

**APPENDIX 1**

**STRATEGIC DRIVERS**

**OBJECTIVE 1: PROCUREMENT STRATEGY GROUP**

The Procurement Strategy Group has overall responsibility for reviewing and implementing the Trust wide supply strategy. Its terms of reference were reviewed during the last financial year to incorporate sustainable development principles and to take into account the recent organisational restructuring. PSG membership has also been revised to ensure that relevant clinical input reflects the new structure.

There remains an on-going need, in certain categories, to engage wider clinical networks and integrate clinician influence and procurement expertise to form a partnership that provides value for money solutions that will improve both patient and staff quality outcomes.

During the year a relationship management strategy has been developed which allocates a senior Procurement professional to each of the Clinical Divisions. Close, integrated relationships, where the parties have specific interface points and named responsible professionals, are proven to deliver superior results. It is also important that the Clinical Divisions are able to recognise at an early stage the potential contribution that Procurement can make to the achievement of objectives: the broader the scope of mutual understanding of requirements the more effective the contribution can be.

**APPENDIX 2****OBJECTIVE 2: E-COMMERCE**

The Trust's e-Commerce agenda, illustrated by the virtuous circle diagram in figure 1, was born from the national commitment by the Government to modernise the National Health Service (NHS). E-Commerce was seen as a major enabler for the delivery of this plan.

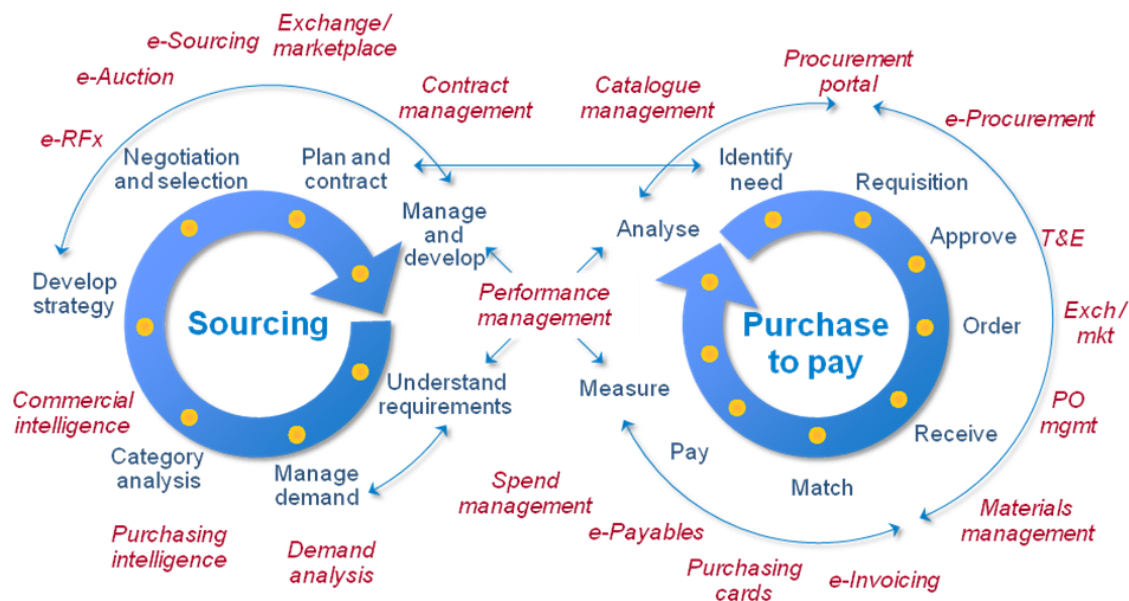


Figure 1

The implementation of Oracle e-Business Financials suite and its development was thus used as the platform for the deployment of web-enabled technology across the Trust. Hence, the following modules were (or in the process of\* being) deployed:

- ✚ Purchasing
- ✚ iProcurement – Remote Requisitioning
- ✚ Exchange (via e-Marketplace Provider)
- ✚ Accounts Payable
- ✚ Accounts Receivable
- ✚ Cash Management
- ✚ General Ledger
- ✚ Discoverer
- ✚ Sourcing\*
- ✚ Procurement Contracts\*
- ✚ Daily Business Intelligence (DBI)
- ✚ Version 1
- ✚ Tutor
- ✚ Universal Productivity Kit (UPK)

## 2. Oracle Implementation

In May 2005, the Trust started the implementation of Oracle financials and procurement modules to replace a number of disparate legacy systems to provide a single source of real time management information. This enabled the Trust to optimise its business process through:

- ✚ Increased accuracy of purchase orders and automatic invoice matching
- ✚ Reduced lead time from requisition to delivery
- ✚ Improved supply chain management
- ✚ Increased contract and supplier performance management
- ✚ Provided intelligence reporting that will facilitate effective management and control of Trust's expenditure
- ✚ The accurate data enables the trust to negotiate better preferential rates on its contracts

### 2.1 Self-Service (Web) Requisitioning Rollout

Oracle Internet Procurement is a form of e-commerce that harnesses WEB technology to add value and reduce the cost of material acquisition. Integrated with other oracle modules, it gives staff the ability to quickly and easily raise purchase requisitions and track their progress. It incorporates sophisticated workflow technology to streamline the process of authorising requisitions as well as supplier contract management, which automates the process of transforming requisitions into purchase orders and expediting them to suppliers.

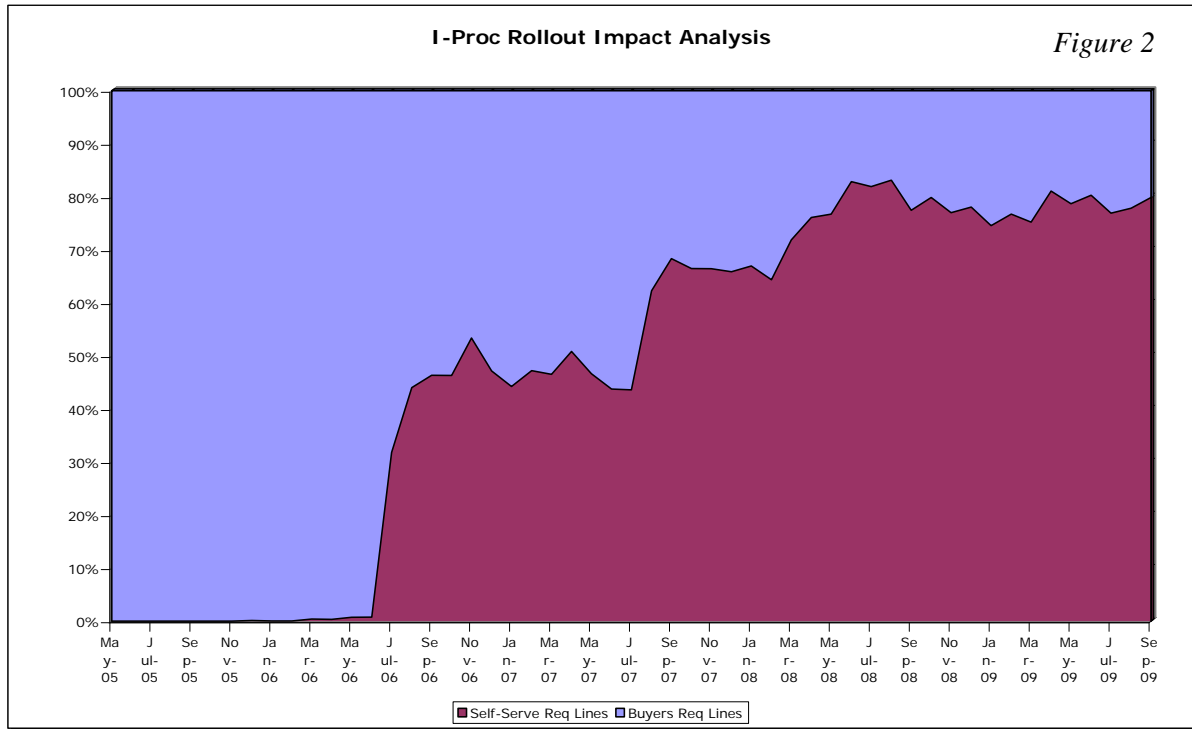
Web requisitioning process empower users with an effective tool kit that provides expenditure transparency and the ability to drill down to receipting, invoice and payment details without any need to contact the Procurement or Account Payables departments.

The first phase of the self-service requisitioning rollout commenced Q2/06 and the third phase completed Q2/08-9, culminating in 75:25 transaction split between the number of purchase requisition lines processed by the spending departments against those processed by Procurement as shown in figure 2. With the use of Approval Management Engine (AME) – workflow customisation, the implementation of ICT Q2/08 as non-financial authorisation process became an easy option to introduce.

The 4th phase commenced Q2/09-10 with Pharmacy non-stock purchase requisitioning and satellite locations such as Renal at Whipps Cross and Newham General Hospitals planned thereafter.

However, the advent of the new and 4th Clinical Division in October 2009 will require another rollout pause & reflection to diligently review and re-map Requisition Hierarchy to ensure that Oracle accurately reflects the new structure before undertaking further rollouts.

The efficiency – cash releasing and process improvement – savings accrued via the benefits tracking model developed is illustrated in figure 3.



