



National Audit Office



REPORT

# NHS Supply Chain and efficiencies in procurement

NHS England, NHS Supply Chain

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National Audit Office

# NHS Supply Chain and efficiencies in procurement

**NHS England, NHS Supply Chain**

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## **Report by the Comptroller and Auditor General**

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**Gareth Davies**  
**Comptroller and Auditor General**  
**National Audit Office**

**20 December 2023**

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## Key facts

**54%**

overall net customer satisfaction with NHS Supply Chain (second quarter of 2023-24)

**£4.5bn**

NHS Supply Chain's estimate of NHS procurement spend it handles annually as at September 2023

**£3.4bn**

NHS Supply Chain's estimate of NHS procurement spend it could, but does not, handle annually as at September 2023

**99.5%**

percentage of trusts who buy some goods through NHS Supply Chain

**7**

number of NHS Supply Chain's 18 key performance indicators which were rated green in August 2023 meaning that it was achieving at least 95% of the target level of performance

**£1.5 billion**

amount that trusts spend per year through one of NHS Supply Chain's procurement routes called eDirect

**26.9%**

percentage of eDirect orders delivered late, by an average of 22 days from June 2022–March 2023

**£144 million**

NHS Supply Chain's estimated cost of transformation across the organisation, including replacing and upgrading legacy IT systems 2022–2030

# Summary

**1** NHS Supply Chain (Supply Chain) estimates that the NHS collectively spends approximately £8 billion annually on buying medical equipment and consumables, from gloves and paper to stents and prosthetic hips. Historically, the responsibility for buying such goods has largely fallen to local NHS organisations or national bodies, with fluctuations in the balance between the local and the national. In 2016, the Carter report identified the scope for efficiencies through greater collaboration which would allow the NHS to aggregate its purchasing power, thus securing the best price.

**2** In 2017-18, the Department of Health & Social Care (DHSC) implemented a new operating model and delivery body for NHS procurement known as NHS Supply Chain (to replace the previous, fully outsourced model which was also called NHS Supply Chain). The new body was responsible for procuring products, warehousing, and delivering goods on behalf of the NHS. DHSC established Supply Chain Coordination Limited (SCCL) as the management function of NHS Supply Chain and the legal entity through which NHS Supply Chain undertakes its procurement services and transacts with customers and suppliers. SCCL is a limited company with its own chief executive officer and Board. We use Supply Chain to refer to SCCL and NHS Supply Chain throughout the report, unless stated otherwise.

**3** The new Supply Chain model became fully operational in April 2019 under the ownership of the Secretary of State for Health and Social Care.<sup>1</sup> Its key objectives were, by 2023-24, to deliver £2.4 billion of savings and achieve 80% of relevant NHS spending on medical equipment and consumables (known as 'market share') through Supply Chain. It oversees a catalogue of more than 600,000 products. It has an annual operating budget of £240 million for 2023-24. Since 2021, Supply Chain has been owned by NHS England (NHSE).

## Scope

**4** We examined:

- how Supply Chain was set up;
- whether Supply Chain has achieved its principal objectives of saving money and increasing its market share; and
- what more Supply Chain needs to do to secure greater efficiencies.

<sup>1</sup> SCCL is a limited liability company and 100% of its shares were owned by the Secretary of State for Health and Social Care.

**5** We have separately reported on Supply Chain’s role and performance in the procurement and distribution of personal protective equipment during the COVID-19 pandemic.<sup>2</sup> We have not reconsidered those issues in the current report but have focused on Supply Chain’s performance against its original objectives.

## **Key findings**

### Set-up and governance

**6 DHSC did not make it mandatory for NHS bodies to use Supply Chain for NHS procurement.** Supply Chain was created as a national body through which NHS organisations could voluntarily make use of their collective purchasing power. There are legal barriers that prevent mandation and DHSC was also concerned with “behavioural challenges” associated with forced, rather than voluntary compliance, which could lead to trusts not making best use of Supply Chain. DHSC proposed the Supply Chain approach, which it considered trusts would find “overwhelmingly attractive”, leading them to purchase through this route. Trusts remain largely free to buy directly from suppliers or through other sourcing organisations, outside of Supply Chain. Nearly all trusts have chosen to buy at least some products through Supply Chain (paragraph 1.8 and Figure 1).

**7 DHSC changed the approach to funding Supply Chain, to incentivise trusts to make more use of it.** The predecessor to Supply Chain was funded by a margin that was added to the cost of products that trusts bought through it. In contrast, Supply Chain is funded centrally by NHSE which in turn decides on the contribution it will ‘top slice’ from funding for trusts to incentivise them to use Supply Chain. Items purchased through Supply Chain are now provided at the price Supply Chain buys them. DHSC estimated that if trusts spent 80% of their procurement spend through Supply Chain, then trusts would save £2.4 billion over five years. Although the savings target was ‘owned’ by Supply Chain, it could only achieve value for money for the NHS if trusts chose to purchase goods through it (paragraph 1.5).

**8 Ownership of Supply Chain transferred from DHSC to NHSE in 2021 to align its work more closely with the needs of the NHS.**<sup>3</sup> DHSC told us that it always intended to transfer ownership of Supply Chain to NHSE. A DHSC-commissioned review in 2020 concluded that Supply Chain should remain as a separate company but that there should be greater alignment with NHSE. The review also noted that Supply Chain was delivering to its business plan. Despite this, the review also found that there was “still significant purchasing by trusts outside Supply Chain” and that across the NHS there was a perception that Supply Chain was not doing what the system would like it to do (paragraph 1.6).

<sup>2</sup> Comptroller and Auditor General, *Investigation into the management of PPE contracts*, Session 2021-22, HC 1144, National Audit Office, March 2022. Available at: [www.nao.org.uk/reports/investigation-into-the-management-of-ppe-contracts/](http://www.nao.org.uk/reports/investigation-into-the-management-of-ppe-contracts/)

<sup>3</sup> The legal entity ‘Supply Chain Coordination Limited’ transferred from DHSC to NHSE, however, we have used the term NHS Supply Chain to avoid confusion.



## Performance of NHS Supply Chain

**9 DHSC set Supply Chain a target of making £2.4 billion savings by 2023-24, but the method for calculating this re-counted savings from previous years.** Supply Chain told us that it had exceeded this target by 2022-23 although we have not validated this saving. Supply Chain calculated its reported savings against the £2.4 billion target by using 2015-16 prices as its baseline. Even if prices had not reduced in any year, compared with the year before, a saving was reported, as long as prices were lower than that of the baseline year. This method then accumulated savings each year, by adding the difference in price as at the baseline year for each year. It did not take inflation into account. For example, if a product cost £10 in 2015-16 and reduced to £9 in 2016-17, Supply Chain would report a saving of £1. If it remained at £9 in 2017-18, Supply Chain would report a total saving of £2 (re-counting the £1 saved in 2016-17). If it then reduced to £8 in 2018-19, Supply Chain would report a total saving of £4 (re-counting the £1 saved in each of 2016-17 and 2017-18 and saving a further £2 in 2018-19). DHSC could not provide us with any original sign-off or agreement that this was how Supply Chain should calculate its savings figure (paragraphs 2.2, 2.4 and Figure 4).

**10 Supply Chain has previously used different methods to report savings to different audiences, which could cause confusion.** Supply Chain has had different methods for different audiences, for example, to government, trusts and suppliers. When reporting progress against its £2.4 billion target it used a baseline from 2015-16 and accumulated the amount each year. To help show the savings that trusts have made individually, it calculated in-year savings each trust had made using prices paid the previous year as the baseline. In this example, if a trust paid £10 for an item in 2015-16, and then procured it for £9 from Supply Chain in 2016-17 and 2017-18, Supply Chain would report a saving of £1 in the first year and no saving in the second year. These different methods have evolved since Supply Chain was established and there is a rationale for each. Having several methods to calculate savings has the potential to cause confusion (paragraph 2.6 and Figure 5).

**11 Some trusts do not recognise Supply Chain's in-year savings figures, which causes frustration and mistrust.** A DHSC-commissioned review in 2020 noted that trusts did not recognise Supply Chain's reported savings and that these differences were a significant point of contention between Supply Chain and its customers, to the extent that it acted as a barrier to constructive dialogue. Recognising this tension, in 2021 Supply Chain moved to calculating savings differently to try to align more with trusts' practice. However, this change did not resolve disparities between Supply Chain's and trusts' reported savings. Supply Chain told us that the method introduced in 2021 captures savings which do not impact on trusts' annual spend, for example, products that the NHS provides to trusts free of charge. All the six trusts we spoke with in summer 2023 noted their frustration with the differences in how they and Supply Chain calculate savings. Trusts can see but are not required to sign off on the savings Supply Chain reports at trust level (paragraphs 2.7 and 2.8).

**12 In summer 2023, NHSE, Supply Chain, trusts and stakeholders worked together to develop a new methodology for reporting savings.** NHSE expects this method will be ready for use from April 2024. The new method will standardise how cash-releasing savings are calculated as well as wider benefits such as increased capability. In addition, Supply Chain is now pursuing a new savings target of £1 billion from January 2022 to 2030 (£500 million by 2026), although it considers that achieving this needs the cooperation of NHSE and trusts. This target will not use a similar baseline accumulation method as the £2.4 billion target (paragraphs 2.9 and 3.6).

**13 There is no reliable baseline against which to estimate whether Supply Chain achieved its 80% market share target.** When DHSC set up Supply Chain, it gave it a target to secure an 80% share of the relevant NHS procurement spend by 2023-24. DHSC estimated that the total NHS market spend/value was £5.7 billion in 2016-17. DHSC has not been able to provide us with the basis for its estimate or explain why it considered 80% to be achievable or appropriate. Supply Chain reported progress against this target until 2021-22, however DHSC and NHSE did not reassess the value of the market during this period. Therefore Supply Chain was reporting the amount of goods it provided from 2017-18 to 2021-22 as a proportion of the 2016-17 market spend/value. This means the market share figure was most likely overstated. Supply Chain did not report a market share figure for 2022-23 as it no longer had confidence in the original total market value. Supply Chain has now re-estimated the total market value to be £7.9 billion for 2023-24, although this value is an estimate based on incomplete data from trusts, with 55 trusts who do not report any data. It intends to reassess the market value annually. In September 2023, Supply Chain reported that it had a mid-year market share of 57% (£4.5 billion out of a total market value of £7.9 billion) against a target of 62%. The final year figure may be different. Supply Chain estimated that the amount of money that trusts had spent when buying products through Supply Chain, or using its commercial terms, increased from £3.4 billion in 2018-19 to £4.5 billion in 2022-23 (in cash terms) (paragraphs 2.10, 2.11 and Figure 6).

