



National Audit Office



REPORT

NHS Supply Chain and efficiencies in procurement

NHS England, NHS Supply Chain

SESSION 2023-24
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HC 390

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.¹ 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.

¹ 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.² 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.³ 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).

² 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/

³ 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.