for procurement of goods/services within scope of the FOM

FY16/17 Cash Flows*

<table>
<thead>
<tr>
<th></th>
<th>DH</th>
<th>NHSE</th>
<th>Commissioners</th>
<th>Tariffs</th>
<th>Trusts</th>
<th>NHS SC</th>
<th>Others</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products (£m)</td>
<td>1,995</td>
<td>2,848</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,843</td>
</tr>
<tr>
<td>Service Charges** (£m)</td>
<td>160</td>
<td>333</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>493</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£5,336m</td>
</tr>
</tbody>
</table>

* Data taken from NHS Supply Chain FOM Programme Business Case (FY16/17 prices)
** Includes NHS BSA, NHS Supply Chain, Regional Procurement Hubs & Trust procurement teams

FY23/24 Cash Flows*

<table>
<thead>
<tr>
<th></th>
<th>DH</th>
<th>NHSE</th>
<th>Commissioners</th>
<th>Tariffs</th>
<th>Trusts</th>
<th>NHS SC</th>
<th>Others</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products (£m)</td>
<td>3,152</td>
<td>1,075</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,227</td>
</tr>
<tr>
<td>Service Charges** (£m)</td>
<td>0</td>
<td>205</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>205</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£4,432m</td>
</tr>
</tbody>
</table>

Central payment for supply chain services £228m

Product Saving: = £4,843 - £4,227 = £616m
Service Saving: = £493m - £228m - £205m = £60m
Net NHS Saving: = £616m + £60m = £676m (12%)
PRODUCT PROCUREMENT SAVINGS GROWTH

Estimated Market Share
18/19 – 40%
19/20 – 50%
20/21 – 80%

Savings in real terms
### FUTURE OPERATING MODEL

#### Intelligent Client Coordinator (NHS)
Performance & Contract Management – Customer Engagement – Financial and ICT Strategy

<table>
<thead>
<tr>
<th>Procurement Category Towers</th>
<th>Transactional Services</th>
<th>ICT Systems &amp; Services</th>
<th>Logistics Provider</th>
</tr>
</thead>
</table>
| • Expert procurement organisations  
• Mutually exclusive category groups  
• 11 Category Towers | • A single organisation providing invoice management services  
• Ensures the delivery of consolidated invoicing to users | • Integrated IT platforms that allow each function within the operating model to work seamlessly | • Similar concept to current service  
• Include Home Delivery Service (separate lot) |
| Providers: 5 – 11  
Term (yrs): 3 + 1 +1 | Providers: 1  
Term (yrs): 4 + 2 (TBC) | Providers: 1  
Term (yrs): 4 + 1 +1 | Providers: 1  
Term (yrs): 3 + 1 +1 |
## FUTURE OPERATING MODEL

### Intelligent Client Coordinator (NHS)
Performance & Contract Management – Customer Engagement – Financial and ICT Strategy

<table>
<thead>
<tr>
<th>Procurement Category Towers</th>
<th>Transactional Services</th>
<th>ICT Systems &amp; Services</th>
<th>Logistics Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Expert procurement organisations</td>
<td>• A single organisation providing invoice management services</td>
<td>• Integrated IT platforms that allow each function within the operating model to work seamlessly</td>
<td>• Similar concept to current service</td>
</tr>
<tr>
<td>• Mutually exclusive category groups</td>
<td>• Ensures the delivery of consolidated invoicing to users</td>
<td></td>
<td>• Include Home Delivery Service (separate lot)</td>
</tr>
<tr>
<td>• 11 Category Towers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Providers:</strong> 5 – 11</td>
<td><strong>Providers:</strong> 1</td>
<td><strong>Providers:</strong> 1</td>
<td><strong>Providers:</strong> 1</td>
</tr>
<tr>
<td><strong>Term (yrs):</strong> 3 + 1 + 1</td>
<td><strong>Term (yrs):</strong> 4 + 2 (TBC)</td>
<td><strong>Term (yrs):</strong> 4 + 1 + 1</td>
<td><strong>Term (yrs):</strong> 3 + 1 + 1</td>
</tr>
</tbody>
</table>
FUTURE OPERATING MODEL

Intelligent Client Coordinator (NHS)
Performance & Contract Management – Customer Engagement – Financial and ICT Strategy

**Procurement Category Towers**
- Expert procurement organisations
- Mutually exclusive category groups
- 11 Category Towers

**Providers:** 5 – 11
**Term (yrs):** 3 + 1 +1

**Transactional Services**
- A single organisation providing invoice management services
- Ensures the delivery of consolidated invoicing to users

**Providers:** 1
**Term (yrs):** 4 + 2 (TBC)

**ICT Systems & Services**
- Integrated IT platforms that allow each function within the operating model to work seamlessly

**Providers:** 1
**Term (yrs):** 4 + 1 + 1

**Logistics Provider**
- Similar concept to current service
- Include Home Delivery Service (separate lot)

**Providers:** 1
**Term (yrs):** 3 + 1 + 1
**CATEGORY TOWERS COMPOSITION**

**Medical**
- **Tower 1** Ward Based Consumables
- **Tower 2** Sterile Intervention Equipment And Associated Consumables
- **Tower 3** Infection Control And Wound Care
- **Tower 4** Orthopaedics, Trauma & Spine, Ophthalmology
- **Tower 5** Rehabilitation, Disabled Services, Women’s Health & Associated Consumables
- **Tower 6** Cardio-Vascular, Radiology, Audiology & Pain Management

