

BEDFORDSHIRE AREA HEALTH AUTHORITY
NORTHERN DISTRICT

MEMORANDUM


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From N. Argyle,
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FUTURE OBJECTIVES FOR THE SUPPLY FUNCTION IN
THE NHS IN ENGLAND

The above Supply Council document was issued in
December 1983.

As you may not have seen it I enclose a copy for
your retention.


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Divisional Supplies Officer
NA/EMF
27th September, 1984.

HEALTH SERVICE SUPPLY COUNCIL

FUTURE OBJECTIVES FOR THE SUPPLY FUNCTION IN THE NHS IN ENGLAND

The Secretary of State and RHA Chairmen have considered this paper and endorsed the Supply Council's objectives described in it, which, if achieved, will lead to savings that will be available for other patient care functions.

1. Introduction

- 1.1 In May 1981 the Supply Council issued its Circular SCC(81)2 on the "Future Organisation of the Supply Function in the NHS in England" in which it detailed the roles, functions and responsibilities relating to supplies for the new District Health Authorities and the Regional Health Authorities.

During the succeeding two years, until July 1983, negotiations between RHAs, DHAs and the Council were carried out on the proposed management and organisation structures that would best meet the Council's recommendations.

- 1.2 Supply Council support has now been given to the proposals made by all the fourteen RHAs. This support, in every case, was based on the criteria contained in paragraphs 10, 11 and 12 of SCC(81)2.

- 1.3 With the completion of this first phase of establishing the "Future Organisation" it is now opportune to determine the priorities and strategies for the second phase development of "Future Objectives" that are essential for co-ordinating National action and, if appropriate, for inclusion in Regional planning guidelines.

2. Responsibility for Effecting Improvements

2.1 The Supply Council

- 2.1.1 Within its statutory remit the Council's task is to develop, in consultation with Health Authorities, National policies that will help make the best use of supplies resources and contribute to the avoidance of waste.

- 2.1.2 The Council will progress and innovate investigative and evaluative work on products that offer the best prospects for achieving cost benefits in the NDS. This will be done in partnership with Regional health Authorities with whom close communications will be established. The aim will be to avoid duplication of effort in the NDS and to establish monitoring and performance criteria for measuring achievements against the National policies promulgated by the Council.
- 2.1.3 The Council will maintain close contact with the DHSS on Government procurement policy and will advise Health Authorities on how these affect existing policies. It will pursue in conjunction with NHS professionals and the Scientific and Technical Branch of the DHSS the further development of standards; evaluation of equipment; product approvals and quality assurance etc.
- 2.1.4 Close liaison and consultation with the NDS Training Authority; the Whitley Councils; the Computer Policy Committee; the Steering Group on Health Services Information on all matters appertaining to the supply function will also be maintained by the Council.
- 2.1.5 Future National objectives, such as contained in this paper, will be submitted to the joint meeting between the Secretary of State and RHA Chairmen in accordance with the accountability obligations for Special Health Authorities. If supported, detailed policies relative to these will be promulgated in Product Policy Notes or by Circulars.

2.2 Regional Health Authorities (RHAs)

2.2.1 Communications

It is essential that communications and consultation between the Supply Council and all Health Authorities are speedy, effective and reflect the urgencies that constantly occur and are common in the commercial and industrial markets.

2.2.2 Regional Supplies Committees (RSCs)

To provide the mechanism for this communication, each RHA should establish a RSC or equivalent which will include, where appropriate, representation of District Health Authorities (DHAs).

It is envisaged that such a Committee, or equivalent, will operate with delegated authority from the RHA in respect of its regional responsibility for supplies matters which are for direct communication with the Supply Council.

It will be for the RSC to ensure that DHAs provide input to its work which will lead to full co-operation and commitment from them to the implementation of National and Regional supplies policies.

2.2.3 The Regional Supplies Officers' Role

The Regional Supplies Officer (RSO), as the Senior Officer responsible to the RHA, through the Regional Administrator, for the effectiveness of the function, will as a member of the National Supplies Liaison Committee be the formal channel of communication between the Regional Supplies Committee and the Supply Council, particularly on the level of commitment in his Region to national and regional policies that will be proposed and promulgated from time to time.

3. Perceived Shortcomings in the NHS Supplies Function

- 3.1 The supplies function in the NHS deals with purchasing; contracting; specifying; storage; distribution; ordering and consumption - all of which are encompassed in the term "Procurement".
- 3.2 A number of major common shortcomings in procurement have been identified by six previous surveys over the past 25 years most of which still exist although to a lesser degree than before. These are:-
 - a. The lack of management information systems.
 - b. Too much (duplicated) stock held in too many stores.
 - c. Uneconomic distribution and use of transport.

