

Necessity – not nicety

A new commercial operating model for
the NHS and Department of Health



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Introduction

Over the coming years, the NHS faces the challenge of continuing to improve the quality, accessibility and range of services for patients while driving efficiency hard and securing better value for money for the taxpayer. Reforms over the past decade – plurality in provision, improved commissioning, greater choice, more information for patients and contestability – provide a powerful set of levers and a tremendous opportunity to meet this challenge.

Over the last eight months, we have worked closely with a wide range of partners – including NHS providers, commissioners, the independent sector, suppliers of health goods and services, procurement experts, the Treasury, the Office of Government Commerce (OGC) and staff in the Department of Health (DH) – to identify how improved commercial capability can help meet our shared aspirations for the NHS in England. The strong consensus has been that the NHS and DH need commercial skills as never before. There is also agreement that existing arrangements and status quo will not deliver the step-improvement in capability now required for the challenging times ahead.

This document sets out why commercial skills are now integral to the NHS at all levels. It describes a new operating model for commercial capability – the way commercial skills will be organised and applied at different levels across the NHS to have maximum impact – drawing heavily on the discussions of the past months. It outlines the benefits for key groups in the NHS and DH and it sets out how we are committed to working with a range of delivery partners to bring the new operating model into being quickly – and in doing so make a timely and telling response to the ambitious efficiency challenge laid down in the 2009 Budget.

Improving NHS services – the role of commercial skills

The economic climate in which public services operate will require unprecedented levels of innovation, service responsiveness and efficiency in the future. For the NHS this means seizing the opportunity provided by reforms over recent years to realise greater value and quality for patients, the public and taxpayers alike.

The reforms have already started to bear fruit. Over the past decade in particular, the third and private sectors have played a vital role in the support and delivery of healthcare to the NHS. New services, buildings and staff have offered the public and patients better access to, and quality from, NHS-funded healthcare.



These reforms form the bedrock of a commercial strategy for the NHS and the basis for a new commercial model, working with the grain of the NHS, not against it. Commercial and procurement skills are already at a premium at all levels of the NHS and this situation will continue to increase. Commissioners need commercial skills to be able to carry out market analyses, shape and nurture innovative services and new markets in healthcare, commission jointly with local authorities where appropriate, carry out competitive exercises and manage contracts tightly to deliver benefits. Commercial skills are equally necessary for providers who need to be able to recognise opportunities, respond effectively to tenders, deliver against contractual expectations and innovate to create more value.

Achieving efficiency in the provision of services remains a key task for providers and commissioners alike. There have already been huge strides towards increasing efficiency, for example, through adopting new ways of working and leveraging the skills of the private sector. The opportunity now is to develop current mechanisms to achieve further efficiencies on providers' own third-party spend of some £20 billion a year and closer alignment of expenditure with service demand. In all cases, realising these opportunities will rely on building commercial and procurement skills, organised through a clear and coherent system.

The commercial model has lagged behind these challenges, has often been top-down and has not played its full part to maximise local service responsiveness to patients. Equally, the procurement of goods and services has been sub-optimal. Too many diffuse procurement agencies have worked in an overlapping and unsustainable fashion. National bodies have not been sufficiently aligned to ensure that every healthcare pound spent is maximised for patient benefit.

In summary, the landscape for commercial and procurement activity in the NHS and DH has developed in a piecemeal fashion and no longer provides optimal benefits for providers, commissioners, patients or the taxpayer. It needs to change to support further improvement in NHS performance. Now, more than ever, is the moment to create a new commercial operating model which will address past deficiencies and which is fit to meet the opportunities and challenges of the future. In a colder economic climate, a new commercial operating model is a necessity, not a nicety nor an optional extra.

The new commercial operating model – key elements

The new commercial operating model will enable the growth of commercial expertise in the NHS at pace, with a focus on areas of greatest potential and impact, organised through a coherent system. Its key elements are as follows.



1. **Creating regional commercial support units (CSUs) which will offer services to, and be owned by, the NHS locally.** We will make available £20 million in 2009–10 to facilitate the introduction and uptake of these units across the NHS. CSUs will provide commercial support to commissioners to ‘stimulate the market’ where this works in the interests of patients, manage contracts effectively and work in harmony with NHS Supply Chain to secure better value for money for goods and services procured.

Combining support for providers and commissioners within a single commercial centre of expertise will bring powerful benefits. It recognises that commercial activity to deliver healthcare and efficiency improvements often spans commissioning and provision. It will give existing and potential healthcare suppliers a single, simple point of contact with the NHS. It will allow scarce commercial skills to be shared in the most efficient way. Appropriate governance and funding arrangements can be put in place to guard against any conflict of interest, real or perceived, and to support an appropriate blend of co-operation and competition.

