IMPROVING THE SUPPLIES SERVICE IN THE NHS

April 1991

A report for the NHS Management Executive

The Audit Commission for Local Authorities and the National Health Service in England and Wales
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## APPENDIX

Survey of distribution centres and regional supplies organisations
EXECUTIVE SUMMARY

The Health Studies Directorate of the Audit Commission was invited by the NHS Management Executive to propose a strategic framework for the development of supplies in the HCHS sector in England, with particular focus on warehousing and distribution.

These are the conclusions and recommendations of this study:

1. Accelerate the drive for improvements in supplies activities: worthwhile progress has been made in recent years, but supplies organisations must now respond to pressure from the restructured NHS for a more efficient and effective service.

2. Use the new contracts process between units and supplies organisations to focus supplies on their role as agents for their customers and as managers of an integrated supply chain.

3. Streamline the distribution chain to units, including further stores rationalisation, active consideration of private sector involvement and simplified administrative and support activities.

4. Upgrade unit level materials management, in order to improve efficiency and effectiveness at point of use - recognising that the distribution chain does not stop at the hospital gate.

5. Strengthen the organisational structure of supplies, creating fewer, stronger, supplies organisations under the strategic direction and supervision of a new National Supplies Board and a National Supplies Director.

6. Undertake a disciplined decision making and implementation process, setting out timing and responsibilities, to ensure that past indecision on supplies recommendations is not repeated.

These proposals are developed in summarised form in the rest of this chapter. The rationale and action required are set out in more detail in the body of the report.
1. ACCELERATE THE DRIVE FOR IMPROVEMENTS

Significant improvements have been made to supplies efficiency and effectiveness since the mid-1980s. These need to be built on, and the wide variations in performance between regions need to be eliminated:

* Increase value for money in buying, through a professional and long term approach to managing suppliers. (p11, 21-23)

* Streamline purchasing and distribution operations, to save £10-15m annually and to improve service quality. (p11, 24-30)

* Improve productivity in the use of supplies, through better product specification, design and quality, speedier and more reliable service and better materials management - with an opportunity saving of tens of millions of pounds annually. (p12, 31-38)

2. USE CONTRACTS TO DEVELOP THE ROLE OF SUPPLIES AS CUSTOMER FOCUSED AGENTS

Supplies organisations are becoming more customer focused under the discipline of contracts with units (or districts). Clear guidelines are needed on the role of supplies and on the new market mechanisms.

* The mission of supplies organisations is to act as in-house agents for their customers, sourcing and delivering supplies in a way that gives maximum value for money. This core function should not be privatised. (p13-15)

* The process of agreeing contracts forces the units to think through and articulate their needs, and forces the supplies organisations to define and market the services they offer - it is a major force promoting operational improvements. (p15-16)

* Internal competition between NHS agencies is inappropriate; customer units should expect to use the in-house service, but should have the right to opt out. (p16-19)

* Supplies organisations need to restructure and to develop methods for charging customers in ways that are congruent with its mission as an in-house agent. (p19-21)

* A new supplier management approach to purchasing is
needed, that does not focus on buying-in price (and supplier margins) to the exclusion of other costs and benefits: product design and quality, supplier costs, distribution costs and internal hospital logistics. (p21-23)

3. STREAMLINE THE DISTRIBUTION CHAIN TO UNITS

The NHS's own distribution centres are just one part of the distribution chain. The balance between in-house and external distribution needs to be actively managed and the efficiency of both channels increased:

* Use specialist distributors and direct deliveries where appropriate (take steps to ensure that supplies agencies' incentives do not bias them to promote in-house distribution if better alternatives exist). (p24-27)

* Reduce further the number of NHS distribution centres - with service across RHA boundaries where appropriate - to achieve scale economies and use the spare capacity in the more modern of the NHS's facilities. (p27-28)

* Rationalise the high cost order processing and support service functions, through completion of IT systems and merger of teams. (p28-29)

* Contract out physical activities where this delivers better value for money (while keeping the core purchasing and supply chain management functions in house). (p29-30)

Throughout this report what are widely known as NHS stores are referred to as NHS distribution centres. This term emphasises where they add value (in distribution) rather than where they add cost (in storage).

4. UPGRADE UNIT LEVEL MATERIALS MANAGEMENT

Insufficient contact between ultimate ward and department level consumers and supplies organisations has been a traditional problem in supplies, particularly in large hospitals. Widespread adoption of systematic materials management practices within units will play a critical role in improving value for money in supplies:

* Introduce a planned and managed approach to requisitioning, delivering and storing products required by consumers throughout the hospital. This
will reduce costs of excess stockholding and handling within units, and free clinical time. (p31-35)

* Appoint a professional supplies manager for major units. This person will be both that customer's champion in the supplies organisation, and the key supplies professional in the unit; they should be responsible for managing the necessary interfaces between the unit and supplies. (p35-36)

* Gather and use information on consumption patterns at ward and department level, to generate both operational improvements in the supply chain, and creative tools to help general managers control the costs of supplies used. (p36-38)

5. STRENGTHEN THE ORGANISATIONAL STRUCTURE

The improvements proposed above could be promoted to a limited extent within the current RHA based organisational structure, but a far more effective approach would be to create fewer, stronger, supplies organisations with national strategic direction.

* Establish 6-8 supplies Agencies fully accountable for the operational performance of the supplies service in their geographic areas. (p39-40)

* Set up a new National Supplies Board and appoint a National Supplies Director, to provide strategic direction and a process of management planning and control, and to which the local Agencies will be accountable. (p40-43)

* Create a geographic structure that combines existing regions in a way that produces more efficient supplies entities. (p43-46)

6. UNDERTAKE A DISCIPLINED DECISION AND IMPLEMENTATION PROCESS

Implementation should not be delayed and should be sensitively handled - to minimise disruption to a service that has already undergone significant change. The following steps are needed from the Management Executive:

* Make firm decisions for or against the proposed organisational changes by the end of May; if the recommendations are accepted, appoint the new National Supplies Director and the heads of the 6-8 supra-
regional agencies to be in place by December 1991. (p47-49)

* Decide on the recommendations on the role of supplies organisations and on the market mechanisms and rules on competition, and issue appropriate guidelines. (p49-50)

* Publicise the detailed recommendations for operational improvements to regional supplies organisations, for local implementation. (p50)
STUDY OBJECTIVES AND APPROACH

Most Regional Health Authorities in England have been overhauling their supplies functions in recent years, aiming to reduce costs and improve effectiveness. Further changes are now taking place as supplies organisations prepare to respond to the needs of the internal market. These changes have combined with long-standing issues about the organisation of supplies in the NHS—particularly the relative roles of the centre and the regions—leading the Management Executive and the Policy Board to conduct a comprehensive review of the supply function in the NHS.

As part of this review, the Management Executive invited the Audit Commission to conduct a study of supplies to produce a strategic framework for warehousing and distribution. In accepting this brief, the Audit Commission emphasised the need to consider broader aspects of supplies as part of its study, given the importance of achieving a more coherent approach in this whole area.

STUDY PURPOSE AND ISSUES

The purpose of the study was to advise the Management Executive on the best way to organise and manage the supplies function within the Hospital and Community Health Sector of the NHS in England. The study focused on the storage and distribution of supplies.

In order to identify the best way to organise the logistics chain, so as to provide the highest quality of service to supplies consumers that is consistent with the principle of cost-effectiveness, the study addressed four broad issues:

* Consumer needs: what these are in terms of the design, the quality and the cost of their supplies service, and how they can best be met.

* Physical infrastructure: what physical infrastructure is required to address consumer needs, and how to facilitate progress from the current situation to the optimum.

* Market mechanisms: whether the new contracts system supports an appropriate and clear relationship between the supplies organisation and its customers, whether there should be competition between supplies organisations, and what role the private sector should play.
Exhibit 1

The study involved comprehensive analyses of demand, distribution, organisation and policies

Field visits to all Regional Supplies Organisations: interviews with management, store visits, hospital visits

In-depth consumer interviews: 29 ward and department level supplies consumers in 7 hospitals

Interviews with general management: 10 UGMs, 6 DGMs, 8 RGMs, 9 RHA Finance or Commercial Directors, 2 RHA Chairmen

External visits and interviews with 17 organisations: suppliers, distributors, industry comparisons

Supplies database: stores, throughputs and stock, staffing, costs, etc.

Model of distribution economics

Demand model by DHAs and general hospitals

Special analysis of stock vs. non-stock demand patterns (Trent region)
Management responsibilities: in light of the above, how should management responsibility for the supplies function be organised.

WORKING APPROACH

The approach taken put particular emphasis on understanding how supplies does and should work on the ground in the specific context of the NHS. This led to an extensive programme of interviews with supplies managers, general managers and ward and department level consumers of supplies; these interviews were most often conducted in hospitals, occasionally in distribution centres, throughout England.

The study team reviewed past reports and papers on supplies. The team also built up a comprehensive database on demand and distribution patterns, and developed models of warehouse economics and of the demand patterns for alternative organisational structures.

Exhibit 1 outlines the main work components.
Exhibit 2

Supplies organisations have succeeded in making important improvements in quality and cost of service since the mid-1980s

EXAMPLES OF IMPROVEMENTS

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Improvement</th>
<th>period</th>
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<tbody>
<tr>
<td>Cost of Purchases*</td>
<td>Reduced by £23m</td>
<td>89/90 VS. 87/8</td>
</tr>
<tr>
<td>Number of Staff</td>
<td>Reduced from 6,300 to 5,500</td>
<td>90/1 VS. 85/6</td>
</tr>
<tr>
<td>Number of Stores</td>
<td>Down from 450 to 77</td>
<td>90/1 VS. 85/6</td>
</tr>
<tr>
<td>Service Level - Order Fill</td>
<td>Up in most places from 80%s to over 95%</td>
<td>Last 5 years</td>
</tr>
<tr>
<td>Stock turn</td>
<td>Up from about 5 to 10 in new distribution centres</td>
<td>Last 5 years</td>
</tr>
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* Revenue account, adjusted for inflation and patient cases

Source: DoH, NHS annual accounts, regional supplies organisations

Exhibit 3

There is a wide range of performance in the stores service, from the better to the weaker regions

<table>
<thead>
<tr>
<th>Range from ... to ...</th>
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<tbody>
<tr>
<td>Number of distribution centres:</td>
</tr>
<tr>
<td>On-cost of stores service:</td>
</tr>
<tr>
<td>Stores staff productivity (£'000 throughput per employee):</td>
</tr>
<tr>
<td>Stock turn (times per year):</td>
</tr>
<tr>
<td>Service level - order fill:</td>
</tr>
<tr>
<td>Stock order lead time:</td>
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Source: Regional Supplies Organisations
1. ACCELERATING THE DRIVE FOR IMPROVEMENTS

Supplies organisations and Regional Health Authorities have succeeded in making important improvements in efficiency and effectiveness since the mid-1980s, but performance remains variable and there is considerable pressure for more change.

This section of the report outlines this pressure for change, describes the current shape of supplies and distribution in the NHS, and sets out the objectives for the continuing programme of improvement.

PRESSURE FOR CHANGE

In the early 1980s supplies were primarily a district responsibility, so there were hundreds of buying teams and stores. With such fragmentation, the quality of the activity was inevitably variable.

Then, in the mid-1980s, most Regional Health Authorities took on direct responsibility for overhauling the supplies operations, to reduce costs and improve operational effectiveness. Several RHAs invested in new regional distribution centres and IT systems, set up regional buying teams, cut hundreds of staff from the payroll and built up a cadre of professional managers in supplies (Exhibit 2). But with responsibility for supplies resting with each RHA, with little national co-ordination, there has been a considerable degree of overlap and duplication in the development of new distribution facilities and IT systems. Performance remains variable from region to region - the best regions have double the productivity of the weaker ones on some key measures (Exhibit 3).

Just as the improvements outlined above are coming to fruition, the supplies organisations are having to respond to the increasing pressure from trust and unit managers to improve the quality of the service and reduce costs. This pressure is producing a healthy focus on serving customers, but further progress is slowed by the dispersed nature of the organisation and by the continuing ambiguity in the role of supplies within the NHS.

SHAPE OF SUPPLIES AND DISTRIBUTION IN THE NHS

The requirements of the supplies function in the NHS are unique. There are many lessons to be learnt from distribution arrangements and productivity in industry, but they must be
Exhibit 4

Stock items represent only a small part of total NHS purchases

1989/90 HOSPITAL AND COMMUNITY HEALTH SECTOR, £m

Total Purchases 4,075  Capital 1,237  Utilities, Fuel & Services 1,006  Materials 1,832  Non-stock Items 1,517  Stock Items 315

Source: NHS annual accounts: regional supplies organisations

Exhibit 5

Drugs and medical and surgical equipment account for about half the spend on revenue account materials

% 100 = £1,832m

- Drugs (£414m)
- Medical & surgical equipment* (£507m)
- Provisions (£208m)
- IT/Office items (£165)
- Lab. Instruments & chemicals (£86m)
- Works items (£94m)
- Other (£414m)
- Patient appliances (£91m)

* Including dressings

Source: NHS accounts 1989/90
applied in a way that is sensitive to the structure of demand and
to decision making processes in the NHS.

Product Range and
Demand Patterns

The NHS buys £4b of products and services annually in the
Hospital and Community sector in England (Exhibit 4). Just under
half of this is materials on the revenue account and only £315m
of that is distributed as "stock items" through supplies
controlled stores. Drugs and medical and surgical items account
for about half the value of revenue account materials, the
balance being a range of hotel services, office and works items
(Exhibit 5). This study has focused on revenue account materials
in its analysis of physical distribution, but has considered the
totality of products and services in its proposals on the mission
and structure of supplies organisations.