**Capital**
- **Tower 7** Large Diagnostic Capital Devices incl. Mobile & Consumables
- **Tower 8** Diagnostic Equipment and Associated Consumables

**Non Medical**
- **Tower 9** Office Solutions
- **Tower 10** Food
- **Tower 11** NHS Hotel Services
NHS SPEND & SUPPLY CHAIN SPEND BY CATEGORY TOWER

Source: NHS Supply Chain market analysis

- Medical
- Capital
- Non-medical

Capital Tower number

80% FOM target
**CATEGORY TOWER CONTRACT – KEY COMMERCIAL TERMS**

- Open book methodology with profit linked to target savings
- 3 year initial term with option to extend
- Savings assessed on total system costs basis

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Contract Period** | Overall 3 + 1 + 1 years  
Transition assistance max 18 months after expiry/termination                                                                                     |
| **Costs**     | Allowable costs defined in contract with annual target  
Measured and paid monthly on cumulative basis  
Guaranteed payment up to 100% target  
Costs > target covered 50/50 by NHS and Provider up to 10% overspend (max 105% payable by NHS)                                                 |
| **Profit**    | Gainshare % defined in contract based upon target savings, margin and costs  
Adjusted through defined KPIs (-40% / +20%) and intangible system cost changes (-20% to 10%)  
Gainshare proportional to savings, upside capped at 2x Target Margin  
Payment withheld if actual < 50% target  
Critical service failure if actual < 80% target at year end                                                                                   |
| **Savings**   | Standard products: (old price – new price) x volume  
Total Cost of Operation (TCO) including process changes and other supply chain functions as agreed with ICC on case by case basis                                                                 |

HOW THE INITIATIVES MERGE INTO A STRATEGIC OUTCOME

GOVERNANCE Managing NHS Supply Chain and Carter initiatives

DH acting as NHS BSA client

BSA

ICC

NHSI as ICC client

PROCUREMENT

NHS Supply Chain £300m savings commitment

Leasing Model Pilots (capital equipment; £40m of leases)

NHS England Tariff Excluded High Cost Devices

Clinical Evaluation Team

National Contracted Products (NCP)

Trusted Customer

TRANSITIONS TO THE FOM

Initiatives are adopted by relevant Category Tower(s)

NATIONAL PROCUREMENT

Increased savings (£615m p/a)

Innovation

Bigger deals done by specialist providers

Transparency and comparability

Range rationalisation

CUSTOMER RELATIONSHIPS

NHS SUPPLY CHAIN

STP creation and strategic initiative support

ENABLERS

GIRFT (informs the category strategy development and influences the NHS customers)

Scan4Safety (GS1/PEPPOL Data Standardisation)

PPIB Price variation analysis

Buy price=sell price in FOM. Transparent comparative data for all other activity
WHERE WE ARE IN OUR PROCESS

Category Towers Tranche 1 (Medical)

13 Mar
- Invitation to ITT

21-7 Mar
- 28 Mar-20 Apr
- 5 May
- 15 May
- 16 May
- 2 Jun
- 13,14,15 Jun
- Jun-early Aug
- 9 Jun
- 13,14,15 Jun
- early Aug
- early Aug
- Aug/ Sep

Evaluator Training Days
>80% of evaluators from NHS
AQ proposal received
Deadline for evaluator questions
Evaluation moderation
Notification of Intention to Award (Potential Provider)
Expected contract execution

Evaluator Training Days.
Shortlisted provider DH presentation day & Roles and Responsibilities Webinar
Deadline for Authority Response to o/s Clarification Questions
Evaluation period starts
Deadline for evaluator scoring submission
Procurement assurance/approval checkpoint
Standstill period

Evaluator Training Days.
>80% of evaluators from NHS
AQ proposal received
Deadline for evaluator questions
Evaluation moderation
Notification of Intention to Award (Potential Provider)
Expected contract execution

Evaluator Training Days.
>80% of evaluators from NHS
AQ proposal received
Deadline for evaluator questions
Evaluation moderation
Notification of Intention to Award (Potential Provider)
Expected contract execution
PROGRAMME ORGANISATION
ENGAGING WITH NHS TRUSTS

Six Stakeholder Engagement Leads
Allocated by STP footprint

239 Trusts
- Acute
- Mental Health
- Ambulance

Trust Commitment

Local Meetings
1. Develop procurement understanding & support - local champions
2. Cross function transformation agenda & support

Regional Meetings
- STP Footprint forums
- Further comms channel

April May Jun July
DH – Leading the nation’s health and care

- Better value for money
- Flexing buying power
- Releasing funds
- Benefits all Trusts
- Move to specialist providers
- Range management
- Clinical evaluation
- Identifying savings
- Benefiting the profession
- Prioritising targets