



## Medical Category Tower Providers Contract Awards

### Questions and Answers

#### 1. What is the Future Operating Model (FOM)?

The National Health Service (NHS) has the potential, through greater collaboration, to leverage the NHS's purchasing power on a national scale and deliver better value for money for NHS Trusts and the taxpayer.

To deliver this potential the Carter Review 2016 called for the adoption of the Procurement Transformation Programme (PTP). The PTP is one of the highest profile programmes in government, and delivery of the FOM is a key outcome.

Put simply, the FOM is the transformation and re-procurement of the current NHS Supply Chain which will achieve significant benefits to the NHS by:

- Increasing uptake/volume of products purchased via the new NHS Supply Chain
- Increasing use by the NHS of a standard range of clinically appropriate products
- Using increased buying power to affect purchasing behaviours and lower product costs for the NHS.

The FOM will disaggregate the current service and re-procure 14 contracts to organisations that will manage the service for the next three years with a potential for short contract extensions based on meeting performance and price triggers.

In the FOM, contracts will be let for the following services:

- Logistics
- Transactions Services
- IT Prime to deliver Supporting Technology
- Eleven Category Tower Service Providers.

The oversight and operational management of the new contracts and services along with customer engagement activities will be delivered by a new organisation called the Intelligent Client Coordinator (ICC).

From a NHS product supplier perspective, the FOM will offer a single point of contact for each category of product with a service provider who has specialist knowledge of that product category and has the ability to trade with larger volumes than the current NHS Supply Chain.

## **2. What are the aims and benefits of the FOM?**

The aim of the FOM is to realise £2.4bn of savings that can be used by the NHS for reinvestment in front line services through 'world class' category management.

The FOM will be able to leverage the buying power of the NHS to get the best prices for products and devices that have been clinically evaluated and clinically assured by clinicians.

The FOM will work with all of the NHS providers, so that the wider NHS needs are catered for.

The FOM services contracts are designed to be re-competed at reasonably frequent intervals to ensure that performance is maintained.

Through the ICC's Clinical and Product Assurance function, coupled with the clinical evaluation teams embedded within the Category Tower service providers, the FOM aims to present a catalogue of clinically assured products for the NHS to purchase at the best possible prices.

Additionally, these two components of the FOM will work with the Accelerated Access Review programme and the Academic Health and Science networks to introduce relevant innovations to the catalogue with appropriate data/information about the benefits of using them.

From a product supplier perspective, the aim of the FOM is to make product trading more streamlined, lower the cost of sales and reap the benefits of those efficiencies for the NHS.

## **3. What is the role of the Category Towers?**

The Category Towers are the procurement function of the FOM. They will undertake the clinical evaluation of products and run compliant procurement processes on behalf of the NHS. These providers will use 'world class' category management techniques to create strategies that sustainably provide the NHS with clinically assured products that drive the best value.

There are 11 Category Towers, which are being awarded in a phased approach. The Office Solutions Category Tower was the first to go live in October 2017, with the six Medical Category Towers now being awarded.

The six medical Category Towers are contractually committed to delivering savings for the NHS of over £480m in the first three years of their contracts.

Please see the FOM Handbook for more information at [www.supplychain.nhs.uk/news/thefom](http://www.supplychain.nhs.uk/news/thefom)

From a product supplier perspective, the FOM will offer a single point of contact for each category of product with a service provider who has specialist knowledge of that product category and has the ability to trade with larger volumes than the current NHS Supply Chain.

## **4. What is the difference between the current NHS Supply Chain and the new model?**

The key differences are:

- The FOM has disaggregated the current service model in order to provide each service by a supplier who has specialist capabilities.

- The FOM has created a more substantial management office within the public sector known as the ICC.
- The ICC will host the customer engagement function within the public sector.
- Clinical and Product Assurance has a much higher profile and presence.  
The funding will be direct rather than through a trading model.

## **5. How is the FOM funded?**

To simplify the funding flow and provide product cost transparency, the operating costs of the FOM will be 'top-sliced' prior to flowing into tariff and allocated directly to the FOM. This is a change from the current model used by NHS Supply Chain where an additional variable margin is added onto the cost of the products.