Demand for supplies within the HCHS can be divided into two
broad categories - general hospitals, which account for
approximately 66%, and the longstay and community sectors
(Exhibit 6). This study concentrated on the general hospital
sector, in view of its size and the critical customer service and
product range needs of acute units, while aiming, however, to
ensure that our conclusions are valid across the board.

Clinical preference within each unit still plays a large part
in the choice of medical and surgical products and suppliers.
This has often in the past been a problem, first, because
clinical staff were not seen as being cost sensitive - largely
because they had little direct incentive to care about savings -
and second, because of poor communication between clinical and
supplies staff.

As the devolution of budgets to clinical staff continues,
these staff will become more cost sensitive; meanwhile supplies
organisations need to provide clinical staff with comparative
cost and quality data to ensure that they can make informed
purchase decisions. When clinical preference is exercised by
informed consumers who value both quality and economy in
supplies, it becomes an important spur for suppliers and supplies
organisations to improve their product and service design.

Distribution Patterns

A number of distribution channels have evolved, in a mainly
logical but ad hoc way. The cumulative effect is to produce a
high degree of complexity in requisitioning and internal
logistics within hospitals, some of which is necessary, some
avoidable, and all capable of more effective systematised
planning and processing.
Exhibit 6
Demand is concentrated in major General Hospitals, but fragmented across many consumer points

DEMAND BY TYPE OF LOCATION

- Top 100 DGHs 35%
- L'stay/Cm'ly 34%
- Other DGHs 31%

RANGE OF CONSUMERS IN D.G.H.

- WARDS
- CLINICAL DEPARTMENTS eg, ICU, A&E, Theatre
- CLINICAL SUPPORT DEPARTMENTS eg, CSSD, Pharmacy
- NON CLINICAL DEPARTMENTS eg, catering, general services, works

Source: Weighted analysis of beds by location by category

Exhibit 7
The distribution infrastructure varies between regions, but modern stores mostly predominate

- Modern large stores (purpose designed, over 6k sq m)
- Modern mid-sized stores (purpose designed, 2-6k sq m)
- Other stores

Source: Regional Supplies Organisations
The NHS has developed a network of in-house distribution centres that each handle a broad range of regular use clinical and non clinical items, accounting for 15% of the revenue materials spend. Of the remaining 85%, the major part is accounted for by drugs (some of which go through regional short line stores), by specialist medical and surgical items, and by fresh and frozen food via specialist distributors.

The shape of the in-house distribution infrastructure varies between regions; most of the volume is now through modern centres, following reorganisation and investment by most regions in the 1980s (Exhibits 7 & 8 and Appendix). Until this year all of these changes had been planned within the confines of RHA boundaries, resulting in considerable overlap in the potential distribution range of many of the larger modern stores.

* Six regions opted for single Regional Distribution Centres: Yorkshire, Trent, East Anglia, South East Thames, West Midlands and Mersey (in some of these a few district stores remain in operation; in most cases they are being phased out).

* Three regions have adopted a two or three store arrangement: North East Thames, Oxford and North Western.

* Three have adopted a 4-7 store divisional structure (North West Thames, Wessex and South Western).

* Two are largely unmodernised, but are currently developing plans for change: Northern and South West Thames.

Changing Management
Structures and Methods

The supplies function is mainly organised at a regional level - particularly for storage and distribution and for major buying contracts. However, many activities continue to be handled at district level, or in multi-district divisions - particularly processing the large numbers of non stock orders. There is a trend towards devolution of some of these order processing and customer service activities from district to unit level. This would produce a cleaner, two level structure, with regional functions where scale is valuable, and unit-level service for closeness to customer without the complication of an intervening district tier; but this development is patchy as yet.

In one case, two RHAs have worked together to create a supplies agency spanning RHA borders - the new agency serves East Anglia and the northern part of North West Thames. This could set a model for the future, and a similar approach is being considered by two other RHAs.
Exhibit 8

The greater part of stock throughput is now through modern stores

100% = £315m (1989/90)

Modern Large Stores 44%

Modern Midsize 26%

Other 30%

Source: Regional Supplies Organisations

Exhibit 9

IMPROVEMENT PROGRAMMES IN SUPPLIES SHOULD FOCUS ON THREE MAIN AREAS OF OPPORTUNITY

1. GREATER VALUE FOR MONEY FROM SUPPLIERS
   - better quality and reliability of products
   - lower costs

2. STREAMLINED PURCHASING AND DISTRIBUTION OPERATIONS
   - better service to end user
   - reduced operating costs

3. IMPROVED PRODUCTIVITY IN THE USE OF SUPPLIES
   - better design of products
   - reduced wastage and over-use

CONTRIBUTION OF SUPPLIES TO INCREASED EFFICIENCY AND EFFECTIVENESS IN THE NHS
The degree of national involvement in supplies has varied over time, and this involvement has not been particularly successful. Several attempts during the 1980s to create a strong national approach achieved little, and the improvements during that time were mainly the result of initiatives by individual regions. Co-ordination has been bedevilled by distrust between regions and the centre, and although there have been encouraging signs of improved relations in recent months there remains a significant scepticism amongst regional supplies organisations and RHA management about the value of greater authority at the centre.

**STRATEGIC OBJECTIVES FOR SUPPLIES**

The supplies service must contribute to the broad aim of increased efficiency and effectiveness in the delivery of patient care. The improvement programmes set out in the subsequent chapters of this report should all contribute to three main opportunity areas (Exhibit 9):

1. **Greater Value for Money from Suppliers**

   NHS supplies organisations should introduce a modern supplier management approach to buying, aimed at reducing the total cost of sourcing materials, not just buying-in costs. This involves a greater degree of partnership with suppliers to plan joint cost reduction efforts. In addition, there is great scope to extend best buying practices across all regional buying teams.

2. **Streamlined Purchasing and Distribution Operations**

   The NHS can achieve another major leap in the productivity of its supplies service – through a further rationalisation of stores and of the buying and order processing functions, and by integration with customer and supplier logistics systems to achieve a more streamlined total supply chain. Supplies organisations should then maintain the momentum by building a philosophy of continuous improvement into their annual business plans and their contracts with customers.

   This report identifies opportunities for reductions in operating costs of £10-15m (detail in chapter 3).
3. Improved Productivity in the Use of Supplies

Supplies organisations can make a major impact on the overall efficiency of the NHS by helping their customers increase productivity at point of use. The potential of this can be illustrated by the effect of an improvement of just half a percent in materials productivity (through reduced wastage and over-use) and of half a percent in nurse productivity - which together would generate an opportunity benefit of over £50m annually. Buyers need to be more active in managing the trade off between the buying-in cost and the quality of materials.
Exhibit 10

As professional agents, supplies organisations need to provide much more than a stores service
2. USING CONTRACTS TO DEVELOP THE ROLE OF SUPPLIES AS CUSTOMER-FOCUSED AGENTS

Supplies organisations should act as agents for their customers, under the new discipline of contracts that define what the service should be and that measure performance against cost and quality objectives. They are managers of the total supply chain, not just providers of a stores service.

Clearer guidelines need to be agreed on the role of supplies organisations and on the operation of the new market mechanisms in relation to supplies. This chapter covers these issues under five headings:

* The mission of supplies organisations.
* Contracts that establish a partnership.
* Customer choice and limits to competition.
* An operational approach for supplies organisations.
* Supplier management as the key to value for money.

THE MISSION OF SUPPLIES ORGANISATIONS

The mission of the supplies organisation is to act as a professional agent working on behalf of their NHS customers to manage the supply chain. The supplies organisation should be an in-house service provider that operates according to commercial best practice, within the constraints of public sector procurement.

An Agent Working on Behalf of their Customers

The principle of the supplies organisation as agent means that it should be responsible for the total supplies service to units. This means that they must manage the whole chain in an integrated fashion (Exhibit 10):

* Integration along the length of the supply chain, from the production of goods and services by suppliers through to customer behaviour at point of use

* Integration of the new product/service pipeline into the regular delivery cycle of supplies, to help speed product innovation and the introduction of new products
Integration across the different functions of supplies, to bring knowledge of customers' needs and logistical expertise to bear in purchase negotiations.

The supplies organisation should be responsible for harnessing the private sector on their customers' behalf, if the private sector can perform part of the supplies service more efficiently than the supplies organisation itself. The use of private sector sub-contractors is covered in Chapter 4.

This role, as professional agent, contrasts sharply with the traditional perception of NHS supplies organisations as primarily managers of NHS distribution centres.

An In-House Service Provider, Not to be Privatised.

NHS supplies organisations, in their role as managers of the total supply chain to the NHS, should not be privatised. This is primarily because of the need to retain direct control of negotiations with suppliers on prices and service levels.

The complexity and scale of this function means that an outside organisation could build a position where the benefits of significant buying power are not passed on to the NHS. It is theoretically possible for private sector agents to act on a fee basis, and for the terms and prices of the contracts they make to be visible; but the benefits of going out of house are marginal when compared to the substantial risks.

Privatising the existing supplies organisations would risk turning them into monopoly suppliers as described above, benefiting them but not the NHS.

On the other hand, if a competitive market in supplies agents were to emerge, these competing organisations would not individually wield significant purchasing power and suppliers would benefit at the expense of the NHS.

Contracting out purchasing and supply chain management would reduce responsiveness to customers by lengthening the chain from supplier to end user; one effect of this would be to impede the supplier-customer information exchange that facilitates product design improvements.

The contracting out of buying is rare in industry, for similar reasons to those above. This in turn means that there is no obvious market of purchasing agents.
Exhibit 11

Giving the users the final say will ensure a relevant and cost-effective supplies service.

CUSTOMERS

- service and cost
- quarterly review
- ultimate right to opt out

FINAL DECISIONS ON:
- supply concept and system
- product range
- supplier choice

SUPPLIES AGENCIES

ACTIVE MARKETING OF:
- better service ideas
- new and better products and suppliers

BENEFITS OF THE CONTRACT SYSTEM:
- ensures service is relevant to users
- provides pressure for continuous improvement
- encourages innovation by both customer and agency
- channels market information effectively
with a proven track record.

* Such considerations do not rule out appropriate use of wholesalers for particular ranges of products, nor the contracting of specific physical supplies activities (this is covered in chapter 3).

For these reasons procurement should be kept within the NHS, and this function should be integrated with the management of logistics and the representation of customer needs and preferences. This precisely is the meaning of integrated supply chain management, which is the role of the NHS supplies organisations.

**Commercial but Not-for-Profit.**

It is essential that supplies organisations do not, in their attempts to become commercial, lose sight of their very rationale for being: to provide the rest of the NHS with the supplies service that best enables it to get on with its core services to patients. To do this, supplies organisations should be:

* Commercial, in the sense that they adopt private sector best practice, and are always being challenged by their customers to reduce their costs and increase their quality of service.

* Not-for-profit, which implies that they should not adopt a market pricing approach for their services. They should instead charge their NHS customers a price that reflects the costs of their service to that customer (including a provision for investment in improving the supplies service).

Supplies organisations should take a cautious view of serving private sector customers; this is a potential distraction, and there may be legal problems. At the most, such customers should represent a small part of a supplies organisation's business.

**CONTRACTS THAT ESTABLISH A PARTNERSHIP**

The April 1991 Reforms have created the principle that supplies organisations should act under the discipline of contracts with their customers — which are the Provider Units or, in some cases, Districts (Exhibit 11). This has, over the last few months, forced both parties to define more clearly what type of service is needed, and it will act as the major spur for improvements in the cost and quality of supplies provision.
The contract should give the supplies organisation the role of purchasing agent and supply chain manager for the unit, offering the following services:

* Access to bulk purchasing contracts, giving benefits in price, service and product quality.

* Advice on the appropriate delivery channels for that customer, including the best balance between the NHS stores service and direct supplier deliveries.

* Stock-item distribution service: regular and reliable delivery of a range of frequent-use products, collated and packed to ward and department level.

* Non-stock order processing systems: these are now being automated in most regions, giving units access to on-line ordering against contract prices and, increasingly, faster response times from suppliers; it also has the potential to provide information on product usage.

* Providing buying expertise for major purchases, including market knowledge and negotiating skills.

* Advice on internal hospital materials management and, where appropriate, resources to implement and operate new methods.

* Ensuring knowledge of and compliance with regulations governing public procurement practice.

Some of these services are at an early stage of development, and our recommendations on the improvements required are set out later in this report.

CUSTOMER CHOICE AND LIMITS TO COMPETITION

Internal competition between the NHS regional supplies organisations is inappropriate, although supplies should be flexible in responding to specific customer requests to be served by a different NHS supplies organisation. Customers should have the right to opt out of the NHS supplies system; since trusts are fully accountable for their own management performance it is appropriate that procedures for opting out should be different for them than for directly managed units.
Supplies agencies face a variety of pressures and incentives to perform on quality and cost of service.

Free information flow is needed to produce the pressures and the ideas to improve performance.

INFORMATION EXCHANGE

For customer choice
- comparative catalogue - range and prices
- comparative terms - on cost and service

For purchasing effectiveness
- prices and terms
- volume of business by supplier
- special product and service arrangements

For management control
- financial viability
- operational indicators: service, costs, productivity
- best working practices
Internal Competition
is Inappropriate

Internal competition between supplies organisations risks creating baronies focused on building the scale of their operation rather than on serving their customers. Its benefits would be marginal and it would risk undermining necessary co-ordination on purchasing and logistics strategy.