**14 Supply Chain estimates that trusts spend approximately £3.4 billion outside of its function.** Trusts are largely free to purchase goods outside Supply Chain. Supply Chain estimates that, as at September 2023, trusts' annual procurement spend through Supply Chain was £4.5 billion with £3.4 billion spent outside of Supply Chain's function. In Supply Chain's customer satisfaction survey in 2023-24 (quarter two), 71.8% of customers asked noted that they use other supply routes because of availability and 16.3% said it was because of cheaper products available elsewhere. Some stakeholders told us that some trusts can get a better deal outside of Supply Chain, for example, by using the Supply Chain negotiated price to secure discounts locally. However, it is impossible to quantify the extent of this practice. While this practice may generate savings for individual trusts, it is not aligned with one of DHSC's stated aims behind setting up Supply Chain, which was to create value for money by "making the most of the tremendous buying power of the NHS – aggregating national demand and releasing funds" (paragraphs 2.10 and 2.12).

**15 There is no central challenge of why trusts do not follow the recommended route of using Supply Chain.** NHSE guidance emphasises that local areas should work to “the operating model and commercial standards and the consolidated supplier frameworks agreed with suppliers through NHS Supply Chain”. While trusts submit data to NHSE on how much they spend, and through which suppliers (including Supply Chain), NHSE does not analyse these data or use them to challenge trusts as to why and when they buy outside of Supply Chain, or to identify possible changes Supply Chain could make to persuade trusts to use it. Instead, NHSE makes these data available to trusts and relies on them to change their purchasing decisions in response. Proactive challenge from NHSE could motivate trusts to using Supply Chain more (paragraph 2.13).

**16 Customers’ levels of overall net satisfaction with Supply Chain are below target and in long-term decline.** Supply Chain recognises that it needs to improve how trusts view its performance if it is to incentivise trusts to use it more. Supply Chain had a target to achieve 66% net overall customer satisfaction and has only achieved this in one quarter since 2020. It calculates this percentage by subtracting the number of customers who give a ‘low’ rating from the percentage who rate overall satisfaction as ‘high’. Overall net customer satisfaction shows a general declining trend from its peak of 67% in quarter two 2021-22 to 54% for customers in quarter two 2023-24. In 2023-24, Supply Chain replaced the 66% target with a new target to increase satisfaction to above 56%. Customers report some positive experiences of working with Supply Chain: 66% of customers rated ease of doing business with Supply Chain as high and nearly 80% agreed, to some extent, that they trust Supply Chain (paragraphs 2.16 to 2.19, Figure 7 and Figure 8).

**17 Supply Chain’s eDirect procurement route accounted for some £1.5 billion of orders in 2022-23 but Supply Chain is aware that trusts have concerns with this route.** Even though Supply Chain recognises that its systems undercount late deliveries, between June 2022 and March 2023, on average more than one quarter (26.9%) of eDirect orders were delivered late, by an average of 22 days, although recent performance has improved. In March 2023, Supply Chain began a three-stage programme to try to improve eDirect. The programme focuses on improving current processes rather than a system re-design and looks at enhanced ways of working and transforming technology and data. Supply Chain expects to deliver the final stage of the programme between September 2024 and March 2025. It told us it needs financial and operational support from NHSE and for trusts to work with Supply Chain to implement consistent working practices (paragraphs 2.21 to 2.23 and Figure 9).

## New targets and performance indicators

**18 Supply Chain has agreed new key performance indicators, which aim to be more focused on meeting trusts' needs.** For 2023-24, NHSE agreed new performance measures for Supply Chain. These include savings targets and a more appropriate market share metric. Of 18 metrics, one was not systematically reported against in August 2023 with another one not yet due to be reported. The most recent performance report in August 2023 shows that seven out of the 16 metrics reported were rated green, seven metrics were rated amber or amber-red, and two metrics were rated red (paragraphs 2.24, 2.25 and Figure 10).

## Transformation

**19 Supply Chain developed a new strategy in 2021 to be delivered through a transformation programme.** The programme aims to overcome the barriers to effective procurement by reorganising its operating model to change the way it works with suppliers and replacing and upgrading key legacy IT systems. The new strategy reflects Supply Chain's recognition that it needed to be easier to work with and to align with the expectations and needs of the NHS. Supply Chain has some high-level "strategic imperatives" for transformation under which it prioritises projects through the annual business planning process (paragraphs 3.3, 3.4 and Figure 11).

**20 NHSE has made some progress towards the actions Supply Chain considers necessary to support or accelerate its transformation.** In December 2022, Supply Chain set out what actions or 'asks' it considered it needed from NHSE for transformation to succeed and to achieve £1 billion savings. This included supporting the standardisation of pricing for a complex category of spend; requiring trusts buy all large diagnostic equipment through Supply Chain; and providing national clinical sponsorship. NHSE is making progress towards some of these 'asks', for example in reducing the number of commercial frameworks outside the Supply Chain route. To meet all of Supply Chain's 'asks', for example on clinical sponsorship and standardisation of prices, NHSE would need to send stronger directions and instructions across the whole NHS procurement system to make more use of Supply Chain. NHSE is not in a position to mandate trusts always use Supply Chain and does not consider that it can provide more funding given its other priorities. In approving a lower-than-requested Supply Chain revenue budget of £240 million for 2023-24, NHSE recognised that the lower level of funding would delay up to £100 million of the £500 million savings Supply Chain had hoped to secure by 2026 (paragraphs 3.8 to 3.11 and Figure 12).

**21 There are some weaknesses in Supply Chain's management and oversight of transformation.** The key challenge for Supply Chain during transformation is that it must deliver a level of customer service that will incentivise customers to use it while rebuilding systems as the day-to-day business continues. Supply Chain's current approach to managing transformation has weaknesses. Transformation is not being run as a multi-year programme, instead it is managed on a year-by-year business cycle in line with NHSE's business planning process. Supply Chain has not articulated clearly defined or measurable objectives with a detailed and costed timetable for delivery. There are gaps in Supply Chain's senior leadership team and an over-reliance on the Chief Executive Officer. Recruitment of senior staff is being slowed by time taken for the civil service approvals process and the addition of an extra layer of approval for high-cost posts created by its move to NHSE. NHSE has approved the programme and receives regular updates on progress. NHSE's less directive approach to its oversight of transformation reflects that Supply Chain operates independently. If NHSE's Board is concerned about particular issues, it can ask Supply Chain to provide information for additional oversight (paragraphs 3.4, 3.12 and Figure 13).

### **Conclusion on value for money**

**22** While Supply Chain has the potential to secure further savings for the NHS, it is not yet fulfilling that potential. Delivering the right products for the NHS at the cheapest sustainable price is essential to make every pound count for patients. Supply Chain should be in a very strong negotiating position. If it can persuade as many trusts as possible to purchase as much as possible through Supply Chain it can aggregate a large majority of NHS spending power.

**23** Supply Chain recognises that its systems and processes do not work well for all its customers and that it needs to do more to become, and demonstrate that it is, the best-value option for NHS procurement. To do this, it needs to optimise prices for customers, make ordering as straightforward as possible and deliver reliably on orders placed. Trusts in turn need to make the most of the purchasing efficiencies that Supply Chain offers. While NHSE has started to take some positive steps to encourage and, where it is able, require trusts to make better use of Supply Chain, it recognises that it could do more in some areas, such as providing clinical sponsorship and standardisation of prices. NHSE also needs to be clear on the roles and responsibilities of all parties in the system and ensure that they are aligned.

## Recommendations

- 24** We make the following recommendations to assist NHS Supply Chain (Supply Chain) and NHSE with working towards greater efficiencies in procurement.
- a** NHSE should draw on the new HM Treasury guidance *The Government Efficiency Framework*, to set up a system of validation and assurance of Supply Chain's reported savings towards the £1 billion target. This should include agreeing the relevant elements of Supply Chain's reported savings with trusts so that there is one version of the truth with regards to savings.
  - b** NHSE should set out how it will incentivise and steer trusts to make best use of procurement through Supply Chain.
  - c** NHSE should work with the trusts that do not submit data on their spending to help them overcome the barriers to submitting, with the aim of making data on spending through and outside of Supply Chain as complete as possible.
  - d** NHSE should proactively and directly use its data on trusts' spending through different procurement routes to understand why trusts are not using Supply Chain and to encourage trusts to make greater use of Supply Chain.
  - e** Supply Chain should run its transformation as a structured programme for its full duration, identifying and reporting on costs, benefits, dependencies and risks.
  - f** By the end of 2024, Supply Chain should improve its understanding of why customers are unsatisfied with its services and develop a targeted action plan to make substantial improvements in satisfaction.
  - g** As far as they are able to do so, NHSE and DHSC should speed up the appointment processes for Supply Chain's recruitment of senior staff.

# Part One

## The set-up of NHS Supply Chain

**1.1** This section of the report examines the set-up of NHS Supply Chain (Supply Chain) in its current form, the transfer of ownership from the Department of Health & Social Care (DHSC) to NHS England (NHSE), and current governance arrangements.

**1.2** A substantial amount of the NHS budget is spent on medical equipment and consumables every year, with Supply Chain estimating a total spend of approximately £8 billion in 2023-24. Supply Chain sources, buys and supplies medical equipment and consumables to trusts. Products can range from surgical gloves to large items of capital equipment such as diagnostic scanners. In 2022-23, Supply Chain managed more than 600,000 products in its catalogue. It has an annual operating budget of £240 million for 2023-24.

### The establishment of NHS Supply Chain

**1.3** In 2016, the Carter report identified considerable variation in the numbers of products and suppliers and the prices paid for products across trusts.<sup>4</sup> For example, the average price for prosthetic hips ranged from £788 to £1,590 between trusts, and those buying the greatest volumes were not paying the lowest price. The report estimated that around £700 million could be saved through better procurement. At the time of the report, trusts could buy through the previous operating model, which had outsourced procurement and logistics functions, under contracts in place until 2018. The report made recommendations to improve productivity and performance, including procurement:

- trusts should report procurement information monthly to NHSE;
- trusts should collaborate with other trusts and the previous operating model for procurement with immediate effect; and
- trusts should commit to DHSC's new procurement transformation programme.