- d. Excessive variety in specifications and standards.
- e. Too many small value orders.
- f. Too few fixed quantity contracts.
- g. The need to employ better qualified supplies staff.

3.3 The Supply Council agrees with these shortcomings and in addition has identified others. The following paragraphs set out the Council's objectives to deal with them. Within the national framework Regional Health Authorities should set targets for improving supplies services. These will of necessity vary according to local circumstances and should be agreed jointly between the Supply Council and the Region concerned.

4. Objectives to deal with Perceived Shortcomings in Supplies

4.1 The lack of management information systems

The Supply Council regards the need for improved supplies information as a top priority for every Health Authority. A supplies information system is a management tool essential to the achievement of these future objectives. It is convinced that better supplies information will also lead to savings in material costs, staff, accommodation and in the improvement of services to users and consumers of supplies. The development of a National Supplies Vocabulary (NSV) to provide the NHS with a common supplies language and code for all its procurement activities is integral to the development of information systems.

The Supply Council's objective on this important issue will be to ensure the continuation of appropriate central funding for the ongoing development of a computer based supplies information system (SIS) as recommended by the Supplies Information Working Party and supported by the Council in its Circular SCC(81)3. The Council will issue another Circular on this which will set out guidelines for Health Authorities to draw up their proposals for the introduction of SIS. It will also promote the introduction of changes to make the NSV system easier to maintain and increase its responsiveness to user needs.

The targets to achieve this objective will be:-

a. Within a period of two years:

SIS to be available to run on computers using the 'PICK' operating system or the ICL VME operating system. Introduction of changes to procedures for maintaining the NSV system including use of computers with on-line access to information on the NSV. Adoption of SIS by all Health Authorities.

b. Within five years:

Achieve universal application within the NHS of NSV coding conventions for identifying both stock and non-stock item transactions and where appropriate the use of the NSV code by suppliers.

4.2 Too much duplicated stock held in too many stores

Surveys commissioned by the Supply Council and those carried out by Regional Health Authorities have indicated that the NHS has too many small stores all stocking similar items. A major objective of the Council is the rationalisation of the existing storage and distribution system. Stock-holdings should be reviewed to ensure that only those items are held in stores that need to be kept there. The Council will promulgate policies designed to secure for the NHS a flexible storage and distribution system which is adequate for its stock-holding needs and which allows the NHS to take advantage of bulk purchasing contracts where appropriate.

Targets to achieve this objective will be:-

a. Within two years:

achieve an increase in the present rate of stock turnover to at least four times per annum.

b. Within five years:

establish a fully co-ordinated storage and distribution service by further rationalisation of the Regional stores network.

4.3 Uneconomic distribution and use of transport

Surveys show that unco-ordinated distribution costs for goods can be excessively high as a percentage of ex-works prices. Greater economies will follow with better storage and contracting. Regional Health Authorities will require to assess these costs in their Regions, particularly on goods delivered direct, and to produce plans for reducing them.

4.4 Excessive variety in specifications and standards

Primary priorities for the Council and Health Authorities are to secure greater co-ordination of NHS purchasing by the use of common standards and specifications.

The development and acceptance of standards and performance specifications for products is a pre-requisite to more co-ordinated procurement. Greater co-ordination of procurement enables contracts to be placed with manufacturers for a product that will allow for optimum volume production at lowest unit prices; it reduces storage costs by virtue of variety reduction; better quality assurance procedures can be imposed and testing can be carried out on manufacturers products at no cost to the NHS.

The Supply Council is committed to the Government's initiatives contained in its white Paper on "Standards, Quality and International Competitiveness" and will:-

- a. discourage the use of purely NHS specifications; and
- b. will help to develop instead British Standards suitable for reference in Public Contracts.

This objective will be actioned in collaboration with the Department's Scientific and Technical Branch and the British Standards Institute if appropriate.

The Supply Council's target to achieve this objective will be:-

- a. Within 2/3 years:

Identify existing specifications and standards most commonly accepted in the NHS and confirm

their continued use by all Health Authorities.

- b. Review current work by any body developing unique standards and re-assess their need to be developed as British Standards following the reaching of agreement with British Standards Institute on the mode of operation.
- c. Agree future roles for the Scientific and Technical Branch and the British Standards Institute on standards; product approvals; accreditation; registration and certification schemes as they relate to NHS supplies.

