

The Economic Impact of NHS Procurement: A Study of the Aneurin Bevan Health Board

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Introduction

The School of City and Regional Planning at Cardiff University and the Welsh Economy Research Unit of Cardiff Business School were commissioned by Caerphilly County Borough Council and Newport City Council to undertake an analysis of the local and all-Wales procurement of the Aneurin Bevan Health Board (ABHB).

ABHB is responsible for the delivery of health care services to more than 600,000 people living in the Gwent area. Health services are delivered across the local authority areas of Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen. The Health Board came into being on the 1st October 2009.

One context of the report is a paucity of evidence on the wider economic effects of Welsh public procurement, and the potential for regional firms to meet needs which are currently serviced by imports. These questions have been brought into a sharper focus with NHS budgets coming under pressure in current spending reviews.

The research objectives in summary were as follows:

- To define the term 'local' with respect to the purchasing behavior of ABHB.
- To demonstrate how far the Board had successfully implemented selected action points contained in the *NHS All Wales Procurement Strategy 2007-2010* relating to communicating opportunities to local suppliers, and assisting suppliers to improve delivery of goods and services.
- To identify whether targets had been set for local procurement by the ABHB, and the nature of actions

being taken to achieve these targets.

- To analyse the amount of local spending undertaken by the Board and to analyse the benefits of local procurement for the wider local economy.
- To identify further local procurement opportunities for ABHB.

The definition of local was taken to mean the Health Board area in terms of the local authority areas of Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen. Regional was taken to mean of whole of Wales.

Opportunities for local SMEs

The report reveals that progress is being made by ABHB in meeting the strategic action points outlined in the *NHS All Wales Procurement Strategy*. However, the report highlighted a series of contextual issues that must be borne in mind in this connection. First, in terms of efficiently communicating requirements and in developing local supply potential, individual health boards are unlikely to be able to act wholly independently. With large amounts of goods and services flowing through designated hubs such as NHS Supply Chain and Welsh Health Supplies it is arguably in these organisations where a lead needs to be taken in communicating and developing local supply potential. The use of supply hubs and framework style agreements, greater procurement cooperation with the other home countries, tighter procurement regulations, the use of electronic portals and the wider advertising of tender opportunities, places constraints on the amount of supplier development that can be undertaken by organisations such as the ABHB. It is also difficult to escape the conclusion that the trend in the

procurement process and tighter public spending conditions could work together to make it more difficult for SMEs to compete in winning NHS business in Wales.

ABHB Spending

The report provides an analysis of the expenditure undertaken by ABHB for 2009-10. A large amount of total spending relates to the wages and salaries of staff, (nearly £406m) and with this supporting an estimated 10,754 full time equivalent (FTE) jobs. During 2009-10 non-pay operational spending was a little over £547m. Finally, there was estimated total capital spending through the year of £125m and with the vast majority of this relating to the construction of the Ysbyty Ystrad Fawr and Ysbyty Aneurin Bevan hospitals.

Table 1 shows that of total ABHB operational spend (net of depreciation) of £528.7m, around 23.5% represents payments to firms and institutions in the ABHB area. Total ABHB spending in Wales as a whole in 2009-10 was £306.5m or 58% of total operational spending. Discounting for spending within the health and social work sector leaves £25.2m of spending in other sectors of the economy. Total operational spending outside of Wales was £222.2m or 42% of overall operational spending. Of the total of non-pay operational spending (less health and social work spending) of £113.1m, around 8% is within the ABHB area, 22% is within Wales as a whole (including the ABHB area), and then with 78% of spend outside Wales.

