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# Procuring medicines

## — recent changes in England

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This article, the second in a special feature, describes recent changes affecting the NHS supply chain, and the impact this has had on pharmacy. It describes the key functions of the Supply Chain Excellence Programme and a London initiative to improve cost-effective procurement of medicines



Pharmaceuticals cost the NHS in England approximately £2.2bn per year

**P**rocurement of pharmaceutical products in the NHS is often described as the “jewel in the crown” compared with procurement of other product groups. This is recognition of the long-standing partnership between specialist procurement pharmacists, national and local pharmaceutical procurement groups (PPGs) and the NHS Purchasing and Supply Agency (NHS PASA), which has delivered cost-effective market management of generic and branded medicines for many years.

In common with other health care products and services, pharmaceutical contracting, purchasing and supply are subject to increasing demands to reduce prices and produce efficiencies in the supply chain. However, the procurement of pharmaceuticals also has a number of unique characteristics which require a high level of professional and clinical input. The overriding priority is to ensure that medicines are always available to meet the clinical needs of patients. Particular emphasis needs to be placed on critical medicines where no acceptable clinical alternatives are available and, therefore, patients may be put at risk if they do not receive them. The NHS aims to

purchase only medicines of the highest quality, that are appropriately packaged and labelled and safe to handle by health care staff and patients.

The contracting, procurement and supply of generic medicines is essentially a technical and commercial process, which requires specialist pharmaceutical input at a national level, but limited clinical involvement. On the other hand, branded medicines generally fall within therapeutic groups where clinicians decide which drugs should be available on trust formularies. Opportunities to achieve therapeutic rationalisation have to be managed at a local level through clinical engagement and consultation with trust and area prescribing committees and clinical networks. In a wider context, rationalisation and globalisation of the pharmaceutical industry and the generic medicines manufacturers have increasingly led to major product shortages, the consequences of which need to be managed effectively at both a national and local level. Recent examples include shortages of diamorphine injection caused by withdrawal of a manufacturer's licence, and intravenous human immunoglobulins, caused by insufficient production capacity to meet increasing global demand.

Market management, achieving a balance between the pressures to achieve cost savings and maintaining a continuous and reliable supply chain, needs to be given the highest

priority when proposing changes to the current arrangements. Over the past few years, wide-ranging reviews and changes to the NHS structures for contracting, procurement and supply chain management for all commodities have posed challenges to the arrangements for pharmaceuticals. This article describes how these changes impact on pharmacy and the challenges that have been addressed.

### Overview

Most of the recent changes affecting pharmaceutical procurement stem from the Government's efficiency review, undertaken in 2004 and headed by Sir Peter Gershon.<sup>1</sup> This promulgated the need to “create a series of world-class buying agencies” within the Government. As part of the wider review, the Commercial Directorate of the Department of Health (DoH) commissioned the NHS supply chain review which was carried out by the management consultancy companies A.T. Kearney and PricewaterhouseCoopers. The key recommendations are listed in Panel 1 (p397).

### Procurement in England

NHS hospitals in England currently spend £2.2bn per year on pharmaceuticals, with branded medicines representing £1.7bn of this figure. In October 2005, a strategic

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framework covering the sourcing of branded medicines was published following consultation with the DoH Commercial Directorate, NHS PASA, the collaborative procurement hubs and procurement confederations.<sup>2</sup> This document defines the roles and responsibilities of the various national and local organisations and PPGs in providing a collaborative and co-ordinated approach to managing branded medicines, thus avoiding duplication of effort.

The basic model for pharmaceutical procurement in England has been developed and refined over many years. Other than when trusts have their own local contracts for some branded medicines, most of the tendering and contracting is undertaken by NHS PASA working in close collaboration with hospital pharmacists. Until 2004, contracts for generic medicines were organised through 11 regional PPGs and contracts for branded medicines were organised through 14 local PPGs. Following the introduction of the Supply Chain Excellence Programme, the number of regional groups was reduced to six.

