From the Permanent Secretary
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Rt Hon Meg Hillier MP
Chair of Public Accounts Committee
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Sent via email to:
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Dear Chair

PPE Supplier Evidence Session

Thank you for your letter of 28 May, which followed an evidence session your Committee held with four suppliers of PPE (Arco, Bunzl Healthcare, Full Support Healthcare and Uniserve). Your letter included eleven questions, which I have responded to below using your numbering.

1. We are concerned about the lack of transparency in the amount of PPE held in storage and whether this PPE has been quality assured.
   *i) **Has the Department completed a thorough assessment of the quality, and does it have a record of the use-by dates, of the PPE that it holds in container storage?***

Stock is tracked, monitored and managed at a product-level across the UK to meet upcoming requirements; a rolling stock take is conducted in core warehouses. Processes are in place to review the quality of all the PPE the Government has bought. This process determines whether products are suitable to be released to the frontline. Any that cannot, are subject to further investigation.

The Department is in the process of ensuring all PPE items held in storage undergo stringent quality assurance checks. This forms part of a wider review and as per our commitment in Treasury Minute 42 "COVID-19: Government procurement and supply of Personal Protective Equipment", the Department will provide a detailed breakdown by the end of July 2021. Stock checks are ongoing across the network and expiry dates captured on the stock management system. This information is used to prioritise outbound items with the oldest expiry date.

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For PPE to pass quality assurance, a clinical specialist checks the product to determine whether it meets the specifications listed out by the regulators.[1][2][3]
As of 17 May, 32 billion items of PPE have been ordered and over 11 billion items distributed. With the support of external audit, we are conducting analysis to assess the amount of PPE that we are not able to send to the frontline, which will therefore be considered for other purposes. This is alongside the volume of PPE that cannot be used at all. As of 24 May, of the 12.6 billion stock items in the UK, over 6.6 billion have been quality assured and approved for release. A further 3.2 billion are currently being quality assured and 2.9 billion have not passed the initial quality assurance for use in medical settings and the majority of this stock is being reviewed for alternative uses. Only 226 million items have been classified as exit stock. The remaining 8.4 billion items have yet to be manufactured or, are not yet in our UK storage network.

The quality assurance process involves stringent checks to ensure that frontline workers receive high quality products of a consistent standard.

We will make the final outcome of this work available by the end of July.

ii) What has been the cost to date of warehousing PPE during the pandemic, including storing the PPE held in containers, and what is the current monthly cost?

PPE storage costs are being collated and reviewed. These will be provided for the committee by the end of July 2021, as part of our commitments made in recommendation two of 'Treasury Minute 42 COVID-19: Government procurement and supply of Personal Protective Equipment'

In order to effectively manage, store and distribute the 32 billion items of PPE procured, the Department has utilised several storage solutions. These include UK storage warehouses, two warehouses in China's Economic Zone, purchased or rented containers and on quay storage.

The associated cost of each method varies between £1.24 per pallet per week in owned containers through to £19.96 per pallet per week for on quay storage. As of the end of March 2021, the vast majority of pallets were held in UK storage and less than 400 pallets are on quay, as per normal process for goods arriving in port. In January 2021 the effective storage cost was £10.60 per pallet per week. By the end of May

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1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/927550/Essential_technical_specifications_PPE_and_medical_devices-v0.3_Oct2020_accessible.pdf
2 Regulatory status of equipment being used to help prevent coronavirus (COVID-19) - GOV.UK (www.gov.uk)
3 Regulation (EU) 2016/425 of the European Parliament and of the Council of 9 March 2016 on personal protective equipment and repealing Council Directive 89/686/EEC (Text with EEA relevance) (legislation.gov.uk)

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2021, this has been reduced to £4.97 per pallet per week. We remain committed to minimising storage costs and we aim to complete this work by September 2021.

iii) Does the Department have an estimate of the total amount, and types, of PPE that it currently holds and estimates of how long this supply will last at current rates of use? (This is in addition to the information requested by the Committee in its recommendation 7 in its February report).

We have high confidence that DHSC will have sufficient stock to cover all future Covid-19 related demands, including new Covid-19 programme requirements, such as delivering widespread testing and vaccinations, and additional PPE demands such as facilitating visits to care homes. An England-wide system has been established to determine stock levels and facilitate mutual aid between NHS Trusts and since December 2020, the Government has maintained at least a 120-day stockpile of all COVID critical PPE.

We predict that, even with these new demands, we will still have a quantity of PPE over and above what will ultimately be needed by the front line in response to Covid-19. Our current stock levels reflect the fact that the in-practice demand has turned out to be lower than forecast, which was itself difficult to predict at the beginning of the pandemic and therefore planned to a Reasonable Worst Case Scenario; and our buying activities were more successful than would have been otherwise prudent to predict, both in terms of the amount that actually arrived and then met the necessary standards, particularly given the global situation and that we were purchasing products to protect people's lives.