Figure 1 shows the level of purchases outside Wales by ABHB by sector. In a number of sectors the percentage of total operational spending outside of

Table 1: Spatial distribution of ABHB (non-pay) operational spending in 2009-10

	£000s	£000s	£000s	£000s
	ABHB	All of Wales (Incl ABHB)	Outside of Wales	Total
Total	124,015	306,519	222,155	528,674
(Total less health spending)	9,196	25,176	87,905	113,081

Wales is in excess of 90%. The high importing propensities across some sectors reflect that Wales is a small open economy. Some of the demands placed by the NHS are very specialist in nature meaning that there would be no suppliers of such products in the regional economy. The report provides an analysis of sectors where import substitution possibilities might occur.

The Economic Significance of the ABHB

ABHB was shown to directly support some £953m of output, over 10,700 FTE jobs, and around £406m of gross value-added in Wales. However, indirectly the Board was shown to support economic activity in a wide range of regional sectors. In total, our analysis suggests that Board activity supports, directly and indirectly some £1.7bn of economic activity in Wales, and nearly 20,000 jobs and around £0.73bn of gross value added. Even discounting the impacts within other parts of the health sector, the ABHB supports a significant number of jobs throughout the Welsh economy.

Recommendations and Conclusions

Among the chief recommendations that emerge from this study, there were two bearing directly on urgent procurement problems.

On the demand side the most critical challenge is to promote more genuine

collaborative procurement across the public sector in Wales. It is vital that local government and health boards form integrated services and stronger partnerships. In the case of the ABHB area for example, the five county councils and the health board should consider the creation of a joint collaborative procurement team, working to a combined sourcing plan, to reduce costs and add value. While this evidently brings issues of accountability across responsible authorities and short term costs, this type of collaboration can lead to long run savings on contracts.

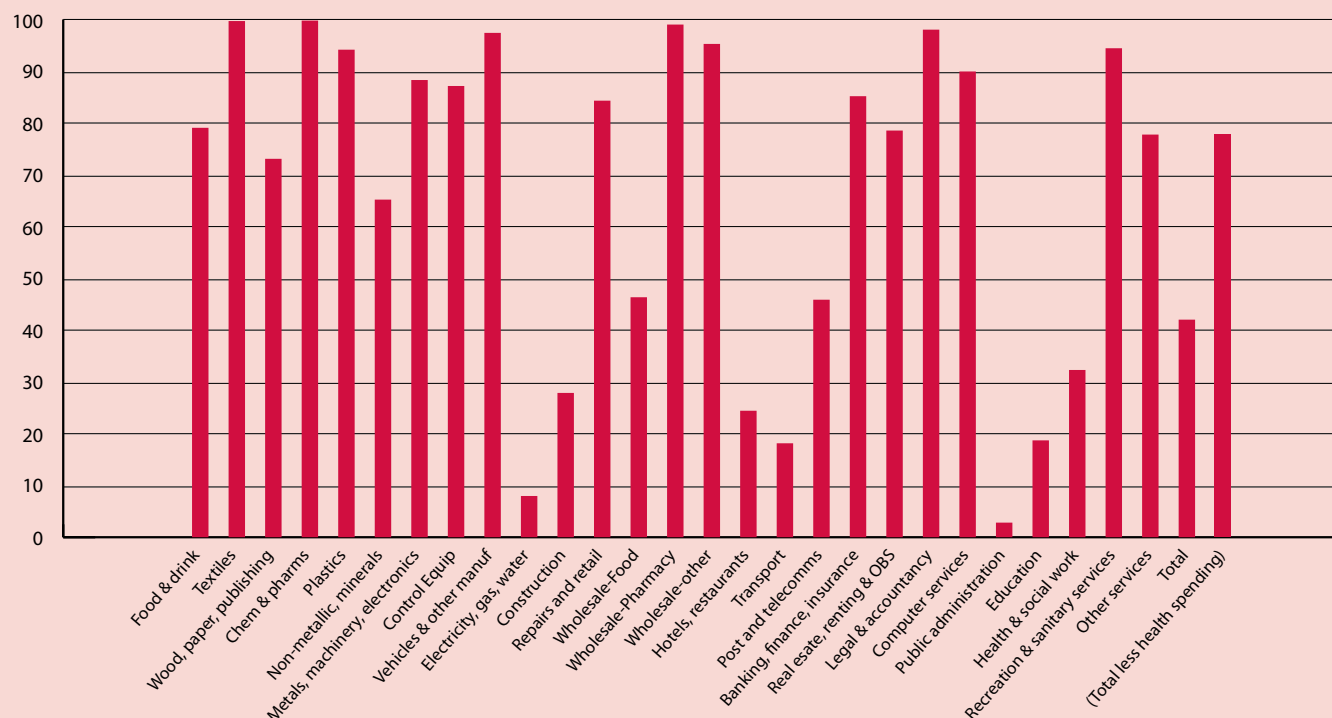
On the supply side there is an equally urgent need to design and deliver a better system of business advice for actual and aspiring SMEs in the health board area. SMEs are faced with a bewildering array of business support points, with little or no coordination between them. There is too little coordination among the five local authorities in the ABHB area and there is too little coordination inside the Welsh Assembly Government, especially between the Department for the Economy and Transport (DET) and Value Wales for example. There is an insistent need for local government, the health boards and the Welsh Assembly Government to form an integrated service and a stronger partnership by, for example, creating a single one stop shop for SMEs that would benefit from