#### National Pharmaceutical Supply Group

Responsibility for agreeing the strategy and direction for pharmaceutical procurement lies with the National Pharmaceutical Supply Group (NPSG). The group has a broad

membership including NHS PASA, two pharmacists from each of the six regional PPGs, primary care trusts, the National Pharmaceutical Quality Control Group and the collaborative procurement hubs. It has observers from the DoH, Northern Ireland, Scotland and Wales. The NPSG has the following key terms of reference:

- To provide advice to the chief operating officer of NHS PASA concerning the cost-effective purchasing and distribution of pharmaceutical products to the NHS in England (secondary care)
- To act as a focal point for the NHS for national pharmaceutical issues and provide advice accordingly
- To act as a link between pharmacists and NHS PASA at a national level
- To advise the DoH and pharmaceutical industry on significant commercial matters

#### Pharmaceutical Market Support Group

The Pharmaceutical Market Support Group (PMSG) was established in October 2001 as a sub-group of the NPSG. The aim of the PMSG is to co-ordinate operational management of national and local contracting and purchasing arrangements for both branded and generic medicines and to manage the market for critical drugs, dealing

with any current shortages and helping to avoid future shortages.

PMSG membership comprises representatives from the NHS PASA pharmaceutical team, specialist procurement pharmacists, the DoH, the National Pharmaceutical Quality Control Group and representatives from the home countries.

The terms of reference of the PMSG are:

- To anticipate critical generic product shortages and propose and co-ordinate preventative measures
- To prevent potential market monopolies being developed
- To encourage new entrants into critical markets
- To assist in managing branded products that have just come off patent
- To monitor the effectiveness and advantages of contracting in the UK hospital sector through benchmarking, audit and quality assurance
- To ensure items are regularly market tested
- To inform new and existing suppliers about the contracting process
- To develop strategies to discourage unsuccessful suppliers from undermining contracts
- To co-ordinate contracting with Northern Ireland, Scotland and Wales



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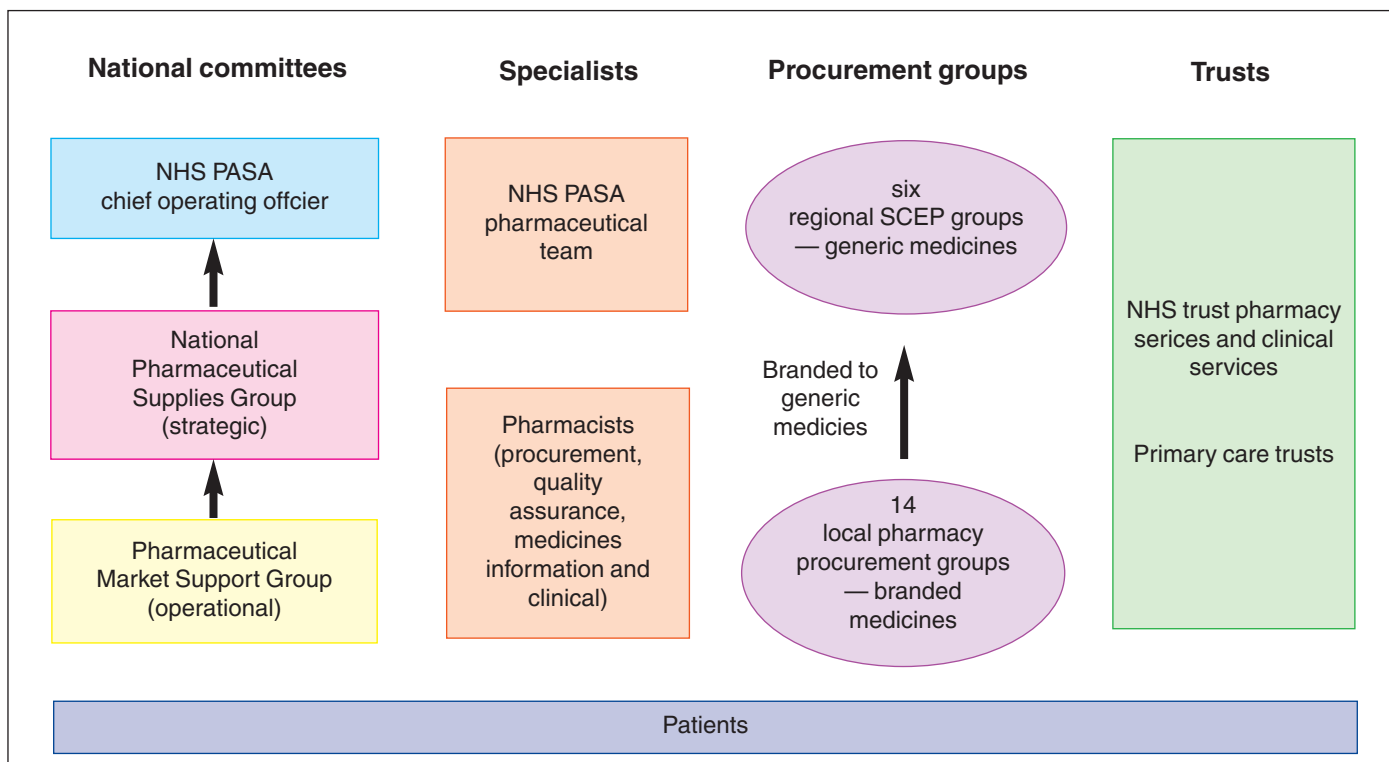