* An effective mix of performance pressures on supplies organisations is currently developing – particularly the new discipline of contracts with their customer units (Exhibit 12); the pressure of internal competition would not add significantly to this.

* The nature of competition between internal service providers is in any case unpredictable. It could produce fierce competition in some areas, cartels in others, and divert supplies managers from their core role as agents and professional advisers to their customers.

* Internal competition might have the advantage of keeping supplies organisations on their toes and weeding out inefficiency, but it has the major disadvantage of putting up barriers to the exchange of information, especially on the best buying arrangements and to the transfer of best operational practices (Exhibit 13).

* The most effective way to eliminate areas of poor performance in the near term is to implement directly managed programmes of improvement: the supplies organisation is small enough for hands-on professional management to achieve the required operational change within an acceptable period of time, rather than relying on the longer term impact of a full internal market.

* Absence of internal competition does not mean, however, that the geographical area served by each supplies organisation should be set in stone. A unit that, for example, sits close to the geographical boundary of a supplies organisation's territory, should be able to appeal to the supplies organisation's parent (see Chapter 5) if it wants to be served by a neighbouring supplies organisation.

The Customer
Opt Out Right

As internal competition will not be acting as a spur on supplies organisations to improve their performance, some external discipline is useful in this respect, which will also
provide customer units with choice. Units should, therefore, have the right to opt out of the in-house supplies organisation. But the incidence of opting out is likely to be low; opting out should be an indicator of a failure of supplies management to provide an effective, customer focused service.

* The right to opt out of the NHS service. The contract is an agreement between two integral parts of the NHS and should not be an automatically tendered process: the core activities of purchasing and supply chain management should be kept within the NHS to ensure effective control of suppliers. Units should therefore normally use the in-house service, and this in turn requires that the internal service be managed to the highest possible standards. A unit that is not satisfied with its NHS supplies organisation should attempt to work through the problems before choosing to go elsewhere, just as a company engaged in commercial business would before abandoning a key supplier. However, some market discipline will both keep supplies organisations focused on their customers and provide customer units with some choice. Consistent with policy in a broader NHS context, the distinction between NHS trusts and directly managed units should be reflected in the opting out procedures.

* Arrangements for trusts. NHS trusts should be free to opt out, in accordance with the principle of decentralised management responsibility that underlies their creation. (Though it is understood that the Department proposes to require even trusts to buy centrally a very short list of items, chosen according to predetermined criteria.) Such opting out should be exercised within the terms of the contract that they have negotiated with the NHS supplies organisation. In practice, opting out is likely to involve employing a professional contracts manager to appoint preferred suppliers, wholesalers and distributors from the private sector. Before taking such a step, however, trusts need to satisfy themselves, first that they have correctly identified the full costs of opting out of the NHS supplies function, including management time and possibly increased clinical time spent on supplies: if for example goods arrive on wards from multiple sources and not in a comprehensive ward box. Second, trusts should be aware of the longer-term implications of their choice: for example, private sector firms may price in a predatory fashion which is unsustainable, and the cost of any supplies still taken from the NHS may rise.

* Arrangements for directly managed units. DMUs wishing to opt out should be able to follow a process of review; if satisfaction cannot be reached by creative
Exhibit 14
The organisational concept for supplies should reflect its mission as a customer-focused manager of the supply chain
problem solving on the part of the unit and the supplies organisation, this would end in the ultimate right of the unit to opt out of the NHS supplies system, by agreement with its district and regional general management.

* The integrity of purchase contracts between supplies organisations and suppliers. It is vital that buyers employed by supplies organisations establish strong relationships with their customers (particularly specialised department heads). These will encourage customers to resist the temptations of spot, off-contract purchases that could undermine central contracts. These close relationships, however, will also enable buyers to be aware of all the opportunities arising in the marketplace, and to secure the best deals for each unit.

* Cost based pricing. Supplies organisations should price their services on the basis of their costs of serving different customers. This also should discourage some of the "cherry picking" by some units which, although it might benefit that individual unit in the short term, might also undermine the supplies organisation's ability to manage suppliers effectively. For example, a supplies organisation could charge a unit with the full costs of serving that unit, regardless of the volume of purchases that it is demanding from the supplies organisation.

* Obligation to provide a service. NHS supplies organisations should have an obligation to contract with any NHS unit that approaches it.

AN OPERATIONAL APPROACH
FOR SUPPLIES ORGANISATIONS

In order to make its mission credible the supplies organisation needs to set up structures and incentives for its employees that are congruent with that mission. These will, broadly speaking, take two forms.

<table>
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<tr>
<th>Organisation</th>
<th>Structure</th>
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The structure of the supplies organisation should reflect the most important decisions that have to be taken on behalf of customers; an illustrative organisation chart is shown in Exhibit 14:

* Operational responsibility for the management of the
whole supply chain lies with the supplies organisation chief executive. This means that the purchasing and logistics functions are combined within one unit. This facilitates close co-ordination between these areas and with customer services.

* Supplier Relations: responsible for negotiating arrangements for products and services from suppliers on behalf of NHS customers; this function is discussed in detail below under the heading of adopting a value for money approach to purchasing.

* Logistics: responsible for the delivery of both stock and non-stock items. The management of this function should be making strategic decisions as to whether groups or whole categories of products should be stock or non-stock. These decisions should be based on:

- the requirements of customers, channelled back via the customer services function

- what services, prices and terms are on offer from suppliers and wholesalers, fed in from the supplier relations function

- the impact of that decision on the economics of the stocked range as a whole, based on their own logistical expertise

Placing within the logistics function the responsibility for the management both of direct deliveries and of in-house distribution facilities should help minimise any tendency of bias towards in-house delivery where this is not the best distribution channel. Logistics management should be evaluated on evidence of their efforts to choose the best value distribution channels, just as much as on running an efficient in-house storage and distribution service.

* Customer Services and Marketing: responsible for ensuring that customer requirements and preferences are fully understood and championed within the supplies organisation, and for on-the spot provision of a supplies service to customers. Organisationally this should entail a field force of Customer Services Representatives outposted to units. In some regions, the establishment of such a field force has already taken place; it represents one side of the modern, bipolar structure of supplies organisations described in Chapter 1. (The role of these representatives is discussed in detail in Chapter 5)

* Finance, administration and systems: responsible for providing a management accounting capability to advise
the supplies organisation on the financial implications of strategic and operating decisions, and for the provision of support services.

Pricing Structure

The pricing mechanism used to bill customers for supplies services will also have an effect on the behaviour of the supplies organisation; it is important that this does not set up incentives that work against the role of a professional agent advising customers on the best supplies arrangements for them. For example, a system of a full on-cost percentage for stock items plus a fixed fee for non-stock items encourages supplies organisations to channel as much product as possible through NHS distribution centres.

At least one trust has recognised this potential problem, and avoided it by paying a fixed fee for their supplies service. One regional supplies organisation has chosen to charge an on-cost for stock items that reflects the variable cost of putting items through its distribution centre. Thus there are different ways of conforming to the principle that prices reflect the cost of the service provided; it is also important for supplies organisations to recognise the point at which the costs of suboptimal price incentives at the margins of their business are lower than those of huge price complexity.

ADOPTING A VALUE FOR MONEY APPROACH TO PURCHASING

The traditional approach to NHS buying has tended to focus on price at the expense of total cost and quality. Placing more emphasis on managing suppliers rather than just negotiating the best deal on price will yield substantial savings.

Reducing Total Costs

A stance that is closer to a partnership than an adversarial relationship with suppliers can help reduce total supplies costs.

* Lower purchase prices can be achieved from suppliers either by reducing their margins or by reducing their costs. A partnership approach means that supplies organisations work together with selected suppliers to lower supplier costs. This is appropriate where the spend is significant and scope exists for the supplies organisation to share in the resulting savings. Lowering supplier costs is preferable to reducing their margins because in the long run, if margins are squeezed too severely, firms will exit the business and prices
will rise.

* Streamlining the delivery chain. Involvement of logistics and customer service managers in purchase negotiations should enable supplies organisations and suppliers to take cost out of the supplies delivery chain. For example, regularly stocked items might be economically supplied in a package size that reflects the amount used on a typical ward in one delivery cycle. Some of these cost savings will be attainable directly by the NHS supplies organisations; others would have to be passed on to the NHS in the form of lower purchase prices from suppliers.

* Lower administrative costs. These result from two corollaries of a partnership approach:

- Fewer suppliers. Supplier relations should concentrate its efforts on its largest spend areas, so there will still be an administratively expensive "tail" of suppliers. However, partnerships with large suppliers plus a shift towards wholesalers for smaller spend items will reduce the number of suppliers.

- Fewer buyers. Working with suppliers more closely on managing their costs requires buyers to have business understanding as well as negotiating skills. This in turn means that task of managing high spend suppliers should be less localised and will require fewer, better quality buying teams.

**Improving Product Specification and Design**

End users can and should influence product design and manufacture, and the supplies organisation, starting with the customer services function, is the natural conduit for this influence. For example, a product may be overspecified and a reduction in quality and cost possible; or a product may be hard to use, and it may be possible to improve quality for the same price; or quality may be so important to the customer that they are prepared to pay a premium.

**Maintaining the Pressure for Good Deals**

More open and longer term relationships with suppliers should not mean that supplies organisations are any less zealous in their pursuit of the best bargains for the NHS. A new, partnership approach to supplier management must of course be pursued within the framework of procedures governing public
sector procurement.
Exhibit 15
The distribution system must be streamlined further, with fewer major delivery sources

1. NHS Distribution Centres
   GENERAL REGULAR USE
   HOSPITAL SUPPLIES

2. Specialist Distribution Channels
   ITEMS WITH SPECIALISED CUSTOMERS OR HANDLING NEEDS

3. Ad Hoc and Tailored Deliveries
   OCCASIONAL USE AND ONE-OFF PURCHASE ITEMS

Exhibit 16
The proportion of supplies going through the in-house distribution centres varies widely across commodity groups

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Proportion (£m, total = 1,532)</th>
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<tbody>
<tr>
<td>M&amp;S</td>
<td>447</td>
</tr>
<tr>
<td>Drugs</td>
<td>414</td>
</tr>
<tr>
<td>Provisions</td>
<td>208</td>
</tr>
<tr>
<td>Office/IT</td>
<td>165</td>
</tr>
<tr>
<td>Works</td>
<td>94</td>
</tr>
<tr>
<td>Patient App.</td>
<td>91</td>
</tr>
<tr>
<td>Lab/Inst.&amp;Chem.</td>
<td>86</td>
</tr>
<tr>
<td>Dressings</td>
<td>60</td>
</tr>
<tr>
<td>Bedding &amp; Linen</td>
<td>54</td>
</tr>
<tr>
<td>Laundry</td>
<td>42</td>
</tr>
<tr>
<td>X-Ray</td>
<td>41</td>
</tr>
<tr>
<td>Staff Uniform</td>
<td>35</td>
</tr>
<tr>
<td>Patient Cloths</td>
<td>26</td>
</tr>
<tr>
<td>Hardware</td>
<td>14</td>
</tr>
<tr>
<td>Other</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: NHS accounts 1989/90; regional supplies organisations
3. STREAMLINING THE DISTRIBUTION CHAIN

Most regions have been implementing major rationalisation programmes but there is a lot more to be achieved. The service should aim both for improvements in service standards and for reductions in costs as the joint result of better use of systems, better trained and directed supplies teams, and more intensive use of the best of the recently modernised infrastructure.

There are four areas for action:

* Focus on fewer, better planned distribution channels
* Reduce the number of NHS distribution centres further
* Rationalise buying, ordering and support activities
* Contract out physical activities where appropriate

FEWER, BETTER PLANNED DISTRIBUTION CHANNELS

Supplies organisations should work with units to produce fewer major delivery sources that are better planned and controlled. This will reduce the complexity of deliveries into units, and increase the potential to negotiate the best value for money from suppliers. There should be three main categories of distribution (Exhibit 15), and steps should be taken to increase the efficiency and effectiveness of each of them.

NHS Distribution Centres

The NHS distribution centres (DCs) will continue as one of the three main categories of distribution, but their role and the range of items stocked should be kept under review.

They currently stock a wide range of regular use consumable items for which there is broad demand across a range of requisition points (wards, departments and separate sites). They account for a moderate proportion of medical and surgical spend, up to half of food, and a spread of other commodities (Exhibit 16). They are the most visible face of the supplies organisation but account for just 15% of revenue material purchases by value. The size and composition of the range and the number of suppliers varies widely from region to region.

Their service is high cost but for the most part also high added value. They add an on-cost of, typically, 10-12% to the
cost of goods, and provide:

* A regular service (at least weekly), with short lead times from requisitioning to delivery (normally within a week).

* Collating and packing of a wide range of products to ward and department level, minimising handling within the unit.

* High assurance of fulfilling the order - service levels are in the high 90s% in many regions.

Their role needs to be kept under review, with innovations in the style of the operation and continuous appraisal of the appropriate stock range, for example:

* Minimise the storage and maximise the order collation role of DCs: e.g., the supplier holds stock, which is called off to the DC for assembly into the ward-box packs - Yorkshire has such an arrangement for sutures, Mersey is considering it for lower volume medical and surgical items, and there are other examples.

* Consider using established private sector distributors for product categories with distinctive storage or handling requirements, e.g., stationery, edible fats (some DCs are considering closing their small cold stores).

Specialist Distribution Channels

These have developed partly as a result of the unique physical needs of certain products (e.g., medical gases, fresh food and frozen food); partly though the existence of effective alternative distribution channels (e.g., chemist wholesalers, X-Ray film manufacturers); and partly as a result of professional policies and structures within the NHS (e.g., pharmacy, CSSD).

