



SOCIAL CARE

## Provision of Support Services for Lincolnshire - Eastern Shires Purchasing Organisation

### Summary

Based in Glenfield, Leicestershire and employing over 300 staff, the Eastern Shires Purchasing Organisation (ESPO) is one of if not the largest local authority joint committee purchasing and supply consortium in the country.

Owned jointly by the County Councils of Leicestershire, Lincolnshire, Warwickshire, Cambridgeshire and Norfolk, plus the City Councils of Peterborough and Leicester, the organisation procures supplies and services in excess of £400m in value per annum.

Our main objective is to aggregate the demand of our member (owner) authorities and other customers to thereby improve the purchasing performance of our customers through the provision of a comprehensive professional purchasing and supply service.

### The project

In March 2003, Lincolnshire County Council engaged ESPO to procure a suitable contractor to provide the Council, three Primary Care Trusts, one Acute Hospitals Trust, and one Partnership Trust with an integrated community equipment loans service. The requirement was the direct result of a Department of Health (DoH) funded initiative known as ICES (Integrating Community Equipment Services), it was designed to make access to Equipment more user friendly and responsive as well as modernising the service generally.

Improvement through efficiency



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## What is community equipment?

Community equipment services help disabled people of all types and ages to maintain their health and independence. Prior to the ICES initiative, health and social services responded to their differing statutory obligations by developing parallel services and Lincolnshire was no exception. Not surprisingly, many services were fragmented, under funded and not responsive to the needs of service users. The Audit Commission has reported twice in recent years on the poor state of services in many areas and the Government responded to this by making significant investment in modernising and expanding the services.

The NHS Plan and National Service Framework for Older People set out the main targets of the ICES initiative, which included increasing the number of people who benefit from the services by 50%, combining health and social care provision into a single integrated service by 2004 and increasing efficiency by modernising purchasing, supply and recall systems. The Health Act 1999 has provided NHS organisations and local councils with the flexibility to pool their budgets and integrate their services, especially important when Lincolnshire has higher than average national figures for people over 65 and people with long term, limiting illness.

## Current service arrangements

At the point of tendering the contract the community equipment loans service was being provided jointly by Lincolnshire County Council Social Services and East Lincolnshire Primary Care Trust. Around £1.3m per annum was being spent on the service, excluding staffing. There was little or no partnership working between the organisations. Social Services typically provided a range of equipment as aids to daily living, including aids for personal care, bathing and toileting, mobility, items for use in the kitchen, and moving and handling equipment for carers. East Lincolnshire PCT provided aids to nursing care or equipment to assist with a programme of rehabilitation or otherwise to facilitate safe, timely discharge or avoidance of future hospital admission. Whilst the service being provided by the PCT was performing reasonably well, it was widely acknowledged that the service being provided by Social Services was poor.

### From a procurement point of view the problems could be summarised as follows:

- There was no centrally co-ordinated management of the service
- There was a lack of smart procurement and aggregation of requirements

- The purchase of equipment was largely managed by Occupational Therapists who specified their own supplier and requisitioned their own choice of equipment without exposing it to competition
- There was limited (if any) management information available on expenditure, stock movements and availability.

### From a service user perspective there were the following problems:

- Poor delivery response times, affected by lack of stock management and the dispersed geography of the region. Only 58% of equipment was issued within 48 hours, and 70% within 7 working days. It was thought that 95% of equipment was issued within 21 days
- The changing needs of service users were not adequately addressed due to lack of management information.

### Factors affecting the operational success of the service were as follows:

- Limited compliance with Health & Safety issues
- Heavy equipment was being inappropriately handled during delivery by Occupational Therapists
- The routine servicing of equipment was made difficult by the lack of management information on service frequency, and location of equipment.

## Procurement strategy

At the point of commencing the procurement exercise the service specification was yet to be finalised by the commissioners. Consultations took place with a few other organisations that had already gone through similar processes, but at that point in time no tried and tested model of service delivery was apparent. We were also aware that the NHS Purchasing and Supply Agency (PASA) was working with the Department of Health to define a range of potential service delivery options, but again, these were yet to be finalised.

Rather than hold up the process and risk missing DoH target start dates we concluded that it made sense to adopt the Restricted Procedure under the EU Supplies Directive 93/36/ EEC. This also meant that we could invite expressions of interest from firms and shortlist potential service providers using a pre-qualification questionnaire whilst the final specification was perfected. We took a considered view that although the commissioners required a 'managed service' approach, the majority of the value in the contract was likely to be in the occupational therapy equipment itself, and therefore the contract was best exposed to European competition under the Supplies Directive.

After a call for competition, a total of eight firms returned pre-qualification questionnaires. Four firms were identified as being potential service providers and were therefore short-listed to be invited to tender.

### Model of service delivery

It emerged that there were two main options for service delivery: On or Off Balance Sheet, which were later published as Option 1 and Option 5 respectively in the PASA service specification guidance. The basic characteristics of both are as follows:

#### Option 1 - On Balance Sheet

Ownership of the equipment resides with the commissioning body, whether in store or out on issue, and the contractor (equipment provider) is solely a logistics provider.

#### Option 5 - Off Balance Sheet

Equipment held in store is owned by the contractor and charged to the authority when it is issued.

The authority is credited for equipment which is suitable for re-issue (at an agreed percentage of its original issue value) when it is taken back to the store. A separate annual fee is charged for the logistics service.