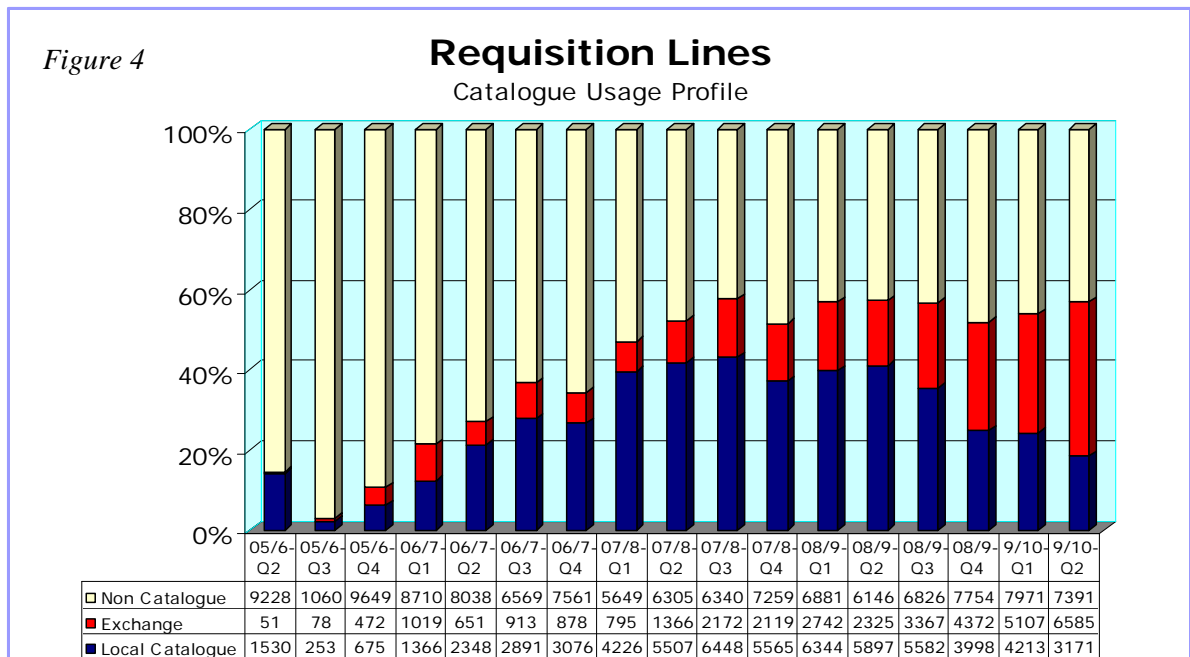
| Benefits Tracking Summary  |              |                     |                     |                     |                     |                     |
|--|--------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Year   | 2004/5       | 2005/6              | 2006/7              | 2007/8              | 2008/9              | 2009/10             |
| Period   |              | 1                   | 2                   | 3                   | 4                   | 5                   |
| <b>Process Savings</b>   |              |                     |                     |                     |                     |                     |
| Transactional  |              |                     |                     |                     |                     |                     |
| Self Serve - Catalogue   |              | -                   | 16,212.00           | 63,876.00           | 94,608.00           | 35,736.00           |
| Self Serve - Non-Catalogue   |              | -                   | 27,984.00           | 47,392.00           | 78,960.00           | 29,424.00           |
| Buyer Processed orders from catalogues   |              | 5,640.00            | 7,760.00            | 14,555.00           | 8,885.00            | 3,625.00            |
| <b>Total Process Savings</b>   |              | <b>5,640.00</b>     | <b>51,956.00</b>    | <b>125,823.00</b>   | <b>182,453.00</b>   | <b>68,785.00</b>    |
| Notes:   |              |                     |                     |                     |                     |                     |
| 1. Self Serve - Catalogue values calculated on the basis of a £12 savings per transaction (figures based on CIPS I-Save research).   |              |                     |                     |                     |                     |                     |
| 2. Self Serve - Non-Catalogue values calculated on the basis of a £8 savings per transaction (figures based on CIPS I-Save research, adjusted for use of non-catalogue process).                     |              |                     |                     |                     |                     |                     |
| 3. Buyer Processed orders from catalogues values calculated on the basis of a £5 savings per transaction (figures based on CIPS I-Save research, adjusted for buyer manually entering requisitions). |              |                     |                     |                     |                     |                     |
| 4. Figures calculated on the basis of: <number of transactions> x <saving per transaction>.  |              |                     |                     |                     |                     |                     |
| <b>Other Cost Savings</b>  |              |                     |                     |                     |                     |                     |
| Reduction in requisition pad use.  |              | 5,000.00            | 5,000.00            | 5,000.00            | 5,000.00            | 5,000.00            |
| Elimination of purchase order pre-printed stationery.  |              | 2,500.00            | 2,500.00            | 2,500.00            | 2,500.00            | 2,500.00            |
| Costs eliminated as a result of decommissioning of the dot matrix printer e.g. servicing, consumables etc.   |              | 6,000.00            | 6,000.00            | 6,000.00            | 6,000.00            | 6,000.00            |
| Reduction in use of cheque Stationery  |              | 5,000.00            | 5,000.00            | 5,000.00            | 5,000.00            | 5,000.00            |
| <b>Released resources</b>  |              |                     |                     |                     |                     |                     |
| 1 x AfC Band 4 - Buyer   |              | 8,000.00            | 24,000.00           | 24,000.00           | 24,000.00           | 24,000.00           |
| 1 x AfC Band 4 - Project Executive   |              |                     |                     | 16,000.00           | 24,000.00           | 24,000.00           |
| 1 x AfC Band 4 - Buyer   |              |                     |                     |                     | 12,000.00           | 24,000.00           |
| <b>Legacy Systems - FIS</b>  |              | 65,000.00           | 65,000.00           | 65,000.00           | 75,000.00           | 75,000.00           |
| <b>Total of Other Cost Savings</b>   | -            | <b>91,500.00</b>    | <b>107,500.00</b>   | <b>123,500.00</b>   | <b>153,500.00</b>   | <b>165,500.00</b>   |
| Notes:   |              |                     |                     |                     |                     |                     |
| 1. Perpetual savings as these costs were incurred annually.  |              |                     |                     |                     |                     |                     |
| <b>Procurement Savings</b>   |              |                     |                     |                     |                     |                     |
| Total Expenditure (£m)   | 186.76       | 176.33              | 225.84              | 245.94              | 254.68              | -                   |
| Influenceable Spend  | 138.20       | 139.30              | 130.72              | 144.66              | 161.19              | -                   |
| Under Control  | 92.13        | 92.87               | 87.14               | 96.44               | 107.46              | -                   |
| <b>Opportunity for Savings</b>   | <b>46.02</b> | <b>46.39</b>        | <b>43.53</b>        | <b>48.17</b>        | <b>53.68</b>        | -                   |
| % Procurement Savings  | 0%           | 2%                  | 5%                  | 5%                  | 3%                  | 2%                  |
| <b>Savings attributed to Proc savings (£m)</b>   | -            | <b>0.93</b>         | <b>2.18</b>         | <b>2.41</b>         | <b>1.61</b>         | -                   |
| Notes:   |              |                     |                     |                     |                     |                     |
| 1. The under control figures are based on the assumption that typically 67% of influential spend is already under control.   |              |                     |                     |                     |                     |                     |
| 2. It is assumed that the opportunity for savings is typically 33% of influential spend.   |              |                     |                     |                     |                     |                     |
| 3. Procurement savings figures taken from the original business case, even though the CIPS I-Save research reported the average e-procurement saving as 7.87%.                                       |              |                     |                     |                     |                     |                     |
| <b>Total Savings</b>   |              | <b>1,024,878.00</b> | <b>2,335,919.14</b> | <b>2,657,893.03</b> | <b>1,946,210.85</b> | <b>234,285.00</b>   |
| <b>Cummulative Savings</b>   |              | <b>1,024,878.00</b> | <b>3,360,797.14</b> | <b>6,018,690.17</b> | <b>7,964,901.02</b> | <b>8,199,186.02</b> |

## 2.2 Electronic Trading – Supplier Adoption, e-POs & e-Invoicing

The e-Commerce agenda is underpinned by the need to encourage suppliers to trade electronically with the Trust. This process was facilitated by the introduction of an exchange using a single connectivity – link to our Oracle e-Business suite. The programme, in partnership with UKprocure, embraces: Catalogue Management, Supplier Adoption, PO (XML) Transmission and e-Invoicing.

The Trust contract award criteria will continue to stipulate that potential suppliers be willing to join our nominated e-Marketplace provider to facilitate the process of trading with the Trust electronically.

Figure 4 details catalogues usage penetration with about 60% going through the catalogue route with over 30% requests being selected from supplier-managed catalogues or double punch out to suppliers’ website via UKprocure’s exchange (an increase of 10% in year 08/09)



The use of XML (e-PO) transmission process, illustrated in figure 5, has continued to be the preferred mode of transmission for newly adopted vendors because of its expediency with over 35 key suppliers enabled. It also facilitates the process of integration into the vendors back office systems.

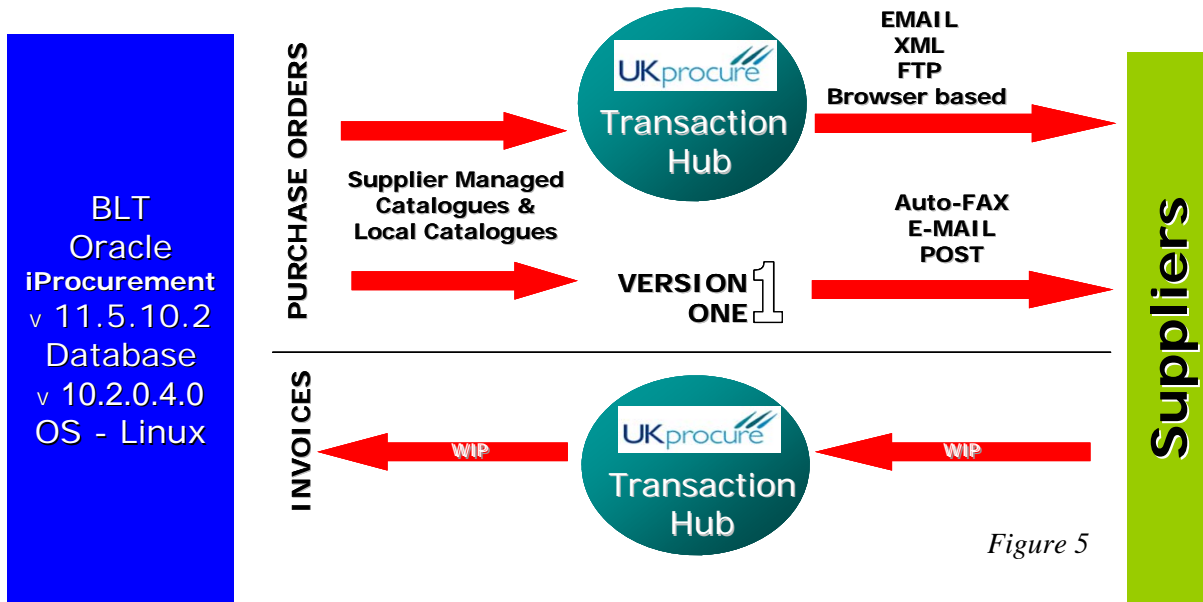


Figure 5

The provision of an e-Invoicing feed, illustrated by the schematic diagram in figure 6 is an outstanding part of the East London Consortium’s subscription to the UKprocure e-Marketplace service.