<sup>4</sup> *Operational productivity and performance in English NHS acute hospitals: Unwarranted variations*, Report February 2016: Lord Carter of Coles Operational productivity and performance in English NHS acute hospitals: Unwarranted variations – An independent report for the Department of Health by Lord Carter of Coles – February 2016 (publishing.service.gov.uk).

**1.4** In response to the Carter report, in 2017-18 DHSC created a new operating model and delivery body for NHS procurement known as NHS Supply Chain (to replace the previous, fully outsourced model, which was also known as NHS Supply Chain). The new body was responsible for procuring products, warehousing and delivering goods on behalf of the NHS. DHSC established Supply Chain Coordination Limited (SCCL) as the management function of Supply Chain and the legal entity through which Supply Chain undertakes its procurement services and transacts with customers and suppliers. Supply Chain became fully operational in April 2019 under the ownership of the Secretary of State for Health and Social Care.<sup>5</sup> We use NHS Supply Chain or Supply Chain to refer to SCCL and NHS Supply Chain throughout the report, unless stated otherwise.

**1.5** DHSC changed the approach to funding Supply Chain, to incentivise trusts to make more use of it. The previous operating model was funded by a margin that was added to the cost of products that trusts bought through it so that only trusts using it paid for it. In contrast, Supply Chain is now funded centrally by NHSE, which in turn decides on the contribution it will 'top slice' from funding for all trusts. Supply Chain sells items to the NHS for the same price it pays for them. This funding aims to provide an incentive to use Supply Chain because all trusts contribute to meeting its costs, but to secure the benefits they have to choose to purchase from it. Over the first five years of Supply Chain's operations, DHSC estimated that if trusts spent 80% of their procurement spend through Supply Chain this would yield a £2.4 billion saving over five years. Supply Chain therefore had the key objectives of delivering £2.4 billion of savings and to achieve an 80% market share value by 2023-24. DHSC did not set out why it considered 80% to be achievable or appropriate.

**1.6** In October 2021 DHSC transferred ownership of Supply Chain to NHSE (then called NHS England & Improvement) to align its work more closely with the needs of the NHS. DHSC told us that it always intended to transfer ownership. It commissioned a review from the Commercial Models Team at Cabinet Office to consider whether and, if so, on what terms the ownership and control of Supply Chain should move from DHSC to NHSE. In 2020, the review concluded that:

- Supply Chain was delivering to its business plan and gradually increasing its share of demand but there was "still significant purchasing by trusts outside Supply Chain", which was likely to mean that the procurement functionality needed by the system was duplicated, that demand was not being as aggregated as best it could and that supply was not being optimised;
- across the NHS there was a perception among stakeholders that Supply Chain was not doing what the system would like it to do and was not engaging with the system as it would like to be engaged with; and
- ownership under NHSE as a separate company was the most appropriate option.

<sup>5</sup> SCCL is a limited liability company and 100% of its shares were owned by the Secretary of State for Health and Social Care.



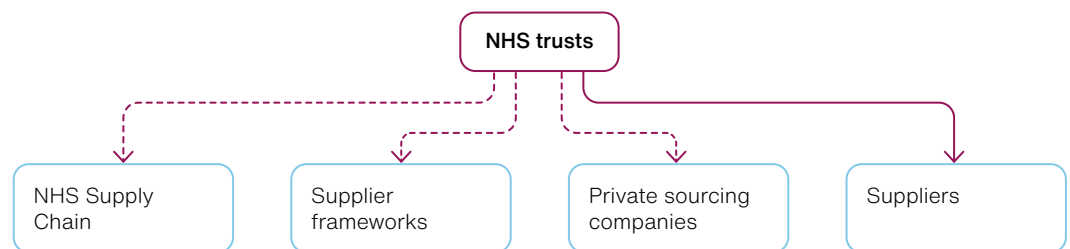
**1.7** The DHSC-commissioned review also concluded that new priorities would be needed as Supply Chain moved to NHSE. It also noted that trusts would need to commit to Supply Chain and NHSE would need to take a more proactive role to help make Supply Chain a success. DHSC shared the review at a very senior level with NHSE but it was not widely disseminated across the organisation and was not shared formally with Supply Chain.

### How NHS Supply Chain works

**1.8** DHSC did not make it mandatory for NHS bodies to use Supply Chain for NHS procurement. Trusts are free to buy products directly with suppliers or through other sourcing organisations, although nearly all trusts have chosen to buy at least some products through it (**Figure 1**). In its business case for creating Supply Chain, DHSC set out the barriers that prevent mandating Supply Chain, including legal barriers. DHSC was also concerned with “behavioural challenges” associated with forced, rather than voluntary compliance, which could lead to trusts not making best use of Supply Chain. Instead, it proposed the Supply Chain operating model that it considered trusts would find “overwhelmingly attractive”, in part incentivised by better prices, and would bring about high levels of compliance. While it is unable to require all trusts to buy through Supply Chain, NHSE has mandated that trusts must buy some specialised high-value products in that way (called specialised service devices, for example bone-conducting hearing implants). The current position, as with the position at the time of the 2016 Carter report, shows wide variation in the prices paid by trusts for similar items (**Figure 2** overleaf).

**Figure 1**  
How trusts can buy products

There are several ways for trusts to buy products



- Supply organisation
- Buying direct from the supplier
- Buying through an intermediary supply coordinator

**Note**

1 Some trusts form trust procurement hubs, which join up procurement across a specific geographic region.

**Figure 2**

The range of prices that trusts pay for their equipment, 2022-23

**Trusts pay a wide range of prices for the same product, with some trusts paying twice as much for the same item**

Product	Lowest price paid	Median price paid	Highest price paid	NHS Supply Chain price
	(£)	(£)	(£)	(£)
Bone saw blade	15	19	33	15
Breathing valve and mouthpiece	155	189	217	185
Insulin delivery devices	196	235	285	235
Replacement hip stem part	258	333	490	258
Portable touchscreen bladder scanner	6,591	7,080	12,760	7,005

**Notes**

- 1 Data for this table has been exported from NHS England's Spend Comparison Service for invoices submitted in 2022-23. A range of data is fed into the tool, including direct submissions from trusts and NHS Supply Chain transaction data.
- 2 NHS Supply Chain prices have been provided directly by NHS Supply Chain. For insulin delivery devices and portable touchscreen bladder scanner, the prices are showing gross standard pricing for 2022-23.
- 3 Each product has the same product code for each trust.
- 4 The lowest price does not always include additional delivery costs when not procured through NHS Supply Chain.

Source: National Audit Office analysis of NHS England's Spend Comparison Service and NHS Supply Chain's data

**Governance**

**1.9** SCCL is the legal entity through which Supply Chain undertakes its procurement services and transacts with customers and suppliers. SCCL has a governance structure with NHSE as the shareholder of the company. SCCL provides oversight and management of Supply Chain through its board of executive and non-executive members. Representatives from NHSE sit on the Supply Chain Board, which meets bi-monthly to discuss performance. Supply Chain also has three committees to support the Board: remuneration; audit and risk; and performance. NHSE also chairs a quarterly accountability meeting to discuss performance. NHSE approves Supply Chain's annual business plan and funding requests.

**1.10** There have been several changes to the governance of Supply Chain since 2021 with the aim of strengthening the Board and aligning it more with the NHS. NHSE has appointed a new chair to the Board and in 2023 it appointed two new non-executives. In January 2023, Supply Chain set up a new performance committee to make it more accountable to its Board for delivery and performance.

## Part Two

### NHS Supply Chain's performance

**2.1** This part of the report examines NHS Supply Chain's (Supply Chain) progress against its principal targets and its new key performance indicators (KPIs). KPIs are used for performance management and should be clear, have a strong evidence base, and focus on what the organisation is trying to achieve. It is important for KPIs to be reviewed and updated when they are not providing the right incentives.<sup>6</sup>

#### Targets

**2.2** Supply Chain's targets when first established – to achieve £2.4 billion in savings and 80% market share – partly depend on the NHS system working well together as a whole. Supply Chain needs to provide a good service to its customers, and trusts should behave in a way that maximises the benefits from using a central supplier. The Department of Health & Social Care's (DHSC)-commissioned review stated that trusts needed to commit more actively to Supply Chain, with NHS England (NHSE) being clear about trusts' roles and how trusts should engage with Supply Chain. In turn, trusts need their views to be heard. Although the savings target was 'owned' by Supply Chain, it could only achieve value for money for the NHS if trusts chose to purchase goods through it.

#### Savings

**2.3** HM Treasury's guidance – *The Government Efficiency Framework* – aims to support departments in delivering efficiencies (published in July 2023).<sup>7</sup> It establishes a framework for how departments should categorise and track the efficiencies they are delivering. While recognising that Supply Chain does not deliver the breadth of services of a government department, and that the guidance did not exist at the time, we have set out NHSE and Supply Chain past practices against the following recommendations that are of particular relevance to it in **Figure 3** overleaf. This highlights some areas for improvement in future reporting of savings.

6 National Audit Office, *Commercial and contract management insights and emerging best practice*, November 2016. Available at: [www.nao.org.uk/insights/commercial-and-contract-management-insights-and-emerging-best-practice/](http://www.nao.org.uk/insights/commercial-and-contract-management-insights-and-emerging-best-practice/)

7 HM Treasury, *The Government Efficiency Framework*, July 2023. Available at: The Government Efficiency Framework – GOV.UK ([www.gov.uk](http://www.gov.uk)).