After careful consideration the commissioners decided to proceed on the basis of Option 1 'on balance book' approach, under the assumption that it would give them greater control of the equipment to be supplied under the contract. It had emerged that three of the short-listed bidders were manufacturers of equipment, and it was felt that under this service delivery model any potential conflicts of interest would be avoided. It was hoped that the lower risk to contractors may encourage more interest in the market place, thus stimulating competition on the contract. However, this proved not to be the case.

### The tender process

The procurement model adopted incorporated a 'bidders meeting' at which tenders were issued to the short listed firms and presentations made by the commissioning teams. It became evident at the bidders meeting that the proposed service delivery model was not well received by at least two of the prospective tenderers. One declined to bid, giving the reason that they would prefer to manage everything to do with the equipment themselves, rather than share responsibility with the commissioners. Another declined to bid due to them having recently won another similar contract and no longer having the resource to implement another if successful. The final outcome of the tender round was that only two tenders were received from those invited, and one or more aspects of each of the bids were non-compliant. One of the bids failed to adequately address the ODPM guidance on workforce matters, as the organisation concerned was unwilling to provide a final salary pension for any transferees for fear of receiving

similar requests from its own existing employees. The other bid was not fully priced, and we realise that this was largely down to deficiencies in the activity data relating to the current service that was provided in the invitation to tender.

A decision was made to re-engage with the marketplace. A completely new contract notice was placed again under the Supplies Directive (Restricted Procedure) but on the basis of an Option 5

We felt that the 'Off balance book' service delivery model would be more widely accepted by prospective tenderers. Activity data was re-defined and improved, and a flexible pricing mechanism was developed, which allowed for tenderers to put forward a bid which fit in with their own preferred model of operating the service, whilst ensuring that all bids would be capable of like for like comparison. Commissioners agreed that variant bids would be considered only if provided in addition to a fully compliant bid. The pricing mechanism included an element of both fixed and variable cost:

- Fixed (core) annual operating costs of providing the service in terms of premises, staffing
- Costs of individual items of equipment for purchase and subsequent credit rates
- Costs of providing a delivery, collection and installation service
- Proposals for buying back existing stock, both in the store and out on loan
- Costs of providing planned preventative maintenance to equipment
- Any one off costs such as the provision of a DoH compliant IT system and the integration of records.

On this engagement with the market, the tender document was well received and good quality tenders, all capable of acceptance were received from four suppliers. Evaluation of the bids was carried out jointly by ESPO and the Commissioners, pricing was considered alongside qualitative factors including tenderers responses to method statements, the extent of tenderers relevant experience, demonstrable ability to deliver the service described in the tender, ability to contribute to the future development of the service, and their quality assurance and monitoring measures. Out of the four bids received, only one was not short listed. The organisation concerned was a charity and found the 'off balance book' model problematic due to issues involving the ownership of assets. Their bid was expensive and qualitatively inferior to the others received. A more cost effective variant bid had been proposed, but this was based on the previous service delivery option which the commissioners had previously decided against pursuing on the basis that the off

balance book model simplified purchasing, relieved the commissioners from having capital assets on their books and lessened the risk of obsolete or unwanted stocks.

After a presentation and interview session with the three short listed bidders, the most competitively priced bid was also found to be the most acceptable to the commissioners in terms of service delivery methodology. It was felt the company concerned (Notts Rehab Supplies 'NRS') could lead the commissioners in developing the service and improving their own corresponding systems and procedures. One of the main advantages to their bid was that many of the costs that other bidders considered to be variable, such as delivery charges, were included into their 'core cost' of providing the service. This would assist the commissioners in budgeting and more importantly ensure that deliveries of equipment could be auctioned according to the severity of the user's need without cost considerations coming into play. NRS had also successfully completed a number of TUPE transfers of staff, and had a Government Actuaries Department Passport confirming that they offered a pension scheme that was 'broadly comparable' to the Local Government (LGPS) and National Health Service (NHSPS) pension schemes. Staff turnover with NRS stands at 1% per annum and the average length of service for their staff is seven years. It was therefore felt that the current workers on the service would be transferring into safe hands, and with the transfer being handled in a sensitive manner. Staff were happy with the outcome, despite the fact that it was made complex due to the differing terms and conditions of employment of the different commissioners and the need to employ all TUPE transferees the best terms available of all the existing providers.

Following the identification of the successful bidder, the transition arrangements began in earnest whilst contracts were finalised in consultation with legal advisors. The start of the new contract was delayed until 1st June 2004, but to all intents and purposes, the arrangements proceeded well and to the expectations of the commissioners.

## Benefits

As a result of the process, the service will now be run centrally, using the existing staff but with improved administration, computer systems, delivery, transport and decontamination systems. One of the main improvements to the service will be in terms of equipment procurement. The new contractor will put all requirements through its central purchasing department, giving the commissioners access to the considerable volume discounts and global sourcing opportunities that exist with large, multi-national organisations, thus helping to drive down the costs of the equipment requisition under the contract. According to initial cost estimates, considerable cost savings estimated at approximately £400,000 per annum will be achieved in this area.

By working with a service provider that is also contracted to a number of other similar clients, there are also opportunities for partnership working and the development of best practice outside of the commissioner's own organisations. Staff that have transferred to the new contractor will benefit from a significant schedule of training and development with NRS.

From a service user perspective, the main improvement to the new service will be in the form of reduced delivery times and better availability of good quality equipment.

It has been ensured that there are robust and measurable performance indicators against which the performance of the contractor will be measured and monitored and regular contract review meetings will ensure that the service improvements are maintained throughout the life of the contract.

## Contact

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