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**Department of Health**

# The procurement of consumables by NHS acute and Foundation trusts

# Summary

- 1** The procurement of medical and other supplies ('consumables') by NHS hospitals is essential to the quality of patient care and successful treatment outcomes. At a time when the NHS is required to deliver £15-20 billion of annual savings by 2014-15, it is a key area of expenditure for review, both by trusts themselves and at regional and national levels, to ensure that better value for money can be secured for the taxpayer.
- 2** Government policy is that increasingly, hospital trusts have the freedom to manage their operations with minimal intervention or direction from central government. The government expects that this approach will encourage innovation and improvements in the quality and efficiency of services. Under this model, the Department of Health provides a framework and incentives for trusts to improve efficiency, but does not mandate particular actions.
- 3** As part of this model of devolved responsibility, hospital trusts in England have complete freedom to decide what consumables they buy and how they go about doing so. Trusts can make use of a network of regional collaborative procurement hubs, and a national supplies and distribution organisation, NHS Supply Chain, but there is no requirement for them to do so, and they are free also to buy directly from suppliers. Most trusts use a combination of all three arrangements.
- 4** The local control of procurement decisions and budgets in the NHS contrasts with the direction that is being taken for central government procurement. As part of the Efficiency and Reform Group work being carried out by the Cabinet Office at the time of writing, plans to centralise commodity procurement across central departments are being developed that are expected to deliver annual savings and cost reductions of £500 million. In October 2010 Sir Philip Green's efficiency review of central government departments' spending found large inefficiencies in procurement. However, this approach does not apply to the NHS which operates as a discrete sector, increasingly driven by a regulated market approach, in which the government does not control providers such as hospital trusts. Central government, by contrast, operates as a single body of departments where consistent and collaborative procurement arrangements can be pursued.

## Key findings

### Information on procurement

- 5** **There is limited data on what is purchased by individual trusts, and there are no practical ways of examining the variation in prices being paid by different trusts, across England, for the same commodities.** This means that trusts cannot easily identify how the prices they are paying compare with those paid by their peers, and, more importantly, whether better prices might be available if they were to engage with the market more effectively.

## Trusts' procurement behaviour

**6 The majority of hospital trusts are outside the Department of Health's direct control because they have Foundation Trust status and the remainder are expected to achieve this status in coming years.** There is therefore no mechanism to secure commitment by 165 separate hospital trusts to purchase a single item or class of supplies, much less the hundreds of thousands of separate consumable products which the NHS uses. Many trusts take part in collaborative purchasing arrangements to some extent, but nevertheless, trusts are often paying more than they need to, for basic supplies.

**7 NHS hospital trusts pay widely varying prices for the same items.** Our analysis of spending data found around 66,000 products, where data permitted a like-for-like comparison, which showed some variation in the price trusts paid for them. The average variation between the highest and lowest unit price paid was around 10 per cent. For 5,201 products, the variation was greater than 50 per cent. We estimate that £150 million or an average of £900,000 per trust could be saved if trusts had bought the same volume and type of products, but paid the lowest available price at the point of purchase.

**8 Much hospital purchasing is administered in multiple, small purchase orders, which means unnecessary administrative costs for trusts.** Our data shows that NHS trusts are carrying out a large number of transactions in key categories; the 61 trusts in our dataset issued more than 1,000 orders each per year for A4 paper alone. Taking just four high volume products, around £7 million in administration costs could be saved on purchase order costs, if the number of orders were reduced to the level achieved by the best 25 per cent of trusts. Reducing the number of purchase orders can also result in better unit prices, since consolidated purchases allow volume discounts to be secured, although additional stock holding should be avoided. For four key product categories, we estimated that consolidating purchases on a weekly basis could save the 61 trusts in our sample up to a total of £631,000. Large numbers of small volume transactions may indicate poor inventory management within trusts. Sophisticated 'just in time' supply management techniques can also involve multiple small transactions, but there is little evidence to indicate that these are widely operated in the NHS.

**9 Some hospital trusts buy a much wider range of key commodity products than others. This lack of product standardisation reduces value for money.** We found that the 61 trusts in our dataset bought 21 different types of A4 paper, 652 different types of surgical and examination glove, 1,751 different cannulas and 260 different administration sets. The range of products varied widely from trust to trust; for example, one trust bought 13 different types of glove while another purchased 177 types. There are examples of local efforts to standardise which point to the wider potential across the NHS; for example, in 2010 Doncaster & Bassetlaw Hospitals NHS Foundation Trust, formed from a merger of three formerly separate trusts, standardised its nurses' uniforms, reducing costs for 23,000 garments a year by more than 50 per cent, from £300,000 to £148,000 annually. Standardising product choices will not necessarily mean choosing the cheapest product available; clinical judgments and the overall cost-effectiveness of items must be part of the decision.