They need to be planned and controlled more actively. Supplies organisations should conduct a critical reappraisal of these areas in partnership with the appropriate specialist management:

* Drugs: at present, supplies organisations make major contracts and professional pharmacists place the day to day orders. Following a study in 1986 several regions introduced "short line" regional stores, mainly to secure better prices; cost savings from this approach have been substantially higher in some regions than in others.
For the future, supplies organisations should advise units and pharmacists on logistics efficiency - to avoid double handling and to find the best way to use the well developed private sector wholesaler network (an alternative, to use the general NHS distribution centres, would be of little value given the existence of this network).

* CSSD: the CSSD and supplies functions need to work more closely together to avoid duplication:
  - achieve the best balance of ward-box deliveries via the supplies DCs, and deliveries via the hospital CSSD store
  - co-ordinate CSSD and supplies topping up systems to wards (see chapter 4)

* Works: historically, works stores have held high levels of stock with low rates of stock turn; the more progressive districts and units have eliminated in-house storage and instead use a call-off service from wholesalers - this practice should be extended.

Further benefits will come from use of new non-stock IT systems linked to core suppliers, allowing simplified requisitioning by consumers and, through EDI, a better service from suppliers.

Ad Hoc and Tailored Deliveries

A large proportion of purchases are occasional items for which it would be uneconomic to offer a service from the NHS distribution centres or to create a continuing specialist channel.

This includes higher value equipment for which a delivery service by courier or by manufacturer direct is cost effective, adding only a small delivery on-cost. A special analysis of non-stock medical and surgical equipment purchases was conducted for this study, showing that the average order value of these items was over £100, compared with £20 for stock lines.

However, it also includes a mass of relatively uncontrolled general purchases from a great proliferation of suppliers, which is very expensive to administer - some regions have close to 10,000 suppliers in any year.

Action:

* Each supplies organisation should review and reduce the tail of suppliers, focusing where possible on preferred wholesalers for low volume items.
Exhibit 17

Regions with RDCs are achieving much higher efficiencies in warehousing and distribution

<table>
<thead>
<tr>
<th>THROUGHPUT/W&amp;D STAFF, £000</th>
<th>STOCK TURNOVER TIMES PER YEAR</th>
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<tbody>
<tr>
<td>RDC</td>
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<td>RDC</td>
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<td>RDC</td>
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<tr>
<td>Semi-RDC</td>
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<tr>
<td>Divisional</td>
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<tr>
<td>Semi-RDC</td>
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<td>Divisional</td>
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<tr>
<td>Division/District</td>
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<td>Division/District</td>
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<tr>
<td>Division</td>
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</tbody>
</table>

*Adjusted to reflect a standard, comparable NSV category mix

Source: Regional Supplies Organisations

Exhibit 18

Significant scale economies are achievable

WAREHOUSE AND DISTRIBUTION ON COST, %

- Divisional £7.5m p.a. 14.5%
- Regional £30m p.a. 10.5%
- Supra Regional £45m p.a. 9.4%
- Supra Regl Increment £15m p.a. 7.2%

Source: Sample regional data, Audit Commission model
**The new non-stock IT systems should be used to reduce order processing and administrative costs.**

**FURTHER RATIONALISATION OF NHS DISTRIBUTION CENTRES**

The NHS should reduce further the number of distribution centres, using the best of the existing modern facilities to improve the quality of the service and to reduce costs.

**Distribution Economics**

The larger regional distribution centres opened in the last five years are proving to be lower cost operations in terms of labour productivity and stock levels (Exhibit 17). In most cases these centres are also achieving significantly higher service levels than their predecessor district stores.

The potential for scale economies is confirmed by a theoretical cost model developed by the Audit Commission which shows that a regional scale is likely to be more efficient than a multi-district divisional centre (Exhibit 18); there is also considerable potential to increase the throughput of some of the new regional centres (several of which are operating on a 1.5 shift basis and with spare storage capacity). This analysis is consistent with previous studies that used logistics modelling packages to suggest that 5-10 centres would be the optimum.

**Action Required**

The NHS should rationalise its distribution infrastructure by closing the smaller and less efficient centres and increasing the use of the better facilities. It should also actively promote the spread of best practice between regions (the opportunities for this are illustrated by the variations shown in Exhibit 17).

* The rationalisation would achieve operating cost savings of about £6m a year, based on this report's analysis of distribution economics.

* Achieving the best of existing performance would save a further £3-4m - and the process of searching for further improvements year by year would continue.

* There will be capital costs in increasing systems capacity and in modifying distribution centre layouts; these could be modest (on the basis of reviews we have conducted), but must be assessed on a case by case basis. These costs should be offset to some extent by
the capital gains from disposing of old store sites.

* This rationalisation would create a network of distribution centres that crosses existing RHA boundaries; the specific opportunities and the organisational implications of this are addressed in chapter 5, and these recommendations should be planned in detail and implemented by the new organisation proposed there.

* In one or two cases consideration should be given to investing in a new supra-regional distribution centre: e.g., for the M4/M5 corridor that spans Oxford, Wessex and South Western regions (these regions are currently served by 13 stores, with no large RDC); and for the north of Thames and East Anglia area (with 11 stores currently, serving 3 RHAs). Such investment should only follow specific in depth logistics and financial studies, which would also look at the potential to make better use of existing stores.

* The benefits of rationalisation will be as great in the quality of service and in the purchase cost of goods as in operating costs. One Trust currently served by a district store has estimated an annual saving of £250,000 if it switched to a neighbouring region's RDC, largely from better purchase prices; it would also receive better service levels despite greater distance from store to hospital.

A few district stores are still in existence in regions that have already invested in modern distribution centres. These district stores duplicate the DC service, at a higher true cost and normally with poorer service levels (for example, this study estimated the on-cost of one of these stores at over 20%). A few general stores also exist at unit level. The responsibility for tackling these anachronisms should lie with general management; supplies organisations should provide professional advice on this subject, as well as on improvements to the network of specialist local stores (pharmacy, CSSD, works, printed stationery, etc.).

Further rationalisation will require the establishment of contingency plans to cover issues such as industrial relations difficulties, fire, etc., in one or more of the centres. These plans will include provision for cross servicing from neighbouring NHS centres and/or from private sector distributors.

RATIONALISE BUYING, ORDERING
AND SUPPORT ACTIVITIES

5,500 staff (WTEs) are employed in supplies activities in the NHS - only 37% of these are involved in warehousing and
Exhibit 18

Buyers and order processors are the largest group amongst the 5,500 supplies staff

SUPPLIES STAFF BY FUNCTION

100% = 5,500

- **Warehousing and Distribution**: 37%
- **Buying and Order Processing**: 41%
- **Miscellaneous, Regional/Divisional**: 10%
- **Miscellaneous, District/Unit**: 12%

Source: Regional Supplies Organisations
distribution, the rest being in buying and order processing (41%), management, administration and support activities (Exhibit 19). The staff costs for the regional supplies organisations are £50m.

There is considerable scope to rationalise these activities, creating tighter teams that can be managed more effectively and consistently, with reduced costs. Several supplies organisations have been making improvements in these areas, but as yet the cost reductions have been low compared to the stores rationalisation programme.

The following action is required:

* Use the new non-stock IT systems to achieve savings in order processing and buying activities - reviews with supplies management suggest that savings of up to 25% could be achieved: assuming this could directly affect half the 41% of costs that are in this category, this has an opportunity cost benefit of over £2.5m.

* Combine buying teams, to reduce costs and raise standards (this is best done at a supra-regional level, requiring the organisational changes set out in chapter 5). About 10% of the £50m cost base would be affected, and there is at least a 33% improvement opportunity, or over £1.5m.

* Polarise staff either to unit level - where closeness to customer is critical - or to regional and (in future) supra-regional level in activities where scale adds value; redeploy staff time from administrative activities to front line customer support.

These savings in buying, order processing, support and management time could either be realised as cost savings or be used to transfer resources to unit level customer service activity (which itself would need to be economically justified). The total opportunity benefit is at least £4m (and the active exchange of best practices between regions should take this further).

**CONTRACT PHYSICAL ACTIVITIES WHERE APPROPRIATE**

Supplies organisations should keep the core functions of supplier and logistics management in-house, but actively seek opportunities to contract operational parts of the supply chain where private sector expertise exists or where an internal contract can give more effective management control. They should, however, be critical in considering the private sector: distribution contractors do not offer a universally high standard
Exhibit 20

Certain physical activities are candidates for contracting out

**SCOPE TO CONTRACT OUT**

- **Significant**
- **Moderate**
- **Limited**

<table>
<thead>
<tr>
<th>Product &amp; service specs</th>
<th>Logistics planning &amp; management</th>
<th>Supplier relations</th>
<th>Requisitioning &amp; order processing</th>
<th>Warehousing and distribution</th>
<th>Materials movements at unit</th>
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- **Scope to contract out some ancillary activities,**
  - eg. Market research, planning and systems consultancy
of service.

Specific opportunities for contracting could include (Exhibit 20):

* Transport (this is now contracted in most regions).

* The operation of distribution centres (Oxford's facilities management contract with Exel is an example of this).

* Systems development (including off-the-shelf packages) and systems operation (e.g., South East Thames).

* Market research, e.g., customer needs, price comparisons, industry trends.

* Physical materials movements at the unit, e.g., the operation of topping up systems - this could be part of a broader ancillary service contract, and could also take in routine requisitioning and order processing data input.
4. UPGRADING UNIT LEVEL MATERIALS MANAGEMENT

Local managers must place a higher priority on upgrading materials management practices within the unit. This will improve the speed and reliability of the supplies service within the unit, and improve the productivity of clinical and other staff.

It is more important than ever that the supplies organisations continue to attempt to overcome the traditional problem of insufficient contact with ultimate ward and department level consumers of supplies, because better information technology and increased professionalism among supplies staff are encouraging the move of the management of the supplies function, as well as the NHS distribution centres themselves, further away from units.

Three initiatives should be undertaken in this area:

* Introduction of a planned and managed approach to ward level supplies
* A supplies professional within the unit
* Use of information on ward level consumption patterns

A PLANNED AND MANAGED APPROACH TO WARD SUPPLIES

In most hospitals without an on-site NHS accountable store (over 90% of district general hospitals in 1991), the responsibility of the supplies function for delivery of goods has in the past stopped at the hospital gate. Such hospitals have developed their own methods of managing the flows of supplies information and physical goods on a more or less ad hoc, historical basis.

Yet large hospitals are complicated organisations, offering plenty of scope for supplies to go astray: fewer than 300 district general hospitals account for two-thirds of the demand for supplies in the HCHS, and these large hospitals may have over 100 separate requisition addresses. A lack of a planned approach to managing supplies within units is one of the most significant causes of variability in the quality and cost of the supplies service.

Supplies should be actively planned and managed within units. The benefits that this will bring include:

* Reduced stockholding at ward and department level
Exhibit 21
Materials management involves four main areas of supplies provision

Exhibit 22
Consumers at ward and department level are highly sensitive to the quality of the supplies service

Average consumer rankings on a scale of 1 to 10

- Reliability of order fill: 8.1
- Responsiveness in emergency: 7.1
- Convenient requisitioning process: 6.6
- Regular delivery & requisitioning days: 6.2
- Convenient delivery process: 6.0
- Approachability & helpfulness: 5.5
- Lead time from requisition to delivery: 6.4
- Cost of supplies: 4.7
- Professional advice: 3.4
- Cost of delivery: 2.1

Source: Audit Commission interviews with 29 consumers of supplies
* Fewer stock-outs and emergency deliveries
* Less nurse time spent on supplies
* Reduced handling within the hospital, and therefore reduced portering time on supplies
* Increased consumer confidence in the supplies service
* Information that can be used to help supplies professionals and general managers improve their supplies service further

Most supplies organisations are now developing systematised approaches to this, but the extent of implementation varies widely between regions. Such approaches are described in many parts of the health service as "materials management". This is used below as an umbrella term, to describe the management of supplies within units, rather than any particular approach; decisions on specific details of, for example, the requisitioning process, should be based on local consumer needs and conditions.

Materials management involves four main areas of supplies provision. (Exhibit 21).

1. Establishing Consumer Needs

The use of space at ward and department level, and the design of requisitioning and delivery processes, should be rooted in an explicit articulation of consumer needs. A survey, conducted for this study, of consumers at ward and department level in large hospitals showed that they are concerned primarily with the quality of the supplies service, and in particular the reliability of getting what they request (Exhibit 22). This concern reflects the hidden cost of clinical time spent on supplies. Consumers place the cost of supplies below the quality of service issues, but this relative cost insensitivity can be addressed in two ways:

* Providing cost information at point of use (see "Requisitioning" below).
* Providing management with comparative information on supplies' productivity (see "Use of information on ward level consumption patterns" below).

Consumers in community units are likely to have needs that differ in some respects from those in large hospitals. For example, clinics may require frequent deliveries of small volumes, because of lack of storage space, as well as these deliveries being made within very small time windows, because of lack of staff to receive goods.
As consumer needs do differ, and are likely to change over time, supplies professionals should work with consumers to establish the core product range and the required stock and service levels:

* **Products:** identify the products in regular use in each location in order to ensure that the supplies organisation can deliver these items frequently.

* **Stock and service levels:** when establishing specific stock and service levels, unit management and supplies organisations should help budgetholders make arrangements that combine the lowest cost provision of supplies with a service quality that allows clinical staff to concentrate on patient care.

