

Guidance 24

The NHS Logistics Authority

The Authority was formed in April 2000, as a result of the Cabinet Office Review of NHS Procurement. The Authority's role is to provide a range of modern supply chain services to support the NHS in delivering quality healthcare, and to be the service provider of choice and a trusted advisor within the NHS. The Authority is structured into four functional directorates - Finance and Performance, Logistics, Human Resources, and Customer Services and IT, and operates out of seven strategically sited distribution centres at Alfreton, Runcorn, Normanton, Maidstone, Brimsdown, Bury St Edmunds and Bridgwater. The Bridgwater Distribution Centre is owned and operated by Exel, who work together with the Authority to provide a service to the NHS in the South and West of England under a Public Private Partnership arrangement.

Aims and Objectives

As an integral part of the National Health Service, NHS Logistics' aim is to achieve best value in the physical supply of goods required for healthcare.

The Authority's role is:

- To deliver a range of essential modern supply chain services, enabling the NHS to provide improved healthcare.
- To manage and continuously develop the NHS-specific supply channel for consumable goods required by the NHS.

To contribute to the strategic objectives of the NHS.

Main Activities and Business Developments

Strategic review

The NHS Logistics Authority began a long-term strategic review of the supply chain function within the NHS in November 2001, with the intention of building on the Cabinet Office Review of November 1998 which had identified a lack of any overall planning, coordination or management of the multitude of complex supply arrangements across the NHS.

The strategic review involves all stakeholders within the NHS and externally, and provides:

- An analysis of current NHS supply arrangements.
- An analysis of the likely impact of the NHS Plan and 'Shifting the Balance of Power'.
- An analysis of future requirements to support the development of the NHS.
- An investigation of worldwide supply chain best practice.
- Recommendations to improve supply arrangements and how the role of supply chain manager will operate.
- High-level cost/benefit analysis.

The review is being conducted in close partnership with the NHS Purchasing and Supply Agency. The first phase report was completed in March 2002, prior to being submitted to the Department of Health. The second phase will focus on the more detailed work required before any recommendations can be implemented.

Benchmarking

NHS Logistics has established a comprehensive benchmarking programme covering every aspect of the organisation's activities, in order to have access to independent objective comparators of its performance. Low-cost benchmarking clubs have been used where appropriate.

Finance activities have been benchmarked using Scoresearch, with the APAC (Analysis of Personnel Activities and Costs) benchmarking club being used for the Human Resources function. CBI benchmarking services have been used to measure health, safety and environment activities and the Customer Service function; it is believed that this is the first time that CBI benchmarking has been carried out in the public sector. The Logistics function has been benchmarked using a

web-based international group, there being no established benchmarking club in this field. Benchmarking activities were carried out between January and March 2002, and results from these exercises have provided a measure of NHS Logistics' performance against other, best-in-class organisations in all sectors. The results will highlight areas for improvement which will then be incorporated into the business planning process. Benchmarking will be repeated on a regular basis, and will form a routine input into the organisation's Business Plan.

Modernising the infrastructure

A new distribution centre at Bridgwater became operational in January 2002. Owned and managed by Exel, it enables NHS Logistics to provide a full national service to the NHS in the South and West of England. This large, strategically sited distribution centre has given customers in the South and West access to NHS Logistics' full national catalogue for the first time. The Bridgwater distribution centre replaced five smaller centres which closed between February and March 2002, and which are to be disposed of.

Closure of the Witham distribution centre was effected in early June 2001. NHS trusts previously served from Witham have been re-distributed across the distribution centre network in the South East and East Anglia. The Witham distribution centre was effectively disposed of in January 2002.

This modernisation process gives added incentive for the utilisation of a channel that is known to be a significantly more cost-effective supply chain solution in 'overall cost' terms, by providing the following benefits to the NHS:

- Strategically sited distribution centres.
- Increased efficiency and improved service.
- Access to the full NHS Logistics catalogue for all customers.

A new national catalogue

The national catalogue range was launched from Alfreton, Maidstone, Normanton and Runcorn during April 2001 (the launch from Bury and Brimsdown followed in October 2001 and from Bridgwater in April 2002). The launch of the national catalogue was also supported by the introduction of customer demand transfer (CDT). This enables a product to be stocked in one distribution centre and made available to trusts being supplied from other distribution centres via overnight trunking arrangements.

This process provides the mechanism for expanding the range and throughput of the existing infrastructure without the need to stock a product at every distribution centre.

In preparation for the introduction of the new national catalogue, the customer base has been re-aligned to allow NHS Logistics to make best use of the infrastructure capacity of its network of distribution centres.

