Prescription Pricing Authority

Finance & Administration Services Directorate

Supply Strategy

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1. Executive Summary

Increasingly, financial pressure faced by the NHS is forcing renewed thinking concerning Purchasing and Supply related activity. The publication of the *Cabinet Office Review on Procurement within the NHS; Goods for your Health* and the subsequent release of the Health Circular HSC 1999/143 requires action by the Authority to assume local control of its supply service and to produce a strategy which will take the Authority forward in procurement terms. In addition to these publications, an audit was completed in January 2001 by District Audit on Supplies Procurement Arrangements within the Authority, and their recommendations have also been taken account within this document.

The main thrust of these publications is that all NHS bodies are expected to take a more dynamic approach to their Supply Strategies in line with these other bodies.

The PPA's Supply Strategy has to address the immediate needs of the Authority, in conjunction with a greater use of partnership arrangements with other NHS bodies, in particular the NHS Purchasing & Supply Agency. In addition, the Cabinet Office Review expects to see the Authority produce a savings target each year of 3% of its non-pay expenditure and to utilise a range of performance measures whilst participating in a range of best practice methodologies.

2. Policy Statement

The Authority is supportive of the requirement for a dynamic approach to Purchasing, Supply and Distribution in order to maximise benefit in both cost and quality of service to the Authority. The strategy requires a customer led focus, based on strong contract management and the fostering of long term partnerships with preferred organisations. There is also a need for an integrated IT system, a reduced supplier base and tighter fiscal controls. The Supply strategy must "dovetail" within the Authority's overall corporate strategy.

In embracing the Supply Strategy, the Authority acknowledges that a Director will need to be appointed as the Authority's 'Supply Lead', who will be given the Authority's support in implementing the changes that will be required in order to deliver an economic and effective service.

3. The Supply Strategy

3.1 Introduction

The Authority recognises that the proper management of supply is essential to the efficiency and effectiveness of operational and support services. This document outlines a strategy for supply management which is in line with the Authority's strategic direction and corporate objectives; the Cabinet Office Review on *Procurement within the NHS* the Audit Commission's Report *Goods for your Health*; and the Health Service Circular 1999/143, *Review of NHS Procurement*.

3.2 Background

3.2.1 This strategy incorporates the whole spectrum of purchasing and supply activities which are currently not managed under a single entity, but which can be described as part of the total supply chain of the Authority. It will identify these activities and set out the process for defining the objectives of, and responsibility for, each of the activities within the Authority.

3.2.2 The strategy acknowledges that the Authority is part of a complex network of manufacturers, suppliers and a range of other stakeholders. It is expected that efficiency and effectiveness in supply management will be achieved at both local and aggregated levels. In recognition of this, the strategy sets out the Authority's expectations of itself and includes the need to identify those areas where collective and strategic purchasing activity would be most prevalent.

3.3 Context

3.3.1 Non-pay expenditure relating to purchasing and supply in the Authority is expected to amount to £9.9 million in the current financial year. A breakdown of this expenditure is provided in Appendix A. It is important that the Authority ensures that it is achieving best value for money in respect of all the goods and services that it purchases. Additionally, there are significant costs associated with the management and operational time spent on supply activity across all directorates. It is important to rationalise and manage all of the associated activity to ensure maximum effectiveness and efficiency.

3.3.2 To optimise the resources - financial and human - it is imperative that the management and process costs associated with purchasing goods and services are at the lowest level commensurate with maintaining a high quality and effective supply service. In this context the Authority recognises the benefits of electronic trading and will invest in appropriate systems to maximise efficiency.

3.3.3 The Authority recognises that this strategy requires an agenda that will challenge traditional ways of working. Any necessary changes will need to be planned in

conjunction with each directorate to ensure that the goods and services purchased continue to be acceptable in meeting the business need. It is inevitable, that there will be a need to rationalise the number of different products ordered and how and from which source they should be purchased. The key to the successful implementation of this strategy will be the inclusion of key decision-makers and influencers within the rationalisation programme.

3.3.4 As a public sector organisation, the Authority is bound by statutory and mandatory public procurement regulations, standards and good practice guidance in such areas as environmental protection. All purchasing activity must meet all applicable requirements and that due process and corporate governance standards must be of the highest order in accordance both with the Authority's Standing Orders and Standing Financial Instructions and of the wider legislative requirements enshrined within English and European Law.