**Figure 3**

NHS England's (NHSE) and NHS Supply Chain's (Supply Chain) practice against HM Treasury's guidance in *The Government's Efficiency Framework*

**There are some areas for improvement in how NHSE and Supply Chain report savings**

Guidance	Practice
Departments will need to, at minimum, have central data monitoring processes in place to oversee the delivery and realisation of cash-releasing efficiency savings.	NHSE does not have systems in place but Supply Chain takes on this function.
The efficiency target for each business area (where relevant) should be clear and agreed between the budget holder and finance teams. There should be a clear understanding of the baseline and expectations on delivering outputs against this.	The target is clear but the Department of Health & Social Care (DHSC) did not provide us with any original sign-off or agreement that this was how Supply Chain should calculate its savings figure. Trusts calculate their savings in a different way to Supply Chain.
Departments should track where and when the efficiency measure will be realised, with forecast cash-releasing savings.	NHSE does not track progress but Supply Chain takes on this function and reports it to NHSE.
Appropriate governance arrangements should be in place to ensure that efficiency data and reporting are regularly reviewed and assured, and so accountable and responsible seniors are sighted and ultimately approve efficiencies reported by the organisation.	Supply Chain reports savings to NHSE but NHSE does not validate or check the data.
Cash-releasing savings should be scored once against the year in which they are realised, net of any double counting between different organisations (for example, different departments).	The method for calculating the savings against the £2.4 billion target re-counts savings from previous years.
Any saving should be readily defensible to the National Audit Office, Government Internal Audit Agency or independent auditors, and well-evidenced with documentation.	DHSC could not provide us with any original sign-off or agreement that this was how Supply Chain should calculate its savings figure.

Source: HM Treasury, *The Government's Efficiency Framework*, July 2023 and National Audit Office analysis of NHS Supply Chain and NHS England documents

**2.4** DHSC set Supply Chain a cumulative target of making £2.4 billion savings by 2023-24. Supply Chain told us that it had exceeded this target by the end of 2022-23 although we have not validated this saving. The method for calculating this re-counted savings from each year since 2015-16. Supply Chain calculated its reported savings against the £2.4 billion target by using 2015-16 prices as its baseline. Even if prices had not reduced in any year compared with the year before, a saving was reported as long as prices were lower than that of the baseline year. This method then accumulated savings each year, by adding the difference in price as at the baseline year, for each year. This accumulation continued to re-count savings made in earlier years and did not take inflation into account. For example, if a product cost £10 in 2015-16 and reduced to £9 in 2016-17, Supply Chain would report a saving of £1. If it remained at £9 in 2017-18, Supply Chain would report a total saving of £2 (re-counting the £1 saved in 2016-17). If it then reduced to £8 in 2018-19, Supply Chain would report a total saving of £4 (re-counting the £1 saved in each of 2016-17 and 2017-18 and saving a further £2 in 2018-19) (**Figure 4**). DHSC could not provide us with any original sign-off or agreement that this was how Supply Chain should calculate its savings figure.

**2.5** Supply Chain verifies the information on transactions from trusts and suppliers that underpin the savings it reports. Trusts can see but are not required to sign off on the savings Supply Chain reports at trust-level. Neither NHSE nor DHSC have validated or checked savings but Supply Chain reports progress to NHSE in the quarterly accountability meetings. Progress against the £2.4 billion target is not externally audited and Supply Chain has not formally reported to DHSC or NHSE that it has exceeded the target.

#### Figure 4

The baseline accumulation method for calculating savings towards NHS Supply Chain's £2.4 billion savings target

**The baseline accumulation method for calculating savings would report a saving even if prices did not reduce in-year**

Year	Price of product (£)	Saving against the baseline (£)	Reported accumulated saving (£)
2015-16 (baseline)	10	-	-
2016-17 (year 1)	9	1 (10-9)	1
2017-18 (year 2)	9	1 (10-9)	2 (year 1 + year 2)
2018-19 (year 3)	8	2 (10-8)	4 (year 1 + year 2 + year 3)

Source: National Audit Office analysis of NHS Supply Chain savings data

**2.6** Supply Chain has used other methods for calculating savings which could cause confusion. It has used different methods for different audiences, for example, to government, trusts and suppliers (see **Figure 5**). When reporting progress against its £2.4 billion target it used a baseline from 2015-16 and accumulated the amount each year. To help show the savings that trusts have made individually, it also calculates in-year savings each trust has made using prices paid the previous year as the baseline. In this example, if a trust paid £10 for an item in 2015-16, and then procured it for £9 from Supply Chain in 2016-17 and 2017-18, Supply Chain would report a saving of £1 in the first year and no saving in the second year. These different methods have evolved since Supply Chain was established and there is a rationale for each. Having several methods to calculate savings has the potential to cause confusion.

**2.7** Trusts have not always recognised Supply Chain's in-year savings figures, which has caused frustration and mistrust. A DHSC-commissioned review in 2020 noted that many trusts did not recognise Supply Chain's reported savings and that these differences were a significant point of contention between Supply Chain and its customers, to the extent that it acted as a barrier to constructive dialogue.

**2.8** Recognising this tension, in 2019 Supply Chain and NHSE (then NHS England & Improvement) started to look at creating a standard way for trusts to calculate their savings but this took two years to be implemented. In 2021, Supply Chain moved to calculating savings differently to try to align more with trusts' practice (in parallel, Supply Chain continued to report progress against the £2.4 billion target using the baseline accumulation method). However, Supply Chain acknowledges that this change has not resolved the disparities in how it and trusts reported savings. It told us that the method introduced in 2021 captures savings which do not impact on trusts' annual spend, for example products that the NHS provides to trusts free of charge. All the six trusts we spoke with in summer 2023 also noted their frustration in the differences in how they and Supply Chain calculate savings and told us that they had not been able to reconcile Supply Chain's reported savings with local records. Trusts can see but are not required to sign off on the savings Supply Chain reports at trust-level.

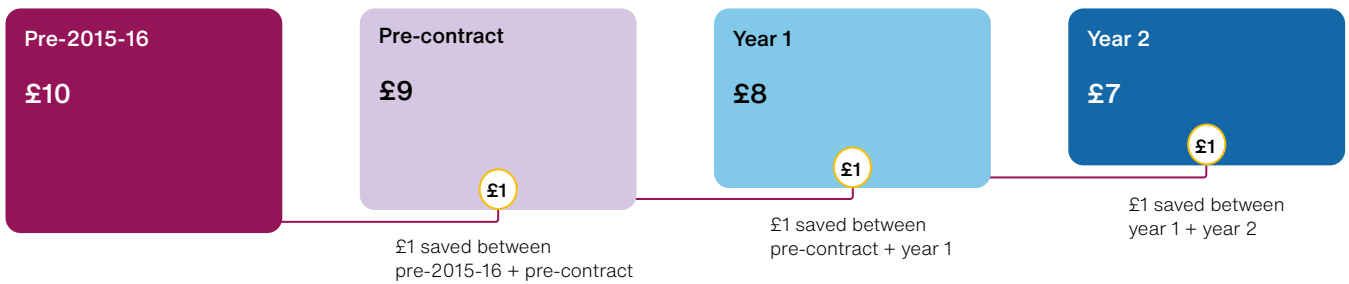
**2.9** In summer 2023, NHSE, Supply Chain, trusts and stakeholders worked together to develop a new methodology for reporting savings. NHSE expects this method will be ready for use from April 2024. The new method will standardise how cash-releasing savings are calculated as well as wider benefits such as increased capability. In addition, Supply Chain is now pursuing a new savings target of £1 billion from January 2022 to 2030 (£500 million by 2026), although it considers that achieving this needs the cooperation of NHSE and trusts. This target will not use a similar baseline accumulation method as the £2.4 billion target.

**Figure 5**  
Methods for calculating NHS Supply Chain's savings

NHS Supply Chain uses different methods for calculating savings depending on the audience

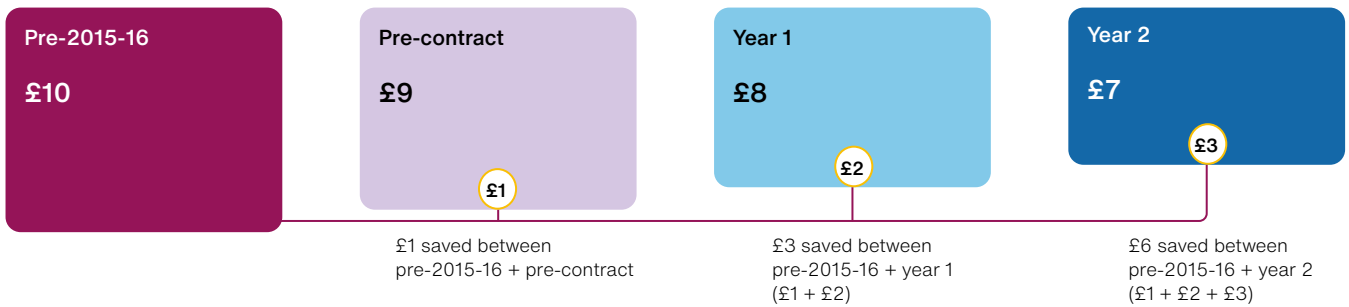
**In-year savings for NHS trusts**

Savings from comparing current price with one year before



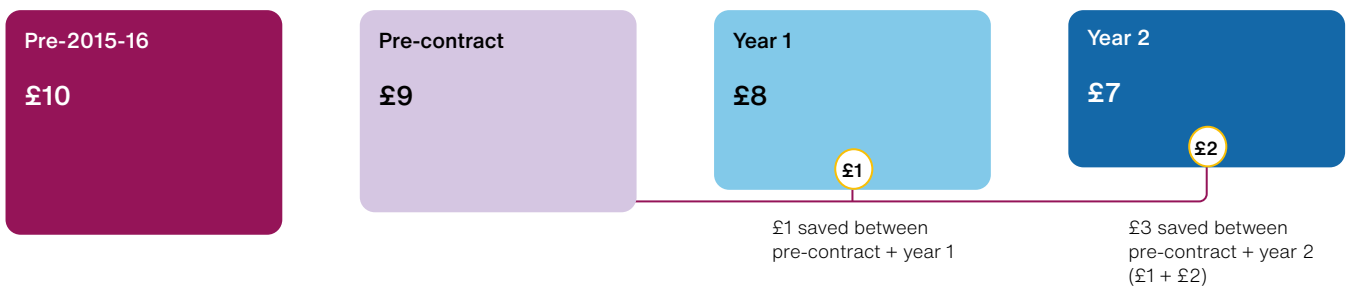
**Baseline accumulation/government (£2.4 billion target)**

Annual savings compared to baseline then accumulated



**Supplier/contract method**

Savings from pre-contract to current year



● Pre-2015-16 price    ● Pre-contract price    ● Year 1 price    ● Year 2 price

**Notes**

- 1 'Pre-2015-16 price' refers to the baseline price prior to the programme business case for NHS Supply Chain.
- 2 'Pre-contract price' refers to the baseline price prior to the contract commencement date for a product.
- 3 The supplier/contract method is primarily for internal reporting.