2. **Making the 10-year NHS Supply Chain contract work harder and smarter to deliver greater efficiencies for providers** (Foundation Trusts (FTs), the NHS Trusts, the third and private sectors), with

more transparent pricing, increased responsiveness and better strategic management. In doing so, local procurement hubs will be expected to realign with regional CSUs to ensure that the NHS Supply Chain can maximise its potential. It is imperative, in the current economic climate, that we leverage maximum value from the Supply Chain; however, competing procurement organisations will not realise this ambition – a message underscored in the Treasury's recent *Operational Efficiency Programme: final report*.

- 3. Transferring the NHS Purchasing and Supply Agency's (NHS PASA) functions to organisations that can add greater scope, scale and impact to the procurement of goods and services.** The integration of key NHS PASA sourcing activities with OGC buying solutions (OGCbs), including the formation of an NHS-facing buying arm, will contribute to the Treasury's requirements to aggregate public sector spending power. The move of some other NHS PASA functions to the CSUs will build regional capability. NHS PASA itself will be closed and efficiencies realised. Greater purchasing muscle will serve both providers and commissioners as they secure greater efficiencies in the provision of goods and services and drive better value through the Supply Chain.



4. **Creating a new DH commercial centre – the Procurement, Investment and Commercial Division (PICD)** – to strengthen commercial and procurement support for DH itself and to ensure alignment of the wider commercial landscape. The new division will replace the Commercial Directorate and Private Finance Unit, bringing together functions dispersed across DH and improving business processes and efficiency. A new **Strategic Market Development Unit (SMDU)** working alongside PICD will take responsibility for leadership and support to commissioners in market analysis and market-making. It will also be instrumental in developing the new Co-operation and Competition Panel. Procurement and commercial development are two sides of the same coin and need to be integrated at both a local and national level.

5. **Ensuring that the World Class Commissioning programme encourages primary care trusts (PCTs) to develop regional CSUs with provider partners.** PCTs will not advance past level 1 for competencies relating to stimulating the market and securing better procurement and contract management skills unless they can demonstrate comparable capability to that which CSUs will offer them. It is neither possible nor desirable for 152 PCTs to develop these skills and competencies without working in partnership with others and developing

greater 'critical mass'. Many PCTs are already developing their commercial and procurement expertise with others and the CSUs offer the opportunity to advance this with greater pace and scale.

- 6. Ensuring that the third and private sectors have a clear and visible point of commercial contact in each region.** We have listened carefully to the concerns of these sectors. Often, the NHS procurement and commercial landscape can be both complicated and confusing and deter innovative procurement and commercial activity. The creation of CSUs will provide a visible point of contact for the third and private sectors that wish to provide NHS funded services. We wish to maximise the contribution of third and private sector organisations and understand that their time costs money. Unambiguous commercial pathways and support will increase confidence and responsiveness.
- 7. Contributing to innovation, research, regional development and local regeneration.** The new commercial model will invest around £20 million to attract entrepreneurial skills into regional CSUs. This, in turn, will stimulate local economies through active commissioning, service provision and support for procurement and uptake of innovative new technologies developed by industry, both locally and those channelled via national initiatives such as the National Institute for Health Research (NIHR). We can

play our part in the stimulation of local economies and ensure that NHS expenditure plays an active part in economic and social regeneration.



Benefits for commissioners

Commissioners' ability to drive continued healthcare improvement for patients and value for money for taxpayers will be boosted by the new commercial operating model through:

- the new, dedicated service from CSUs to help commissioners raise their game, focusing on World Class Commissioning competencies 7, 9 and 10 – analysing, stimulating and managing healthcare markets, securing and applying procurement skills, and managing contracts effectively as a 'demanding' customer. Alongside support, a key element of the offer will be skills transfer, creating permanent PCT capability in these key areas;
- cost-effective delivery of commercial skills: CSUs will group together expertise which is currently dispersed and often expensive; for new entrants to the market, CSUs will provide a clear point of contact, reducing market-entry costs and complexity;
- commercial practice being driven increasingly by the NHS instead of top-down, with a strong regional presence helping drive investment, regional innovation

and local service responsiveness, and providing a firm basis for improved joint commissioning and procurement with local authorities; and

- appropriate national-level support and intelligence provided by the SMDU, enabling the NHS and DH to speak to the private sector with a single influential voice and complementing local market-making and decisions. This in turn will enable the private sector to engage and add innovative thinking to the creation of new markets.

In summary, the outcome will be an environment where commissioners are confident in developing and managing healthcare markets to drive better care and better value; and where the third and private sectors can work effectively as valued partners, helping commissioners harness the benefits of competition and plurality for patients and taxpayers.