3.3.5 The purpose of the Purchasing Strategy is to establish the direction of the Authority with regard to purchasing and procurement and to monitor progress in achieving its goals. In doing so, it aims to address the issues associated with the current overall strategic plan and therefore needs organisational commitment to its content and delivery. This will provide a clear framework of inter-related activity and roles within the Authority.

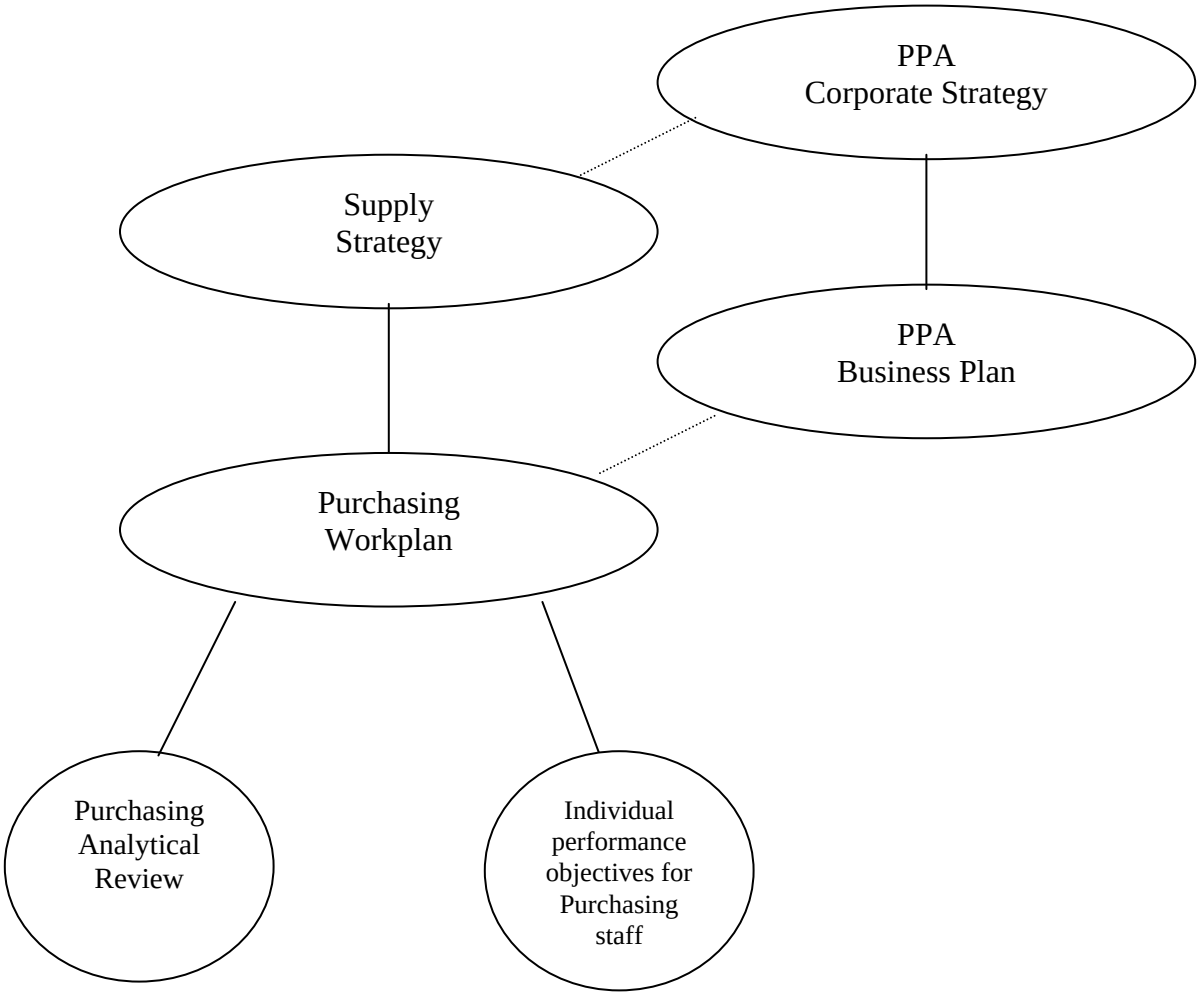
It is envisaged that there will be a requirement for a number of plans relating to different aspects of the development and improvement of the supply activity. The three main components will be:

- ***Supply Strategy*** – this is normally a three-year strategy document, identifying how the purchasing function will support the Authority's development. It will be agreed by the Management Board and ratified by the Authority, and will provide a vision for purchasing activity within the Authority.