Figure 1: A summary of the key groups involved in pharmaceutical procurement in England

Figure 1 shows the various groups and organisations that manage procurement of generic and branded medicines on behalf of trusts.

## — SCEP

The Supply Chain Excellence Programme (SCEP), established in 2004 in response to the NHS supply chain review, covers a wide range of consumer products and services, but pharmaceutical procurement was a specific target. A team of management consultants was employed to develop the programme. The primary objective of SCEP was to achieve significant reductions in the price of

medicines contracts, through the development of a national sourcing model, replacing the existing 11 regional PPGs.

The new national contracting process covered generic medicines and products nearing expiry of their patents. It replaced the separate group contracts that were formerly in place for individual groups, meaning that all NHS trusts would be able access these products at the same prices.

The first wave of the new national contracts for generic medicines was implemented in November 2004. The majority of the contracts were for oral generic medicines in markets dominated by primary care, where awarding the contract to a single supplier was considered to be low risk. Where possible, contracts for injectable medicines, which are mainly used in secondary care and where continuity of supply is often a major consideration, were awarded to two or more suppliers on a geographical basis. Similarly, contracts for two drugs recently off patent, clozapine and paclitaxel, were awarded to several suppliers to encourage and maintain competitive markets. The prices for multi-supplier contracts vary according to the supplier and the amount of product they commit to supply.

Experience from the first wave of the programme highlighted the need to maintain national PPGs in order to allocate contracts to more than one supplier on a geographical basis. It was agreed that future contracting rounds would involve a four-monthly contracting cycle for high risk medicines (mainly oral and injectable medicines used in secondary care), as well as drugs recently off patent. This led to the formation of six

national groups to replace the original 11 PPGs: Yorkshire and North East, North West, Central (covering the east and west Midlands), Eastern and North London, South and South London and South Central and South West. Panel 2 (p398) shows the current SCEP contract tender product categorisation and phasing.

Other initiatives in the SCEP programme include the establishment of PharmEx, a national database compiled from electronically generated purchase information supplied by NHS trusts. Reverse electronic auctions, a mechanism through which suppliers can further reduce their prices through an online bidding process, were introduced for a limited number of drug lines.

**Collaborative hubs** A key strand of the SCEP programme is the establishment of collaborative procurement hubs (CPHs). These are bodies owned by participating trusts within a strategic health authority and governed by a board representing these trusts. CPHs hold strategic responsibility for all NHS spend involving a commercial transaction. Figure 2 (p401) shows the generic structure for the CPHs.