4.5 Too many small value orders

Thousands of small value orders are placed and in some instances processing costs exceed the value of goods or services being ordered. Large numbers of orders are often sent to one supplier in a day or week from the same hospital or Health Authority. It is for Regional Supplies Committees to assess this shortcoming and to introduce operational policies that will stop the practice.

The target to achieve this objective will be:-

- a. Within 1 year:
 - Identify extent of practice by statistical analysis.
- b. Introduce new ordering procedures and policies for departments in hospitals etc.

4.6 Too few fixed quantity contracts

This shortcoming has already been dealt with in certain cases by the Council's Product Policy Notes. To date no general policy has been made. The "call-off" type of "contract" has been the norm for Health Authorities to negotiate and follow. In essence this so-called "contract" is a purchasing arrangement with no legal commitment by either party to it. As suppliers are aware of the position and cannot be sure of the volume of business they might get, their prices reflect this and NHS Authorities do not, therefore, get full value for the total expenditure made on the product. In order to redress this situation a primary objective must be for Health Authorities to negotiate fixed prices for fixed quantity or exclusive contracts that are legally binding.

Substantial cost benefits will accrue if this is done but it will require commitment from all parties to the contract.

National policies emanating from the Council will invariably require this commitment. Regional Supplies Committees will also need to consider this on all their existing and future contracts.

The targets to achieve this objective will be:-

a. Within one year:

Where possible, re-negotiate existing "arrangements" on a firm price for quantity or exclusivity and ensure commitment by users; and

b. Within two years:

all future contracts to be firm in price in return for commitments on quantities and or exclusivity.

4.7 The need to employ better qualified supplies staff

In order to improve on NHS supplies performance through changes in the mode of contracting and distribution there is urgent need for improvements in the level of professional competence coupled with an adequate career structure for Supplies Officers. Regional Supplies Officers must have a responsibility for the training of all supplies staff in their Regions and should also advise on and contribute to supplies related training for other staff in the NHS.

The Supply Council has initiated the process of reviewing the pattern of training, development and qualifications necessary to support an adequate grading and career structure for supplies staff.

Its future targets to meet objectives will be directed at the need to revise all NHS 'in-house' training courses and the adoption of grade related minimum qualification requirements in consultation with RHAs, the National Training Authority and Whitley Councils.

4.8 National co-ordination of Procurement

Many of the shortcomings listed above are, as has been said, the results of fragmented use of total National supplies resources which, if better

co-ordinated, would provide cost benefits to all health Authorities that could be utilised for patient care.

The Council has selected 62 products on which priority investigations and evaluations have been initiated. All of them have potential for producing savings quickly and a detailed schedule listing each product and its cost reduction target has been included in the Council's Annual Report for 1982/83 to the Secretary of State which has been circulated to all Health Authorities.

The Council will continue to develop and co-ordinate similar product assessments although in future it will be looking to Regional Supplies Committees to undertake a share of the total National programme of investigative and evaluative work which, after coming to quantifiable economic assessments, will lead to recommendations being made to the Council for the promulgation of National policies.

5. Other Objectives

5.1 Apart from the shortcomings identified by previous studies and the above objectives and targets set to alleviate them, the Council and RHAs will also need to have regard to the following objectives.

5.2 Improved Quality Assurance

The Supply Council strongly supports the quality assurance schemes developed by the DHSS to provide users in the NHS with information about reliable sources of supply. The Council will monitor the use made of these schemes by the NHS and will promote their extension in consultation with Regional Supplies Committees.

5.3 Encouragement of a strong and innovative U.K. Health Care Industry

Closer relationships between Health Authorities and their suppliers is essential to encourage a strongly competitive and innovative atmosphere. The Council will continue to seek to carry out its functions in such a way as to encourage the U.K. Health Care Industry to satisfy the needs of the NHS and to build up a successful export market. This will involve close links being established between the NHS and individual suppliers, trade associations and with the British Health Care Trade

and Industry Council. It will also be necessary for Regional Authorities as managers of multi-million pound contracts either for their own Region or on behalf of other Regions to forge "partnerships" with contractors to ensure effective performance of the contracts.

5.4 Measuring Progress

The Supply Council's remit includes the "introduction and continuous review of arrangements to make the best use of NHS supply resources" and it is intended that the procedure for doing so must be determined with Regional Authorities in the immediate future. It will be necessary for the Council and Regional Supplies Committees to jointly monitor progress being made and to include results in the Council's Annual Report to the Secretary of State.

The Council will issue a Policy Circular on this after agreement has been reached with the Regional Authorities.

29th December 1983