- ***Purchasing Workplan*** – a one year programme which should form part of the Authority's Business Plan, identifying what actions will be taken in a given financial year to move towards the achievement of the Authority's Supply Strategy. The workplan will include the objectives for the Authority's Purchasing & Supply staff and will incorporate the development of the operational service, procurement activity and innovations in purchasing practice (for example, the introduction of purchasing cards).

- ***Purchasing Analytical Review*** – a management information document on expenditure and supply costs which provides the basis for identifying opportunities and priorities for action across the Authority, and which, on a continuing basis, will provide the information to monitor progress and achieve "total cost of acquisition" improvements in line with the projects identified in the *Purchasing Workplan*.

- The relationship between these plans/reviews can be shown as follows:



3.4 Responsibility

3.4.1 It is recommended that the Director of Finance & Administrative Services has management board level responsibility as the "Supplies Lead" within the Authority.

3.4.2 The Director with designated "Supplies Lead" responsibility will be required to meet the strategic objectives (as identified in Appendix B) which will include the annual achievement of targets in the implementation of the Authority's procurement strategy, and for the resultant improved quality and cost standards. The Director will ensure that there is a clear chain of accountability for operating and improving the supplies service and that there are adequate skills at every level. In particular, the Director will be required to provide the following:

- The production of a revised structure to manage supply across the Authority, which includes the appointment of a directly accountable senior specialist supplies manager, who must be a qualified supplies professional.

- The establishment of a Strategic Supply Group with a clear remit and terms of reference;

- The identification of all the activity currently undertaken across the spectrum of supply work and its redesign to ensure optimum effectiveness, whilst ensuring unambiguous levels of responsibility for each aspect of that activity. The roles, responsibilities and authority of each level within the Authority - members, board and managers – will need to be explicitly stated and the role of the purchasing function needs to be clearly understood across the Authority;

- The design of an annual work programme (the "Purchasing Workplan") to achieve this outline strategy with responsibility for each task clearly assigned to named individuals with a realistic timetable for the completion of each task;

- The establishment of a clear collaborative relationship with the NHS Purchasing and Supply Agency and any other appropriate equivalent bodies to maximise the advantage to be gained from their specialist positions;

- The identification of all key internal and external stakeholders and the establishment of a policy for developing partnerships with them;

- The early introduction of electronic procurement systems to maximise effectiveness and efficiency in the delivery and management of the strategy;

- In conjunction with relevant stakeholders, the creation of a Purchasing Analytical Review which provides a system of performance management to enable the Authority to assess and monitor the implementation of the strategy and the resultant outcomes.

3.5 Aims, Objectives & Vision

It is proposed that the Aims, Objectives & Policy Statement relating to the PPA will be as follows:

3.5.1 The ***aim*** of the PPA's Purchasing Function will be to:

- Modernise and improve the performance of the PPA's purchasing and supply system and become the centre of expertise, knowledge and excellence on all matters of purchasing and supply for the PPA.

3.5.2 The ***objectives*** of the Purchasing Section will be to:

- Deliver a comprehensive, cost-effective supply chain for the PPA;
- Ensure that the Supply Strategy and annual workplans reflect and contribute towards the achievement of the PPA's Strategy and Business Plans;
- Establish and implement an overall framework for the effective management of Purchasing and Supply in the PPA;
- Determine and control the appropriate level at which purchasing and supply decisions are made;
- Improve the skills, expertise and professionalism of PPA Purchasing Staff.
- Improve the knowledge and expertise of PPA customers in procurement "best practice".

3.5.3 All the objectives set out above need to be addressed within the programme of evolving change in the NHS and the PPA. The PPA's ***vision*** for purchasing and supply in the NHS, set out below, has taken into account existing development commitments. The Strategy also recognises the need to retain some flexibility to meet other challenges and opportunities that may arise within the next three years.

