

Cost Improvement Programmes should be more than just the money, money, money



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You might remember 1976. The summer was sweltering, Concorde took to the skies and Abba had a hit with 'Money, Money, Money' - the second success from their chart-topping album Arrival, which catapulted them to global stardom.

The arrival of Christmas last year illustrated how England's National Health Service (NHS) is struggling with thousands of cancelled operations and outpatient appointments as the service sought to meet winter demand. Many argue that this shows how an over stretched NHS needs money, money, money to cope such that some MPs are now [urging the Prime Minister to raise](#) taxes specifically to help pay for health and social care. But just throwing more and more cash at the system is not enough given the NHS has an insatiable appetite for spending which goes on and on and on.

It's not that the health service isn't cost aware or unwilling to change. NHS Trusts have been working on Cost Improvement Programmes (CIPs) for years to meet the Department of Health's goal of making annual savings of 5 percent year on year. It's a crude example, but if a Trust spends £100,000 on consumables year one, they'd be expected to procure the same for £95,000 the next. It's not a sustainable strategy because you can't continually beat up suppliers on price. And what's more, just focusing on the price of things doesn't get anywhere close to the cost savings, efficiencies and radical re-think around procurement that the health system actually needs.

This is writ large when you consider how Trusts work with managed service providers (MSPs). Many have employed these specialist firms to provide the funding and equipment they need now – be it in surgery, pathology, endoscopy, IT, facilities and legacy medical records digitisation - with fees then split over a contractual period. This shifts costs from CAPEX to OPEX and avoids Finance Director's having to front up additional capital they just don't have available.

Innovative MSPs – who aren't tied to a specific manufacturer and are vendor neutral - will run mini- competitions on the Trust's behalf to get the very best deal on a range of equipment and consumables with their services packaged for their NHS customers so that VAT can then be recovered, too. That's a 20 percent budget benefit which can be pumped back directly into the patient care.

It's a good start although admittedly somewhat limited in approach. To date, Trusts have worked with MSPs in a completely transactional way – in other words just focusing on buying equipment and consumables for the lowest possible amount. Cost has been the procurement teams' primary preoccupation which is unsurprising given the fixation for annual CIP savings.

Getting more value from contracted out services

NHS managers should consider taking a much wider more value driven approach working with their MSP partners – and actually procurement in general - if the NHS is to truly benefit. This will then help achieve the long sought after virtuous circle whereby spending improves operational imperatives, increases efficiency, improves patient care and saves money in the long run.

Take a simple example. If you're a MSP taking over responsibility for managing thousands of medical devices as part of a surgery contract with a Trust, you'd clearly want to know the precise number, their physical location in the organisation, age, condition and when they were last serviced. In a cost/efficiency conscious climate, you'd probably expect Trusts to have these records at their fingertips however this isn't always the case. Information is often not available or ad hoc.

The result is that organisations often knee jerk and buy new equipment because they have an immediate patient need and don't know where devices are and so how many they really have. The cost implication is staggering if you think of how many departments there are in hospitals doing this multiplied by the 200 plus Acute Trusts around the country. This is real and happens.

Wouldn't it be better if Trusts and their managed service partners worked in a different way? Using the VAT recovery to fund areas that are indirect but will make a difference in the near to medium term can be transformative. For example, if Radio-Frequency Identification (RFID) tagging, asset tracking and dashboard software were introduced, quality information would be available about each device. You'd then be able to:

- Introduce lean processes with key distribution points around the hospital for the booking in and out of equipment
- Ensure that the right quantity and type of medical device was always available for patient purposes
- Avoid buying as many devices
- Rationalise or reduce the number of suppliers used
- Lower maintenance costs through effective tracking and auditing
- Boost CQC compliance ratings given equipment is always cleaned, better maintained with certification logs always available
- Enhance patient safety through the introduction of the latest technology which is efficiently managed

Of course, senior management support is required to push through such change given RFID and associated software requires reallocating budget. In other words, it's an invest to save approach but in the long run the situation on the ground is vastly improved with this kind of approach allowing the MSP to radically change device management which moves things on from just purchasing and break-fix to completely re-engineering and enhancing a process for the better.

This is imperative as Trusts have to contend with more and more demand for services as the winter pressures have shown. If you're going to improve patient care by a factor, the knock-on effect is that more clinical headcount and medical equipment is required and therefore more cost. While the additional tariff fees earned by a hospital may cover some of this additional spend, if ageing and poorly managed equipment is the norm, clearly it won't. You then get into a chicken and egg situation where Trusts want to deliver a service to meet patient care demands, achieve more tariff payments but can't because they haven't got the money to start with to fund the right level and model of technology to be able to capture the additional tariff contracts.

Put another way, by introducing managed services, MSPs can help support a Trust's strategic goals by creating cash in the system from the same budget. This allows them to pay for things that will have a beneficial effect to the overall health system. Trusts can reduce maintenance costs by refreshing ageing equipment which in some cases is over a decade old or even older. Newer and higher specification devices – covered by warranty – then enable them to generate more income by taking on additional contracts for patient care from CCGs which they would hitherto not been able to do. It also repatriates services as patient cases don't have to be referred to other NHS organisations with the obvious cost implications. It all adds up to a very positive snowball effect.

This is why the current focus on just CIP savings in my view distracts from the wider range of initiatives that could be implemented to generate more value as the equipment example above illustrates. We ought to be working together to rationalise processes – this reduces costs for the same workload or delivers greater benefit for the same money – and introducing new approaches which ultimately deliver more benefit and value.

The money to fund change is already available in the system

Trusts should consider working far closer with their MSPs – and allow them the opportunity to be more creative and proactive – to deliver programmes which help increase income, improve healthcare, enhance outcomes while creating a more efficient way of doing things. And with the VAT recovery offered by Her Majesty's Treasury through contracted out services, there is indeed more of the same budget available now to do this re-engineering work without Trusts having to apply for additional funding from the Department of Health or NHS Improvement which can be protracted and time consuming. This is the whole of point and value of contracted out services and why the tax authorities actually authorises

the VAT tax refund.

Currently things are too siloed with NHS procurement teams focused on their 'patch' – delivering transactional CIP savings - without necessarily an appreciation or focus on the wider benefits to the organisation. Trusts and their MSP partners really ought to examine the strategic imperatives and how this filters down operationally across all departments. It then really becomes not just about money, money, money but working better, better, better.

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