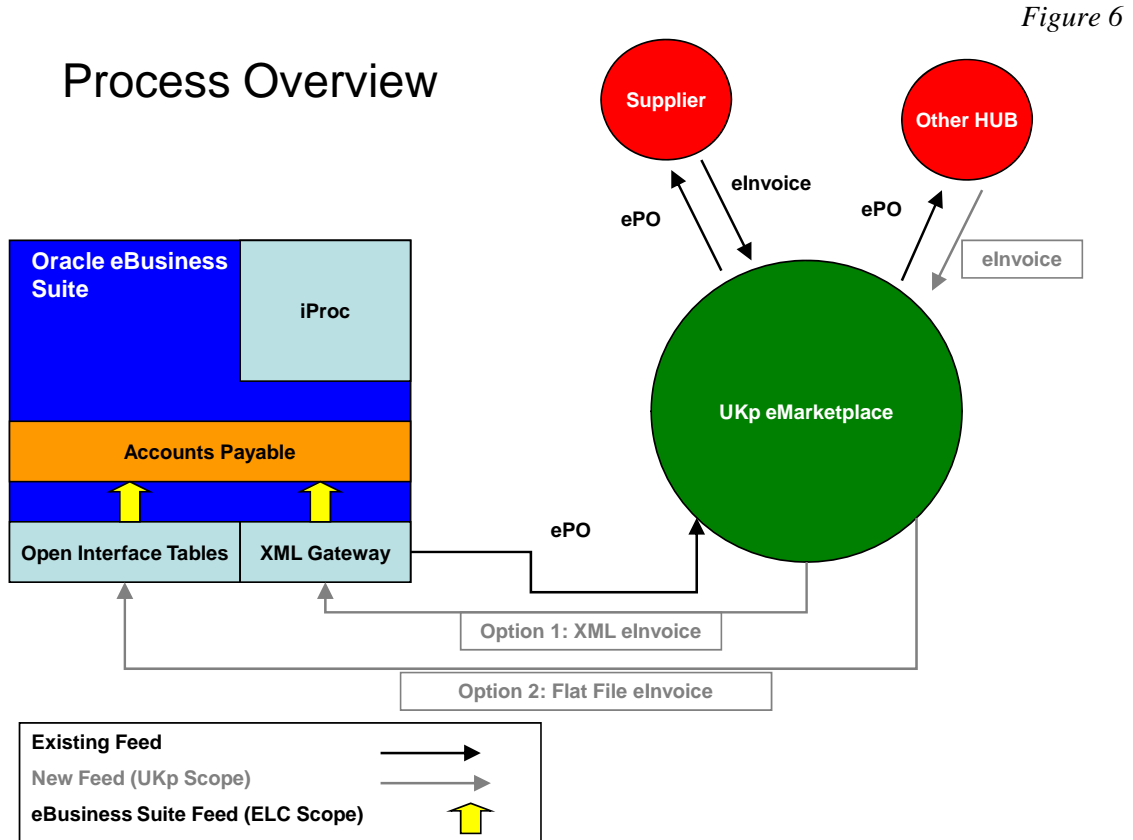


Figure 6

After a series of delays due to the implementation of XML POs and change in business priority, the PoC (Proof of Concept) project commenced in association with BLT Accounts Payable team who have a significant role to play in the success of the programme.

The project focuses on the near term objectives of proving the technical feasibility, overcoming system issues and validating the business process by:

- ✚ Ensuring that the implementation of e-Invoicing via UKprocure will meet the requirements of the BLT Finance Department and AP in particular
- ✚ Validating that the individual components and the end to end process can deliver full invoice matching such that the workload for AP is reduced – the target rate for invoices that are fed into AP for suppliers selected to be part of the programme is 98% matching to PO
- ✚ Finalising the technical design for the delivery of e-Invoices into the BLT e-Business Suite and demonstrate its feasibility.
- ✚ Finalise and prove the transportation mechanism to deliver e-Invoices to the Barts e-Business Suite environment in light of N3 constraints
- ✚ Enable at least 2 suppliers with e-Invoicing in pilot mode

This report incorporates a synopsis on the progress of the project to date.

Technical development commenced with Patech-Solutions (our Oracle Management Service Provider) developing custom modules and liaising with UKprocure for testing. “Get Invoice” programme (which allows the Trust to retrieve electronic invoice from UKprocure’s e-Marketplace) has been developed & implemented.

Pilot suppliers’ candidates identified and approached with briefing pack and agreement received from one of our top spend/transactional vendors – Roche Diagnostics Ltd. Future candidates are being solicited with Boston Scientific being the next major supplier to participate, as UKprocure seeks to translate GHX (Global Healthcare) electronic invoice file/data set.

User Acceptance Testing (UAT) with Roche Diagnostics highlighted the following issues which have been resolved:

- ✚ Multiple invoice lines against our unique & single PO line
- ✚ Incorrect PO lines quoted on Roche’s invoices
- ✚ Invoice values were more than 2 decimal places
- ✚ Freight/Delivery Charges

UAT progressed well and electronic invoicing with Roche Diagnostics is now live.

## 2.3 Advanced Procurement - Sourcing & Procurement Contracts

Traditional strategic sourcing methods tend to be time consuming and a complex process, preventing the sourcing of all commodities for maximum savings. Lots of time and effort is required to manage the current bureaucratic manual tendering process.

The Oracle Sourcing module delivers a more effective way to source goods and services. It allows buyers to collaborate with multiple suppliers more effectively, by managing the process electronically. It effectively streamlines the tendering process and ensures compliance with OJEU rules and governance. All documentation is captured and stored in a central repository, giving a detailed audit trail and easy access to all relevant users.

Creating quotations will take less time by using pre-defined templates. The supplier selection process will be faster using an automated rating system, defined by contract managers/project team.

**ORACLE Sourcing** Return To Portal Logout Preferences Help

**Negotiations** Intelligence Administration

Search Published Negotiations   [Advanced Search](#)

**Published Negotiations** [Full List](#)

| Number                   | Title                                  | Type    | Time Left       | Role   | Responses          | Monitor                |
|--------------------------|--|---------|-----------------|--------|--------------------|------------------------|
| <a href="#">1024-2</a>   | Equipment Renewal for Georgia Sites    | RFQ     | 2 days 2 hours  | Owner  | <a href="#">0</a>  | <a href="#">[Grid]</a> |
| <a href="#">1025</a>     | Lease Renewal for Atlanta, GA Store    | RFQ     | 2 days 10 hours | Owner  | <a href="#">0</a>  | <a href="#">[Grid]</a> |
| <a href="#">1027-2</a>   | Equipment Purchase for HQ Stress Test  | Auction | 7 days 14 hours | Member | <a href="#">10</a> | <a href="#">[Grid]</a> |
| <a href="#">1034</a>     | Equipment Renewal for California Sites | RFQ     | 20 days 7 hours | Owner  | <a href="#">2</a>  | <a href="#">[Grid]</a> |
| <a href="#">1034-2.2</a> | Equipment Renewal for California Sites | RFQ     | 21 days 7 hours | Member | <a href="#">2</a>  | <a href="#">[Grid]</a> |

[\[i\]](#) Negotiation has been paused. Only draft responses can be created.

**Quick Links**

|  |  |   |  |
|--|--|---|--|
| <b>Create</b>  | <b>Manage</b>  | <b>Templates</b>  | <b>Reusable Lists</b>  |
| <ul style="list-style-type: none"> <li><a href="#">RFI</a></li> <li><a href="#">RFQ</a></li> <li><a href="#">Auction</a></li> <li><a href="#">Copy</a></li> <li><a href="#">Event</a></li> </ul> | <ul style="list-style-type: none"> <li><a href="#">Drafts</a></li> <li><a href="#">Events</a></li> <li><a href="#">Deliverables</a></li> <li><a href="#">Draft Surrogate Responses</a></li> <li><a href="#">Supplier Research</a></li> </ul> | <ul style="list-style-type: none"> <li><a href="#">RFI</a></li> <li><a href="#">RFQ</a></li> <li><a href="#">Auction</a></li> </ul> | <ul style="list-style-type: none"> <li><a href="#">Invitation</a></li> <li><a href="#">Attribute</a></li> <li><a href="#">Price Element</a></li> </ul> |

**Draft Negotiations**

- [11034: HQ Printer Mainte...](#)
- [11039: Health care for 2005](#)
- [11047: Store Construction](#)

**Unread Messages**

- [31-May-2004: Can you explain h...](#)
- [02-Jun-2004: Can I define the ...](#)
- [21-Jun-2004: When do you need ...](#)
- [23-May-2004: Why is my bid bee...](#)

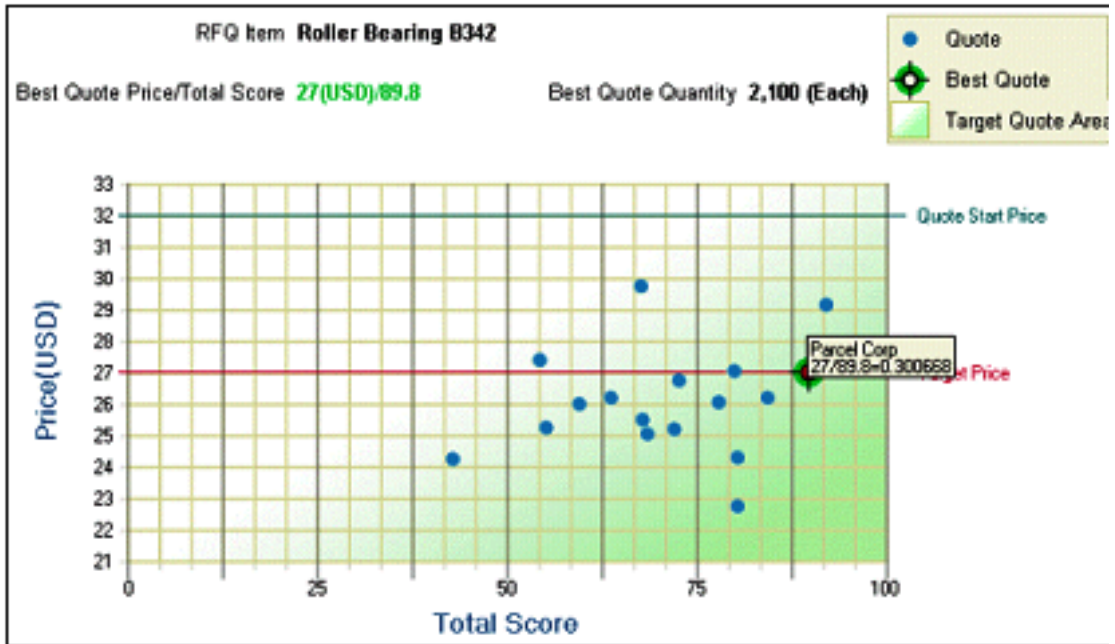
**Incomplete Tasks**

- [25-May-2004: Assign weights to...](#)
- [30-May-2004: Define price brea...](#)
- [06-Jul-2004: Award business](#)

[Negotiations](#) | [Intelligence](#) | [Administration](#) | [Return To Portal](#) | [Logout](#) | [Preferences](#) | [Help](#)

Copyright 2005 Oracle Corporation [Privacy Statement](#)

Using reverse auctions, buying organisations can invite multiple suppliers to bid on contracts in a real-time auction. This approach provides a far more interactive environment to host auctions, where suppliers can respond to bids from other suppliers, helping to drive down the prices of goods and services.