2. Space Management

Units need to manage space on wards and departments even where there is sufficient storage space at present, because space management can lower stock levels and free clinical time, by, for example, reducing the need to hunt for supplies. Managing space may require some investment in specialised storage systems, but it may be possible to finance these via one-off savings in stock; last year one ward succeeded in reducing its stock of medical and surgical items by 48% and its stock of dressings by 64%, for a total saving of £1,500, with no decrease in service level.

3. Requisitioning

The requisitioning process to be employed should be designed to be as simple and relevant to the consumer as possible, and foster awareness of the cost of supplies at point of use. Different ways of doing this exist, and decisions on which to employ should be made locally. For example:

* **A topping up system,** whereby stocks are regularly checked against, and re-ordered up to, pre-determined levels for a specific range of items in regular use at that location. This might be done with handheld terminals, or against a preprinted form, and topping up of items held in NHS stores might be linked with topping up of, for example, pharmacy and CSSD items. When using topping up, though, care should be taken that stock is regularly rotated, to minimise obsolescence costs.

* **Standing orders,** where these are based on that location's typical consumption patterns during one delivery cycle plus a very small buffer. Stock levels still need to be monitored, however, to spot any
changes in average consumption and avoid stock build-up of some items and stock-outs of others.

* Preprinted forms, including items in regular use at that ward; unlike standing orders these require the requisitioner to decide on the quantities desired each time they order. This system involves more work for the requisitioner, but it is also more flexible.

* A catalogue for regularly used items, issued with blank forms for the requisitioner to fill in. This is the most common method currently used, and tends to be less satisfactory than methods listed above, because of problems usually associated with the catalogue itself. Not least of these is that catalogues cover items stocked in NHS distribution centres, which are not necessarily the same as those in regular use in particular ward and departments; as a different form has to be used for non-stock items, the requisitioner must either know in advance whether an item is in the NHS store, or spend time trying to find out.

* With all the above, an accurate price should be listed for each regularly ordered item, plus an indication of the total cost of each delivery, to inform consumers of the amount they are spending on supplies. Individual price tags on delivered items also continuously raise the supplies cost awareness of consumers, encouraging them to find ways of economising in their use of supplies.

Management must also reduce the delays caused by complex spend authorisation processes within the unit. This can often be the cause of holding up orders for several days, which in turn raises the amount of stock that consumers need to hold at ward and department level.

4. Physical Flow of Goods

The physical flow of goods within hospitals is part of the integrated chain that extends right through from suppliers, which should be designed to provide maximum service to ward and department consumers, whilst minimising handling and stock levels within the unit.

* Deliveries to the unit should be regular and reliable, on the planned pattern described in Chapter 3.

* Goods should normally be received at a single receipt and distribution point and delivered to the requisitioning point on a same day basis.
The role of the customer services representative is to encourage links between the unit and the supplies organisation.
* The "ward box" service from the NHS distribution centres should be designed with a lead time shorter than the requisitioning cycle, so consumers place orders after their last delivery has arrived. This is not always the case now, and therefore buffer stocks at ward level are considerably higher in some places than they should be.

A SUPPLIES PROFESSIONAL IN EACH MAJOR UNIT

The person responsible for developing a materials management approach within the unit may be termed a Customer Services Representative, because they should bear primary responsibility for the supplies service to their particular customer. The customer services representative occupies a connecting role between the supplies organisation and the hospital; they are responsible for on-the-spot provision of the supplies service to the hospital as well as for the championing of the customer to the supplies organisation (Exhibit 23). Smaller units and clinics should be served as satellite responsibilities of representatives based at major units.

A Focal Point for Supplies at the Unit

The customer services representative should be the first port of call for customer queries about supplies. To this end they should be based at the unit, and should spend a substantial portion of their time walking the wards and departments. They should personally be widely known throughout the hospital, and be able to deal with people in all positions at the hospital, either to answer questions directly or to refer them to the appropriate supplies person.

Encouraging Links between Consumers and Supplies Staff

The representative should be responsible for encouraging the web of links between the customer and the supplies organisation, that is necessary to ensure provision of the best possible service. These links include those between:

* Ward/department level consumers and supplies staff who can answer their questions on, for example, order status (this should in some cases be the account manager themselves).

* Heads of departments and specialised buyers (e.g.,
surgeons and buyers of medical and surgical items, catering managers and food buyers), to improve product specifications and give buyers a better understanding of product quality, as defined by their customer, as well as to provide a team approach in negotiating for major purchases.

* General management at the unit and the supplies organisation senior management, including, but not limited to, negotiators of the supplies contract for the unit(district) and for the supplies organisation.

Ownership of Supplies
Management at Unit Level

The reporting line for the customer services representative, and any other supplies professionals that support them within the unit, should be decided locally. Unit(district) general managers will have very different views as to whether they want this person(s) on their staff or on the supplies organisation's payroll, and this should be a matter for local choice. No matter to whom the representative reports, however, their role requires them to remain in close contact with both the supplies organisation's geographical customer services manager and the unit's director of support services/finance.

Also, while the responsibility for provision of the supplies service both to the standards and at the price specified in the contract lies with the supplies organisation, broader accountability for ensuring NHS consumers receive a high quality and reasonably priced supplies service lies with unit general management, just as it does with other comparable support services. This principle remains true regardless of which part of the NHS employs the customer services representative.

NHS general managers should make the decisions as well on the amount of investment in materials management at their unit; for example, some managers will prefer that wards are topped up by supplies professionals, which may require employing a supplies team or contracting the service from the supplies organisation; others will prefer that the nursing staff on wards and departments requisition items and restock shelves. General managers should be on their guard against the possibility of customer services representatives recreating large local supplies departments.

USE OF INFORMATION
ON WARD LEVEL
CONSUMPTION PATTERNS

Stronger personal contacts, coupled with new IT systems,
make information on ward level consumption and supplies handling patterns accessible. Such information is a valuable asset; it can be used in particular to produce creative tools that assist general managers in efforts to improve the productivity of supplies, as well as to facilitate operational improvements in the provision of the supplies service.

Helping General Managers Improve the Productivity Of Supplies

The type of information needed to do this requires IT assistance in data collection and synthesis. This in turn may imply increased investment in IT that extends to ward/department level; some regions are far more advanced than others in this regard. But the ability of such systems to capture information that can help NHS managers manage the use of supplies within their organisations is a huge potential benefit that should play a significant role in the capital budgeting decision. Useful information includes:

* Comparative information on product usage rates, for example, a league table of urinary catheters per patient day for every ward in the region, to help managers identify potential waste.

* Comparisons of usage levels for different products that perform the same function, enhancing understanding of whole-time costs.

* Projections of total unit savings, broken down by budgetholder, that would result if all consumers in a unit agreed on a smaller number of preferred products for a particular task, rather than ordering from a wide range.

* Quantified illustrations of the top 5 ways to save money in supplies: units might choose to build into their contracts a quarterly review between a representative of the supplies organisation and each budgetholder, in which the former takes the latter through an analysis of the top 5 ways in which supplies believe that that budgetholder can save money.

Operational Improvements

Much of the information that will help improve the provision of the supplies service, though, requires very little or no further capital investment to gather, since it is of a nature that is best collected simply by supplies professionals and consumers talking to each other often. For example:
* Improving the catalogue. The most frequent complaint encountered during the consumer interviews conducted for this study was that catalogues used to requisition items stocked in NHS stores are not user-friendly:

- catalogues are not written in a language that users understand (or is sensible, for example, "paste, tooth")

- units of issue are often particularly confusing, which can lead to massive over- or under-ordering

- items are not listed in an order that makes sense to the customer: they tend to be listed, for example, according to supplies code, rather than alphabetically

* Moving items into/out of stock in NHS distribution centres. Supplies organisations should be able to respond more quickly to a need to move items into or out of stock; for example, an item might be brought into stock if it is in regular use and long supplier lead times mean that consumers are holding high stocks on wards.

* Spreading best practice in supplies provision, for example, space management, from location to location.
5. STRENGTHENING THE ORGANISATIONAL STRUCTURE

The conclusions on the requirements for both purchasing and distribution, set out in chapters 3 and 4, suggest that the optimum scale for the supplies organisation is greater than that of RHAs. This report proposes a new structure, with 6-8 supplies organisations under the strategic direction of a new National Supplies Board.

This chapter is organised in three sections:

* The need for fewer, stronger supplies organisations.
* Decentralised responsibility under national strategic direction.
* An illustrative geographic design.

THE NEED FOR FEWER SUPPLIES ORGANISATIONS

The NHS should change its supplies organisation from an RHA-based structure to a new structure of 6-8 NHS supra-regional supplies organisations. This will allow more effective exploitation of the benefits of scale in purchasing and logistics whilst avoiding the risks of remoteness and unmanageable size that could come from a single national operational organisation.

These are the main benefits of fewer organisations:

* Further rationalisation of distribution centres and reduced organisational duplication, as proposed in chapter 3.
* A more manageable organisation for suppliers to deal with - which increases the potential to design links between their business and the NHS, improving service and reducing costs.
* Sharing resources to make operational improvements - especially to upgrade the weaker regions
* A more manageable number of supplies organisations, allowing greater strategic direction and operational collaboration and more effective performance comparisons.

These are the reasons for not reducing the number of organisations to less than 6:
* Retain responsiveness to customers: each of the 6-8 organisations would take in about 40 district general hospitals (accounting for 66% of supplies turnover), few enough for managers and buyers to have personal contacts with key individuals in each.

* Avoid an over-large, unwieldy organisation:
  - give front line managers a real sense of responsibility and an ability to influence their organisation's performance
  - retain the ability to make use of inter-regional performance comparisons as a key tool for management

* In purchasing, avoid the market inefficiencies of a monopsony – which would tend towards a central planning and allocation approach rather than relying on the marginal cost and revenue based decision-making of an open market; arrangements can still be made for national purchasing on an exception basis, e.g., in negotiating with energy monopolies.

DECENTRALISED RESPONSIBILITY UNDER NATIONAL STRATEGIC DIRECTION

This report recommends a structure of locally based agencies with full accountability for operational performance, under the strategic direction and control of a new National Supplies Board.

The study considered a number of options. At one end of the spectrum was a fully integrated national structure, in which the 6-8 supra-regional organisations would be divisions of a national "Next Steps" Agency. At the other end of the spectrum was a "host region" approach, with each supplies organisation as an arms length agency under the overall supervision of one of the RHAs that it serves.

The approach recommended here draws on the best elements from both ends of the spectrum whilst minimising the many obvious disadvantages of each.

Role and Qualities of the Parent Entity

Each new supra-regional supplies organisation must come under a parent entity which provides managerial discipline and safeguards the strategic mission of supplies. But the parent should not be involved in day to day operational activities. Its
Exhibit 24

6.8 SUPRA-REGIONAL SUPPLIES AGENCIES SHOULD BE ACCOUNTABLE TO A NEW NATIONAL SUPPLIES BOARD

NHS CHIEF EXECUTIVE

Develop a national supplies strategy, set objectives for the regional agencies, monitor performance

NATIONAL SUPPLIES BOARD

FINANCE & POLICY UNIT

Finance and strategy, performance comparisons, people development, regulatory monitoring

NATIONAL SUPPLIES DIRECTOR

NATIONAL BUYING UNIT

Special-case national purchasing, market monitoring

SUPRA-REGIONAL SUPPLIES AGENCY

Chief Executive

Chairman and Board

Advice on value of service, involved in selection of chief executive

Contracts to define and review the nature, cost and quality of service

CUSTOMERS (UNITS)
role is to:

* Set and safeguard the strategic mission.
* Review investment needs and provide access to capital.
* Recruit and retain senior management.
* Approve annual business plans and monitor performance monthly and quarterly.
* Ensure that the benefits of collaboration with the other regional supplies organisations are achieved.

The following criteria should be used in assessing the alternative organisational approaches. The "parent" must provide:

* The general management skills and perspectives to direct supplies activities: the ability to attract, retain, direct and control operational managers and to raise professional standards.
* Responsiveness to the needs of customers in the NHS context.
* A structure that reduces the current ambiguity of responsibilities for supplies.
* The ability to minimise disruption during a process of change, and to take on the role with minimum risk.

Accountability to a New National Supplies Board

The 6-8 new supra-regional supplies organisations should be in-house commercial Agencies with full responsibility for their operational performance. They should be accountable to a new National Supplies Board (Exhibit 24).

* The National Supplies Board will set strategy and review the performance of the local agencies. Its members should represent a cross section of NHS managers and clinical staff - from a Regional Chairman to a Trust Chief Executive and a Nurse Manager - with a minority of non-executives from industry. It will not have operational responsibility - this will lie with the supra-regional Agencies.

* A National Supplies Director will report to the NHS Chief Executive, and be accountable to the National Supplies Board for the strategic integrity and the quality and cost effectiveness of the service. This
person will be a senior general manager coming either from within the health service or from a general management position in industry; he or she need not have a supplies background. This appointment should be made by the Secretary of State on the recommendation of the NHS Chief Executive.

* The supra-regional supplies Agencies will be responsible and accountable for the supplies service in their areas within the framework of national strategy and objectives; their boards will advise the Agency chief executives, to help assure the quality and cost effectiveness of the service to customers; as at national level, their boards should include NHS management and clinical staff and a minority of external non-executives.

* The local Agency chief executives will be accountable to the National Supplies Director for their operational performance and for carrying out the mission and objectives for supplies in the NHS. They will be appointed by a panel set up by the national Board and including members from the relevant local board; their personal annual review will be with the National Director.