Both NHS England and NHS Improvement are responsible for tariff/price setting in the NHS. The Procurement Transformation Programme is working closely with them to provide the required information to determine how they will apply the top slicing to the various funding routes.

## **6. The role of the ICC**

The FOM will be supported by a new performance management and customer engagement function, the ICC, and by a new transactional services, logistics and IT infrastructure.

The ICC will be:

- the central service delivery management function for the FOM
- the focal point, co-ordinator and main driver of the commercial objectives the FOM will achieve
- a key enabler for delivering better service, quality and savings under the FOM.

## **7. How did the bidding process work and why were these Medical Category Tower Service Providers chosen?**

The Procurement is conducted in accordance with the restricted procedure under the Public Contracts Regulations 2015. The Procurement was conducted in two phases; the Selection Phase and the Award Phase.

Bids were evaluated in accordance with evaluation criteria, which were based on the Most Economically Advantageous Tender (MEAT). Tenders were assessed by an evaluation panel, which consisted of the various stakeholders involved in the supply chain process. This included clinical and procurement professionals within the NHS across different regions to ensure a cross section of representation within each group for each Category Tower Service Provider. The highest scoring bidders won the tower, but a lotting strategy was also applied to limit any one bidder to a maximum of three category towers.

## **8. Why did the DH decide to limit the bid awards to a maximum of three per Category Tower Service Provider?**

The inclusion of the limit on the number of lots that any one bidder could be awarded was a strategic policy intention of the DH. This was included to ensure that the FOM had a range

of suppliers delivering the Category Towers and was not dependent on one provider for all the services.

### **9. Who are the Medical Tower Category Tower Service Providers?**

The contracts are being awarded to three preferred bidders; DHL Supply Chain Limited, Health Solutions Team Limited and the NHS Collaborative Procurement Partnership, which will form the Medical Category Tower Providers for the Future Operating Model.

### **10. How will the Category Towers work together and what are they responsible for?**

The Category Towers will be centrally managed via the ICC. The central co-ordination from the ICC will ensure that the Category Towers will deliver a consistent service.

Category tower service providers also work on common systems and to common standards set, and provided by, the ICC.

The Category Towers cannot compete against each other so that over time they become the centre for knowledge and deep procurement expertise for their respective Category Tower.

### **11. How will you ensure that the Category Tower Service Providers deliver for the NHS?**

The ICC will be responsible for managing the contracts of all the Category Tower Service Providers in the FOM. Put simply, this will focus on two areas; the delivery of savings and product assurance.

The contract that underpins the Category Towers directly links any margin payment to the delivery of savings to the NHS. The Category Tower Service Providers will not receive any margin payment if they fail to meet 50% of their savings targets in a given year. In addition, the contracts include a number of KPIs that incentivise the Category Towers to deliver a responsive service to the NHS and to take an overall system savings point of view.

The ICC will also include a substantial Product Assurance Team who will ensure that category strategies and the product evaluation undertaken by the Category Towers are robust.

### **12. What savings will the Medical Category Towers deliver?**

The six medical Category Towers will deliver savings for the NHS of over £480m in the first three years of their contracts.

### **13. When will the Medical Category Towers become operational?**

The Medical Category Towers will be fully operational in early May 2018. Tower 9 – Office Solutions was operationally live on 1 October 2017.

### **14. What does it mean for suppliers?**

Whilst we recognise that the introduction of the FOM represents a significant change in the way in which the NHS purchases goods and this will have potential impacts on suppliers' ways of working we believe that the FOM creates opportunities for suppliers, for example:

- reduced sales and marketing costs;
- the inclusion of clinical expertise embedded into the towers means that we will be buying those products that the NHS wants rather than simply the cheapest;
- there is a much clearer route for innovation;
- commitment deals will make it easier for suppliers to plan their business and outputs, and to reduce internal costs and this also means more certainty and predictable cash flow;
- Category Tower managers will be incentivised to reduce total cost in the system, not to reduce unit costs; and
- a reduced burden of participating in procurement exercises, as the number of competing frameworks is reduced.

**15. Will the new Category Tower Service Providers continue with their work which falls outside of the scope of the FOM?**

Yes. Whilst Category Tower Service Providers will not be able to compete with the FOM, they can continue to deliver services that are outside of its scope.