The delay in the implementation of Sourcing & Procurement Contracts modules was due to resource shortage which has now been addressed. The introduction of these advanced procurement modules is thus planned for completion by the end of Q3, 2009-10.

**APPENDIX 3****3. Key Performance Indicators**

The Cabinet Office review of NHS Procurement (HSC 1999/143) made a number of recommendations aimed at sharpening procurement performance:

- Progressively cover all procurement expenditure in the trust
- Set clear and challenging targets for procurement efficiency improvements
- Identify key performance indicators for procurement

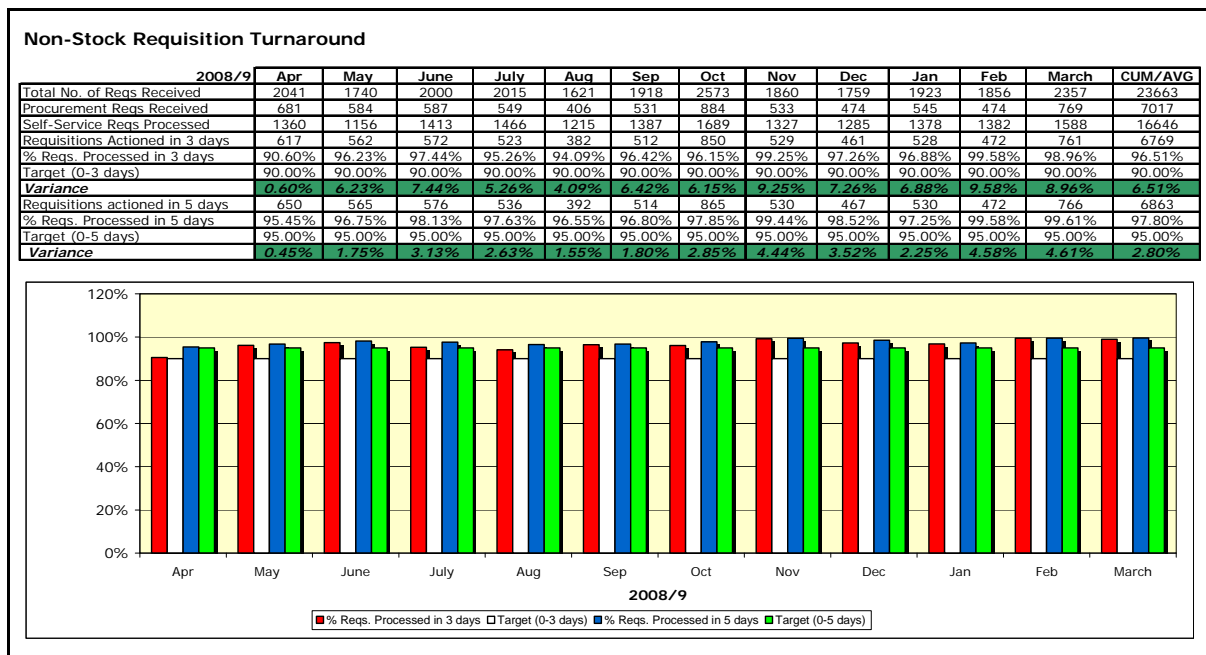
Clear and challenging targets have been in operation since 2002, and improvements are measured on a monthly basis, results posted on the Procurement and Supplies website and reported to the Procurement Strategy Group on a quarterly basis and the Trust Board annually.

The following provides Procurement operational key performance indicators for the year 2008/09:

**3.1 Non-stock Purchases measuring influenced expenditure and transactional effectiveness**

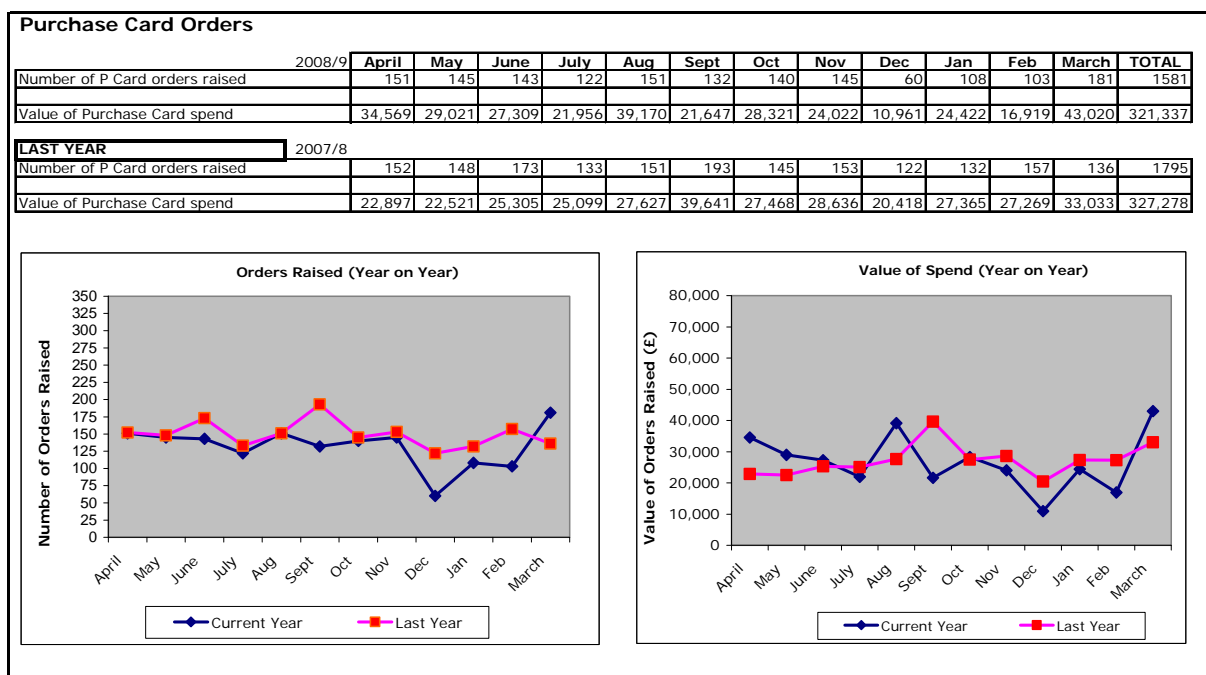
The non-stock purchasing activity increased by 16% (additional 3569 purchase orders processed during financial year 2008/9 with a corresponding expenditure increase of 2% (£1.3M).

### 3.2 Requisition turnaround measuring process efficiencies



The much reduced transactional & business process team (reduction of wte from 8 to 4 since Oracle implementation) consistently met dwell time targets throughout the year in spite of increased activities during Q4 month end.

### 3.3 Low value transactions: effective use of the trust's purchase card



The use of purchase cards was introduced in the trust in May 1999. Prior to the introduction of electronic trading; the purchase card process had streamlined the 'traditional' purchase to pay process from nineteen separate steps to seven. The Government procurement card best guide published by KPMG and OGC identified savings of £28 per transaction from its use (**representing £44,268 of transactional savings** during 2008/09).

The on-going rollout programme of the Oracle purchase order system continues to have a major impact on the utilisation of the purchase card with 12% less transactions during the period. This impact will continue to be scoped during the next year and recommendations made to PSG on future use of the purchase card.

### 3.4 Inventory Management

Recommendations made in the supply strategy have been reviewed and relevant action taken to address the following:

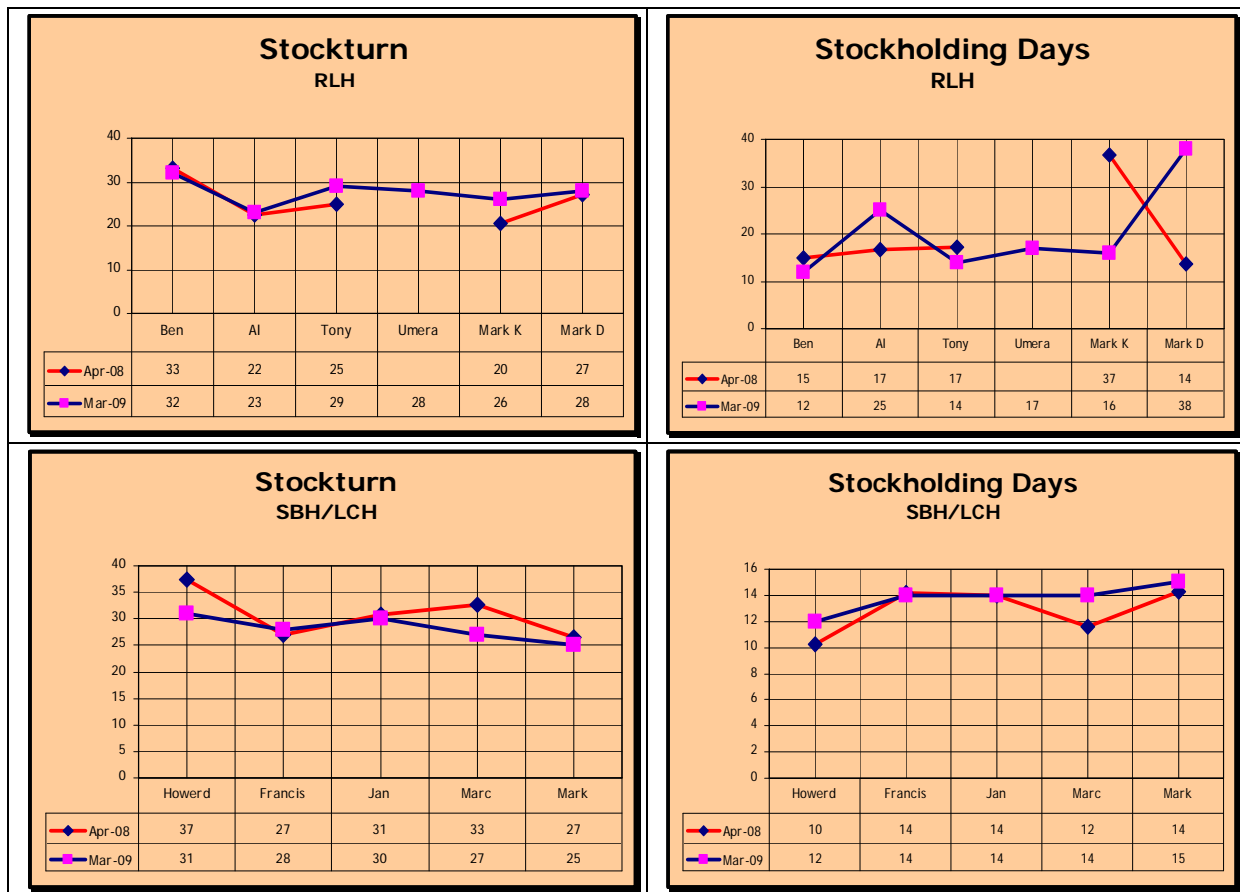
- Setting stock levels in line with supplier contract performance
- Exploring contractual arrangements to reduce on site stock levels
- Ensuring maximum use of materials management throughout the three hospital sites
- Utilising electronic trading systems to reduce stockholding and processing costs
- Examining criticality of product range and setting stockholding criteria based on risk