Contracts for three “pathfinder” CPHs were awarded by the Commercial Directorate in 2004/05. Their role was to manage non-pay expenditure at an intermediate level, ie, between the national SCEP and local NHS trust purchasing arrangements, and refine this process as necessary. The aim was to consolidate individual local contracts for goods and services, reducing acquisition costs by securing greater commitment from

### Panel 1: Key recommendations of the NHS supply chain review

- A review of NHS PASA national contracts (this led to the Supply Chain Excellence Programme, see p396)
- The creation of local collaborative procurement hubs (evolving from less formalised purchasing confederations)
- A review of the structures of NHS PASA (responsible for tendering and contracting, including medicines) and the NHS Logistics Authority (responsible for purchasing storage and distribution of contracted health care products, with the exception of medicines)

both suppliers and trusts. Although the pathfinder CPHs received initial funding from the Commercial Directorate, their on-going costs are covered by contributions from the PCTs and NHS trusts within their boundary (although in practice not all organisations have chosen to be members). The CPHs must finance themselves by achieving savings for the trusts. Each CPH board is chaired by a trust chief executive and day-to-day management is the responsibility of the hub's chief executive.

Initially, it was intended to develop 28 CPHs by 2008 to be coterminous with the existing strategic health authorities. However, since these health authorities were replaced by 10 larger organisations in July this year, it is likely that there will also be 10 CPHs. The pathfinder CPHs have recently been consolidated into larger organisations and a number of new CPHs have been established in other parts of the country.

CPHs are discouraged from setting up alternative contracts to the national SCEP contracts. However, they have a role in tracking benefits achieved at a local level by the SCEP and they monitor contract uptake and non-compliance. This arrangement applies to the national generic drug contracts but not to branded medicines, which are contracted through the 14 local PPGs.

Since medicines form a significant part of trusts' non-pay expenditure, the CPHs have recognised that there may be opportunities to achieve significant savings. This has the potential to cause conflict between the CPHs and the local PPGs, but compliance with the national framework strategy should help to avoid this. Of particular interest is the intention to appoint a clinical director to

each CPH to lead engagement with local clinicians. Some CPHs have expressed an interest in funding specialist procurement/clinical pharmacists, and this should strengthen the relationship between the CPH and PPGs, enabling them to be more actively engaged in managing their branded medicines portfolio.

## Procurement in London

In London there are four PPGs covering the north west, north central, north east and south of the city. These groups are responsible for establishing and implementing contracts for branded medicines and work closely with local pharmacy and clinical networks to identify opportunities for therapeutic rationalisation and greater cost-effectiveness. Although this means that there are four sets of contracts for many branded medicines, the local nature of the groups facilitates clinical engagement and commitment. The main exceptions to these group contracts are pan-London arrangements for contracting antiretroviral drugs on behalf of the London HIV Consortium, which commissions treatment and care services from 24 providers on behalf of PCTs. A pan-London scheme for supplying antiretroviral drugs via homecare companies was established in July 2005.<sup>3</sup>

The five London strategic health authorities have recently merged to form a single organisation, NHS London. There are 31 PCTs and 43 NHS trusts in London, serving a population of 8.5 million. In view of the major financial difficulties facing London NHS trusts and PCTs, consideration was given to implementing the

recommendations of the NHS supply chain review on a pan-London basis. This led to establishment of the London Procurement Programme, which was initially an alternative to forming a single London CPH. The board is chaired by an NHS trust chief executive and has appointed a director to lead the work.

**Medicines management project** For the financial year 2006/07, medicines expenditure in London will be about £800m in secondary care and £1bn in primary care. As might be expected, the London Procurement Programme board wants to achieve more effective management of medicines expenditure across all health economies. A proposal to establish a pharmacy and medicines management project was recently agreed, led by the author who is a member of the board. Funding has been provided to increase specialist pharmacy procurement and clinical pharmacy support in both secondary and primary care.

The project is based on a review of therapeutic groups and can be broadly divided into two distinct workstreams: procurement and therapeutic rationalisation. In terms of procurement, opportunities have been identified for replacing some individual pharmaceutical contracts with pan-London contracts, leading to increased total volume commitments and thus the potential for lower prices for all trusts. This approach does not involve therapeutic rationalisation since there is no intention to influence prescribing patterns.