Increasing the range of products available

During 2001/2002 over 11,500 new products were made available nationally for the first time, increasing the number of lines available to almost 27,000. A large proportion of this increase was due to the launch in April 2001 of a new regional stationery offer through three suppliers (this offer was made national during 2002).

The remaining new introductions were predominantly made in medical and surgical product areas, where customer feedback had highlighted catalogue gaps. New product introductions during 2001/2002 were mostly undertaken using our new service method of cross-docking.

Cross-docking allows the Authority to expand the catalogue without stocking the items, thus freeing up valuable space in its distribution centres. Improving working relationships with the NHS During 2001/2002, the Authority began a number of new initiatives, as well as building on existing ones, to develop its working relationship with key stakeholders.

To improve and better manage the way the Authority communicates, consults and involves trusts, the following initiatives have been undertaken:

- Continued development of the Supply Chain Group forum as a professional network to exchange views, test out ideas and obtain direct feedback on new initiatives.
- Development of an improved format for supply chain seminars, in conjunction with the NHS Purchasing and Supply Agency.
- The development of regular executive level meetings between the Authority and the NHS Purchasing and Supply Agency, and an improved joint team approach on operational matters.
- Working together with the NHS Purchasing and Supply Agency on such issues as the Ministerial Conference, communications events, emergency planning and e-commerce development.
- Joint review and development, with the NHS Purchasing and Supply Agency, of the total national procurement process.
- A comprehensive customer research programme, to better understand the requirements of NHS bodies and to be clear about how the Authority does not meet these requirements.
- Special communications exercises on such issues as the Bridgwater and Logistics OnLine implementations, the Business Plan and the Strategic Review.

Improving relationships with suppliers

The development of an integrated supply chain requires closer working relationships with suppliers.

To this end, the Authority has:

- Established a process of engagement with trade bodies, and has used this contact to consult on appropriate issues.
- Taken responsibility for supplier performance management, and developed an approach using Key Performance Indicators, which will be implemented during 2002/2003.
- Engaged with key suppliers to develop relationships and to start the process that will lead to partnership working, in terms of enhancing supply chain performance and visibility of supply chain information, leading to coordinated activity.

E-commerce

Following a successful pilot, the Authority launched its own e-ordering system, Logistics OnLine, in March 2002. The system modernises existing methods of ordering products by providing trusts and other NHS bodies with a web-based facility similar to commercial internet shopping sites. Logistics OnLine has presented the English NHS with real opportunities to improve the effectiveness and efficiency of the supply chain.

The system offers the following benefits:

- An online catalogue with search and browse facilities.
- The ability to create customised 'favourites' lists.
- A customised catalogue for NHS trusts which directly supports clinical governance.
- The ability to create repeat orders.
- A more user-friendly requisitioning system.
- Order tracking.
- An improved requisition lead input time.
- A reduction in paper-based systems.
- A streamlined procurement process.
- Customer-defined authorisation processes.

Logistics OnLine implementation is continuing according to plan with over 470 trusts having live access, as at August 2002.

E-billing

The Authority launched e-billing in 2001 and, as of July 2002, over 300 trusts had opted to receive their invoices electronically. The Authority plans to convert all trusts to e-billing by March 2003, thus making a positive contribution to the Modernising Government agenda.

Benefits to trusts of e-billing are:

- Elimination of invoice double-handling.
- A reduction in paperwork.
- Fewer calls to suppliers.
- A secure electronic alternative to the storage of paper invoices.
- Minimum disruption to the payment cycle.

Recent improvements to the Authority's e-billing offering include:

- Availability via NHSnet (previously only available on the internet).
- An electronic archiving function which minimises paper storage.
- A help-line service.
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Better Payments Practice Code

The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later), unless other payment terms have been agreed with the supplier.

Pricing Policy

A new pricing policy was introduced in April 2001. The overall number of price bands was reduced, with the intention of clearly differentiating between the costs of supplying goods in units of purchase provided by the manufacturer, and those costs incurred by NHS Logistics in breaking pack or case quantities into smaller units of issue.

New management information, available on the Authority's website, enables every NHS body to see their own level of costs being incurred on purchases through the Authority's supply route, based on their own ordering pattern.

People

Equality of opportunity

It has been the Authority's intention over the past year to ensure that it is meeting the standards for the monitoring of equal opportunities. To this end, all recruitment candidates are being asked to provide information on their ethnic origin and disability status. Where the information has been provided, this has been registered and used to benchmark our performance.

Disability awareness training has been given to members of the Chief Executive's team and other senior managers, and the package will be rolled out to all managers over the coming year. The aim is to ensure that all employees are aware of the Authority's obligations, and treat people according to its policies. The Authority has developed a questionnaire to use with its own staff, to look at any adjustments that can be made to their jobs in order to allow them to return to work following long-term illness. In terms of recruitment, of those that notified a disability, 30% were interviewed and 10% were offered employment. This is comparable to non-disabled persons in that 29% of applicants were offered an interview and 9.9% of those were offered a post.