Although the team providing the operational element of the service transferred to Carillion in 2006 (PFI partner), progress continues to be made in the delivery of this challenging agenda. An e-DC inventory management system provided by NHS Supply Chain is used throughout the Trust for the management and replenishment of all stock products (This dependency will be reviewed over the next 12 months and action taken to mitigate this risk). There are 550 locations receiving a service from the team with 102 of these areas receiving a fully managed inventory service (bar coding and top up).

The materials management team provide a comprehensive service which starts with the identification of the need (replenishment review), defining inventory range and levels, through to the put-away of the delivered products and delivery discrepancy resolution, thereby providing a best practice, end to end, inventory managed service. The trust is seen as a beacon of best practice in the NHS and is visited throughout the year by practitioners to learn from our experiences and replicate in their own organisations.

The trust has a target of turning over its stock 25 times per annum. Actual performance for 2008/09 was 28 times (**12% above target**)

### 3.4.1 STOCK TURN

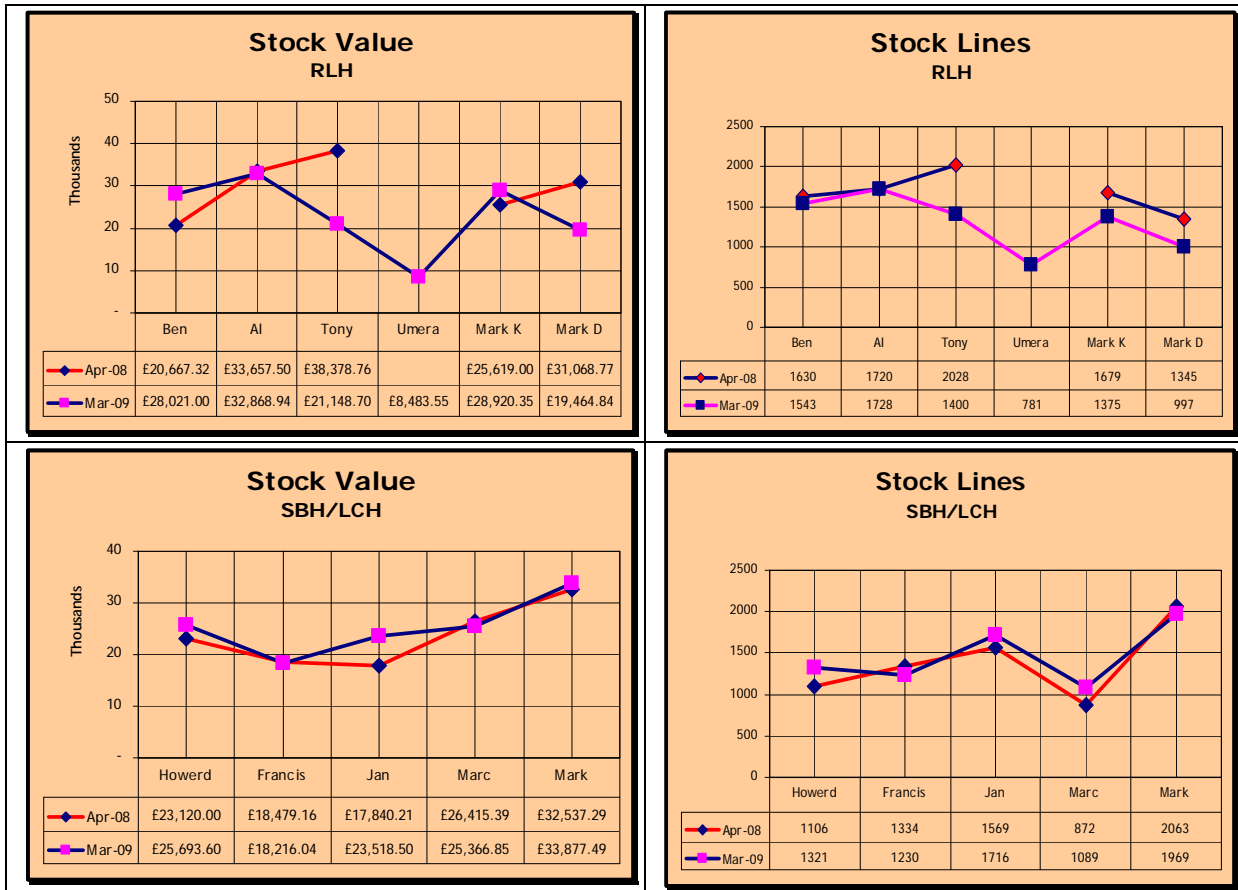


The 2008/9 year-end average stock turn of 28 and stock holding days of 17 is relatively flat against last years figures which remain benchmark for the NHS.

*PS! Lack of data for one of the Ward Inventory Controllers was due to maternity leave. The data has been incorporated with the other WIC's figures.*

### 3.4.2 Activity and Value

There was a 2% reduction in Materials Management activities for year end 2008/9, mainly due to departmental moves as a result of the hospital build programme. Stock value remains relatively flat.



Through the use of leading edge electronic data capture devices and making full use of NHS Supply Chain range of supply chain services, the Trust has been able to minimise the amount of capital tied up in stock. Savings of £536,280 have been delivered since 2001 with an average stock turn increased from an average of 6 to 28.

All transactions flowing to NHS Supply Chain are undertaken through electronic transfer of data which is an increase of 22.5% since 2003. The increased eCommerce penetration has enabled the Trust to reduce the ordering process costs from £4.97 per order line to £0.56 per order line. Analysing the current number of order lines ordered through this channel in 2008/09 shows the ordering process cost as £210,119. If these lines were ordered through an alternative channel the potential process costs would be £1.86m.

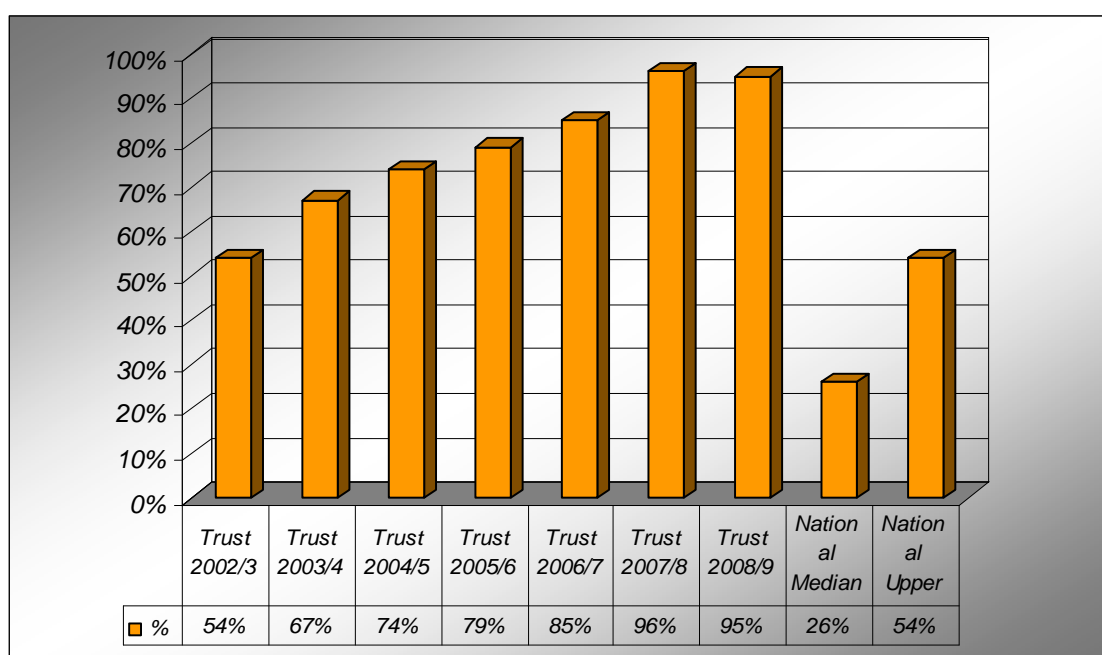
### Materials Management Activity

|                      | 2002/3  | 2003/4  | 2004/5  | 2005/6  | 2006/7  | 2007/8  | 2008/09 | % Increase |
|----------------------|---------|---------|---------|---------|---------|---------|---------|------------|
| No. of Product Lines | 206,883 | 246,109 | 287,783 | 338,473 | 342,164 | 364,522 | 375,212 | 81         |
| Value (£M)           | 4.9     | 6.2     | 7.4     | 9.1     | 9.7     | 10.0    | 10.7    | 118        |

### 3.5 NATIONAL KEY PERFORMANCE INDICATORS: APRIL 2009

The Audit Commission's report 'Supply Management in Acute Hospitals' identified major differences in the quality and cost of procurement performance in the NHS, and the NHS Purchasing and Supply Agency collected key performance data from all trusts on a yearly basis. Unfortunately this data has not been collected since April 2004 due to poor returns. The Trust continues to use this data to benchmark its performance to date.