3.5.4 The Section will ensure that purchasing and supply activities for, and on behalf of, the NHS will be delivered in line with the statements outlined below:

By March 2004:

- All PPA purchasing and supply activity will be subjected to performance management to include demonstration of best value for money;
- The Purchasing Section will be established and recognised as the centre for expertise and knowledge on PPA purchasing & supply issues;
- All non-pay PPA expenditure will be subject to best procurement practice;
- The PPA will be trading electronically;
- A purchasing and supply structure will be in place across the PPA that will eliminate fragmentation and deliver maximum efficiency;

- All staff involved in purchasing and supply within the PPA will have the required professionalism, skills and competencies.

These statements underpin the PPA's work programme. They provide a clear strategic route which objectives can be aligned. To achieve these, **six key objectives** have been identified, which are outlined in Appendix B.

4. Conclusions

The anticipated benefits of a published PPA Purchasing Strategy will come from:

- A public demonstration of commitment and priority;
- Increased clarity of the Authority's expectations;
- A direct link to the Authority's Corporate Strategy;
- A targeted workplan with clear performance measures and milestones.

5. Recommendations

It is recommended that approval is given to this Supply Strategy, with the Director of Finance & Administrative Services being appointed the PPA's "Supplies Lead" with responsibility for its implementation.

W.J. Smith
Director of Finance & Administration

Appendix A

Review of Non-Pay Expenditure Relating to Purchasing & Supply

	SERVICE DIVISIONS	OPERATIONS HBD	OPERATIONS	TOTAL

	£	£	£	£
STAFF EXPENSES	195,880	6,050	170,900	372,830
REPAIRS & MAINTENANCE	716,440			716,440
FURNITURE & EQUIPMENT (including IT maintenance)	3,330,580	25,070	99,305	3,454,955
ENERGY & UTILITIES	446,400			446,400
CLEANING	241,330			241,330
DRUG TARIFF	413,320			413,320
PRINTING & STATIONERY	491,330	370,400	87,550	949,280
POSTAGE	406,410	532,020	59,150	997,580
TELEPHONE	373,060	700	7,680	381,440
ADVERTISING	73,670		82,415	156,085
PROFESSIONAL FEES	716,390	18,300	6,730	741,420
TRAINING	361,025	14,000	80,140	455,165
TRANSPORT	192,900	73,680	139,180	405,760
MISCELLANEOUS	196,040	3,735	9,225	209,000
TOTAL NON-STAFF	8,154,775	1,043,955	742,275	9,941,005

Appendix B

Supply Strategy Objectives & Targets

OBJECTIVE 1: PERFORMANCE MEASUREMENT

The ability of the PPA to achieve best value for its procurement expenditure is dependent on all parts of the supply network performing at the most effective level. A key role for the Supply Strategy is to develop appropriate performance measurement for the Authority.

Target:
Introduce key performance measures for the PPA, including specific savings targets.

Planning milestones:

2001/02

- Introduce a cross-directorate Strategic Supply Group. This Group will seek to lead in the co-ordination and policy of the Authority in investigating appropriate areas of expenditure and will act as a catalyst for the development of the purchasing & supply service in the Authority. Meeting on a quarterly basis it will provide direction and set objectives in line with the developments of the Authority.

- In accordance with guidance issued by the Audit Commission and the NHS establish key performance measures for the PPA, which will form the framework for the PPA's Purchasing Analytical Review.

- Establish and implement a Purchasing Workplan.

2002/04

- Implement annual Purchasing Workplans.

- Identify target savings of at least 3% of total non-staff expenditure to be achieved each year, in line with the recommendations of the *Cabinet Office Review of NHS Procurement* and HSC 1999/143;

OBJECTIVE 2: CENTRE OF EXCELLENCE

The Purchasing Function will strive to provide the central focus to the PPA on all aspects of Purchasing & Supply and to do so it must be a centre of knowledge and expertise, with highly motivated and suitably skilled staff.

Target:
Assist in maintaining the Directorate's accredited quality management system.

Planning milestones:

2001/04

- Maintain the ISO 9000:2001 Quality Management System certification of the Purchasing Function.

Target:
Develop the expertise and professionalism of officers involved in purchasing and supply activity.

Planning milestones:

2001/04

- Ensure that officers at A&C Grade 5 and above will possess, or be working towards a professional qualification leading towards membership of the Chartered Institute of Purchasing & Supply (MCIPS).

- Develop and maintain a competency framework for all Purchasing Section staff linked to the section's objectives, in support of performance management and personal development planning.

Target:
Provide a single source for legal advice to the PPA regarding contractual and supply related matters.