* Two central units will report to the National Director:

  - a small finance and policy unit, to support the Director's role as controller of the regional agencies and as the professional head of supplies accountable to the Management Executive and to Ministers; a priority role is to collect performance comparisons, as a key way of holding the local Agencies to account for their operational performance

  - a national buying unit, for those special-case commodities requiring national purchasing: these items should be agreed between the National Director and the Agency chief executives on the basis of clearly defined criteria; the unit will also monitor strategic developments in the supplier marketplace

* Finance: the Agencies will receive revenue through their contracts with their customer units; the national buying unit will be funded by a charge on the local Agencies (as it provides a direct service to their customers), and the national Board and the finance and policy unit will be funded by the Management Executive; bids for major capital expenditure will be made via the national Board to the Management Executive.
* Administrative arrangements: the Agencies will be self-standing entities for financial and personnel purposes; they might choose to sub-contract certain services from other NHS entities.

This approach creates a strong supplies organisation, focused on delivering a responsive service through the new process of contracts with customer units, whilst able to pursue the benefits of national collaboration – to raise the professional standards of supplies in the NHS and to capitalise on opportunities for nationally led purchasing and infrastructure improvements.

The accountability of the local operational agencies to a National Board would be a significant departure from previous national supplies arrangements, removing the ambiguity of responsibilities that have bedevilled earlier initiatives. The success of this approach is dependent on the implementation of the concept of accountability to the national Board, and it requires great care in appointing a high calibre general manager to the position of National Supplies Director.

An alternative approach would be to make the agencies directly accountable to the RHAs that they serve – which would require one of them to take on the role of lead or "host" RHA. This would have some important disadvantages:

* RHAs have been putting supplies organisations on an "arms length" basis in the context of the NHS Reforms, and it is unlikely that they would willingly go back to the active management oversight that is needed to promote the required improvements, or to act as champions for the supplies function.

* The supra-regional agencies could then become baronies, concerned more at building their own operation than at focusing on a partnership role with units and on collaboration with their peer agencies.

* The ambiguity of responsibilities would remain: the pressure from Parliament for strategic oversight of the total NHS supplies spend will remain, but the organisation will not be structured to respond effectively.

**AN ILLUSTRATIVE GEOGRAPHIC DESIGN**

The shape and boundaries of the new supra-regional supplies agencies will be determined largely by combining existing regions in a way that produces more efficient logistical entities.
Exhibit 25

A model geographic design for 7 supra-regional supplies agencies

<table>
<thead>
<tr>
<th>Region</th>
<th>Revenue Spend</th>
<th>Stores Spend</th>
<th>Thr'put</th>
</tr>
</thead>
<tbody>
<tr>
<td>North East</td>
<td>13%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>North West</td>
<td>15%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>East Midlands</td>
<td>10%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>West Midlands</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>N Thames &amp; E Anglia</td>
<td>22%</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>South and West</td>
<td>16%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>South Thames</td>
<td>15%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

* The total revenue budget of the DHAs within these geographic areas
Criteria for the Shape of the 6-8 Supplies Organisations

The new supplies structure should be based on an effective combination of existing organisations rather than a totally greenfield approach, to combine an effective logistics shape with the best use of existing physical and human resources.

* Effective logistics shape:
  - effective management of and partnership with suppliers and private sector distributors, by being able to link with their distribution patterns
  - appropriate for internal distribution efficiency (whilst recognising that there can still be cross serving between regions at the margins of the new boundaries)
  - avoid too wide a variation in size of customer base, whilst not dogmatically aiming for equality

* Best use of existing resources:
  - harness the best people – in general management, supplier management, systems and logistics – to maintain overall team effectiveness and exploit the best individual functional skills
  - exploit the best of the stores infrastructure and IT systems, minimising new investment
  - minimise the complexity of links between supplies systems and RHA finance systems, avoiding complex overlapping of boundaries

Model Geographic Proposal

This report sets out a model geographic design as the basis for consultation (Exhibit 25), consisting of 7 supra-regional Agencies structured as follows:

1. North East: a combination of Yorkshire and most of Northern (east of the Pennines), creating a logical supplies region with long term viability.
   - the service of Normanton RDC (Yorks) can be extended to much of Northern (via AIM), allowing rapid rationalisation - Northern can avoid major investment and its units benefit quickly from Normanton's product range and prices
both use the SIS IT system (Northern is currently planning a non-stock development using Yorkshire's version of SIS)

this region could also take in some or all of Cumbria, although to include Cumbria with the North West supplies agency does, on balance, make more sense logistically in the long term.

2. **North West**: combine Mersey and North Western, plus Cumbria, creating a coherent supplies entity. Potential exists to rationalise stores, e.g., focusing on Runcorn and one of NW's two main stores.

3. **East Midlands**: essentially the current Trent region, plus the three northern districts of Oxford.
   
   - there would be only limited value in combining Trent with, e.g., Yorkshire or West Midlands; it has coherence and critical mass as it stands
   
   - the 3 Oxford districts would get an effective service from Alfreton in Trent (and see section 6 below, the rationale for a southward orientation for the rest of Oxford, in which these 3 districts would not fit well - they could, possibly, remain with Oxford but with a contracted stores service from Alfreton)

4. **West Midlands**: the largest existing region, no change proposed.

5. **North Thames and East Anglia**: this would be the largest region, with significant long term benefits but short term merger difficulties (different systems, well established management teams).

   - potential for significant rationalisation of the existing 11 stores - making use of the strong road linkages in the combined region (M1, A1M, M11/A11, A12, M25, N Circular)

   - benefit of going beyond the new joint East Anglia/N.W.Thames (northern) agency: although strong in the context of the current 14 RHAs, this joint agency would be small as one of 6-8 agencies and is an awkward shape as a supplies entity

6. **South and West**: combining Wessex, South Western and most of Oxford (excludes Oxford's 3 northern districts, which are in 3 above).

   - 3 of the smaller regions: significant benefit from pooling resources to upgrade and rationalise
stores (there are 13 currently), systems and buying resources

- 55% of customers by volume would be on the M4/M5 corridor, which overlaps all 3 RHAs

7. South Thames: a combination of South East and South West Thames (excluding Chichester, which would be included in South and West).

- Maidstone RDC has the capacity to serve most of SWT, which currently has an unmodernised network of district and divisional stores; SET's stock and non stock systems could be extended to SWT without significant new investment

- the 2 regions have held positive preliminary discussions about a combined service

* * * *

It would also be possible to consider links with Welsh supplies organisations in the context of this proposal, subject to the broader strategic requirements of both parties. Such links could either take the form of contracted services from neighbouring English regions, particularly the distribution centre service; or a full combination in a shared supra-regional agency, for example, combining north Wales and the north west of England. Links with Scotland might also be beneficial in major purchasing contracts, but not for the in-house distribution service.
## SCHEDULE OF MAIN RECOMMENDATIONS

<table>
<thead>
<tr>
<th>Recommendation Number</th>
<th>Recommendation</th>
<th>Action Required</th>
<th>Responsibility</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. ACCELERATE THE DRIVE FOR IMPROVEMENTS</td>
<td>1.1 Adopt 3-part objectives for improvements in supplies activities</td>
<td>- Adopt these as goals in the business plans of Supplies Organisations (SOs), &amp; in contracts with customers</td>
<td>Supplies Organisations (SOs)</td>
<td>Continuing</td>
</tr>
<tr>
<td>2. USE CONTRACTS TO DEVELOP THE ROLE OF SUPPLIES AS CUSTOMER-FOCUSED AGENTS</td>
<td>2.1 Set clear role for SOs, as in-house agents to customers, managing total supply chain</td>
<td>- NHS management to endorse and publicise this role (linked with 2.2, 2.4, 2.5)</td>
<td>Management Executive (NE) and Policy Board (PB) via RGMs</td>
<td>From 5.91</td>
</tr>
<tr>
<td></td>
<td>2.2 Do not privatise the core role of SOs</td>
<td>- NHS management to issue rules to RHAs (linked as above)</td>
<td>NE via RGMs</td>
<td>From 5.91</td>
</tr>
<tr>
<td></td>
<td>2.3 Use contracts to establish a partnership between SOs and customers</td>
<td>- SOs to market this concept to their customers</td>
<td>SOs</td>
<td>Continuing</td>
</tr>
<tr>
<td></td>
<td>2.4 Customer to have opt out right</td>
<td>- NHS management to issue rules to RHAs (linked as above)</td>
<td>NE via RGMs</td>
<td>From 5.91</td>
</tr>
<tr>
<td></td>
<td>2.5 No competition between NHS SOs</td>
<td>- NHS management to issue rules to RHAs (linked as above)</td>
<td>NE via RGMs</td>
<td>From 5.91</td>
</tr>
<tr>
<td></td>
<td>2.6 SOs to adopt a customer-focused organisation structure</td>
<td>- SOs to build in these principles as they adopt new agency structures</td>
<td>SOs</td>
<td>Continuing</td>
</tr>
<tr>
<td></td>
<td>2.8 SOs to use price mechanisms appropriate to role as agent not wholesaler</td>
<td>- SOs to use these principles in their contract terms with customers</td>
<td>SOs</td>
<td>Continuing</td>
</tr>
<tr>
<td></td>
<td>2.9 Adopt a Supplier Management approach to purchasing</td>
<td>- SOs to carry these principles through in training, structure &amp; management of buying teams</td>
<td>SOs</td>
<td>Continuing</td>
</tr>
<tr>
<td>3. STREAMLINING THE DISTRIBUTION CHAIN</td>
<td>3.1 Focus on fewer, better planned distribution channels, with core suppliers</td>
<td>- SOs to focus on core suppliers/wholesalers, and market this approach to customers</td>
<td>SOs</td>
<td>Continuing</td>
</tr>
<tr>
<td></td>
<td>3.2 Further rationalisation of distribution channels</td>
<td>- SOs to complete current programmes - RHAs and DHAs to complete district store closures - SOs to conduct evaluations of best longer term store shape in context of new 6-8 Agencies (chapter 5)</td>
<td>SOs</td>
<td>During 1991</td>
</tr>
</tbody>
</table>
6. A DISCIPLINED DECISION AND IMPLEMENTATION PROCESS

Decisions and implementation should not be delayed - to avoid the problems of uncertainty that have affected too many supplies proposals in the past. Consultation with the regions is required but it must be within a disciplined timeframe.

The process should cover three areas:

* Decide on and get commitment to the organisational change - and set up implementation task groups.

* Issue guidelines on the role of supplies organisations and on the market mechanisms and rules on competition - to RHAs, DHAs and units (Trusts and DMUs).

* Take action on operational recommendations: this is the responsibility of supplies managers in the field.

Exhibit 26 catalogues the recommendations made in this report and summarises the action required on each.

DECISIONS ON AND COMMITMENT TO ORGANISATIONAL CHANGE

A clear decision in principle on the reorganisation proposals should be made without delay so that a tightly managed implementation project can be launched. The specific proposals set out below are designed as a framework to illustrate how this could be achieved.

Overall Decision

These steps are required:

* The Policy Board and Management Executive should decide on the re-organisation proposals in principle in May, and set up a National Supplies Steering Group to supervise the implementation.

* The ME should review the plans with regional management, promoting its overall decision and considering regional comments - during May, to be complete by mid-June.
<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Page</th>
<th>Action Required</th>
<th>Responsibility</th>
<th>Timing</th>
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</thead>
</table>
| 3.3 Rationalise buying, order processing teams, etc | 24 | - Merge teams in line with new 6-8 Agency structure  
- Build systems based restructuring into the merged teams | SOs | From mid 1991 |
| 3.4 Contract physical activities where appropriate | 25 | - SOs to extend current practice in the context of the needs of the reshaped Agencies | SOs | Continuing |
| 4. UPGRADE UNIT LEVEL MATERIALS MANAGEMENT | | | | |
| 4.1 Extend the application of planned and managed approaches to ward level supplies | 27 | - SOs to extend and roll-out their existing tests, reviewing best local approach with each unit | SOs, with Units | Continuing |
| 4.2 Locate a supplies professional in each major unit | 31 | - SOs to continue existing trends, & review best local approach with each unit | SOs, with Units | Continuing |
| 4.3 Use ward/dept level data to get better control of materials productivity | 32 | - SOs to develop MIS packages for units, based on Supplies Information Systems | SOs, with Units | Continuing (as systems are improved) |
| 5. STRENGTHEN THE ORGANISATIONAL STRUCTURE | | | | |
| 5.1 Create 7 supplies agencies in place of the RNA-based structure | 35 | - NHS management to make decision in principle  
- Consult with RHAs and decide on boundaries  
- Establish National Implementation Steering Group (NSG) to oversee all changes  
- Create 7 Steering Groups to set up the new agencies  
- Appoint Agency Boards and chief executives  
- Plan initial implementation integration programmes | ME and PB | 5.91 |
| | | - ME, with RHAs and SOs | ME, with RHAs and SOs | From 5.91, by end 6.91 |
| | | - ME | ME and SOs | 5.91 |
| | | RHAs (with NSG) | | 6.91 |
| | | 7 Steering Groups, with NSG | Joint working groups of existing SOs | Mid/late summer |
| | | | | From 5.91 |
| 5.2 Create a new National Supplies Board and appoint a National Supplies Director | 36 | - Decision in principle  
- National Steering Group (as above)  
- Advertise & assess candidates for NSD position  
- Recommend Board appointments | ME | 5.91 |
| | | - NSG | NSG (NHS CE to approve) | By 9.91; in place by 12.91 |
| | | | | By 9.91 |
National Level Implementation

A National Supplies Steering Group should direct the overall implementation programme. It should consist of the Director of Operations and Planning, and the Regional Chairman and the RGM with lead responsibilities for supplies. This group will make use of other resources including the Procurement Directorate as required (it will probably need a small full time staff from April until the autumn). Its specific tasks are to:

* Review comments from the regions and finalise the proposals, including the shape of the 6-8 Agencies, by the end of June.