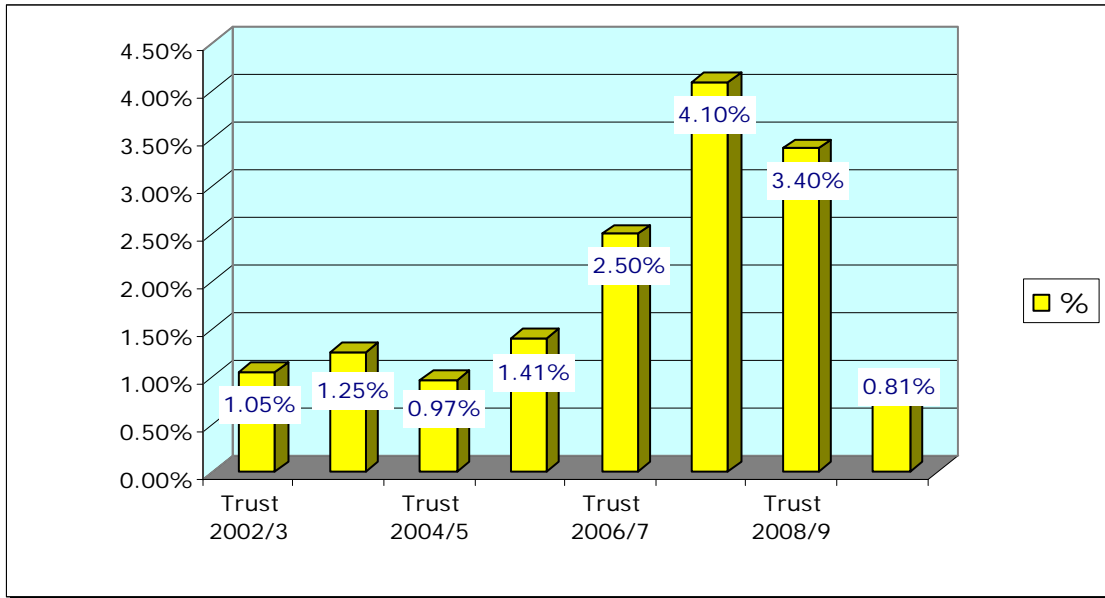
#### a) Expenditure covered by competitive contracted arrangements 2008/09



The Procurement Department processed £68m through its Oracle purchase order system. Adding other areas of expenditure that are not currently processed through this system, but are subject to contracted arrangements (agency staff, pharmacy, utilities, service contracts, NHS Supply Chain etc); the overall influenced expenditure represents 95% of all influenceable expenditure.

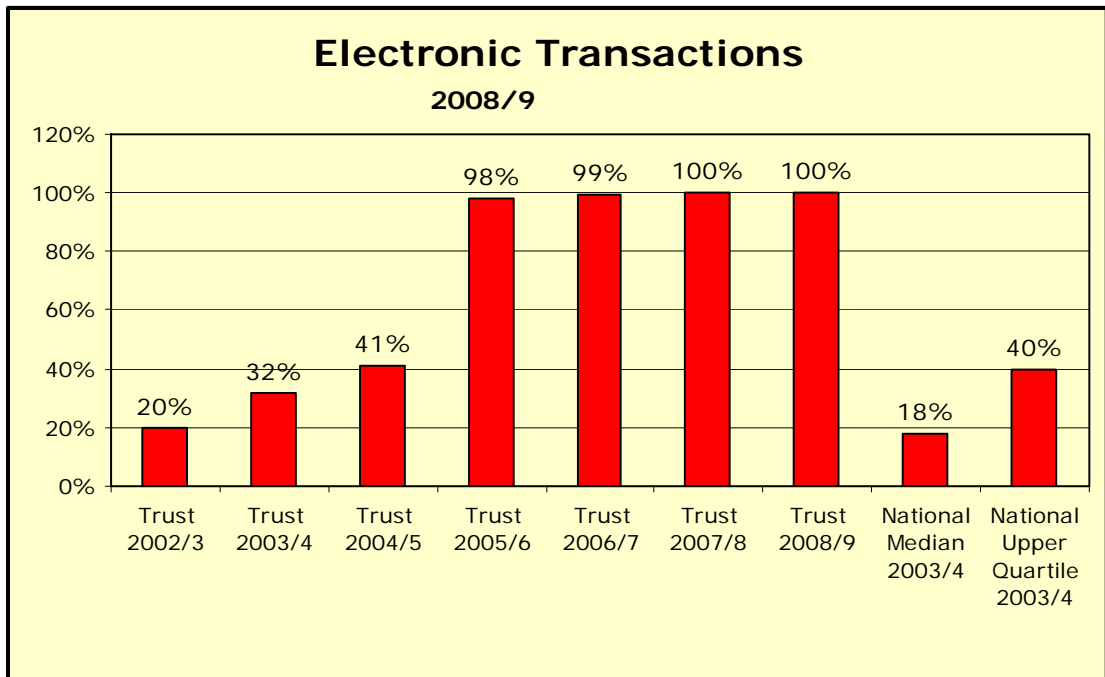
Best performing trusts cover only just over half of their expenditure and best practice suggests that performance above 85% is exceptional.

**b) Cash Savings Against Total Expenditure 2008/09**



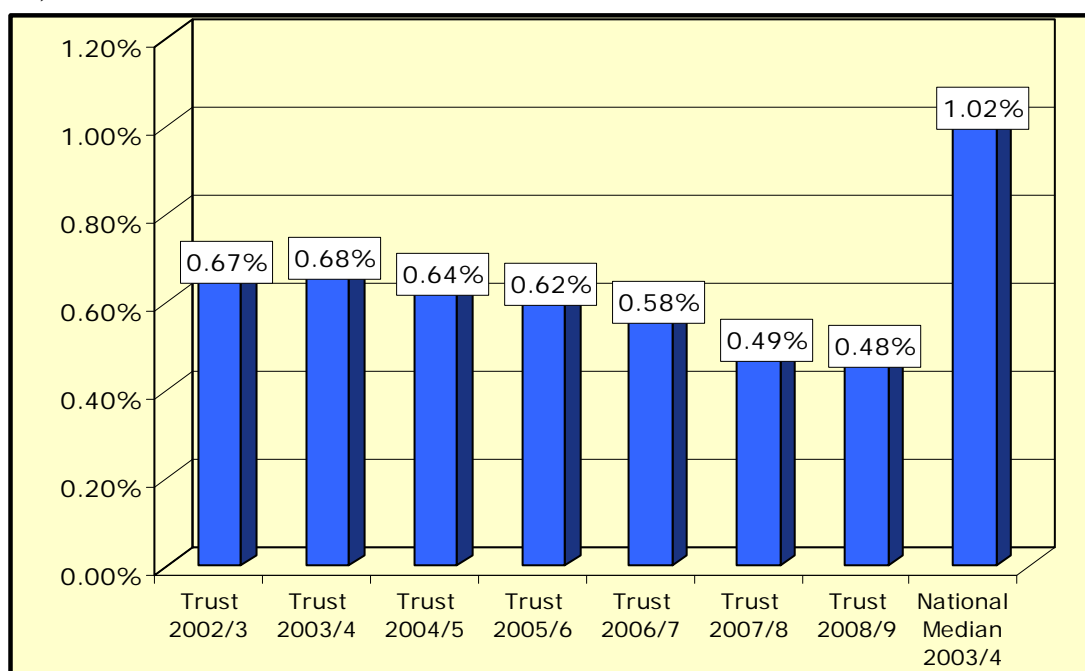
Contracts awarded during 2008/09 had a savings target of £5m. In fact the team delivered cash releasing savings of £5.14m (**3% above target**) of which £3.28m were realised during the financial year. This equates to 3.4% of the total Trust expenditure (£151m) that can be influenced through best procurement practice.

**c) Electronic transactions 2008/09**



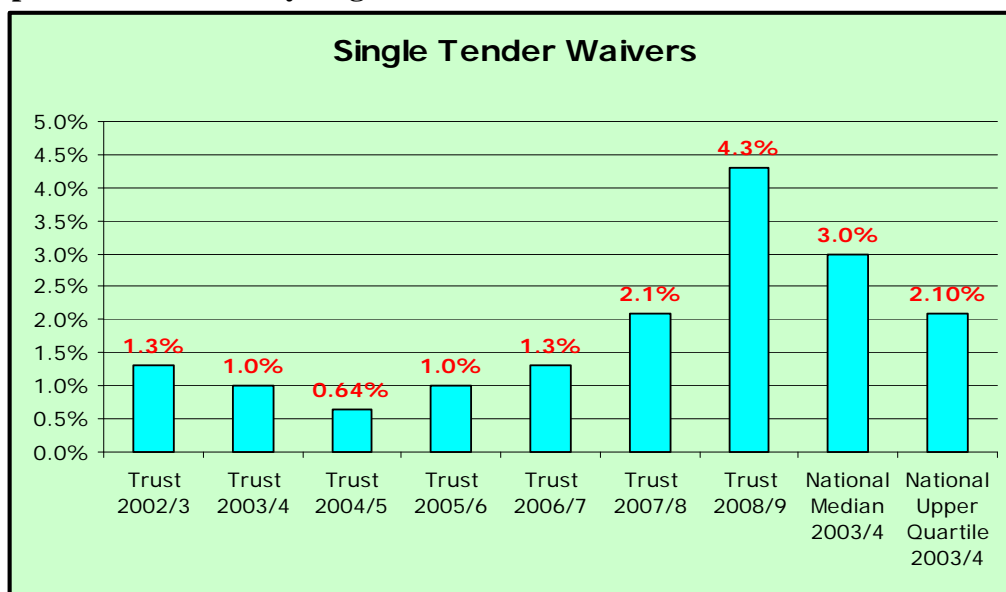
The investment in web enabled technology and its implementation in May 2005 is now delivering a fully automated supply system that allows electronic transfer of information between the Trust and its supplier base. The roll out programme has eliminated the vast majority of paper associated with the requisitioning process. The current e-invoicing with Roche Diagnostics, soon to be expanded to other high transaction suppliers will deliver full benefits from the electronic purchase to pay process.

**d) Cost of Procurement 2008/09**



The net cost of the team excluding materials management and receipt and distribution (transferred to PFI partner in July 2006) is £722,721 per annum and represents 0.48% of the total expenditure influenced. Based on the benchmarks above, this is one of the most cost effective teams anywhere in the NHS.

