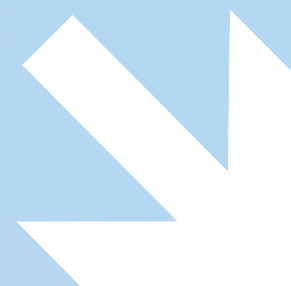




Logistics Authority

Business Plan 2005/2006

Delivering healthcare products
throughout the National Health Service





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Improving service... reducing costs...

This **2005/06** Business Plan builds on a hugely successful year for NHS Logistics in which we met and, in many cases, exceeded our targets. By maintaining service excellence and by forging closer relationships with customers and other partners, we have provided the NHS with a high-quality and value-for-money service. Our achievements include:

- record customer demand at around £730 million, an increase of almost 8 per cent on the previous year
- lowest ever service on-cost at 9.96 per cent
- delivered £10.4 million of benefits to the frontline NHS, including a £3 million cash return to NHS trusts in January 2005
- the extension of our product range to over 43,000 products
- highest level of customer satisfaction at 88 per cent, an increase of 7 per cent on the previous year.

We are especially proud of the national and international recognition that we have received during the year in the form of five prestigious industry awards. This level of success, which both validates our critical role and underlines our commitment to the NHS, is in no small part thanks to *your* continued support.

Many of you will be aware of the market-testing process that NHS Logistics is currently undergoing. Although it is uncertain how this might shape future arrangements for the management of our activities, we remain steadfastly committed to achieving the further improvements that are set out in this Business Plan for 2005/06, including for the sixth year running a reduction in our on-cost to 9.67 per cent.

Barry A Mellor
Chief Executive

Our Purpose

The purpose of NHS Logistics is to deliver a comprehensive range of healthcare products and high-quality supply chain services, which are essential to promote improved patient care.

We will achieve this through three main activity areas:

- providing the main supply channel for consumable healthcare products to the English NHS
- providing a range of modern supply chain services to support the delivery of quality health care
- supporting the development of a world-class supply chain across the NHS.

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Arm's Length Body Review

In 2004 the Department of Health published its Arm's Length Body Review (2004). The document confirmed the significant value that NHS Logistics brings to the NHS and recommended that this important service should be developed and expanded, allowing the NHS to obtain even greater benefits. It also stated that the activities of NHS Logistics would be market-tested to see how this

might be best achieved. This market-testing process is now ongoing and the results should be known before the end of 2005.

Importantly, whatever the result of the market-testing process, senior management within the Department of Health and at NHS Logistics are committed to maintaining and expanding this crucial service for the NHS.

Our Strategy for the coming year

Our business strategy for 2005/06 will continue to be defined by our five strategic themes:

| Strategic themes | |
|--|--|
| <i>One Grow and develop the core consumable supply channel</i> | because this is a core NHS service, critical to the day-to-day functioning of the whole of the English NHS |
| <i>Two Maintain high performance and seek continuous improvement</i> | because the NHS relies on NHS Logistics' current high performance. It is NHS Logistics' aim to provide an increasingly efficient service and continuously improved value for money for the NHS |



| Strategic themes (continued) | |
|---|---|
| <i>Three</i> <i>Develop new services and systems</i> | because NHS Logistics needs continuously to modernise its services and systems to meet the challenges within the NHS Plan |
| <i>Four</i> <i>Develop a world-class supply chain across the NHS</i> | because NHS Logistics is the centre for supply chain expertise in the NHS and has been given a wider remit to support the modernisation of the whole NHS supply chain |
| <i>Five</i> <i>Improve capability through organisational development</i> | because NHS Logistics needs the people and an organisation that are capable of delivering these challenges |

During 2004/05 we delivered a total of £10.4 million savings to the frontline NHS. In the coming year we will:

- increase the volume of products supplied through NHS Logistics by 10 per cent, which will save the NHS an estimated £4.5 million in back office costs
- reduce our on-cost to 9.67 per cent, representing a saving of £2.3 million to the NHS on like-for-like spend in 2005/06
- reduce our own operational and management costs, including £1.5 million worth of savings through increased inventory stock turn.



Since 2000/01 we have reduced our service on-cost by more than 2 per cent



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Our aim: to grow and develop the core consumable supply channel

Increasing the volume of products supplied through NHS Logistics is vital if we are to obtain the best possible value for the NHS. Consolidating demand through a single, efficient, primary supply channel enables trusts to save money and improve efficiency. It also enables trusts to benefit from supply services that provide continuously improving value for money.