## Overall scope for savings

**10** We estimate that if hospital trusts were to amalgamate small, ad-hoc orders into larger, less frequent ones, rationalise and standardise product choices and strike committed volume deals across multiple trusts, they could make overall savings of at least £500 million, around 10 per cent of the total NHS consumables expenditure of £4.6 billion. This could be achieved through a combination of amalgamating small ad-hoc orders into larger, less frequent ones; rationalising and standardising product choices, and striking 'committed volume' deals across multiple trusts. The public sector procurement agency Buying Solutions has estimated, on the basis of discussions with suppliers, that for some types of office supplies such as IT hardware and paper, committed volume arrangements combined with standardised product specifications could produce discounts of between 10-30 per cent for central government departments. If similar discounts were available for the range of products in the scope of this report, accounting for £4.6 billion in expenditure, using a conservative estimate of 10 per cent, savings of around £500 million could be made.

**11** There is potential for much larger savings of up to 30 per cent in some categories. Evidence from specific initiatives indicates that where trusts and procurement hubs come together to identify a common requirement around specific products, whether they are straightforward such as nurses' uniforms, or more specialist items such as cardiac or orthopaedic devices, they can secure significant savings. For example, the HPC Collaborative Procurement Hub estimates that discounts of 10-30 per cent are possible for orthopaedic products and 10-20 per cent for cardiology devices, through trusts joining together and engaging with the market more effectively.

## Collaborative Procurement Hubs and NHS Supply Chain

**12** The limited evidence available suggests that trusts, Hubs and NHS Supply Chain are frequently establishing new contracts and framework arrangements which overlap and duplicate each other, incurring unnecessary administrative costs. Our sample of contract notices published in the Official Journal of the European Union during 2009-10 showed 378 separate notices were issued by trusts, Hubs and NHS Supply Chain for 'medical consumables' in the financial year 2009-10; we estimate that these notices cost the NHS between £14 million and £84 million to administer, depending on their scale and complexity.

**13** The former NHS Purchasing and Supply Agency recorded that the Hubs delivered savings of £170 million to the NHS between 2004-05 and 2007-08, 63 per cent of their target of £270 million for this period. We came across examples where Hubs had generated significant savings for members in certain categories of procurement. However, there is no national performance framework for Hubs which would enable comparisons to be drawn between them or an assessment of their potential optimal performance to be made.

**14 NHS Supply Chain has great potential as an efficient source of supplies to NHS hospitals, but trusts' use of the service has been below expectations.** In its contract year ending September 2010, NHS Supply Chain's turnover was £1.2 billion, 70 per cent of the expected level of £1.7 billion. Profit was £18 million, 69 per cent of the £26 million forecast for this year in the ten-year contract signed in 2006. The cumulative savings which NHS Supply Chain delivers for the NHS, meanwhile, were above target up to 2009 but on current activity levels are projected to reach between £0.8-1 billion against a published target of £1 billion, by the end of the ten-year contract in 2016.

The Department's role

**15 The Department has supported the development of procurement services which trusts can use, particularly NHS Supply Chain and the Collaborative Procurement Hubs.** Under the model of local management, however, procurement is the responsibility of individual trusts and collaborative procurement is voluntary, which means that significant economies of scale are being lost across the NHS. In our view suppliers have benefited from the lack of price transparency and weak price negotiation which is permitted by the fragmented system. Suppliers also incur extra costs, such as the larger sales forces needed to engage with a large number of purchasers, and these costs will be ultimately be passed on to trusts in the prices charged.

**16 The Department is introducing a number of procurement improvement projects in which trusts will be able to participate if they wish.** The Department's Quality, Innovation, Productivity and Prevention (QIPP) programme on procurement, set up in November 2009, aims to save £20 million across all NHS procurement, not just consumables, in the financial year 2010-11 and a total of £1.2 billion by 2014-15. More recently, the Department has developed a draft procurement strategy for the NHS, which aims to 'offer best-in-class performance' to trusts. The strategy aims to:

- standardise product bar-coding across the NHS, under the GS1 system, to make comparisons of the prices paid by trusts simpler and improve patient safety;
- make better use of the services which Buying Solutions provides, such as electronic auctions for common commodities;
- carry out projects with individual trusts to improve the way they buy and manage consumables;
- work with NHS Supply Chain on measures such as rationalising product ranges and sourcing cheaper 'own brand' goods direct from manufacturers; and
- introduce better IT systems to allow real-time pricing of goods purchased by the NHS.