## e) Expenditure covered by single tender waivers



As a public health service provider, the trust is bound by statutory and mandatory public sector regulations relating to public procurement. The Trust reaffirms that all its supply activity meets all applicable requirements and that due process and corporate governance standards are of the highest order in accordance with both the legal requirements and the Trust's standing orders and standing financial instructions. During the last 7 years the trust has developed a much stricter control regime with regard to the acquisition and use of supplies with waivers this year at 4.3% - within this there are some high value items such as the HCA Gamma Knife transfer at £1.65M and Neo-natal equipment at nearly £1m.

| SINGLE TENDER WAIVERS |        |            |
|-----------------------|--------|------------|
|                       | VOLUME | VALUE (£M) |
| 2003/4                | 29     | £1.4       |
| 2004/5                | 10     | £1.2       |
| 2005/6                | 46     | £1.7       |
| 2006/7                | 30     | £1.5       |
| 2007/8                | 51*    | £3.1       |
| 2008/9                | 60*    | £6.6       |

\* High percentage of these waivers (25%) relate to the New Hospitals Programme (the need to retain professional consultancy organisations appointed in the early days of the PFI- in many of these areas we have now tendered and awarded contracts removing the need for future waivers).

**APPENDIX 4****OBJECTIVE 4: MODERN INTEGRATED SUPPLY CHAIN**

Effective management of supply is a key component in the delivery of high quality patient care. Barts and the London NHS Trust has looked to utilise the NHS Supply Chain as the principal wholesaler provider for all appropriate consumables spend (total acquisition cost is evaluated, not only product price). The Trust has made best use of electronic data capture and transmission devices (eDC) which are part of the value proposition. The materials management service coupled with the standardisation programme, has enabled the Trust to improve its supply chain processes and efficiencies, culminating in the current stock turn levels of 28 per annum. This has led to a £536,280 stock value reduction since 2001.

| <b>MATERIALS MANAGEMENT ACTIVITY</b> |                |                |                     |
|--------------------------------------|----------------|----------------|---------------------|
|                                      | <b>2007/08</b> | <b>2008/09</b> | <b>Efficiencies</b> |
| No. of Lines                         | 364,522        | 375,212        | +2.9%               |
| Value (£M)                           | 10.0           | 10.7           | +7%                 |
| Stock Held (£K)                      | 423            | 415            | -1.9%               |

The product range of materials management activity increased by 3% and now covers 550 locations. The increased business with NHS Supply Chain has been achieved through migration of existing product categories and more importantly, working in partnership to identify potential product ranges which can be directed through this cost-effective channel. An example of this working partnership is the supply of haemodialysis consumables to the value of nearly £1m per annum. Following a strategic review by the incumbent logistics provider, the trust was served with a 3 months notice of termination. Through an OJEU competitive process, NHS Supply Chain was awarded this business by using the current contract prices for the products negotiated by the Trust and applying a small on cost for the stocking and logistics provision.

NHS Supply Chain, through a ten year contract awarded by the Department of Health are no longer part of the NHS but wholly owned by DHL, and as such the Trust will investigate ways over the next year, of minimising its dependency on their ordering and inventory management systems, giving it greater flexibility over its consumables supply chain without adversely impacting on the cost to serve.

**APPENDIX 5****OBJECTIVE 5: PURCHASING PROGRAMME**

The supply strategy covers all non-pay expenditure on goods and services and areas of pay like agency staff. This complex agenda has challenged traditional and historical ways of working within Divisions, how supply is managed, and how the procurement of goods and services needs to be planned across both clinical and corporate directorates of the Trust. A purchasing work plan shaped by individual departmental business plans, clinical efficiency plans, cost improvement programmes including Best Value and investments approved by the Capital Programme Group are updated through regular procurement/stakeholders reviews and discussed at every PSG meeting.

Activity is segmented as follows:

- Capital projects
- Tenders and quotations
- Supply chain reviews
- Special projects including market and vendor research

The contracting programme delivered 27 projects during 2008/9 with a contract value of £12m. The following are examples of successful projects delivered during the financial year:

| <b>CONTRACT TITLE</b>    | <b>VALUE (£)</b> | <b>SAVINGS (£)</b> | <b>SAVINGS</b> |
|--------------------------|------------------|--------------------|----------------|
| Pacemakers and ICD's     | 2,900,000        | 509,401            | 17.56%         |
| FDG Radiopharmaceuticals | 145,000          | 63,450             | 43.75%         |
| Cardiac Consumables      | 2,100,000        | 51,700             | 2.50%          |
| Cardiac Stents           | 1,600,000        | 395,455            | 24.7%          |
| Neonatal Equipment       | 1,600,000        | 400,000            | 25.0%          |

The 2009/10 contracting programme covers 54 projects with an estimated value of £37m. Projects are diverse and complex in nature, ranging from high value diagnostic medical equipment, ICD's and Pacemakers, pathology analysers and other medical and surgical consumable products through to services such as a Patient Entertainment System for the new hospitals and a new IT system for Dental Patient Information.

**APPENDIX 6****OBJECTIVE 6: PRODUCT SELECTION AND VARIETY REDUCTION**

The Trust has developed systematic procedures for the implementation of product selection and standardisation which includes:

- Proper planning and evaluation of the purchase of significant items of equipment, including the use of business cases with the analysis of full life cycle costs
- In its business planning process, identification of equipment needing replacement and involvement from the outset by procurement professionals on capital funding decisions
- Minimising risk by the standardisation, as far as possible, of equipment, reagents and consumables throughout the Trust, but ensuring the involvement of all relevant stakeholders

The Trust has gained considerable benefits in the effectiveness of clinical product selection through the strategic development and application of a 'standard model of evaluation'. The evaluation model bases the consensus selection process on both practical application and theoretical evidence. It gives a clear pathway to follow in the assessment process and considers all major factors, giving a solid basis for decision making. Alongside the evaluation model, the Clinical Procurement Advisor has recently drafted a 'Clinical Engagement report' which identifies opportunities where the 'Clinical and Procurement partnership' might be cemented on a more sustainable and mutually beneficial basis. In the current financial climate there is a need for innovative thinking around the clinical quality agenda to meet the ever changing NHS landscape and to achieve best clinical practice. The CPA has delivered a comprehensive series of education presentations of best clinical procurement practice, and explains the clinical and financial benefits of having clinical involvement and active participation in all aspects of the process, from the statement of need through to the evaluation and selection.

The following examples identify where clinical risks have been reduced in parallel with cash releasing savings or changes made which had a positive impact on the quality agenda which were cost neutral:

### **Commitment Discounts**

Some NHS Supply Chain contracts for consumables offer commitment discounts dependent on both volume and supplier. During 2008/09 the consolidation of major supplier volume discounts through this route achieved an **annual cash releasing saving of nearly £130,000**

### **Continence Products**

Some clinical/quality issues had been reported by patients regarding the use of the Trust's continence range of products. A due diligence exercise with clinical trials was undertaken and the trust has now implemented the use of a new range of continence products at preferential prices. **Savings of £12,000 have been achieved as well as the improvement to the quality of patient care.**

### **Laryngoscopes**

A detailed pricing review was undertaken with the current supplier which led to a reduction in price culminating with a **saving of £24,000**. Tests have also been undertaken by the Sterile Services Department to ensure that the laryngoscopes can be decontaminated and we are also evaluating how they can be transported in reusable trays with bar codes so that they can be easily identified. This will also lead to lowering risks to patients.

### **Surgical sutures**

The conversion of surgical sutures from the premium brand supplier to a competitor took place in 2006/07 but has not been fully implemented across the trust. A follow up exercise is underway with the objective of converting 80% of the trust's demand to the lower priced suture. The forecasted **savings are around £50,000**.

### **Surgical and Examination gloves**

A similar exercise was undertaken on surgical gloves, but again a number of locations have not implemented the change. Information has now been provided to the relevant service managers which will enable them to save at least £10,000.

There is a wide variety of examination gloves used throughout the trust and there are up to price differentials of 30%. A project is underway to convert as much of the demand as possible to latex free gloves which will reduce the risk of latex allergy and deliver savings of £17,000.

**APPENDIX 7****OBJECTIVE 7: COLLABORATIVE PROCUREMENT**

The NHS spends £20bn per annum on the acquisition of goods and services, with the London Strategic Health Authority responsible for about £5.5bn of that expenditure.

Over the last few years the Department of Health has emphasised the need for Trusts to work collaboratively to maximise value for the NHS. The need to operate within the new NHS funding arrangements requires renewed focus on maximum value for money from procurement and supply chain efficiencies, and the delivery of the substantial savings which can be used for frontline services. This has been particularly necessary to deal with the nationally reported NHS deficits over the last few years.

After a period of sustained growth, from 2011 this could mean as much as a 2.3% reduction in real terms per year across government departments.

Procurement and commercial professionals across the health economy can play a key role in helping the health economy survive the challenging period ahead.

The London Procurement Steering Board has been chaired over the last year by David Astley who is the Chief Executive of St.George's NHS Trust, but to deal with the unprecedented financial challenges there is a need for a major change in behaviour across the capital. The NHS in the city has huge spending muscle. With collaboration and commitment, it can be a powerful purchaser-far more powerful than it is currently.

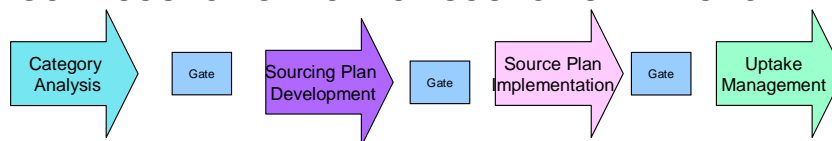
A new procurement strategy and operating model for London was tabled at the Steering Board in July 2009. It is designed to deliver high performance procurement across the city through a coordinated and strategic approach.