Source: National Audit Office analysis of NHS Supply Chain's savings calculation methods

## Market share

**2.10** When DHSC set up Supply Chain in 2018, it gave Supply Chain a target to secure an 80% share of the relevant NHS procurement spend by 2023-24. This meant that 80% of trusts' spend on medical equipment and consumables would be through Supply Chain by 2023-24. DHSC estimated that the total NHS market spend/value was £5.7 billion in 2016-17 and Supply Chain reported progress against this target until 2021-22. However, DHSC and NHSE did not reassess the value of the market during this period, so Supply Chain was reporting the amount of goods it provided in 2017-18 to 2021-22 as a proportion of the 2016-17 market spend/value. This means that the market share figure was most likely overstated. DHSC has not been able to provide us with the basis for the total market value or why it considered 80% to be achievable or appropriate. As a result, there is no reliable baseline on which to estimate whether Supply Chain achieved its market share target of 80%. Supply Chain estimated that the amount of money that trusts had spent when buying products through Supply Chain, or using its commercial terms, increased from £3.4 billion in 2018-19 to £4.5 billion in 2022-23 (in cash terms) (**Figure 6**).

**2.11** Supply Chain did not report a market share figure for 2022-23 as it no longer had confidence in the original total market value. It has now re-estimated the total market value to be £7.9 billion for 2023-24 and intends to update the value annually. However, this figure is incomplete as it is based on data that trusts submit to NHSE on how much they spend, and through which supply route (including Supply Chain). Supply Chain is aware that there are 55 trusts that do not routinely submit data and are excluded from the market value figure. Other than providing data, NHSE is not involved in calculating or validating the market value figure. In September 2023 Supply Chain reported that it has a mid-year market share of 57% (£4.5 billion out of a total market value of £7.9 billion) against a target of 62%. The final year figure may be different.

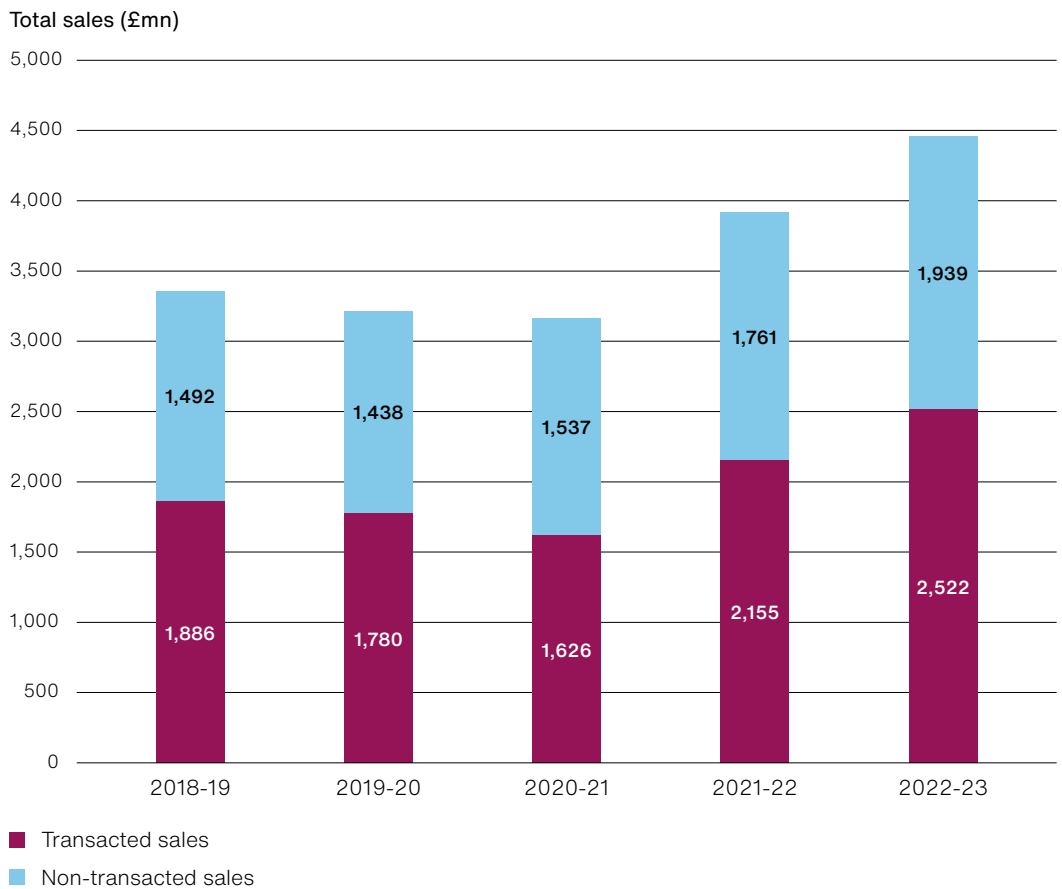
**2.12** Supply Chain's market share of 57% means that at least £3.4 billion of potential NHS procurement spend is spent outside of Supply Chain's function. There are multiple factors behind local decisions on how and where to procure consumables and equipment. However, results from Supply Chain's customer satisfaction survey in 2023-24 (quarter two) found that 71.8% of customers asked (176 out of 245 respondents) noted that they use other supply routes because of availability and 16.3% (40 out of 245) said it was because of cheaper products available elsewhere. Some stakeholders told us that trusts can sometimes get a better deal outside Supply Chain, for example, by using the Supply Chain-negotiated price to secure discounts locally, however, it is impossible to quantify the extent of this practice. While this practice may generate savings for individual trusts, it is not aligned with one of DHSC's stated aims behind setting up Supply Chain which was to create value for money by "making the most of the tremendous buying power of the NHS – aggregating national demand and releasing funds".



**Figure 6**

Trusts' spend through NHS Supply Chain (Supply Chain) from 2018-19 to 2022-23

The amount of money that Supply Chain estimated trusts had spent when buying products through Supply Chain, or using its commercial terms, increased from £3.4 billion in 2018-19 to £4.5 billion in 2022-23 (in cash terms)



**Notes**

- 1 Transacted sales are sales where the trust buys a product from Supply Chain which it, in turn, has bought from a supplier. The data for transacted sales come directly from Supply Chain's reporting systems. Non-transacted sales are sales where a trust uses Supply Chain's commercial terms but purchases directly from the supplier. Supply Chain collates the data for non-transacted sales from its commercial teams and from suppliers.
- 2 These figures have been reported to us by Supply Chain and have not been validated or audited by the National Audit Office.
- 3 The spend data for this graph are presented in cash terms, and therefore do not reflect the impact of inflation.

Source: National Audit Office analysis of NHS Supply Chain data

**2.13** NHSE guidance emphasises that local areas should work to “the operating model and commercial standards and the consolidated supplier frameworks agreed with suppliers through Supply Chain”. While trusts submit data to NHSE on how much they spend, and through which suppliers (including Supply Chain) NHSE does not analyse these data or use them to challenge trusts as to why and when they buy outside of Supply Chain. Nor does it use the data to identify possible changes Supply Chain could make to persuade trusts to use it. Instead, NHSE makes these data available to trusts and relies on them to change their purchasing decisions in response. For legal reasons, NHSE cannot mandate that trusts use Supply Chain. However, proactive challenge from NHSE could motivate trusts to using Supply Chain more.

### Customer satisfaction

**2.14** Supply Chain seeks regular feedback from its customers. It uses several ways to help it understand its customers, their overall levels of satisfaction and the barriers to addressing problems. Throughout 2023, Supply Chain ran several customer panels and forums, ranging from fortnightly supply chain resilience forums to clinical advisory working groups. Since 2022 Supply Chain has developed its Customer Voice team to try to embed customers’ needs into projects across the organisation. Every quarter, there are four Regional Advisory Forums for NHS procurement leads, representing 39 out of 42 Integrated Care Systems and a National Advisory Board to engage senior stakeholders. Customers can also contact customer-facing Supply Chain teams at local level.

**2.15** Supply Chain runs a quarterly customer satisfaction survey of around 400 customers to assess overall net satisfaction and views on a wide range of issues, including value for money and quality of deliveries.<sup>8</sup> These are telephone-based interviews with a range of respondents from procurement staff to clinical staff. Respondents include both customers from trusts and other customers who use Supply Chain, such as independent-sector providers.

**2.16** Supply Chain recognises that it needs to improve how trusts view its performance if it is to incentivise trusts to use it more. Supply Chain measures and sets targets for customer satisfaction. However, it is difficult to track Supply Chain’s progress against these targets as the method for calculating overall satisfaction and the target that Supply Chain reports have changed several times over the past five years. There is a risk that by changing this target several times, the performance management mechanism may not be working as intended and worsening performance is not identified and dealt with. Supply Chain reports performance on customer satisfaction to NHSE and senior executives, including several recommendations to improve customer ratings, but it does not formally track progress against these recommendations.

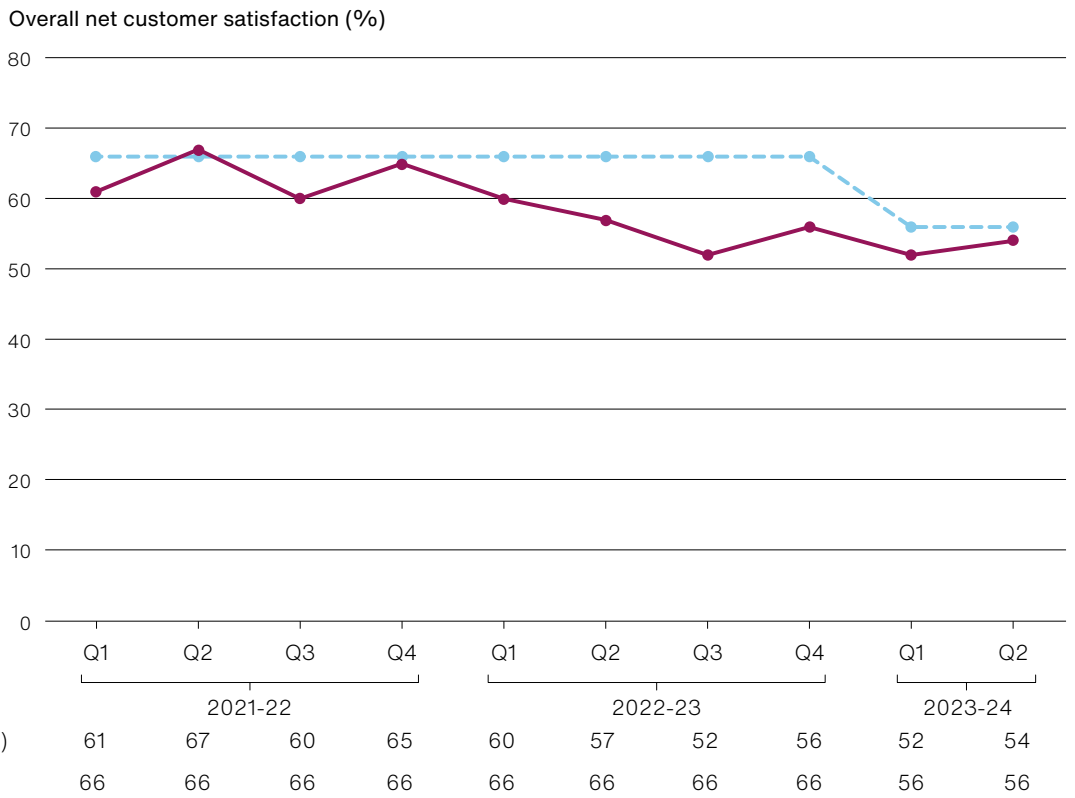
<sup>8</sup> Most questions ask participants to rank Supply Chain’s performance between 1 (lowest) and 10 (highest) and then groups scores into three groups: low (1–4), medium (5–7) and high (8–10).

