

What the doctor ordered?

The newly created NHS procurement organisation claims it will save the health service £1 billion. But will it come at the expense of patient care and small suppliers? Helen Gilbert probes the issues

The NHS is no stranger to criticism. Barely a day goes by without a negative story in the press - superbugs, waiting lists, neglected soldiers, to name a few. But over the past month the £3.7 billion-a-year deal to outsource the work of the NHS Logistics Authority and much of the buying done by NHS Purchasing and Supply Agency (Pasa) to German supply chain firm DHL and its subcontractor, US healthcare company Novation, has been in the firing line.

The unions are up in arms over what they perceive to be creeping privatisation of the health service, while there are fears smaller suppliers could be squeezed out of the market, stifling product innovation and limiting patient choice. Yet the deal is expected to recoup £1 billion over its 10-year lifetime - money the Department of Health (DH) claims will be reinvested back into the service.

Who is right - is this bold move reckless or responsible, politically motivated or just good business?

One bone of contention is that NHS Logistics - previously the main channel for ordering, storing and delivering consumable healthcare products - was doing well on its own. Last year the award-winning, not-for-profit service rebated £3 million to the NHS, begging the question why change it?

Indeed, the good work carried out by NHS Pasa and NHS Logistics has been acknowledged by health minister Andy Burnham. But he describes the NHS as no expert in distribution or warehousing. "There is a compelling case to bring in a company which is."

Under the new agreement DHL will manage the entire supply chain. It will be responsible for the procurement of 10 categories of product, ranging from catering supplies to medical equipment.

In contrast, only 10 per cent of the 500,000 products used in these categories were available in the catalogue provided by NHS Logistics. Other products were delivered through locally negotiated contracts, where trusts often didn't get the best value for money because suppliers could exploit a fragmented market and charge higher prices. As a result, only £1.1 billion of the total £3.7 billion spend was accounted for. Now that is set to change.

Increased choice

According to Ken Anderson, the DH commercial directorate general, the catalogue product range will increase significantly under the new contract. NHS staff will have the choice of 500,000 goods and be able to order items such as orthopaedic kits, endoscopes and theatre-ready procedure packs.

"The NHS Supply Chain [the name of the new organisation] is an integrated procurement and supply chain service," Anderson explains. "NHS Logistics has not had control of procurement before and the health service has not enjoyed the best prices. Our NHS customers want the right product, in the right place, at the right time and they want someone else to take care of procurement and delivery. There is huge scope to capture more volume through this channel with DHL's investment and expertise. DHL will offer discounts to trusts to gain volume commitment, and make volume commitments, to suppliers."

Exponents of the move claim that, as a private-sector company, DHL will not be bound by the short-term annual budgeting cycles of the public sector so will be well placed to negotiate better prices over the longer term.

They also point to efficiency. According to Dave Bennett, acting procurement director of NHS Supply Chain, the key will be linking the supply and demand cycle. "We will engage more effectively with key customers, such as clinicians, to understand the type of products required and get their input on specifications," he says. "We will work with key decision-makers who hold the purse strings in the trusts to let them know this will be a real benefit if they can commit to certain volumes. Tiered pricing structures will be given to hospitals - if they are buying more they get lower prices."

"If they deliver that leverage we can use it to get lower prices and the suppliers will work with us. That wasn't happening across a range of products [under Pasa]. Before suppliers were going around trusts and doing separate deals. We need to work over time to get more commitment from the customer base so we can work with them to deliver long-term value."

Fewer suppliers

Over the next 12 months, NHS Supply Chain plans to create two or three "product councils" - procurement bodies linked with frontline clinicians and procurement hubs. These councils will cover key category areas, and their number will increase to 15 or 16 after the first year.

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Elsewhere, areas such as IT and stationery, which have a large number of suppliers, will be rationalised. According to Bennett, it is "inappropriate" to have options for 19 calculators or 20 office staplers. "The NHS is paying for that level of choice."

This down-sizing, Bennett adds, will break into some clinical areas but these have yet to be identified. This concerns John Wilkinson, director general of the Association of British Healthcare Industries, representing suppliers. "It betrays a lack of understanding of how the medical technology market works and will affect the welfare of UK companies and the quality of service to patients. The small to medium-sized firms that typify the UK market, and are the source of innovation for better medical devices and treatments for patients, could be squeezed out."