Benefits for providers

The new commercial operating model will offer providers – FTs as well as from the third and private sectors – a number of clearly differentiated, relevant and complementary services as they seek to maximise efficiency in their own procurement and commercial activities:

- an opportunity to seize savings benefits from pooling the NHS's huge purchasing power through the NHS Supply Chain contract, with stronger responsiveness to



NHS needs and the greater transparency providers have been asking for;

- alongside this, scope for providers to realise further savings in key non-health categories (for example, energy and fleet) arising from the pooling of the whole public sector's purchasing power through the integration of NHS PASA's current core sourcing with OGCbs;
- a continuation of NHS PASA's highly regarded secondary care pharmaceuticals sourcing activity to maintain the NHS's purchasing power and strategic supplier relationship management in this key category; and
- at regional level, a dedicated service from CSUs (building on the services previously offered by the collaborative procurement hubs), focusing on delivering savings from contracting (complementing but not competing with NHS Supply Chain) and key strategic benefits from additional services – trusted advice to providers on which sources of procurement are best for them, support in demand management, support in responding to commissioners' procurements, and creating strong links with industry and clinicians so that ground-breaking innovations can be procured rapidly and effectively. CSUs' role in supporting commissioners as well as providers will put them in a unique position to help deliver innovation through service redesign and procurement.

Looking at the NHS as whole, the key benefit will be to put the system in a strong position to realise demanding procurement efficiency expectations and to maximise the NHS's spending power for the benefit of patient care.

Benefits for DH

DH's own commercial and procurement activities in support of its policy and delivery roles need to be of the highest standard. It also has an important role to play as the leader of the overall commercial landscape for the NHS, ensuring that the system is coherent and capability is sufficient and well-targeted.

The new commercial operating model addresses the first of these by giving the new PICD an explicit remit for commercial support and assurance for DH itself. This will provide expert support to DH Directorates to ensure that the commercial angle on policies is fully taken on board and to make the Department itself an intelligent and efficient commissioner of services ranging from frontline care to consultancy support. Critically, it will also secure assurance of commercial standards to the Departmental Board itself.

Alongside its DH-facing role, the new model gives PICD a key system and professional leadership role, encompassing oversight of the entire NHS commercial landscape, to be exercised with and through a new **National Procurement**



Council, oversight of the delivery of Comprehensive Spending Review 2007 (CSR '07) savings, and including professional training and development and procurement policy (transferred from NHS PASA). The Council will enable commercial management across the system to be exercised in a coherent and collaborative way for maximum impact.

Commercial operating model – roles in summary

The roles of different players at different levels of the new commercial operating model which will realise these benefits are summarised in the following box.

The new commercial model: key roles in summary

Under the new commercial model:

- **PCTs** will remain accountable for the commissioning of healthcare services and therefore for all contracts let within their area, whether with NHS or other providers. They will draw on **CSUs** for a wide range of commercial and procurement support and skills transfer. The **strategic health authorities (SHAs)** will hold them to account for their overall performance.
- **Providers** (whether FTs or from the third or private sectors) will remain accountable for the delivery of healthcare services and therefore for expenditure on third-party goods and services in support of this. They will be able to procure goods and services through **NHS Supply Chain** and from **OGCbs** (for non-health-specific categories such as energy and telecoms). They will be able to draw on **CSUs** for a wide range of commercial and procurement support complementary to these third parties.
- **Department of Health Directorates** will remain accountable for commercial and procurement activities undertaken in support of their policy responsibilities.
- PCTs' actions and decisions will be informed by the rulings of the **Co-operation and Competition Panel** and by the national-level work of the **SMDU**.
- The overall system will be overseen and supported by the **PICD** in DH, informed by the **National Procurement Council** to foster greater coherence and innovation in the supply of goods and services.



Making it happen

The new commercial operating model will only be a success if the different players – commissioners and providers at local level, SHAs at regional level and DH, NHS Supply Chain, NHS Business Service Authority and OGCbs at national level – work together to bring it into being. The engagement and support of many stakeholders during the design stage are an important foundation. We are committed to building on it and are already working with them to develop the detail as we move towards implementation. The major implementation strands are:

- the development and implementation of CSUs and the regional commercial landscape. The essential requirement is that the regional landscape is **coherent** (with no duplication of roles), **comprehensive** (covering support to commissioners and providers), **clear** (to NHS users and suppliers/the private sector alike), and **efficient and implementable**. Over and above this it is for the local NHS to develop the detail – the precise menu of services to be covered by CSUs, the governance and funding, and the transition process. Initially SHAs will play a key co-ordinating and supporting role but, over time, the ownership and development of CSUs will increasingly be in the hands of local commissioners and providers. DH will work with these local and regional partners to ensure that there is sharing of experience, basic consistency and

implementation at pace. Our expectation is that all CSUs will be operational within a year;

- the repositioning of NHS Supply Chain. Work is already under way. This will be led by DH but will involve representatives of providers and other key interested parties;
- the reshaping of the centre. The basic building blocks of the new functions within DH are in place. Further work is now under way to define the detail and put new systems in place;
- the transition of NHS PASA functions to new organisations during 2009. A transition director has been appointed and the intention is to move at pace, completing the detailed work needed to allow NHS PASA's key functions to transition smoothly to their future locations; and
- strong governance through an NHS Commercial Development Directional Board, bringing together key DH and NHS partners, ensuring commercial integration and holding the SHAs to account for their responsibilities.

Implementation will not be without its challenges. The consensus already forged is that the prize – improved commercial capability supporting measurable improvements in healthcare and value for money – is well worth it.



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