* Recruit the National Supplies Director (acting on behalf of the Secretary of State and the Chief Executive) – advertise in June, appoint by October to be in place by the end of 1991.

* Recommend the composition of and appointments to the National Supplies Board – to be functioning by September.

* Set financial and organisational procedures.

* Ensure that local plans are put in place within the targeted time and are compatible with the overall plan.

* Appoint the agency chief executives, on the recommendation of the Regional Steering Groups, by September.

Establishing the New Supra-Regional Supplies Agencies

A Supplies Steering Group should be established for each supra-regional agency, to put the overall agency organisation in place. They should consist of an RHA manager with relevant responsibility from each of the main RHAs within the supra-region (which could be the RGM, or the director of commercial services or finance director), and one or two DGMs with supplies expertise. They will draw on the resources of the existing supplies organisations as required. Their tasks are to:

* Recommend to the National Steering Group the appointment of the agency chief executive – these proposals to be made by mid/late summer.

* Appoint the agency board.

* Review the operational integration plans.
Operational Implementation Teams

A team should be established for each of the new agencies, to plan the first implementation steps needed to have the agencies operational at senior management level by the autumn. They should consist of the chief executives and a project manager from the main supplies organisations within the new territory, and should start work in April. Many of the integration steps should be phased in once the new agency is established as an entity: it will be unwise to attempt to change too much at once. The experience of the East Anglia/North West Thames merger should be used as a model and test bed.

The main tasks of these teams are:
* To propose a top level organisation structure (possibly as a transitional arrangement).
* To establish financial, administrative and personnel procedures.
* To conduct a first stage evaluation of opportunities for full operational integration, setting out a broad timeplan and reviewing the compatibility of the existing plans of the current organisations (but avoid an embargo on short term action unless it would create duplication and conflict in the longer term).

GUIDELINES ON MARKET MECHANISMS AND COMPETITION

The Management Executive should issue a Letter of Guidelines to RHAs, DHAs, units (Trusts and DMUs) and supplies organisations on the role and operation of supplies in the context of the internal market. This should cover the issues set out in chapter 2, including:
* A summary of the overall role of supplies as in-house agents, not to be privatised.
* The contracts process as an internal working agreement not automatic competitive tendering.
* Units to pursue their search for improvements in partnership with the supplies organisation, with the rights to opt out as set out in Chapter 2.
* Prohibition of competition between supplies organisations for NHS customers.
* The private sector to be used as sub-contractors to
supplies organisations for specific activities - if they genuinely offer better value for money.

ACTION ON OPERATIONAL RECOMMENDATIONS

Individual supplies organisations have the responsibility for considering and acting on the operational recommendations in this report (contained in chapters 3 and 4 and in the later sections of chapter 2).

Many of these recommendations should be taken up by regional supplies organisations in the near term (indeed, several SOs already have action plans in areas covered in these chapters). If the proposed reorganisation is agreed, these operational proposals should become part of the implementation planning process for the new supra-regional agencies.

The new agencies will need to conduct in-depth studies to plan the appropriate configuration of distribution centres within their new boundaries, and to plan long term systems arrangements. These are priority areas but the decisions should not be rushed.
This appendix lists the distribution centres and briefly describes the supplies organisation by region (see also the map in Exhibit 7). The data is for 1989/90; throughput is £'000.

The distribution centre classification includes those stores that distribute a general range of commodities to more than one site.

* It excludes local specialist stores, eg, district printed stationery, pharmacy, CSSD, engineering, etc.

* It includes general district stores serving more than one site with a range of products.

* It excludes general hospital stores serving one site.

NORTHERN

Northern have operated a divisional structure with 5 geographical supplies divisions, each reporting to a host district but centrally monitored by a small regional staff. Within this organisation they operate 14, primarily district, stores. Purchasing is carried out at divisional level, and each division takes a lead "Centre of Responsibility" role for different product areas across the region.

Northern have contracted in two senior supplies managers from Hays as chief executive and finance manager for the new regional supplies agency, to manage the agency and propose plans for reorganisation. They are planning to implement the Yorkshire SIS software for stock and non-stock order processing.

<table>
<thead>
<tr>
<th>Distribution Centre</th>
<th>Division/District</th>
<th>Thr'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>S Tees (DHA)</td>
<td>Cleveland</td>
<td>3431</td>
<td>519</td>
<td>6.6</td>
<td>1775</td>
<td>2601</td>
<td>General</td>
</tr>
<tr>
<td>N Tees (DHA)</td>
<td>Cleveland</td>
<td>882</td>
<td>145</td>
<td>6.1</td>
<td>1550</td>
<td>539</td>
<td>General</td>
</tr>
<tr>
<td>Washington</td>
<td>S of Tyne</td>
<td>4150</td>
<td>517</td>
<td>8.0</td>
<td>2400</td>
<td>2612</td>
<td>General</td>
</tr>
<tr>
<td>Newcastle</td>
<td>N of Tyne</td>
<td>4740</td>
<td>731</td>
<td>6.5</td>
<td>2551</td>
<td>4385</td>
<td>General</td>
</tr>
<tr>
<td>N Tyneside</td>
<td>N of Tyne</td>
<td>1102</td>
<td>167</td>
<td>6.6</td>
<td>1696</td>
<td>845</td>
<td>General</td>
</tr>
<tr>
<td>Northumberland</td>
<td>N of Tyne</td>
<td>1551</td>
<td>257</td>
<td>6.0</td>
<td>1828</td>
<td>1895</td>
<td>General</td>
</tr>
<tr>
<td>E Cumbria</td>
<td>Cumbria</td>
<td>1170</td>
<td>180</td>
<td>6.5</td>
<td>3800</td>
<td>743</td>
<td>General</td>
</tr>
<tr>
<td>S Cumbria</td>
<td>Cumbria</td>
<td>786</td>
<td>92</td>
<td>8.5</td>
<td>1200</td>
<td>567</td>
<td>General</td>
</tr>
<tr>
<td>W Cumbria</td>
<td>Cumbria</td>
<td>752</td>
<td>100</td>
<td>7.5</td>
<td>1500</td>
<td>172</td>
<td>General</td>
</tr>
<tr>
<td>Durham</td>
<td>Durham</td>
<td>692</td>
<td>150</td>
<td>4.6</td>
<td>1252</td>
<td>1071</td>
<td>General</td>
</tr>
<tr>
<td>Winterton</td>
<td>Durham</td>
<td>621</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>General</td>
</tr>
<tr>
<td>S.W.Durham</td>
<td>Durham</td>
<td>1283</td>
<td>173</td>
<td>7.4</td>
<td>1333</td>
<td>541</td>
<td>General</td>
</tr>
<tr>
<td>N.W.Durham</td>
<td>Durham</td>
<td>839</td>
<td>184</td>
<td>4.6</td>
<td>1487</td>
<td>1110</td>
<td>General</td>
</tr>
<tr>
<td>Darlington</td>
<td>Durham</td>
<td>929</td>
<td>134</td>
<td>6.9</td>
<td>1331</td>
<td>765</td>
<td>General</td>
</tr>
</tbody>
</table>
YORKSHIRE

Yorkshire opened its Normanton regional distribution centre (RDC) in 1987, and most district stores have now been closed (those that remain have little overlap with Normanton's product range).

Supplies is part of the broader Yorkshire Services Agency. The order processing and customer service teams are on local payrolls and, increasingly, are located within units rather than in district offices.

<table>
<thead>
<tr>
<th>Division/Distribution Centre</th>
<th>Thr'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normanton RDC</td>
<td>27268</td>
<td>2815</td>
<td>9.7</td>
<td>5648</td>
<td>7929</td>
<td>General</td>
</tr>
<tr>
<td>Anlaby</td>
<td>1312</td>
<td>179</td>
<td>7.3</td>
<td>213</td>
<td>n/a</td>
<td>50% drugs, rest general</td>
</tr>
<tr>
<td>St. James's</td>
<td>320</td>
<td>75</td>
<td>4.3</td>
<td>n/a</td>
<td>n/a</td>
<td>48% XRay, 27% Stationery</td>
</tr>
<tr>
<td>York</td>
<td>165</td>
<td>36</td>
<td>4.6</td>
<td>33</td>
<td>350</td>
<td>General</td>
</tr>
<tr>
<td>Scunthorpe</td>
<td>109</td>
<td>27</td>
<td>4.0</td>
<td>48</td>
<td>n/a</td>
<td>General</td>
</tr>
</tbody>
</table>

TRENT

Trent RHA brought all district supplies activities under regional management in the early 1980s. The Alfreton RDC opened in 1986 and all general district stores were closed over a 2-year transition period.

Trent developed the RESUS IT system to serve the RDC's stock service and non stock purchasing.

The supplies service is managed by the Trent Purchasing Agency, an arm's length entity within the RHA.

<table>
<thead>
<tr>
<th>Division/Distribution Centre</th>
<th>Thr'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alfreton RDC</td>
<td>29064</td>
<td>2882</td>
<td>10.4</td>
<td>4143</td>
<td>10954</td>
<td>General</td>
</tr>
</tbody>
</table>

EAST ANGLIA

East Anglia opened its RDC at Bury St Edmunds in 1986. It operates a full stock and non-stock IT system using "SIS".
The arm's length supplies agency merged this year with the
northern districts of North West Thames (see below), as a single
agency accountable for its service to both RHAs and under the
"host" management supervision of East Anglian RHA.

<table>
<thead>
<tr>
<th>Division/ District</th>
<th>Th'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bury St Edmunds RDC</td>
<td>12354</td>
<td>1462</td>
<td>8.5</td>
<td>2024</td>
<td>4682</td>
<td>General</td>
</tr>
</tbody>
</table>

NORTH WEST THAMES

In 1985 N.W.Thames reviewed its old district based supplies
structure, and opted for a new divisional approach. In 1990 5
divisions existed, each with its own purpose-built store; they
were monitored by a small regional staff. They use WESSIS
software for stock items, which they are planning to extend to
non-stock order processing.

In 1991 the Bedford and St. Albans divisions joined a new,
joint regional agency with East Anglia; this agency has a board
with representation from both regions.

<table>
<thead>
<tr>
<th>Division/ District</th>
<th>Th'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>St Albans *</td>
<td>5036</td>
<td>614</td>
<td>8.2</td>
<td>1814</td>
<td>2546</td>
<td>General</td>
</tr>
<tr>
<td>Bedford *</td>
<td>4272</td>
<td>717</td>
<td>6.0</td>
<td>2499</td>
<td>2787</td>
<td>General</td>
</tr>
<tr>
<td>Barnet *</td>
<td>1763</td>
<td>322</td>
<td>5.5</td>
<td>1583</td>
<td>2322</td>
<td>General</td>
</tr>
<tr>
<td>Hillingdon</td>
<td>4560</td>
<td>872</td>
<td>5.2</td>
<td>3119</td>
<td>2048</td>
<td>General</td>
</tr>
<tr>
<td>Twickenham</td>
<td>5467</td>
<td>875</td>
<td>6.3</td>
<td>4066</td>
<td>3000</td>
<td>General</td>
</tr>
<tr>
<td>Parkside</td>
<td>5365</td>
<td>546</td>
<td>9.8</td>
<td>3550</td>
<td>2400</td>
<td>General</td>
</tr>
</tbody>
</table>

* Barnet was closed on 31.12.89 and
  merged with St Albans

NORTH EAST THAMES

N.E.Thames regional supplies ("Netra Supplies") is an arm's
length agency that controls 3 distribution centres. Two district
stores also exist, although one of these districts receives a
partial stores service from Netra Supplies.

Customer services and purchasing are organised at regional
SOUTH WEST THAMES

S.W.Thames have operated a divisional structure with 5 geographical supplies divisions; within this organisation they have 14, primarily district, stores.

The region is currently reviewing options for supplies, including the possibility of receiving a service from S.E.Thames. They are also planning to introduce an order processing software system for stock and non-stock in 1991/2.

<table>
<thead>
<tr>
<th>Distribution Centre</th>
<th>Thr'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Witham</td>
<td>14151</td>
<td>2069</td>
<td>6.8</td>
<td>3500</td>
<td>5559</td>
<td>General</td>
</tr>
<tr>
<td>Brimsdown, Enfield</td>
<td>10582</td>
<td>1546</td>
<td>6.8</td>
<td>4000</td>
<td>5880</td>
<td>General</td>
</tr>
<tr>
<td>Camden</td>
<td>2806</td>
<td>553</td>
<td>5.1</td>
<td>2500</td>
<td>2920</td>
<td>General</td>
</tr>
<tr>
<td>Royal Free, Hampstead</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>General</td>
</tr>
<tr>
<td>Whittington Highgate</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>General</td>
</tr>
</tbody>
</table>

SOUTH EAST THAMES

S.E.Thames studied a number of options for distribution rationalisation in the mid-1980s: the study established that a single-RDC approach would have significant economic advantages over a twin-store or multi-store structure.

Maidstone RDC opened in 1988 and all general district stores have now been closed. The RDC operates a distinctive Standing Requisition system in its ward box service, and uses the Trent-based RESUS IT system. Supplies is managed as an arm's length commercial agency.