We will:

- grow the current consumable business to £777 million
- in conjunction with the NHS Purchasing and Supply Agency (NHS PASA) and the Department of Health, support the National Contracts Sourcing Project, ensuring that customers benefit as quickly as possible from the new framework agreements
- expand our product range by a further 5 per cent to give customers even greater choice, through our catalogue and our e-direct (transaction management) service
- expand our accessibility to new customers who are working in support of the NHS e.g. independent sector Treatment Centre providers
- offer 'Regional Catalogues' and a full range of regional supply chain services to support the work of Supply Confederations and Collaborative Procurement Hubs
- investigate opportunities for opening up access for cross-government service partnerships e.g. in social care.



Our aim: to maintain high performance and to increase efficiency

We are committed to working with our key stakeholders to maintain consistent high performance and to provide a quality assured 'right first time' service to the NHS. Our programme of continuous improvement and cost minimisation will mean that we can contribute to improved health care and cost reductions that will benefit all of our customers.

We will:

- reduce our service on-cost to an all time low of 9.67 per cent through a combination of growth and efficiency improvements.

Within our organisation

Improving the efficiency of our fleet

NHS Logistics has embarked on a programme of transport-related developments that will maximise the utilisation of our fleet and at the same time lower overall costs to the NHS.

We will:

- continue to work with customers to implement further new delivery arrangements with the aim of achieving a savings target of £450,000, building on the £450,000 of savings per annum delivered in 2004/05

- investigate the opportunities for setting up a dedicated service to collect stock from suppliers
- explore the requirement for a small delivery vehicle fleet to enhance the flexibility and cost effectiveness of our service with any implementation to start *by September 2005*.

Automating our warehouse processes

One way in which we are looking to improve the efficiency of our warehouse operations is by installing the very latest Voice Activated Radio Frequency (Pick by Voice) technology. Pick by Voice can realise significant gains in productivity and order accuracy and is being piloted in our Alfreton Distribution Centre.

We will:

- *in April 2005* confirm the benefits realised in Alfreton
- subject to this, *by March 2006* roll out Pick by Voice to our remaining five Distribution Centres with the aim of making efficiency savings of around £660,000 per annum and recognisable improvements in quality.



Managing our inventory

By managing our inventory more effectively, we can drive down the cost of stock, while maintaining a high level of customer service and helping us to reduce our service on-cost.

We will:

- increase our overall stock turn to 16.5 times per year *by January 2006*, compared with a target of 14 last year.

Working across the NHS supply chain

Managing our supplier base

Improving supplier performance and working collaboratively with our key suppliers can yield cost and efficiency benefits across the whole supply chain. Last year, as part of our ongoing Supplier Relationship Programme, we developed a state-of-the-art web-based supplier portal that enables us to share real-time information with each supplier in a number of business critical areas.

We will:

- extend the number of suppliers using our supplier portal from 65 to 100 *by the end of March 2006*
- in conjunction with NHS PASA *by the end of June 2005* formalise a process for assessing supplier capability at the procurement stage.

External benchmarking

We benchmark ourselves annually against world-class service organisations as a means of measuring our performance and identifying best practice.

We will:

- continue our external benchmarking programme in the areas of Customer Service, Finance, Information Technology, Operations, HR and Health, Safety and Environment, aiming to achieve or maintain top quartile positions for all organisations.



Key Performance Indicators

We will continue to review and revise our Key Performance Indicators (KPIs). Our aim must always be to exceed these challenging standards of performance.

| Some of the Key Indicators | 2005-2006 Target |
|---------------------------------------|------------------|
| Customer satisfaction | 90.00% |
| Delivered service level | 98.00% |
| Deliveries on time | 98.00% |
| Supplier performance: on time in full | 82.00% |

Customer Satisfaction

Customer satisfaction is the foundation stone of our organisation and will be a primary focus for the coming year.

We will:

- increase customer satisfaction with our service to 90 per cent *by the end of March 2006* by improving:
 - the quality and consistency of our customer communications

- the accuracy of orders delivered
- our responsiveness to requests for new services
- the way in which we manage product unavailability.