advice on how to become a supplier to the public sector in south east Wales. Moreover, the analysis reveals a need for more targeted events to assist local SMEs to win NHS business and it is recommended that organisations such as Welsh Health Supplies might be key in coordinating such activity.

More specific recommendations arose from the analysis of opportunities to displace ABHB spending on imports. First a large amount of spend is directed to wholesalers and distributors both inside and outside of Wales. There may be scope here to encourage wholesalers, particularly, those in Wales, to investigate local sources of supply where they are available. Moreover, we expect that wholesalers might be well placed with knowledge on local supply opportunities and are a useful antennae for regional potential particularly in terms of food products, and basic commodities.

Second, the analysis suggests that it is high value-added products that are sourced outside of Wales. While the report emphasises the constraints on the regional supply side it recognised that even small levels of import displacement in selected niches of sectors, such as in engineering, equipment and chemicals, could have important effects in terms of the support of good quality employment in south east Wales.

Figure 1: ABHB Import Propensities 2009-2010 (% of total imports by sector).



Third, there are some areas of business and computer services where there would seem to be real opportunities to purchase more in the regional economy. We note that one of the problems identified in strategic economic planning documents by the Welsh Assembly Government has been the region's low shares of national (UK) activity in higher value business services. We would argue that public procurement is one potential means to bolster regional activity in these sectors, particularly at a time when there are real pressures on private sector demands for these services i.e. from the regional manufacturing sector.

Fourth, it was shown that the *NHS All Wales Procurement Strategy* suggests the significance of local sourcing but does not specify targets for local sourcing. It is recommended that the scope for such target setting be investigated. This report commends

ABHB for monitoring its local procurement and setting implicit targets on Welsh purchases. At the same time it is recognised that year on year increases in local purchasing may be impractical given supply side constraints in the Welsh economy. Furthermore, the level of local purchases in any one year is not entirely within the control of ABHB procurement officers.

The conclusions of the report generally relate to one health board area. A key issue for the future is how far the conclusions reached here might be applicable to other health board areas across Wales. In this context different health boards might have very different regional economic impacts according to the distribution of their spending between capital, operational and labour categories, and the extent to which they purchase in the region. Whether similar conclusions could be made for health boards in the west and the north of Wales is an issue for further research.

Without a more robust evidence base, of the kind we have tried to provide here, it is hard to imagine how the public sector can have an informed debate about the social and economic impact of its spending. This would help to foster a fuller and more mature understanding of value for money.

A copy of the full report can be found at <http://www.newport.gov.uk/stellent/gro/ups/public/documents/report/cont599382.pdf>