



Better procurement can play key role in deficit plans

Radical action and solutions are needed in order for the government to be effective in its attempts to reduce the UK's deficit, restore growth and deliver economic stability. It is said if you do things the way you've always done them, then don't be surprised to get same results. Procurement is a clear case in point.

Despite many attempts over the years to reduce duplication, inefficiency and waste, a suitable solution has not been discovered that can effectively help the government drive the very best value for money from its procurement spending, estimated to be more than £236bn, and harness its colossal buying power.

However, greater engagement with private sector expertise could deliver solutions that provide savings, introduce widespread public sector collaboration, leverage innovation and create genuine opportunities for local SME involvement as well as help protect front line jobs and services.

One method to deliver a step-change in procurement already being pioneered by the Department of Health are central framework agreements. These allow the public sector to utilise the expertise of competing private sector companies or social enterprises and, importantly, use the proper aggregation of demand as the means of leveraging the government's buying power.

In an enlightened step, the Department of Health decided in 2004 to begin the process to 'procure' the entire supply chain for the NHS – under a single framework agreement contract with one specialist private sector outsourcer, tasked with saving the taxpayer a massive £1bn over a 10 year period.

The NHS Supply Chain (NHSSC) contract is managed by DHL, who supplies the NHS with everything (except medicines) from bandages to bread, from gloves to implants, and even complex capital diagnostic equipment such as MRI scanners. There is no mandate, but the procurement team has more than doubled to around 220 staff to help meet increasing demand from NHS trusts seeing the value of the procurement proposition and opting into the central framework. The value of national contract coverage has increased more than fourfold, from less than £1bn at the

start, and NHS trust customers are now able to buy a wider range of goods based on prices reduced from the collective leveraging of their spend.

The framework approach also delivers considerable procurement value in capital equipment financing, where the risk of significant overspend can be higher under traditional procurement models. Large spend of this nature can put enormous pressure on trusts' budgets, and there is usually considerable research and forward planning needed for purchasing medical equipment, which has a cost.

Using the NHSSC capital offering, a hospital can buy a £500,000 scanner from the catalogue without incurring the time and effort of running its own tender processes. Customers get good pricing and patients get faster access to the technology. NHSSC's national framework prices typically offer savings of 5 to 12 per cent on what a single NHS trust could expect to pay, equating to £20m of savings in 2009. Such has been the success of this area of the contract that the NHSSC capital team recently won a major industry award – from the Health Service Journal – to reflect the innovation it has brought to this complex area of capital procurement.

NHSSC is a business that works with the public sector, but which is run on business principles with clear commercial imperatives – if pricing, service, range and behaviours are not good then sales are lost. Progress so far shows there is a clear and tangible link between meeting the customers' needs and being successful. If sales growth is a good measure of providing customers with what they need, then supply chains near tripling of turnover in the last three years suggests that it is commercial imperative and focus on the needs of the customers really does make sense.

If such an approach can work for procurement in a public sector organisation as large as the NHS, then there must be opportunities to replicate its success in other areas of the public sector, such as prisons, the police, defence and even the provision of school food.

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