**2.17** Up until April 2023, Supply Chain assessed overall net customer satisfaction by reporting progress against a target of 66%, but it has only achieved this once in quarter two of 2021-22, when it got 67%.<sup>9</sup> Its scores have been generally decreasing since the end of 2021-22 and in the last quarter of 2022-23 overall satisfaction was 56% (**Figure 7**).

**Figure 7**

Overall net customer satisfaction with NHS Supply Chain, 2021-22 (quarter one) to 2023-24 (quarter two)

**NHS Supply Chain had only achieved its target for overall net customer satisfaction in 2021-22 (quarter two) before changing the target for 2023-24**



**Notes**

- 1 All percentages represent the net quarterly overall satisfaction. For example, the net score of 54% for quarter two 2023-24 comprises a 'high' score of 59.5% and a 'low' score of 5.5%.
- 2 NHS Supply Chain replaced the 66% target in 2023-24 with a new target to just increase satisfaction to above 56% (2022-23 levels).
- 3 The sample size ranged from 400 to 402 respondents per quarter.

Source: National Audit Office analysis of NHS Supply Chain customer satisfaction survey data 2021-22 to 2023-24

<sup>9</sup> Supply Chain calculates overall net satisfaction by subtracting the percentage of customers who give a 'low' rating from the percentage who rate overall satisfaction as 'high'.

**2.18** In 2023-24, Supply Chain replaced the 66% target with a new target to increase satisfaction to above 56% throughout the financial year. Supply Chain told us that it changed the target to make it easier for its employees to understand but it is not clear how the new target will achieve that goal. Overall net customer satisfaction shows a general long-term declining trend from its peak of 67% in quarter two of 2021-22 to 54% in quarter two of 2023-24.

**2.19** As well as overall customer satisfaction, Supply Chain also asks about other areas of performance. Customers were the most satisfied with the ease of doing business through Supply Chain in 2023-24 (quarter two), with 65.8% of respondents giving a score between eight and 10 out of 10 (**Figure 8**). Some 79.0% agreed, to some extent, that they trust Supply Chain.

**2.20** Supply Chain is aware that trusts have concerns with procurement through its eDirect route. Supply Chain delivers products to its customers through several different supply routes:

- 'Stocked products' are physically stored within a Supply Chain warehouse network and Supply Chain delivers them to customers.
- 'eDirect products' are ordered through Supply Chain but the suppliers deliver the products to customers.
- 'Blue Diamond products' are ordered through Supply Chain but are not stocked in its warehouses. These products are delivered to Supply Chain, consolidated with the rest of an order, and then Supply Chain delivers the products to customers via its regional distribution centre.

**2.21** The supply route now called eDirect has experienced significant growth in the past 17 years, growing from £50 million in order value to £1.5 billion in 2022-23. Total sales through the eDirect supply route have remained the highest of all three supply routes over the past three financial years. As early as 2018, Supply Chain was aware of problems with eDirect. A Supply Chain review of eDirect in March 2023 found that key problems included issues with process data and technology, specifically with limited order visibility, lack of system integration, and lack of trust from customers and poor communication. For example, Supply Chain reports on the number of orders that have been delivered in full, but data limits mean that late deliveries are under-reported. Supply Chain data shows that between June 2022 and March 2023, on average more than one quarter (26.9%) of orders were delivered late, by an average of 22 days (Supply Chain reporting began in June 2022) (**Figure 9** on page 28).

**2.22** In March 2023, Supply Chain began a three-stage programme to try to improve eDirect. The programme focuses on improving current processes rather than a system re-design and looks at enhanced ways of working and transforming technology and data. Supply Chain expects to deliver the final stage of the programme between September 2024 and March 2025.

**Figure 8**  
Customers' satisfaction with NHS Supply Chain, 2023-24 (quarter two)

Customers had varying levels of satisfaction with NHS Supply Chain, with most rating ease of doing business as 'high'



- Low (1-4) – Disagree
- Medium (5-7) – Neither agree nor disagree
- High (8-10) – Agree
- Not included

**Notes**

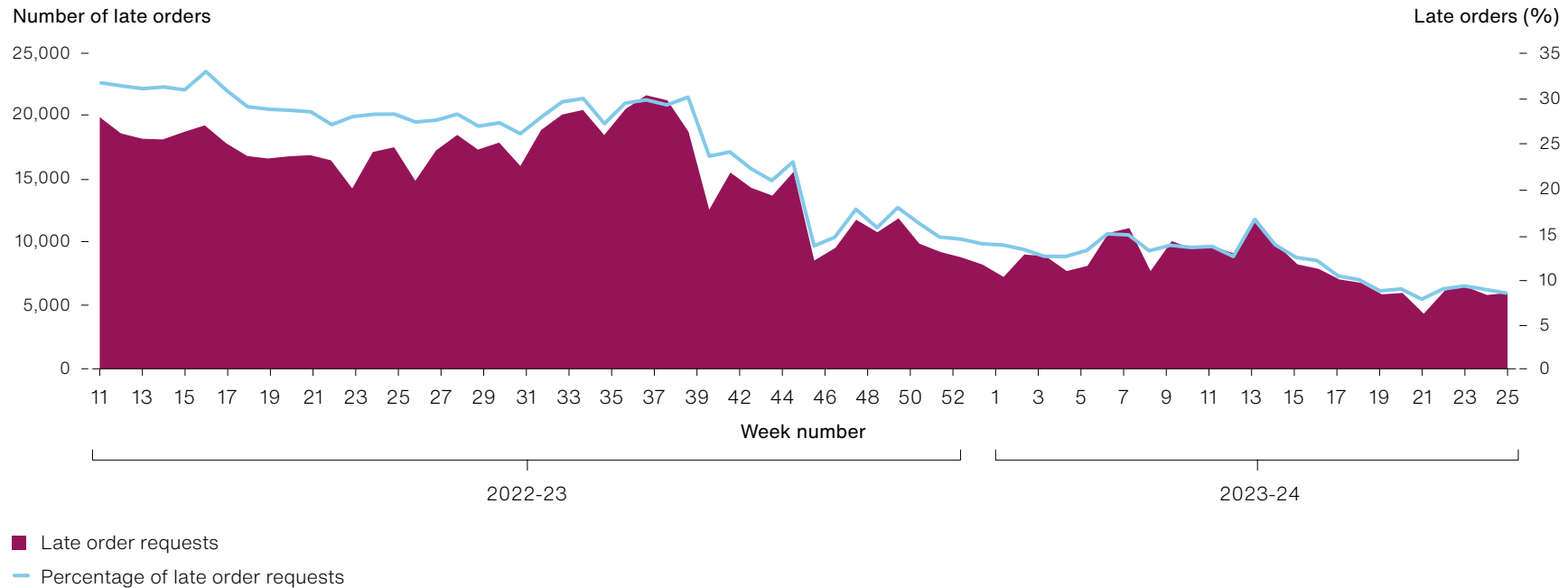
- 1 Key metrics for 'Acts on feedback' and 'Trust in NHS Supply Chain' were grouped into disagree, neither agree nor disagree and agree. These included customers who both tended to agree and strongly agree or tended to disagree and strongly disagree. All other metrics were ranked low, medium and high.
- 2 The total number of respondents for each question was 400.
- 3 Customers in the 'Not included' group include those who were not asked, responded 'don't know' or refused to answer.
- 4 The overall net satisfaction score of 54% can be calculated by subtracting the proportion of customers that were grouped into 'Low' scores from the proportion grouped into 'High' scores (59.5% - 5.5%).
- 5 Some totals do not add to 100% due to rounding.

Source: National Audit Office analysis of NHS Supply Chain customer satisfaction survey data 2023-24 (quarter two)

**Figure 9**

Orders that were delivered late through the eDirect supply route, June 2022 to September 2023

Between June 2022 and September 2023, the percentage of late deliveries has decreased substantially



**Note**  
 1 NHS Supply Chain could only provide data from June 2022.

Source: National Audit Office analysis of NHS Supply Chain data

**2.23** There have been some improvements with eDirect since the improvement programme began. For example, between March and September 2023, the proportion of late orders has decreased from 26.9% to an average of 12.5% of orders, which were delivered an average of 10 days late. However, Supply Chain's review of eDirect in March 2023 concluded that greater investment was needed to provide the scale of change desired by customers, which is not being provided through the programme. Supply Chain has told us that to improve eDirect, it needs financial and operational support from NHSE and support from all trusts to work with Supply Chain to implement consistent working practices. As part of its review of eDirect, Supply Chain recommended that it defines the services Supply Chain should offer the NHS and the role that trusts and Integrated Care Systems must play to make this successful.

### New performance indicators

**2.24** For 2023-24, Supply Chain agreed new key performance indicators (KPIs), which aim to be more focused on meeting trusts' needs. Supply Chain rates the KPIs monthly where a KPI is 'green' if performance is within 5% of the target, 'amber' if performance is between 5%–10% of the target or if issues relating to delivery are straightforward, and 'red' if performance is more than 10% away from the target or if issues relating to delivery are complex.