As stated above, we have almost 12.6 billion items currently in UK storage; 3 billion aprons, 266 thousand body bags, 52 million clinical waste bags, over 1 billion eye protectors, 166 million FFP3 face masks, 4.6 billion IIR face masks, 2.2 billion gloves, 441 million gowns and 52 million hand hygiene items. There are 89 million items categorised as 'other' - these include coveralls and FFP2 masks. Any remaining stock items have yet to be manufactured or, are not yet in our storage network.

2. <u>How is the Department managing the significant risks to resilience in the PPE supply chain?</u>

iv) Has the Department assessed the impact of its excess PPE stock holdings on its long-term PPE strategy?

As highlighted above, the Department has ordered almost 32 billion items of PPE and since December 2020 we have held a four-month stockpile of all COVID – 19 critical PPE. Furthermore, we built resilience by ramping up our UK manufacturing efforts, we are now in a strong position to deliver high quality domestic PPE into the future. These successes gave us significant resilience over the winter months and has allowed us to

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commit to provide free COVID PPE to the health and social care sector until the end of March 2022.

Our future strategy will focus on further building resilient supply chains. Since, May 2020, a resilient domestic supply base has been developed with UK based companies providing high quality PPE to the frontline which have provided value for money price points while increasing employment. Furthermore, we have built resilience into our domestic manufacturers by upscaling, from scratch, our domestic production of meltblown fibres to manufacture face masks and gowns. Our UK meltblown capacity currently stands at around 250 tonnes a month, providing resilience and mitigating future risks to the frontline.

We are working to reduce levels of stock in some categories. We are also working with UK PPE manufacturers to help them diversify their markets.

v) How does the Department plan to set up future frameworks or incentives for manufacturers to increase the resilience of the PPE supply chain?

Achievements in establishing the UK manufacture of PPE are considerable. We disagree with the suggestion by some of your witnesses that UK made PPE will struggle to be price competitive.

However, our supply goals are broader than price alone. We are seeking greater resilience in the supply chain; increased transparency with regards to modern slavery; and better collaboration, while aiming for a high value product without compromising on quality.

The opinions of frontline users and healthcare professionals are extremely important to us and will play a vital role in our future plans. We have established the "UK Make Innovation Hub" which encourages clinicians and NHS leaders to use the forum and participate in discussion around important subjects. We recently held our sixth forum with close to 100 attendees. Previous topics of discussion have included glove reduction, reusable PPE, modern slavery, social value, operational guidelines and green waste.

vi) When is the Department planning to review its performance on PPE contracting during the pandemic and apply this learning to a future PPE strategy?

We are committed to reviewing our response to PPE procurement during the pandemic and learning lessons from our response to this unprecedented event. The government takes its obligations around transparency, integrity, and ensuring value for money

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extremely seriously, and it is important that the public has confidence in the government's ability to manage taxpayers' money correctly.

Over the course of the pandemic a number of opportunities to reflect on how we responded, and lessons learned, have arisen. We have engaged with all these opportunities, including the recommendations made by the National Audit Office for PPE supply and procurement, recommendations made by the Public Accounts Committee and an audit by Government Internal Audit Agency.

More broadly, opportunities to learn are being extended across Government. Following Nigel Boardman's first report on *COVID-19 communications procurement in the Cabinet Office*, published in December we have made good progress in addressing its recommendations, with the majority either fully or partly implemented by the end of April 2021. Furthermore, a second wider *Boardman Review on Covid-19 Procurement* was published in May 2021. The second report identifies lessons learned and contains 28 recommendations for improvements to procurement. The Cabinet Office has updated its policy on procurement in an emergency, which includes further information on managing the risks inherent in direct award without competition.

A PPE strategy setting out this learning, and our future approach, is due to be published in summer 2021. The strategy will highlight some of the successful innovations introduced in PPE supply and the potential for these to extend to other areas of healthcare supply.

3. We are concerned that the Department missed opportunities to collaborate early on in the pandemic with experienced suppliers of PPE.

   vii) What actions is the Department taking to ensure that commercial staff have the appropriate knowledge and skills, and that knowledge and skills its staff developed during the COVID-19 pandemic are retained and can be used to collaborate better with PPE suppliers in future?

The Department is taking several actions to ensure commercial staff are well equipped to do their jobs.

Firstly, the Commercial Capability Team within the DHSC Commercial Directorate continues to be responsible for working across and building the success of the Health Family through the Head of Profession Plan. This aims to build commercial knowledge, share best practice and develop commercial leaders of the future.

Secondly, the *Boardman Review on Covid-19 Procurement*, makes important recommendations in this area, especially recommendations 9 and 17. These recommend extending commercial accreditation and training to the health sector including arm's length bodies within the NHS together with reviewing the future

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structure of procurement in the health sector and the role of SCCL in its ability to respond during a crisis together.