## Conclusion on value for money

**17** A combination of inadequate information and fragmented purchasing means that NHS hospitals' procurement of consumables is poor value for money. We estimate at least 10 per cent or around £500 million of £4.6 billion total NHS consumables expenditure could be saved, and potentially much more for some products.

For example, recent work by a procurement Hub has indicated that savings of 10-30 per cent may be possible in areas such as cardiac and orthopaedic products.

**18** Under the terms of the NHS Act 2006, an increasing number of hospitals have secured Foundation Trust status, which gives them substantial independence from the Department. That process will continue with the intention that every hospital trust will become a Foundation Trust by 2014.

**19** With no central control over Foundation Trusts, the Department cannot mandate more efficient procurement practices. Responsibility to demonstrate value for money in procurement falls upon the management of individual trusts. Given the scale of the potential savings which the NHS is currently failing to capture, we believe it is important to find effective ways to hold trusts directly to account to Parliament for their procurement practices.

**20** More immediately, there are a number of steps that the Department should take to encourage trusts to improve their procurement, including securing the considerable benefits which follow from information sharing and collaboration.

## Recommendations

**21** We believe that in the current climate of strained public spending, there is a new appetite among trust chief executives for improving procurement to secure savings. We will revisit procurement spend by trusts in around two years' time to see what progress has been made.

### Recommendations for the Department:

- a** **With no direct control over Foundation Trusts, the Department cannot require them to collaborate in ways which would secure better value in procurement.** The Department should, however, take forward and publish its procurement strategy for the NHS, currently in draft, to include specific, time-bound commitments and performance measures under the three general themes (product bar-coding, use of Buying Solutions and work with NHS Supply Chain) of its strategy.
- b** **There is a need for much greater transparency on prices being paid to suppliers by individual trusts.** Price comparisons within and across trusts are difficult because of the lack of a standard coding system for products purchased. As proposed in its strategy, the Department should require the NHS to adopt standard product bar-coding, to improve procurement data and enable price comparisons.

**c NHS Supply Chain is in danger of not delivering the value expected for the NHS.**

The Department should work with NHS Supply Chain to develop services which will encourage more effective usage by trusts, such as running more electronic auctions in which suppliers bid to supply multiple trusts' requirements. NHS Supply Chain represents a means by which trusts' aggregated requirements can be articulated to the supplier market and this needs to be much more frequently used.

**Recommendation for Collaborative Procurement Hubs:**

- d There is no national performance benchmarking of Hubs.** Hubs should work together to establish common measurements of their performance, which would provide clear measures of the results they are delivering for members and improve trusts' ability to choose the Hub or Hubs with which they would like to work.

**Recommendations for trusts:**

- e Few trusts know what they are spending on specific supplies and whether they are securing a good price.** Trust chief executives need to consider procurement as a strategic priority, in the new NHS environment of limited budgets. Each trust should review its current consumables purchasing strategy and prices paid, identifying in particular any weaknesses in information, and the scope for collaboration and volume commitment deals. It should consider how key stakeholders such as clinicians can be involved more effectively in the procurement strategy.
- f Trusts' in-house procurement capabilities vary widely and more collaboration is likely to reduce the need for in-house specialists.** Each trust should review its procurement capability and consider options for more effective operation, including whether merging the procurement function with those of other trusts, or outsourcing it, would be appropriate.
- g Individual trusts acting alone can only make limited improvements in their procurement of consumables. Much depends on collaboration with their peers to achieve greater purchasing power, and use of the available procurement infrastructure.** Each trust's procurement strategy should include:
- an analysis of its current purchasing practices, including its use of direct purchasing, NHS Supply Chain and Collaborative Procurement Hubs;
  - an assessment of the trust's current use of e-commerce systems and the scope that e-commerce could offer for improved information on procurement, to support product standardisation and compliance with agreed contracts;
  - proposals for product standardisation in key categories, with the intention of reducing the range of products purchased and suppliers used;
  - proposals to improve control over purchasing and ensure that purchases are made using agreed contracts, rather than as 'spot' transactions; and
  - an assessment of stock control and its effect on procurement costs, for example the number of small, short-notice orders being placed and whether these tend to be at higher prices.