Employee involvement

The future development of the organisation, and the performance it delivers, is directly connected to the commitment and motivation of its people.

In the last year, the Authority has sought to engage all employees by:

- Conducting a staff opinion survey, publishing the results and setting up a steering group, through which employees can influence the follow-up action plan.
- Encouraging the establishment of Local Improvement Groups in each distribution centre.
- Establishing a staff newsletter, Logistics People.
- Listening to feedback from staff in reviewing and then revising the team briefing activity - now called Team Work (a 2-way communications and participation process).

- Developing and implementing a managed notice board initiative across all sites.
- Providing internet and intranet access for all employees.
- Revising and implementing a new award scheme for employees.
- Introducing the quarterly Leadership Forum comprising the senior 40 managers, as a means of getting wider involvement in the development of the strategy, performance and leadership of the organisation.
- Introducing Chief Executive's question and answer sessions with staff at all locations, on a regular basis.

Local pay bargaining initiatives

The Authority uses a national pay rate for all its posts and does not have any local pay bargaining initiatives.

Management pay costs

During the year, management pay costs were restricted to a ceiling increase of 3.7%, in line with a letter from the Chief Executive of the NHS dated 9 April 2001.

'Positive about Disabled People' symbol

The Authority has been accredited as a user of the Employment Service Disability Symbol since February 2001. This symbol is a means of communicating that the Authority adopts a positive approach to employing people with disabilities.

Environment

The Authority remains committed to the Greening Government campaign and to minimising any harmful impacts to the environment that may result from its activities, products and services.

The Environmental Management Systems Working Group (EMSWG), established in April 2000, continues to manage the Authority's Environmental Policy, the Environmental Management System that implements it, and the continual environmental improvement required by the Authority's certification to ISO 14001.

The Environmental Management Programme provides a framework for the Authority's environmental activities and sets out environmental objectives designed to progress continuous environmental improvement in the NHS supply chain.

In addition, the Authority is now represented at the environmental forums of both the NHS Purchasing and Supply Agency and NHS Estates, and this gives the NHS Logistics Authority the opportunity to contribute to improving environmental standards in the wider NHS.

During 2001/2002 the Authority:

- Reduced waste to landfill by the recycling of plastic and cardboard.
- Reduced paper consumption by 26.5%.
- Recovered 32% of A4 and continuous listing paper.
- Benchmarked its electricity and gas consumption levels.
- Met the Government's energy efficiency performance target.
- Developed a fleet transport strategy that includes environmental considerations and performance.
- Undertook a successful trial to reduce the use of plastic

shrink-wrap by 5%.

- Won an Environmental Regeneration Trust Award for its Normanton Distribution Centre.
- Worked with English Heritage to protect a Site of Special Scientific Interest at the Maidstone Distribution Centre.

Risk Management

The increasing dynamism and complexity of the modern business environment has significantly increased risk exposures. It is imperative that these exposures are managed effectively and efficiently. Failure to do so may result in a degradation of the service NHS Logistics provides to the NHS and could lead to significant financial loss or, at worst, business failure.

Whilst the risks associated with existing operations need to be managed on an ongoing basis, innovation carries with it an extra element of risk. The Authority must be innovative if it is to maintain and improve its services to the NHS. Customer requirements change and the Authority needs to adapt by developing its products and services and by taking advantage of new technology.

The Authority has developed a Risk Management Strategy which incorporates the identification, assessment and management of risks on an ongoing basis and ensures that risk awareness is an integral part of the decision making process.

The Authority's executive directors regularly review current and planned activity to identify and evaluate areas of risk and to implement action to manage these exposures. The results of this process are captured in the Corporate Risk Register. This register is reviewed quarterly by the Chief Executive and his team, and bi-annually by the Audit Committee. Particular attention is given to the Authority's key development projects such as the new Logistics OnLine e-ordering system.

Managing risk exposures effectively helps the Authority to deliver its Business Plan and ensure that customers are provided with a reliable and quality service. A greater understanding of the risks facing each business area, corporate function and project helps in the formulation of strategies, business plans, prioritisation and the deployment of resources. It also clarifies accountabilities and responsibilities, as well as identifying those areas where there is excessive control and procedures can be streamlined.

The Authority's approach to risk management is co-ordinated by the Chief Internal Auditor who is a member of the Chief Executive's management team. The risk profile is used as a basis for internal audit planning and complements the approach adopted by District Audit, the Authority's external auditors. The Chief Executive is required by HM Treasury to sign an annual Statement on Internal Control on behalf of the Authority. This statement is underpinned by the Authority's risk management process.

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