**With a change in mindset and maximum commitment from trusts across London, there are potential savings from collaborative procurement of almost £170m over the next three years. A further £180m could be achieved from a comprehensive supply chain and materials management strategy and £120m from demand management initiatives.**

To achieve the step-change required, there are six core elements of the strategy:

- Consolidating LPP as a more permanent organisation
- Increasing the capability and capacity of the procurement function
- A Procurement performance management system based on what is already used at the Barts and the London NHS Trust
- A strategic approach to category management as detailed below including the enhancement of Category Boards

**CATEGORY SOURCING: LONDON SOURCING APPROACH**



|                         |  |   |   |  |
|-------------------------|--|---|---|--|
| <b>Key Activity:</b>    | <ul style="list-style-type: none"> <li>•Further analysis of the proposed initiatives spend and savings potential</li> <li>•Understand the scope of each initiative, trusts to be involved</li> <li>•Agree baseline based on London sampling</li> </ul> | <ul style="list-style-type: none"> <li>•Identify appropriate sourcing approaches and techniques</li> <li>•Calculate potential savings estimates</li> <li>•Create category sourcing process and supporting documents</li> <li>•Agree sourcing plan per initiative</li> </ul> | <ul style="list-style-type: none"> <li>•Execute the London-wide procurement initiatives that will deliver annualised cash releasing savings</li> <li>•Establish and implement a means of tracking and reporting the benefits delivered from all procurement initiatives to Trust and PCTs</li> <li>•Implement the sourcing plan per initiative</li> </ul> | <ul style="list-style-type: none"> <li>•Drive uptake and compliance by Trusts and PCTs of the procurement initiatives so that they are implemented to realise the new savings</li> </ul> |
| <b>Key Deliverable:</b> | <ul style="list-style-type: none"> <li>•Scope of work against each initiative under the 5 Categories</li> <li>•List of stakeholders to be involved in developing strategy</li> </ul>   | <ul style="list-style-type: none"> <li>•Sourcing plan per initiative</li> <li>•Supporting documentation validating the savings opportunity by categories</li> </ul>   | Various outputs: <ul style="list-style-type: none"> <li>•Contracts harmonised</li> <li>•E-Auction complete</li> <li>•Contracts awarded</li> <li>•Stock reduction plan</li> <li>•Substitution</li> </ul>   | <ul style="list-style-type: none"> <li>•Savings delivered</li> <li>•Savings validated by trusts</li> </ul>   |

**Gate Process:**  
 Each Category must pass through a gateway review before progressing to the next phase. This will ensure only viable plans will be implemented following the approval of the Steering Board. Estimated savings plans will be updated through each gate. If savings are not on track, additional initiatives will be added to bridge the gap

- Alignment of work plans and commitment to collaborative sourcing; and
- Data and e-enablement programme

LPP has built a strong commercial team with significant knowledge of procurement across the health economy. Since it was formed in April 2006, LPP has helped the city’s 71 trusts save more than £90m while at the same time improving quality standards and reducing clinical risk.

The Barts and the London procurement team have played a leading role in the success of the programme and continue to provide considerable support and guidance to both the Programme and Steering Boards. Barts and the London NHS Trust lead the Medical and Surgical workstream that has delivered in excess of £7m of cash releasing savings and have delivered sourcing solutions in the following categories:

- **Implantable Cardioverter Defibrillators and Implantable Pacemakers**
- **Renal (PD and Haemodialysis)**
- **Drug eluting and bare metal stents**
- **Orthopaedics**

Although much has been achieved to date, there is a need to increase the pace of collaboration to achieve optimum benefits and to retain the commercial skills currently deployed. It is recommended that LPP becomes a more permanent organisation with funding established on a rolling three year basis. Many of the category leads and teams will be embedded in NHS Trusts working alongside trust procurement teams as is already the case at Barts and the London NHS Trust.

To implement the strategy, £19m is required over the three years. Of the total, £9m will be covered from two revenue streams; an agreement with OGC of a supplier commission sharing arrangement and a Government Procurement card (GPC) agreement with Barclaycard which includes rebates based on spend levels.

The remaining £10m over the three years will be met from subscriptions from trusts calculated on the basis of trusts spend. Income from the above two agreements will mean the money from trusts will reduce over the three years from £5.5m initially to £1.5m in 2011/12. With total benefits projected at £336m, the anticipated ROI is 17:1. In the current economic and financial climate it is a great opportunity to seize this commercial opportunity for the NHS in London.

The vision is to create a model whereby highly skilled commercial teams across the capital pull together for a common goal-to help transform the city's health services. They will be drivers in innovative new ways of approaching and stimulating key supply markets, combining volumes, demand management and improving existing deals to secure efficiencies and apply the maximum leverage the NHS in London can exert.

**APPENDIX 8****OBJECTIVE 8: SUPPLIER BASE RATIONALISATION**

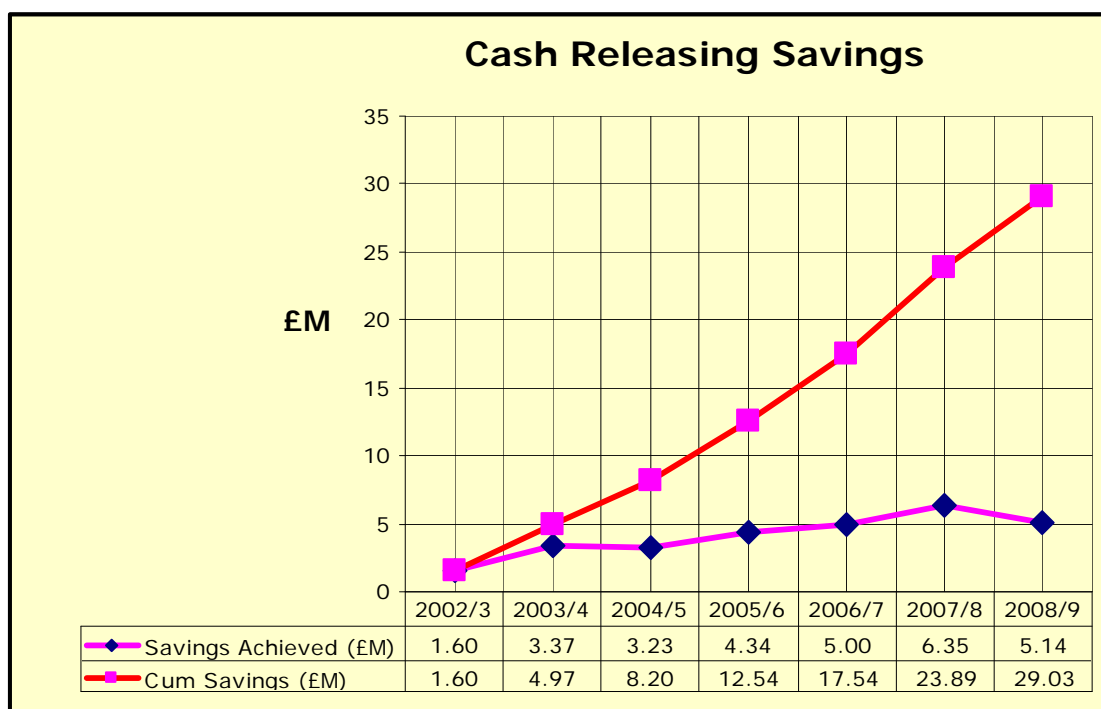
A great deal of work has been done and continues to be done in rationalising the supplier base. This work enabled the Trust to achieve the following benefits:

- **Reduce the cost of ordering and the number of low value orders by rationalising the supplier base, standardising product ranges, aggregating orders and leverage spend across the Trust.**
- **Minimise risk by the standardisation and variety reduction of equipment, reagents and consumables. This has enabled the Trust to achieve efficiencies in purchasing, handling of materials and maximised training and support opportunities from these contracts.**
- **A closer dialogue with key suppliers to reduce interface costs (e-commerce adoption programme); improve operational service delivery and flexibility.**

The implementation of the Oracle purchase order system and the e-Commerce adoption programme has provided the Trust with the opportunity to greatly effect not only the way the Trust orders goods and services, but also for the first time to acquire the appropriate management information that will allow performance and financial targets to be set, measured, monitored and reported.

APPENDIX 9**OBJECTIVE 9: CASH RELEASING SAVINGS 2008/9**

Contracts awarded during 2008/9 delivered cash releasing savings of £5.14m against a savings target of £5m (**3% above target**). Many of these contracts are multi-year contracts so the benefits accrue over the total contract period. £3.28m were realised during financial year 2008/9.



The supply strategy has now delivered £29.03M since 2002/03, and has made a significant contribution to the challenging financial targets of the Trust.

**APPENDIX 10****OBJECTIVE 10: RESOURCES AND COMPETENCIES**

The Supply strategy document of 2002 identified a number of critical enablers if the Trust was going to transform its procurement vision into reality. Some of these were specifically aimed at improving its human resources and their capabilities:

- **Procurement competency:** The Trust needed access to individuals who had the right level of experience and expertise in procurement, business acumen, eCommerce and supply chain management. Most of these have been recruited and have made a tremendous contribution to the step change in performance. These people have highly developed skills and hold valuable intellectual capital and knowledge. In the present competitive procurement environment in London it will be a challenge for the trust to continue to retain these key staff.
- **Leadership:** The Trust has put increased emphasis on procurement, modernisation and supply chain management. There are clear lines of responsibility, measurable targets, regular reporting and active management. The drive and vision of those involved in pursuing the strategy has been crucial in ensuring that the other enablers are in place and that the objectives have been reached.
- **Culture and behaviours :** It was understood at an early stage that within the Trust, the achievement of demanding targets for annual efficiency savings could only be achieved by switching the emphasis of the procurement department from an 'order processing ' function to a 'specialist buying' operation. This change is near completion facilitated by technology which is transforming expensive manually intensive activities to value added strategic enhanced services.

Phase three of the Oracle roll out programme has been achieved, with around 75% of transactions now being managed through this route. Further work is underway to expand self serve to its maximum potential and pilots are underway for electronic invoicing with a successful implementation already achieved with Roche Diagnostics. Implementation of the sourcing and procurement contracts modules will also happen by the end of 2009.

Various training sessions have been delivered to clinical and corporate departments dealing with the mandatory public sector regulations relating to public procurement, thus increasing the knowledge base of key decision makers in the Trust.

Staffs continue to be our greatest asset and through appraisals, coaching, mentoring and relevant further education, competencies and skills gaps continue to be identified and corrected. The pace and complexity of change continues to be a live issue for most of our staff involved in the 'order processing' function. All staff continue to be encouraged to undertake relevant training identified in their personal development plans.

| <b>TRAINING AND DEVELOPMENT</b>               |             |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| No. of Staff with Professional Qualifications | 2           | 5           | 5           | 8           | 8           | 6           | 6           | 7           |
| No. of Staff Training                         | 0           | 5           | 12          | 13          | 14          | 3           | 3           | 2           |
| Total   | 2           | 10          | 17          | 21          | 22          | 12          | 12          | 12          |
| % of Total Workforce                          | 6%          | 28%         | 47%         | 58%         | 61%         | 75%         | 75%         | 75%         |