The therapeutic rationalisation workstream involves engagement with trust clinicians and clinical networks to agree prescribing policy reviews where different drugs are considered to be therapeutically equivalent. Changes can therefore be implemented without detriment to patient care and clinical management. Drugs which are currently undergoing current therapeutic rationalisation work as part of the London project are listed in Panel 3 (p401).

At a later stage, the project will also investigate homecare supply arrangements, local outpatient prescribing policies and GP FP10 dispensing of unlicensed "specials". When implementing such initiatives, there are a number of issues that must be taken into account and may pose challenges. These include:

- The geographical complexities of London. Should each initiative be pan-London or sector-based?
- Inclusiveness for all trusts/PCTs and the use of comparisons and benchmarking to achieve consistent outcomes
- Gaining support from chief pharmacists in NHS trusts and PCTs, and from commissioners
- Timescales for achieving commitment and change

## Panel 2: Product categorisation and phased implementation for the Supply Chain Excellence Programme

Sourcing groups	Characteristics	Implementation
Oral generic medicines — mostly single supplier contracts for one to two years	Low risk, dominated by secondary care Limited number of lines with e-auction potential	October 2004 6 national PPGs
Oral and injectable generic medicines — two or more suppliers for two national pharmaceutical procurement groups every four months	High risk, dominated by secondary care	February 2005, 2 PPGs June 2005, 2 PPGs October 2005, 2 PPGs
Branded to generic medicines — manage according to market circumstances, whether oral or injectable, low risk or high risk	New generic entrants to branded market Common or staggered start date Award to two or more suppliers	Start date depends on availability of new generic products