**2.25** There are 18 KPIs that are used to track and measure performance. NHSE has reported that it will hold Supply Chain to account for achieving KPI targets. Of these 18 metrics, one was not systemically reported against in August 2023, with another one not yet due to be reported. The 18 KPIs cover:

- 'Buy smart', which covers financial KPIs;
- 'Supply right', which covers supply chain resilience;
- 'Partner expertly', which covers working with the NHS; and
- 'Enabling the strategy', which covers supply chain evolution.

**2.26** In August 2023, Supply Chain reported varying levels of performance against its new KPIs (**Figure 10** overleaf), for example:

- delivered service levels (which includes stock level, supply chain models and supply routes), and total pathway procurement, which covers value-based procurement activity, were rated green;
- the majority of KPIs for improved partnering with the NHS were rated amber;
- performance on NHS savings is reported as revenue savings – rated green (£10.9 million against a target of £6.4 million), and capital savings – rated red (£2.5 million against a target of £57.9 million); and
- mitigation of 'on-costs' was rated red (this KPI measures Supply Chain's negotiation away from supplier price increases).

**Figure 10**

NHS Supply Chain's performance against its new key performance indicators (KPIs) in August 2023

NHS Supply Chain rated seven out of its 18 KPIs green in August 2023

Strategy	KPIs	Target	Actual	Status
<b>Buy Smart</b> (Financial KPIs)	NHS system savings	£64.3 million	£13.4 million	
	Revenue	£6.4 million	£10.9 million	Green
	Capital	£57.9 million	£2.5 million	Red
	Mitigation of on-costs	£5.8 million	£8.4 million	Red
	Product safety incident response containment	100%	100%	Green
	Total pathway procurement	£0.4 million	£0.8 million	Green
<b>Supply Right</b> (Supply Chain Resilience)	Delivered service level	Green	Green	Green
	Sustainability milestones	2/2 (Quarter one)	2/2	Amber
<b>Partner Expertly</b> (Working with the NHS)	Service related contacts	Green	Green	Green
	Overall satisfaction	Green (Quarter one)	Amber	Amber
	Transformation (timely delivery of outcomes)	Green	Red/Amber	Red/Amber
	Market share	62% (Quarter two)	57%	Amber
	Healthcare value	£34 million (Quarter one)	£27 million	Amber
	Critical data (customer experience)	Not systematically reported	Not systematically reported	
<b>Enabling the Strategy</b> (Supply Chain Evolution)	Cost improvement programme	Green (Quarter one)	£1 million	Green
	Operating within our financial envelope	£20 million	£21.7 million	Green
	Colleague compliance	100%	90%	Amber
	Colleague engagement	Not due to be reported	Not due to be reported	
	Risk management	Green	Amber	Amber

**Notes**

- 1 NHS Supply Chain reported performance for quarter one 2023-24 in August 2023, unless stated otherwise.
- 2 NHS Supply Chain rates a KPI green if performance is within 5% of the target, amber if performance is between 5-10% of the target or if issues relating to delivery are straightforward, and red if performance is more than 10% away from the target or if issues relating to delivery are complex.
- 3 NHS Supply Chain does not give an overall rating for NHS system savings, and rated revenue savings as green and capital savings as red in August 2023.

Source: National Audit Office analysis of NHS Supply Chain performance reporting



# Part Three

## Addressing barriers to efficiency

**3.1** This part of the report looks at how NHS Supply Chain (Supply Chain) is addressing known performance issues and barriers to efficiency through its transformation programme. It assesses the risks to the programme and how NHS England (NHSE) is supporting Supply Chain.

### The transformation programme

**3.2** The 2020 Department of Health & Social Care (DHSC)-commissioned review set out several ways in which Supply Chain could change to become more effective. These included:

- efforts to improve its “antiquated technology”;
- different operating models for organising supply (including insourcing); and
- demonstrating that it is taking a broader view than its KPIs on market share and savings to show the value Supply Chain is bringing to the whole health system.

**3.3** In 2021, Supply Chain recognised that it needed to become much easier to work with, transform how it works with trusts and align better with the expectations and needs of the NHS. In its 2022-23 Business Plan, Supply Chain outlined its new strategy, which included elements recommended by the DHSC-commissioned review. The new strategy set out Supply Chain’s ambition to deliver system-wide efficiencies and improve its technologies and ways of working. This included redesigning Supply Chain’s operating model to work differently with suppliers by bringing in-house the supply of products that had been previously outsourced, and replacing and upgrading key legacy IT systems. It aims to deal with problems of:

- legacy IT systems;
- non-standard ways of working (for example, customers ordering from different non-Supply Chain platforms);
- legacy commercial contracts (several contracts ending, including logistics);
- under-use of data;
- lack of visibility across the supply chain; and
- needing better supply chain capacity to meet NHS demand.

**3.4** To do this, Supply Chain has started a wide-ranging transformation programme. It has some high-level “strategic imperatives”, under which it prioritises transformation projects through the annual business planning process. It has not articulated any clearly defined or measurable objectives and there is not a detailed and costed timetable for delivery.

**3.5** In developing the strategy and transformation programme, Supply Chain considered the findings of workshops it held from January to March 2021 with 24 trusts and representatives from NHSE. It consulted with its Advisory Board on the developed transformation programme. As the shareholder for Supply Chain, NHSE approved transformation through the business planning process. It is positive about transformation and told us that all the elements of transformation are necessary and that Supply Chain cannot deliver what the NHS needs with Supply Chain’s failing infrastructure.

**3.6** Supply Chain estimates that transformation could provide £1 billion of savings to the NHS from January 2022 to 2030 (including £500 million by 2026) (**Figure 11**). This is Supply Chain’s new savings target. As at October 2023, Supply Chain forecast it would make £230 million savings between January 2022 and March 2024, against a target of £280.1 million.

**3.7** Supply Chain has estimated it will cost £144 million to deliver transformation. Most of this cost will be met through Supply Chain’s existing funding. NHSE has provided an additional £14.7 million out of total costs of £19.7 million for Supply Chain to pilot a new inventory management system with 20 trusts over two years.

**3.8** For 2023-24, Supply Chain requested a revenue budget of £252 million to enable it to implement the business plan and transformation projects for the year in full. This included:

- introducing an updated warehouse management system, replacing outdated systems;
- moving to an updated finance system; and
- implementing a new eCommerce system.

**3.9** This request was an increase from the 2022-23 budget of £232 million (with a further £8 million which NHSE held in reserve which was unspent). The increase also reflects the impact of inflation, logistics costs and transformation project costs. NHSE did not approve the full amount of funding requested but instead provided £240 million plus a reserve of £8 million being held by NHSE to be released if required. NHSE acknowledged that this would delay implementing the eCommerce system, which would have an operational and financial impact of £100 million against the £500 million target by 2026. While NHSE is clear that transformation is needed, it told us it must balance that with the funding needs of other areas of the NHS.

**Figure 11**

## Breakdown of estimated savings from transformation

NHS Supply Chain (Supply Chain) estimates that transformation could produce a minimum of £1 billion in savings by 2030

2022-2026		2027-2030	
Key activities	Range of estimated savings	Key activities	Range of estimated savings
	(£mn)		(£mn)
Trusts make savings by making greater use of existing Supply Chain contracts to buy products	60-90	Product standardisation, for example, reduce the numbers of gloves	25
Develop new contracts that trusts can buy products through to make savings	70-190	Buying directly from manufacturers to reduce mark-ups	50
Procurement of innovative products that will improve NHS productivity	70-100	Procurement of innovative products that will improve NHS productivity	300
Productivity gains from modernising Supply Chain, for example, by replacing legacy IT systems and old infrastructure	25-40	Support trusts through added value services (such as providing clinical products ready for use – known as 'kitting')	45-50
Increase the proportion of UK products transported by the Supply Chain fleet		Implement the new approach to managing international freight	
Pilot a new approach to managing international freight		Implement ways to avoid duplicating services that trusts buy in separately with services that Supply Chain can provide	
Pilot ways to avoid duplicating services that trusts buy in separately with services that Supply Chain can provide	100-180	Support remaining trusts to implement or optimise inventory management systems and processes	30-50
Support trusts in implementing inventory management solutions to increase productivity, reduce stock holding and reduce waste (circa 100 trusts)		Develop an approach so that demand across the NHS matches and is met by supply more smoothly	
Extend service offer outside of hospitals	50-75	Continue to extend service offer beyond outside of hospitals	100-125
<b>Range of savings</b>	<b>375-675</b>		<b>550-600</b>

Source: National Audit Office analysis of NHS Supply Chain documents

**3.10** Supply Chain considers that to make £1 billion of savings and for transformation to be successful, it needs commitments from NHSE, either financial investment or “direction to the wider NHS system”, particularly if the transformation is to be accelerated. In December 2022, Supply Chain set out to the NHSE Board the actions it considered it needed from NHSE. These ‘asks’ included:

- support the standardisation of pricing for a complex category of spend (that is to say, trusts pay a set price for certain goods regardless of supplier);
- require that trusts buy all large diagnostic equipment through Supply Chain; and
- national clinical sponsorship.

**3.11** NHSE’s Board discussed these ‘asks’ and NHSE is making progress towards some of them (see **Figure 12**). To meet all these ‘asks’, NHSE would need to achieve a difficult balance of sending stronger directions and instructions across the whole NHS procurement system. NHSE is not in a position to mandate trusts always use Supply Chain and does not consider that it can provide more funding given its other priorities.

### Management of the transformation programme

**3.12** The key challenge for Supply Chain during transformation is that it must maintain a level of customer service that will incentivise customers to use it while rebuilding systems as the day-to-day business continues. Our previous work has identified several key characteristics that we would expect to see in a well-managed transformation programme. These characteristics include funding, skills and a clear picture of the programme. We have set out our assessment of Supply Chain’s transformation programme against these characteristics in **Figure 13** on page 36. We have found that there are some weaknesses and strengths in management and oversight of the transformation programme.