The latter recommendation is central to the PPE programme as the plans are made to transfer future ownership and responsibility for PPE to SCCL. The current senior leadership team at DHSC is working closely with SCCL and NHSEI colleagues to integrate best practice supply chain management expertise into the plans as the programme transfers. This is an intensive piece of work to be completed over the summer, with transition due to complete by October 2021. This work is under constant review to ensure that transition activities can take place without undermining service delivery, and timings will be flexed if necessary.

4. We are concerned that the Department might have missed early warning signs of stock issues in PPE supply chains.

viii) ***What alerts did SCCL and the Department receive of the increasing supply risks relating to PPE from China in December 2019 and January 2020? Please provide examples of such alerts.***

DHSC did not received any alerts on the increasing supply risks relating to PPE from China in December 2019 or during January 2020 due to COVID-19, until information on export restrictions for PPE imposed by China were received on 30th Jan 2020.

One supplier of PPE did raise supply issues with SCCL in January 2020. However, this was to do with business as usual issues and was not related to COVID-19. The supplier in question suggested potential supply issues were related to the Christmas period and Chinese New Year.

ix) ***How did SCCL and the Department respond to these alerts? Please provide examples of your response.***

On 30 January 2020 NHSEI Incident Response requested setting up a Supply Chain Cell to manage product supply issues as part of the response to the emerging COVID-19 situation. On 31 January 2020, the Department's Chief Commercial Officer wrote to industry regarding EU exit which referenced the implications of the export control measures Chinese authorities had put in place to combat COVID-19, and recommended suppliers consider the resilience of their supply chains when managing UK stockpiles.

On receiving information on Chinese export restrictions for PPE, SCCL started sourcing additional PPE from existing contracted suppliers and other known suppliers of PPE to the UK market which they confirmed they were actioning in the Supply Chain Cell meeting 3 February 2020. These meetings involved key stakeholders from DHSC,

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NHSE/I, PHE, NHS Supply Chain, MHRA and devolved administration counterparts and were continued daily between through February to mid-March.
On 3 February 2020, PHE notified the supply chain cell that they had activated their 'just in time' call off contract for 6.8mn FFP3 masks with an EU based manufacturer. Also, SCCL developed their communication for customers around acting responsibly, making them aware they may need to apply a demand management system to control orders for PPE. On 5 February 2020, the DHSC approved the drawdown of stock held for EU Exit by NHS Supply Chain, to support continuity of supply for MDCC product (including PPE).

Despite these preparations, we were heavily impacted as all markets experienced severe disruption to the global supply of PPE; demand had spiked to unprecedented levels, coupled with shortages in supply, suppliers and raw materials. Overall, this also resulted in a huge inflation of price and intense global competition to secure scarce supplies.

The increase in requirement for PPE and the severe supply chain disruption made it evident that SCCL's business-as-usual processes of PPE procurement and distribution could not supply sufficient volumes of PPE into the health and care system. It was also clear that we could not maintain a decentralised approach to the purchase of PPE in the UK and that it was vital domestic providers were not competing against one another for supply.

On 21 March 2020, a 'Parallel Supply Chain' was established, bringing together staff from DHSC, NHSE&I, NHS Supply Chain (SCCL), the Ministry of Defence and Unipart Logistics. We established a cell of over 400 staff, including Government procurement specialists, to create a centralised, Government-backed buying effort on the international market.

x) ***Did the Department miss an opportunity to provide SCCL with additional funds before 31 March 2020 so that it could make advance purchases of PPE or make arrangements for air freight?***

Funding arrangements and delegated authorities were already in place to enable purchase of additional PPE when requirements emerged at the end of January. These arrangements existed as part of business as usual and preparedness arrangements with SCCL and PHE (responsible for management of the pandemic influenza preparedness stockpile). In addition to these funding arrangements, the Chief Commercial Officer provided SCCL with delegated authority to place orders in early February 2020 and on 18 March 2020 SCCL were provided with delegated authority to commission air freight.

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xi) What consideration has the Department since given on identifying and acting on early warning signals in supply chains for future emergencies, including on how to authorise emergency spending?

The Department is conducting a review of its countermeasures for disease outbreaks and pandemics, including PPE. This review will revisit the recommended specifications and volumes based on expert scientific and clinical advice. It will build on the experience of COVID-19 to recommend procurement, storage, monitoring and distribution models to ensure that stock is in good quality and can be rapidly deployed in sufficient quantities when needed.

We have worked with HM Treasury to establish baseline expectations for the normalised use of supply chain spending, identifying specific products that may be subject to new purchases that exceed our plans in certain events. These could be considered emergency spending, and we have agreed with HM Treasury the criteria by which that spending on products will be made.

Yours sincerely,

Chris Wormald

SIR CHRIS WORMALD
PERMANENT SECRETARY