Charles Eddolls is chief executive of GS Auctions, which provides procurement support services to commercial organisations and government departments. He is concerned about competition and pricing. "It is a bad idea to restrict the smaller suppliers from taking part in the competition. They are the ones that keep the big suppliers' prices at the right level. If the NHS did a half a billion contract to procure sheets and towels, only one or two suppliers could take part so you don't get a competitive price."

Price isn't everything

But Anderson has heard this line of argument before. "All suppliers - whether large or small - will not be disadvantaged if they can offer the NHS the right products at the right price. For small, innovative suppliers, selling through the DHL-managed channels is a great way to gain market share with the NHS."

"Many of these companies have great difficulties in covering all the NHS with limited sales and marketing resource. Through the DHL-managed catalogue, suppliers have their products presented to 80,000 ordering points in the NHS. As with any catalogue business, DHL will be looking to list the products that clinicians want for patient care."

The DH also underlines that DHL will be bound by procurement rules which allow a range of companies to provide products to the NHS.

Meanwhile, Bennett stresses decisions will only be made with the input of clinicians to determine the best products for the NHS and ensure innovation isn't stifled.

"We will look at the range of products on the market, how much they cost, if we will get better clinical outcomes and also the health economic outcomes."

And decisions will not be solely driven by price. Bennett cites the example of single-use catheters, which might be more expensive to procure in the short term, but have long-term health and economic benefits - they can cut down rates of secondary infection, reducing re-admittance to hospital and therefore hospital bed stay.

Independent view

David Read, chief executive of procurement consultancy Prestige Purchasing, formed part of a team invited by the DH to review the deal. He believes the "innovative" contract will "radically improve" performance and cost in the health service.

"It will in effect create strategic procurement in the NHS for the first time," he says. "There is a massive incentive for DHL to work closely with clinicians and end-users to create the kind of utilisation of NHS Supply Chain that will drive out large gains in value. Less than £1 billion of the £3.7 billion spend is currently supplied through the central channel. Can you imagine Tesco ignoring that opportunity?"

"Another good aspect is the way in which the responsibility for risk and investment has been given to DHL, enabling the NHS to focus its efforts and resources on what it does best, serving the patient."

Eddolls thinks DHL will do a good job, but describes the predicted £1 billion saving as modest. He says the reverse e-auctions his firm carries out for hospitals average a 25 per cent saving in price against delivered prices from the NHS Logistics catalogue.

"Whoever is managing that contract should be able to save between 20 and 25 per cent. We did an e-auction for North Middlesex hospital last month and saved them 22.6 per cent. So if we can do that with individual hospitals in isolation, with the volumes being bought, they [DHL] should be able to make bigger savings."

Critical issues

Concerns have also been raised about DHL's capacity to procure £3.7 billion worth of critical and complex products and services with less than 100 staff - the number expected to transfer under Tupe (at the time of writing). But, according to Bennett, only contracts for £1.6 billion of products will be procured in the early stages. "We have a market of £3.7 billion."

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[If successful] we will expand the resources we have," he says.

Elsewhere, the British Medical Association has voiced concern about outsourcing large parts of the NHS to the private sector, as has Amicus, the trade union. Yesterday (November 1), the union and health workers were due to lobby parliament as part of Amicus's NHS Together Campaign which, among other things, claims NHS values are threatened by the shift to the private sector.

And in September disgruntled Unison members at five NHS Logistics depots staged two 24-hour strikes protesting about their transfer from the NHS to the DHL. Karen Jennings, Unison head of health, has reservations about DHL being a monopoly supplier and does not see the deal as good value for the taxpayer, patients or NHS staff. She is angered that details of the contract have been withheld because of "commercial confidentiality".

"DHL is a private delivery company, whose primary duty is to make money for its shareholders - where profits come before patients," she says. "We have no confidence in the government's ability to negotiate such a huge contract given its track record in the NHS. All our experience of privatisation in the NHS shows it leads to a worse service for patients and higher costs. The government has committed the NHS to multi-million pound contracts with Independent Sector Treatment Centres. When cleaning was outsourced the number of cleaners was halved, leading to dirtier hospitals and a huge rise in MRSA and other hospital-acquired infections."