**Figure 12**

NHS Supply Chain's (Supply Chain) requests for NHS England's (NHSE) support to help Supply Chain meet its £1 billion savings target through transformation by 2030

**NHSE has made some progress in dealing with Supply Chain's requests for support that Supply Chain considers it needs to make £1 billion savings through transformation**

Supply Chain request	NHSE response
Require all trusts to buy large diagnostic equipment (products such as MRI, CT, x-ray scanners) through the Supply Chain contracts.	<p><b>Not met but other steps taken.</b></p> <p>NHSE has not specifically mandated that all trusts buy large diagnostic equipment through Supply Chain. However, it has taken other steps (even though not specifically requested by Supply Chain) to encourage and require trusts to make more use of Supply Chain. For example, NHSE:</p> <ul style="list-style-type: none"> <li>• has mandated that trusts must buy some specialised high-value products (called specialised service devices, for example, bone conducting hearing implants) through Supply Chain;</li> <li>• in August 2023, announced its intention to reduce the number of the 1,200 commercial frameworks that trusts can use to buy goods. This will help reduce the variation in prices that suppliers sell to trusts, creating a more level playing field for Supply Chain, which sells goods at cost; and</li> <li>• intends to consult on requiring trusts to buy some products which as known as nationally contracted products. These tend to be simple products such as ultrasound gel.</li> </ul>
Set a new savings definition to be adopted by the whole NHS that recognises short-term (in year cash-releasing) and long-term (for example, clinical productivity or efficiency) value.	<b>Met.</b> NHSE with Supply Chain has developed a standard method for trusts to calculate savings.
Support the standardisation of pricing for a complex group of products removing price variation such that the NHS benefits but some trusts may need to pay more.	<b>Not met.</b> NHSE considers that all Supply Chain buying strategies would need to be looked at on a case-by-case basis. Where there is a national price initiative, the strategy would need to outline what the overall gain for the NHS system would be.
Provide national clinical sponsorship that can influence and align clinicians to follow agreed national category strategies.	<b>Not met.</b>
Make Supply Chain accountable for deploying Inventory Management Systems (IMS) across the NHS in England, supported by central funding from NHSE over four years.	<p><b>Met.</b> NHSE has set out its intention for Supply Chain to lead the implementation of an inventory management solution in its 2023-24 operational planning guidance.</p> <p>It also told us that additional funding has been made available to provide an IMS to trusts that do not currently have one.</p>
NHSE to consider a separate business case to commence the IMS initiative.	<b>Met.</b> NHSE approved the business case and provided £14.7 million out of total costs of £19.6 million for Supply Chain to pilot a new IMS with 20 trusts over two years.
Ensure that trusts and Integrated Care Systems do not duplicate the work that Supply Chain can do and intends to do, while it completes its transformation programme.	<b>Not met.</b> NHSE considers it has limited powers to do this in full.

Source: National Audit Office analysis of NHS Supply Chain and NHS England documents

**Figure 13**

## Characteristics of a well-managed transformation programme

**NHS Supply Chain's (Supply Chain) management and oversight of its transformation programme shows some weaknesses and strengths**

Characteristics	National Audit Office (NAO) assessment
There are realistic assumptions underpinning estimated savings.	Supply Chain has estimated savings but these are predicated on specific commitments from NHS England (NHSE) which are not yet fully in place. It has not set out what level of savings it would be able to achieve by improving its own processes and quality of service without the additional commitments it has asked for from NHSE.
There is an overall picture of the health of the programme which shows progress against the core objectives.	<p>Supply Chain provides NHSE with regular updates on progress as part of its business-as-usual governance reporting. In August 2023 it was reported as amber/red. NHSE's less directive approach to its oversight of transformation reflects that Supply Chain operates independently. If the NHSE Board is concerned about particular issues, it can ask Supply Chain to provide information for additional oversight.</p> <p>Supply Chain does not have a long-term picture of the programme and sets out its plans year-by-year in its annual business plan to NHSE. It is not being run as a multi-year programme, instead it is managed on a year-by-year business cycle in line with NHSE's business planning process.</p>
Adequate funding is in place.	Supply Chain estimates the total cost of transformation as £144 million (2022–2030). Most of this cost (£129.3 million) will be met through Supply Chain's annual budget from NHSE. NHSE has provided £14.7 million funding for the Inventory Management System. NHSE is not able to agree a multi-year financial settlement with Supply Chain because it only receives an annual budget. This means Supply Chain cannot know whether it will receive the funding it has identified as necessary to deliver the programme.
There are staff with the right skills to implement transformation.	<p>There were gaps in Supply Chain's senior leadership team during 2023 when the chief finance officer (CFO) and commercial director resigned. NHSE acknowledges that there have been delays in filling these posts owing to the requirement for NHSE, the Department for Health &amp; Social Care (DHSC) and HM Treasury approval for their recruitment (in part caused by the additional layer of approval created by Supply Chain's move to NHSE ownership) and the amount of time that the process has taken. DHSC's and HM Treasury's approvals are required for senior salaries above £150,000.</p> <p>There is also a heavy reliance on the chief executive officer (CEO). Supply Chain's remuneration committee considered that this reliance, along with proposed changes in roles and responsibilities for the post of CFO, created a material risk for the company and the Board. To help ease this risk, in April 2023, Supply Chain's remuneration committee agreed to seek NHSE and HM Treasury approval to create a new post of a chief delivery officer. As at October 2023, this appointment had not yet been approved in principle so recruitment had not started.</p>
Stakeholders and delivery partners have buy-in and are prepared to invest in new technology and change their working practices to make transformation a success.	<p>NHSE is positive about and has approved transformation. It has provided some funding for new technology and made some changes to working practices.</p> <p>It is unclear whether Supply Chain and NHSE have done enough to win 'hearts and minds' in trusts to encourage them to buy more products through Supply Chain.</p>

**Note**

- 1 Characteristics of a well-run transformation programme were developed from a review of NAO reports including *The Asylum and Protection Transformation Programme* (2023): [www.nao.org.uk/wp-content/uploads/2023/06/the-asylum-and-protection-transformation-programme.pdf](http://www.nao.org.uk/wp-content/uploads/2023/06/the-asylum-and-protection-transformation-programme.pdf); *Early progress in transforming courts and tribunals* (2018) [www.nao.org.uk/wp-content/uploads/2018/05/Early-progress-in-transforming-courts-and-tribunals.pdf](http://www.nao.org.uk/wp-content/uploads/2018/05/Early-progress-in-transforming-courts-and-tribunals.pdf); and *The Challenges of implementing digital change* (2021) [www.nao.org.uk/wp-content/uploads/2021/07/The-challenges-in-implementing-digital-change.pdf](http://www.nao.org.uk/wp-content/uploads/2021/07/The-challenges-in-implementing-digital-change.pdf)

Source: National Audit Office analysis of NHS Supply Chain and NHS England documents

# Appendix One

## Our audit approach

### **Our scope and evidence base**

**1** Our independent conclusions on NHS Supply Chain's (Supply Chain) and NHS England's (NHSE) efficiencies in procurement were reached by analysing evidence collected in the fieldwork period between June and October 2023.

### **Interviews**

**2** We have conducted 20 virtual interviews between July 2023 and October 2023. Interviewees were selected based on liaison discussions to identify the most appropriate members of organisations to speak with and selected by role/involvement with programmes. Interview notes were written up in detail with key messages for review. Interviews were analysed thematically along the lines that we intended to structure the report. Interviews were used to inform our audit findings and to follow up with document requests, and further interviews to develop understanding and conclusions. The main topics and questions covered in interviews included:

- Supply Chain's set-up and transfer to NHSE;
- Supply Chain's business performance, including savings and market share;
- customer engagement;
- strategy and transformation;
- the role of Supply Chain's Board and general governance;
- ordering channels and supply routes;
- NHSE's shareholder role and accountability; and
- NHSE's commercial strategy.

## **Document review**

**3** We used document reviews to inform judgements, evaluate evidence and programmes, and form the basis of our conclusions. We analysed over 100 documents between July 2023 and October 2023, including:

- departmental documents;
- Supply Chain's business cases and strategies;
- Supply Chain's annual reports and accounts;
- savings methods and data;
- market share and spend data;
- customer engagement reports and customer satisfaction survey results;
- board reporting packs;
- National Audit Office (NAO) reports to build an evaluative framework for transformation; and
- The Government Efficiency Framework and NAO reports on efficiency to assess Supply Chain's approach to making savings.

## **Case studies**

**4** We conducted six case studies of NHS trusts (out of a total of 215 NHS trusts in England) between August and September 2023, which consisted of procurement and finance leads from these trusts. Case studies were selected based on spend volume with Supply Chain between June 2022 and June 2023, geographical location and trust size. The sample selection achieved a coverage of six out of 42 Integrated Care Systems and six out of seven regions in England, which did not have any implications for our findings. All interviews were conducted virtually, and the same agenda template was used across all case studies.



**5** We analysed the interviews using a thematic matrix to identify common themes and highlight differences. We used case studies to inform the customer engagement section of the report as they identified common customer difficulties. This included differences in the savings methodologies that trusts and Supply Chain use.

The case studies were:

- Oxford University Hospitals NHS Foundation Trust;
- South Tees Hospitals NHS Foundation Trust;
- Royal Papworth Hospital NHS Foundation Trust;
- The Rotherham NHS Foundation Trust;
- Gloucestershire Hospitals NHS Foundation Trust; and
- Kings College Hospital NHS Foundation Trust.

## Surveys

**6** We obtained survey data from Supply Chain's quarterly satisfaction survey for quarter two, 2023-24. Supply Chain used a quota sample of all its customers. We did not filter out any respondents so as not to introduce any biases, meaning that views are represented across NHS trusts and independent organisations, and a range of roles. The sample size was 400 customers. For analysis of reasons why customers do not use Supply Chain, 245 out of 400 customers were included in this question (the number of customers asked). For this question, customers could give more than one answer, meaning that totals do not add to 100%. The survey was designed to illustrate a range of views and was carried out by an independent organisation. Responses were collected through a 30-minute telephone interview with 10 in-depth follow-up conversations with a small selection of respondents.

**7** The survey has some limits:

- it uses Supply Chain data only; and
- the sample selection included a mixture of procurement professionals, clinical users, non-clinical users, logistics customers and finance specialists.

### Quantitative analysis

**8** We performed a range of quantitative analyses using data from NHSE and Supply Chain, including:

- **customer satisfaction survey**, where we have used descriptive quantitative analysis for the customer satisfaction survey (CSAT) dataset;
- **NHS Spend Comparison Service;**
- **savings data;**
- **eDirect order data; and**
- **transactions data.**

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