Planning milestones:

2001/02

- Review terms and conditions of contract.

2002/03

- Ensure PPA management awareness of legal issues by appropriate Purchasing/Legal training.

Target:
Improve performance in the supply aspects of controls assurance standards and risk management

Planning milestones:

2001/03

- Review those NHS controls assurance standards, which have, supply implications on the PPA and update the purchasing operating procedures accordingly.

OBJECTIVE 3: BEST PRACTICE

The PPA's "Supplies Lead" will have Management Board Level responsibility in raising the profile of purchasing and supply within the PPA and ensuring delivery of the PPA's Supply strategy.

It will be incumbent upon the Purchasing Section to institute best practice in the procurement of goods and services. One method of achieving this objective is through benchmarking of prices and processes both within the PPA and across the NHS.

Target:
Raise the profile and awareness of purchasing and supply across the PPA.

Planning milestones:

2001/02

- Appoint Director of Finance & Administrative Services as the Authority's "Supplies Lead".

2001/04

- Through a range of media, ensure appropriate communication channels are created to ensure that Purchasing and Supply issues are discussed and disseminated throughout the PPA.

Target:
Assist in the development of the sharing of knowledge, information and best practice on purchasing and supply management across the NHS.

Planning milestones

2001/04

- Commence attendance at NHS benchmarking fora and share relevant information with other NHS Purchasing representatives.

OBJECTIVE 4: INFLUENCE EXPENDITURE DECISIONS

Opportunities for cost reduction and greater efficiency can be realised with all non-pay expenditure being processed through professional purchasing staff.

The *Cabinet Office Review of NHS Procurement* requires that all NHS expenditure on goods, capital equipment and services (excluding permanent staff) should be covered by the Authority's procurement strategy. It is therefore incumbent upon the Authority to fully understand how, and where, NHS non-pay expenditure is spent, and how well it is managed.

To achieve this the Purchasing Function will need to work with Directorates to ensure that spending decisions are influenced by professional purchasing and supply management input

Target:
Increase the proportion of PPA non-pay expenditure influenced by the Purchasing Section from the current level of 15% to 70%.

Planning milestones:

2001/02

- carried out analysis and review of all non-pay expenditure across every Directorate.

2002/03

- Increase the proportion of influenced expenditure to exceed 40% of all non-pay expenditure.

2003/04

- Increase the proportion of influenced expenditure to exceed 70% of all non-pay expenditure.

Target:

Increase the proportion of PPA expenditure, which are covered by formal contracts arranged by either the PPA or other public sector agencies (e.g. NHS Purchasing & Supply Agency).

Planning milestones

2001/04

- Review scope of current contract range, define contract criteria and identify potential for new contracts.

- Produce contracts workplan (as part of Purchasing Workplan) and agree targets for the levels of expenditure covered by formal contract arrangements over three-year term.

- Gain Authority agreement on proposed contract workplan.

OBJECTIVE 5: E-COMMERCE

E-commerce is one of the critical building blocks for *Information Age Government* – the government's agenda for modernising all public services. The government has set the target that for all public sector organisations 100% of all 'routine' procurements should be undertaken electronically by 2002. The PPA will endeavour to ascertain the extent to which this target can be achieved cost-effectively.

Target:
Ensure that goods are ordered, received and paid for in the most efficient method possible.

Planning milestones:

2001/02

- Conduct scoping exercise to review cost of ordering across the authority and produce recommendations to:

  - Reduce the number of low-value orders;
  - Aggregate orders across the Authority;
  - Implement use of Purchasing Cards

2002/03

- Implement recommendations from scoping exercise.

OBJECTIVE 6: ORGANISATIONAL STRUCTURE

The Authority must ensure that the Purchasing function operates at the most effective structural level. This involves sharing and communicating information and knowledge about purchasing and supply activities across the PPA, whilst ensuring that there is a central grouping of officers with expertise and an appropriate mix of skills and abilities to reflect the developing needs of the Authority.

Target:
Implement a centralised Purchasing Function with the appropriate mix of expertise, skills and abilities to deliver the Supply Strategy.

Planning Milestones:

2001/02

- "Supplies Lead" to review the existing supply management arrangements of the Authority and provide recommendations as to the most cost-effective structure which will deliver the Authority's Purchasing Strategy;

- Revised organisational structure to be fully operational by 31st March, 2002.