"PPG" means pharmaceutical procurement group

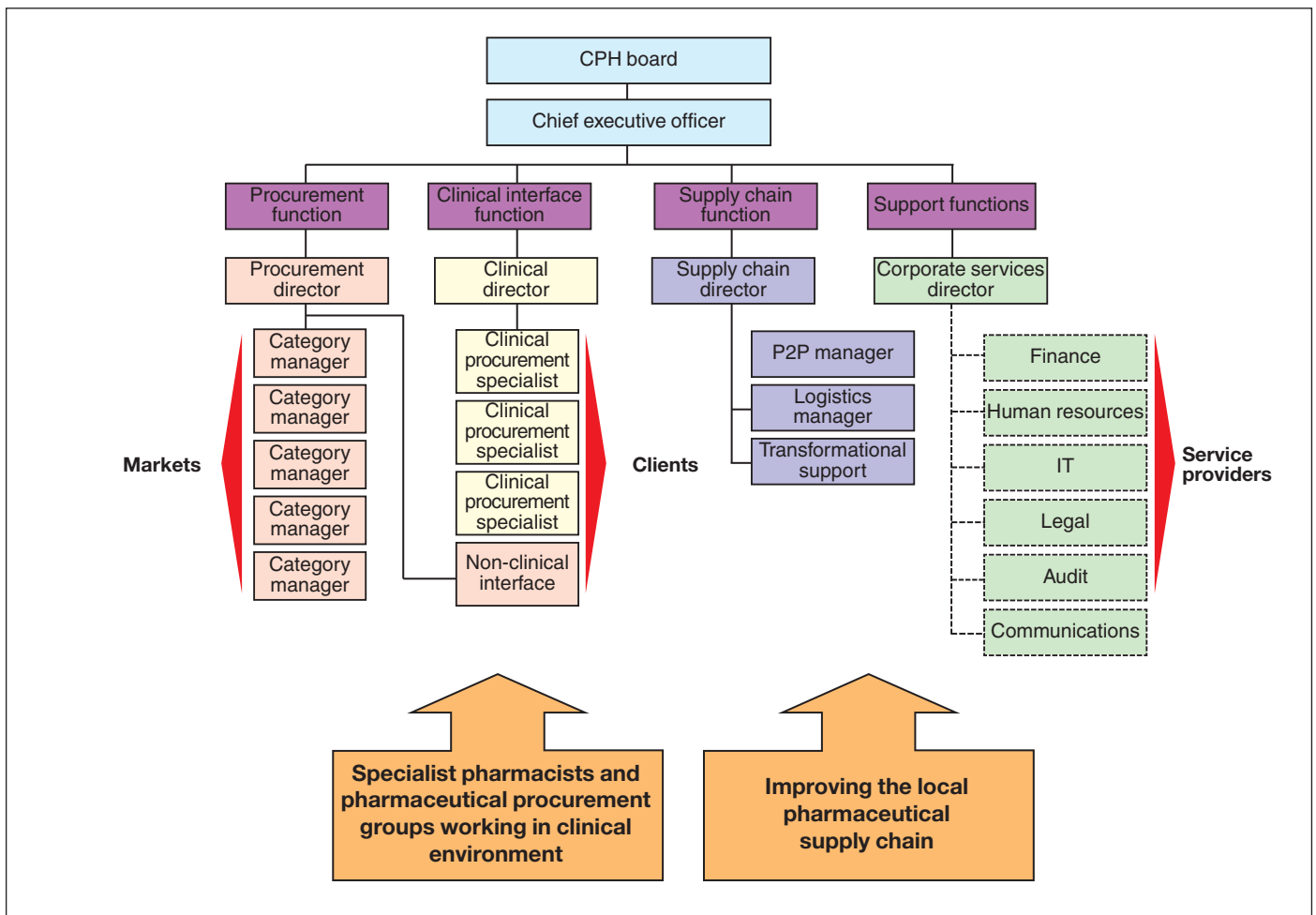


Figure 2: Structure of collaborative procurement hubs (CPHs)

- Engagement with both primary and secondary care clinicians and with clinical networks, such as cancer and coronary heart disease groups
- Prioritisation of work for practicality
- The need to fit in with the national branded medicines strategy in terms of market management and maintaining product availability
- The impact of drugs about to go off patent for management through the national SCEP process
- Willingness of pharmaceutical companies to engage with the process

### Outsourcing

The DoH recently announced the outsourcing of the NHS supply chain services to DHL, a specialist supply chain provider, from October this year. The contract does not apply to pharmaceuticals but covers a wide range of products, from medical supplies, dressings, patient appliances and laboratory equipment to food, linen, stationery, uniforms and furniture. These commodities currently account for an annual expenditure of £3.7bn and DHL has pledged to save £1bn over the lifetime of the 10-year contract.

Procurement support will be provided through a subcontract with Novation, an

American-based health care contracting services company. The NHS Business Services Authority is responsible for managing the contract, in a 10-year strategic partnership, and the new service is known as NHS Supply Chain. DHL will now be undertaking the previous activities of NHS Logistics, including running its six existing distribution centres and establishing two new distribution centres. NHS PASA staff formerly involved in tendering, contracting and purchasing will

be managed within the DHL contract. Pharmaceuticals and utilities represent the main exclusions from the contract and will continue to be managed by NHS PASA. This is welcome recognition of the unique features of pharmaceutical procurement.

Due to the considerably reduced remit of NHS PASA, consideration is being given to its possible integration with the Commercial Directorate to form a new commercial agency next year. Other developments include the possible transfer of responsibility for contracting renal products and services from NHS PASA to the CPHs, although this is likely to exclude licensed medicines, and the possible transfer of responsibility for the Advisory Committee on Borderline Substances from the National Institute for Health and Clinical Excellence to NHS PASA.

### Panel 3: Drugs undergoing therapeutic rationalisation

The following drugs are currently undergoing rationalisation as part of the London Procurement Programme's medicines management project:

- Epoetin and darbepoetin in renal and cancer patients
- Proton pump inhibitor injections
- Risperidone injection
- Growth stimulating factors
- Statins (in both primary and secondary care)
- ACE inhibitors and other cardiovascular drug groups

### References

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2. Argyle N, Sharott P, Greenwell Z. A strategic framework to source pharmaceuticals for the NHS in England. Reading; NHS PASA:2005.
3. Sharott P, Swaden L. Home delivery of antiretroviral medicines. British Journal of Home Healthcare 2006;1:4-6.

## Correction

Implementation of the Supply Chain Excellence Programme is ongoing, and not at the dates specified (p398, Panel 2).