The Environment

As manager of the largest NHS supply channel, NHS Logistics is committed to reducing the impact of our activities on the environment. To this end we have in place an Environmental Strategy.

We will:

- *by the end of March 2006* reduce primary energy consumption by 4 per cent
- purchase 100 per cent of electricity (supply permitting) from renewable sources
- *by the end of March 2006* increase the average miles per gallon of the vehicle fleet by 9 per cent (using 2002/03 as a base measure)
- increase by 10 per cent the amount of waste recycled from our Distribution Centres.



three

Our aim: to develop new services and systems

Extending the range of our services will help to grow the core consumable channel and lead to cost savings.

We will:

- continue to review national and local NHS initiatives which require new support services from NHS Logistics
- continue to develop our partnering with Supply Confederations and Collaborative Procurement Hubs to deliver new services as required to support their evolution.

Maximising the use of e-commerce can bring significant efficiencies to the NHS supply chain, freeing up valuable time, money and resource that can be redirected to patient care.

Logistics OnLine

Logistics OnLine is NHS Logistics' award-winning web-based ordering system. It provides trusts with a comprehensive suite of e-commerce solutions that simplify and take cost out of the order-to-invoice process. Over the past year, we have been working with trusts to move all existing demand to either Logistics OnLine, materials management (electronic demand capture) or trusts' own systems. To date customers served from four of our Distribution Centres have been successfully transferred.

We will:

- *by June 2005* complete the national roll-out of Logistics OnLine.



e-DC (electronic demand capture)

2004 saw the completion of NHS Logistics' £1 million investment programme to replace all of the handheld materials management devices provided to trusts with new windows-based PDAs (Personal Digital Assistants). The PDAs represent the most up-to-the-minute technology for data capture giving trusts a seamless and low-cost solution for managing stock and demand across wards, theatres and other functional departments.

We will:

- bring together Logistics OnLine and e-DC to create a unique total demand capture capability that enables trusts to capture all stock, non-stock and local product demand into their purchase order systems. Roll-out to all existing users across the NHS to be completed *by February 2006*
- once this has been rolled out, *during 2005/06* extend the functionality for the PDAs to include a regularly updated on-line catalogue that will be viewable via the PDA.



Our aim: to support the development of a world-class supply chain across the NHS

A modern, flexible and responsive supply chain is vital to the achievement of the NHS modernisation agenda. NHS Logistics is now in the third year of a supply chain development strategy to support the development of a world-class supply chain across the NHS. The three strands of our supply chain development activity are:

- supply chain development advice and project management via the core NHS Supply Chain Development Team and the NHS Supply Chain Consultancy Framework Agreement
- the NHS Supply Chain Forum - the definitive body for strategic supply chain discussion for the NHS
- the NHS Supply Chain Knowledge Centre, www.supplychain.nhs.uk – an invaluable source of supply chain knowledge for the NHS.

During the coming year, we will continue to focus on those areas of the supply chain that offer the greatest opportunities for trusts, including the pharmacy supply chain.

We will:

- provide all our customers with access to world-class supply chain development support and advice
- work with NHS PASA to facilitate best practice pharmacy pilots, sharing the key learnings through the NHS Supply Chain Knowledge Centre *by October 2005*
- identify and promote supply chain best practice to support the National Decontamination Centres Programme, the Pathfinder Collaborative Procurement Hubs and other Department of Health national initiatives.



Our aim: to improve our own capability through organisational development

We cannot deliver our objectives without developing our organisation and our people. We are pursuing a long term and sustained programme of organisational development, with the overall goal of always having the right people, with the right skills, working with increasing customer focus to bring benefits to the wider NHS.

Working with customers, our aim is to deliver a comprehensive range of healthcare products and high-quality supply chain services, which are essential to promote improved patient care.





Health Service Journal Award 2004
for Improving Patient Care with e-Technology



European Supply Chain Excellence Awards 2004
– European Supply Chain Team of the Year
– Industry Sector (Service Industries, Utilities & Public Sector) Award



UK Supply Chain Team of the Year 2004 (Motor Transport)
UK Supply Chain Technology Award 2004 (Motor Transport)





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|---------------------|--------------------------|
| Author | Corporate Communications |
| Version | 2 |
| Date of publication | April 2005 |
| Gateway ref no: | 0155 |



RS11284

2468/5

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L17961