<table>
<thead>
<tr>
<th>Distribution Centre</th>
<th>Thr'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maidstone RDC</td>
<td>23398</td>
<td>3853</td>
<td>6.1</td>
<td>4600</td>
<td>10357</td>
<td>General</td>
</tr>
</tbody>
</table>

SOUTH WEST THAMES

S.W.Thames have operated a divisional structure with 5 geographical supplies divisions; within this organisation they have 14, primarily district, stores.
WESSEX

Wessex RHA has a structure of 5 geographical commercial divisions, each of which has responsibility within it for the supplies provision in that area, as well as for a number of other services, for example, competitive tendering.

Each division has one store; Portsmouth also has a small, outposted store on the Isle of Wight, which is part of the same stores account as the main Portsmouth store. Wessex uses WESSIS software for stock items.

<table>
<thead>
<tr>
<th>Division/ Distribution Centre</th>
<th>District</th>
<th>Thr’put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muschamp Rd, Carshalton North</td>
<td>Wiltshire</td>
<td>5424</td>
<td>1315</td>
<td>4.1</td>
<td>3151</td>
<td>6930</td>
<td>General</td>
</tr>
<tr>
<td>Bld Trans Serv Tooting North</td>
<td>Portsmouth</td>
<td>3002</td>
<td>343</td>
<td>8.8</td>
<td>591</td>
<td>400</td>
<td>6% blood products</td>
</tr>
<tr>
<td>St Francis H'ds Heath South</td>
<td>Wiltshire</td>
<td>2784</td>
<td>659</td>
<td>4.2</td>
<td>2800</td>
<td>2200</td>
<td>General</td>
</tr>
<tr>
<td>Graylingwell Hsp Chich South</td>
<td>Central</td>
<td>701</td>
<td>130</td>
<td>5.4</td>
<td>1206</td>
<td>1823</td>
<td>General</td>
</tr>
<tr>
<td>Queens Hsp Croydon East</td>
<td>Central</td>
<td>2027</td>
<td>539</td>
<td>3.8</td>
<td>2243</td>
<td>2965</td>
<td>General</td>
</tr>
<tr>
<td>Whittler Way Crawley* East</td>
<td>Central</td>
<td>615</td>
<td>159</td>
<td>3.9</td>
<td>851</td>
<td>676</td>
<td>General</td>
</tr>
<tr>
<td>Netherene Hsp ** East</td>
<td>Central</td>
<td>51</td>
<td>15</td>
<td>3.5</td>
<td>247</td>
<td>236</td>
<td>General</td>
</tr>
<tr>
<td>Kingston Hsp Central</td>
<td>Central</td>
<td>757</td>
<td>235</td>
<td>3.2</td>
<td>1759</td>
<td>1101</td>
<td>General</td>
</tr>
<tr>
<td>Long Grove Hsp Epsom Central</td>
<td>Central</td>
<td>151</td>
<td>50</td>
<td>3.0</td>
<td>927</td>
<td>300</td>
<td>General</td>
</tr>
<tr>
<td>Epsom District Hsp Central</td>
<td>Central</td>
<td>554</td>
<td>104</td>
<td>5.3</td>
<td>512</td>
<td>324</td>
<td>General</td>
</tr>
<tr>
<td>West Park Hsp Epsom Central</td>
<td>Central</td>
<td>800</td>
<td>262</td>
<td>3.1</td>
<td>1591</td>
<td>1379</td>
<td>General</td>
</tr>
<tr>
<td>BotleysPk Hsp Ch'tsey West</td>
<td>Central</td>
<td>1261</td>
<td>259</td>
<td>4.9</td>
<td>1705</td>
<td>1972</td>
<td>General</td>
</tr>
<tr>
<td>Royal Surrey, Guildford West</td>
<td>Central</td>
<td>964</td>
<td>158</td>
<td>6.1</td>
<td>1277</td>
<td>1311</td>
<td>Split</td>
</tr>
<tr>
<td>(Brookwood Hsp Knaphill West)</td>
<td>Central</td>
<td>150</td>
<td>40</td>
<td>3.8</td>
<td>1000</td>
<td>1924</td>
<td>range</td>
</tr>
<tr>
<td>(Frimley Pk Camberley West)</td>
<td>Central</td>
<td>938</td>
<td>112</td>
<td>8.4</td>
<td>1185</td>
<td>594</td>
<td>Split</td>
</tr>
<tr>
<td>Farnham Hsp West</td>
<td>Central</td>
<td>212</td>
<td>98</td>
<td>2.2</td>
<td>466</td>
<td>651</td>
<td>range</td>
</tr>
</tbody>
</table>

* Closed 30.4.90
** Closed 24.2.90
OXFORD

The Oxford Commercial Services Agency is the supplies arm of Oxford RHA's Regional Services Consortium. The agency has recently closed one of its three stores and realigned the remaining two as a twin-site RDC, each site stocking half the product range.

The management of storage and distribution facilities has been contracted to the private sector distribution company Exel; the agency retains direct management of purchasing and stock control.

<table>
<thead>
<tr>
<th>Division/Distribution Centre District</th>
<th>Thr'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oxford</td>
<td>5119</td>
<td>751</td>
<td>6.8</td>
<td>2130</td>
<td>1600</td>
<td>General: will be half range</td>
</tr>
<tr>
<td>Reading</td>
<td>4783</td>
<td>770</td>
<td>6.2</td>
<td>2265</td>
<td>2551</td>
<td>General: will be half range</td>
</tr>
<tr>
<td>Northampton [closes 31.3.91]</td>
<td>4001</td>
<td>505</td>
<td>7.9</td>
<td>1780</td>
<td></td>
<td>General</td>
</tr>
</tbody>
</table>

SOUTH WESTERN

South Western RHA is setting up its supplies organisation as an arm's length regional board ("Health Care Supplies South West"), which will legally commence operations in April 1991. This replaces a structure of 5 geographical divisions, based on the counties in S.Western region; each division was managed by a host district.

Health Care Supplies South West is taking supplies staff onto its payroll, and 6 of the 7 stores. They plan to centralise purchasing within the region, but base the remaining staff locally; customer services will be organised into three geographical branches.

<table>
<thead>
<tr>
<th>Division/Distribution Centre District</th>
<th>Thr'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avon</td>
<td>6835</td>
<td>750</td>
<td>9.1</td>
<td>2363</td>
<td>3270</td>
<td>General</td>
</tr>
<tr>
<td>Exeter</td>
<td>3568</td>
<td>539</td>
<td>6.6</td>
<td>2866</td>
<td>1918</td>
<td>General</td>
</tr>
<tr>
<td>Gloucester</td>
<td>3338</td>
<td>475</td>
<td>7.0</td>
<td>2104</td>
<td>2106</td>
<td>General</td>
</tr>
<tr>
<td>Taunton</td>
<td>3022</td>
<td>517</td>
<td>5.9</td>
<td>2028</td>
<td>1860</td>
<td>General</td>
</tr>
<tr>
<td>Plymouth</td>
<td>2931</td>
<td>478</td>
<td>6.1</td>
<td>2462</td>
<td>1926</td>
<td>General</td>
</tr>
<tr>
<td>Truro</td>
<td>2832</td>
<td>370</td>
<td>7.7</td>
<td>2135</td>
<td>1720</td>
<td>General</td>
</tr>
<tr>
<td>Torbay</td>
<td>1573</td>
<td>225</td>
<td>7.0</td>
<td>2317</td>
<td>780</td>
<td>General</td>
</tr>
</tbody>
</table>
WEST MIDLANDS

West Midlands RHA identified supplies as a non-core function in the mid-1980s, when it was spun out to West Midlands Regionally Managed Services.

Since opening the regional distribution centre at Kings Norton, West Midlands Supplies have been gradually closing district stores; this programme will be complete at the end of this calendar year.

West Midlands Supplies are in the process of bringing purchasing responsibilities up to regional level, and they have organised customer services into geographic divisions, each division containing a number of unit-based account managers. They use SIS software for stock items, and are extending it to non-stock; they are also piloting "Healthtrac", an electronic, interactive trading system that stretches from ward-level consumer to supplier.

<table>
<thead>
<tr>
<th>Distribution Centre</th>
<th>Division/ District</th>
<th>Thr'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kings Norton RDC</td>
<td>(10 districts)</td>
<td>9710</td>
<td>910</td>
<td>10.7</td>
<td>4234</td>
<td>10400</td>
<td>General</td>
</tr>
<tr>
<td>Dudley (Jan 91)*</td>
<td>Dudley &amp; Sandwell</td>
<td>3247</td>
<td>580</td>
<td>5.6</td>
<td>2641</td>
<td>1958</td>
<td>General</td>
</tr>
<tr>
<td>Wolverhampton</td>
<td>Wolverhampton &amp; Walsall</td>
<td>3201</td>
<td>462</td>
<td>6.9</td>
<td>2987</td>
<td>3200</td>
<td>General</td>
</tr>
<tr>
<td>Mid Staffs</td>
<td>2-DHA division</td>
<td>2292</td>
<td>279</td>
<td>8.2</td>
<td>2211</td>
<td>1634</td>
<td>General</td>
</tr>
<tr>
<td>Stoke-on-Trent</td>
<td>N Staffs</td>
<td>2702</td>
<td>287</td>
<td>9.4</td>
<td>1386</td>
<td>1378</td>
<td>General</td>
</tr>
<tr>
<td>Shrewsbury</td>
<td>Shrewsbury</td>
<td>1651</td>
<td>324</td>
<td>5.7</td>
<td>5238</td>
<td>1660</td>
<td>General</td>
</tr>
<tr>
<td>Worcester</td>
<td>Worcester Hereford &amp; Kidderminster</td>
<td>3276</td>
<td>476</td>
<td>6.9</td>
<td>2482</td>
<td>2266</td>
<td>General</td>
</tr>
<tr>
<td>Centrovell (closed Aug 90)</td>
<td>Bromsgrove &amp; Redditch</td>
<td>3858</td>
<td>382</td>
<td>10.1</td>
<td>n/a</td>
<td>n/a</td>
<td>General</td>
</tr>
</tbody>
</table>

* On these dates stores will be closed or be transferred to region to be closed
MERSEY

Runcorn RDC opened in 1984, the first of the purpose-built regional centres. Several district stores remain operational - the RHA expects more to close: it has given district and unit management explicit responsibility for assessing their continued value if any, and Regional Supplies the task of proving to local management that its service is better than the district stores.

Regional Supplies is now an arm's length agency, under the chairmanship of a businessman from the private sector.

<table>
<thead>
<tr>
<th>Distribution Centre</th>
<th>Division/District</th>
<th>Thr'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Runcorn RDC</td>
<td>Wirral</td>
<td>18125</td>
<td>1858</td>
<td>9.8</td>
<td>1774</td>
<td>983</td>
<td>General, Hearing Aids, etc</td>
</tr>
<tr>
<td></td>
<td>Chester</td>
<td>15309</td>
<td>2293</td>
<td>6.7</td>
<td>187</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clatterbridge Hosp</td>
<td>Wirral</td>
<td>425</td>
<td>100</td>
<td>4.3</td>
<td>801</td>
<td>1677</td>
<td>General</td>
</tr>
<tr>
<td>C'tess of Chester H</td>
<td>Chester</td>
<td>168</td>
<td>296</td>
<td>0.6</td>
<td>2112</td>
<td>1384</td>
<td>General</td>
</tr>
<tr>
<td>(Warrington DGH)</td>
<td>Warrington</td>
<td>242</td>
<td>90</td>
<td>2.7</td>
<td>814</td>
<td>1863</td>
<td>M&amp;S Socks</td>
</tr>
<tr>
<td>Whiston</td>
<td>St Helens</td>
<td>397</td>
<td>69</td>
<td>5.8</td>
<td>485</td>
<td>150</td>
<td>Medical</td>
</tr>
<tr>
<td>picton Rd</td>
<td>Liverpool</td>
<td>n/a</td>
<td>25</td>
<td></td>
<td>288</td>
<td>1500</td>
<td>General</td>
</tr>
<tr>
<td>Greaves Hall</td>
<td>Southport</td>
<td>238</td>
<td>40</td>
<td>6.0</td>
<td>473</td>
<td>216</td>
<td>Mainly medical</td>
</tr>
<tr>
<td>Parkside</td>
<td>Macclesfield</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>520</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>Macclesfield</td>
<td>Macclesfield</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>440</td>
<td>n/a</td>
<td></td>
</tr>
</tbody>
</table>

NORTH WESTERN

North Western RHA's review of the optimum infrastructure led to a three store configuration - two identical purpose built centres at Chorley and Old Trafford, and a smaller store at Bolton.

Supplies is now a commercial agency, Health Care Supplies North West. The old multi district structure of purchasing is being reorganised: major negotiations and contracts will now be organised at regional level, and order processing brought into unit-focused customer service teams.

<table>
<thead>
<tr>
<th>Distribution Centre</th>
<th>Division/District</th>
<th>Thr'put '000</th>
<th>Stock '000</th>
<th>Stock turn</th>
<th>No. of lines</th>
<th>Size sq m</th>
<th>Product focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chorley</td>
<td>North</td>
<td>10320</td>
<td>1686</td>
<td>6.1</td>
<td>3000</td>
<td>4731</td>
<td>General</td>
</tr>
<tr>
<td>Bolton</td>
<td>Central</td>
<td>3799</td>
<td>492</td>
<td>7.7</td>
<td>1500</td>
<td>2056</td>
<td>General</td>
</tr>
<tr>
<td>Old Trafford</td>
<td>South</td>
<td>8210</td>
<td>1785</td>
<td>4.6</td>
<td>3000</td>
<td>4752</td>
<td>General</td>
</tr>
</tbody>
</table>