But Anderson is quick to point out the DH has not sold the NHS Supply Chain services. "DHL will be acting as an agent of the NHS Business Services Authority. However, through this

outsourcing the NHS can benefit from DHL's expertise and investment. The NHS should focus on treating patients and leave supply chain and procurement services to DHL, a specialist."

Consultancy costs

It is not just the DHL deal which has come under scrutiny in the past couple of months. In September the Conservatives published a report into the cost of external management consultants to the NHS. It revealed the cost of hiring external management consultants was just under £94 million in 2004-05, while the projected cost for 2006-07 is £171.6 million. The DH does not monitor the amount spent on external consultants but, a spokesman adds, any figure should be looked at in context against the NHS budget of more than £70 billion. "The NHS is one of the largest employers in the world," he says.

But SM has also learned the commercial directorate, which was responsible for negotiating the £3.7-billion-a-year DHL deal, also uses large numbers of temporary staff. For some in Whitehall, this raises questions of efficiency. Of the 230 staff that work in the directorate - which is headed by Anderson - SM understands fewer than 10 are permanent civil servants. The rest are made up of interims and consultants, where minimum daily rates stand at £950 for an associate and more than £2,000 for a partner. A commercial directorate spokesman told SM he couldn't provide a breakdown of the numbers of permanent and temporary staff working in the department.

'Wasting millions'

However, the DH confirmed £67 million was spent by the commercial directorate on consultants and contractors for the year 2004-05. "The commercial directorate was set up specifically to bring in commercial skills the DH did not already possess," a DH spokesperson says. "To this end it uses contractors on a short-term basis to access the necessary skills to drive value for money within health procurement and other efficiency programmes."

Consultants and interims are usually appointed by government departments for a fixed term or to transfer specific skills to permanent staff. If the working arrangements are kept for a longer term, then the benefits can easily be lost, as the skills are not transferred successfully to permanent team members or the goal has not been met in the original timescale. Not only is this expensive, sources close to the deal say it can cause discontent among permanent staff members who feel they are doing the same job but on lower pay. Exactly how short-term the contracts are of those working in the commercial directorate remains in question and bodies including NHS Pasa, the NHS Confederation and the Association of British Healthcare Industries declined to comment.

But Dr Paul Miller, former chair of the BMA's consultants committee, says he is tired of the health service "wasting millions a year on management consultants" who are often "without significant health service background". He also has concerns about departments populated by interims and contractors. "The NHS is a complex organisation and best run by people who know the NHS," he tells SM. "If staff are on temporary contracts, where is the continuity?"

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It is a good question. The Office of Government Commerce adds interim or fixed-term appointees should only be used in an appropriate manner. "It is important to ensure consultants and interim staff are employed with agreed goals and timescales, to avoid short-term appointments becoming longer term 'fixes' - a situation which would not demonstrate best value for money either for the department or the taxpayer," an OGC spokesman says.

It is clear the NHS must make savings and become more cost-effective. The outsourcing deal is geared towards doing that. While the National Audit Office, which scrutinises public spending on behalf of Parliament, has no immediate plans to investigate the DHL deal, it has confirmed it will be keeping a close eye on it. Not surprisingly, it won't be the only one.

Case study

How the NHS supply chain will work

- On October 1 NHS Logistics, part of NHS Pasa, and DHL joined together to become NHS Supply Chain.
- Under the agreement, DHL will run NHS Supply Chain, on behalf of NHS Business Services Authority (responsible for managing core public sector support services). It will be responsible for delivering all procurement and logistics services across an initial 500,000 products to support 600 hospitals and other providers in England. By focusing on procurement, supply, logistics and delivery of hospital goods it claims it will enable healthcare providers to better manage their cost base and focus on patient care.
- Goods will be procured from 10 categories (the parts of Pasa covered under the outsourcing) - medical supplies, food and kitchen, print and stationery, laundry and cleaning, bedding and linen, dressings, uniforms and clothing, patient

appliances, lab equipment and furniture and office equipment.

- The £3.7 billion-a-year contract is expected to save £1 billion over 10 years - the lifetime of the contract - by offering a wider range of goods to NHS trusts at lower prices.
- In 2008, DHL will open a 250,000 sq ft distribution centre (DC) to act as a stockholding hub for food and other products. It is expected about 1,000 extra employees will be recruited to manage this centre and an additional DC in 2012.
- DHL is working with its subcontractor, Novation, a US-based group purchasing organisation, on the procurement activity.

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