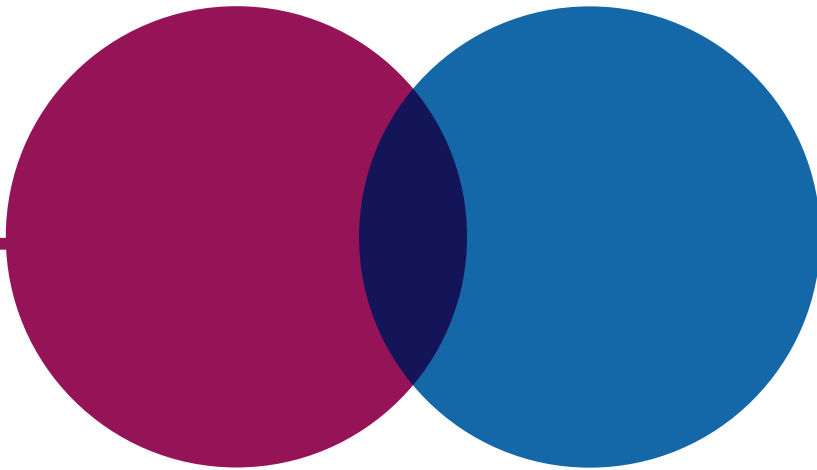




National Audit Office




Investigation into the management of PPE contracts

Department of Health & Social Care

REPORT

**by the Comptroller
and Auditor General**

**SESSION 2021-22
30 MARCH 2022
HC 1144**



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National Audit Office

Investigation into the management of PPE contracts

Department of Health & Social Care

Report by the Comptroller and Auditor General

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National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

25 March 2022

Investigations

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What this investigation is about

1 This investigation examines the Department of Health & Social Care (the Department's) performance in managing Personal Protective Equipment (PPE) contracts. It provides greater transparency to Parliament and the public around what is being done by the Department when the PPE it bought cannot be used as planned. It includes analysis of:

- the PPE purchased by the Department (Part One);
- how the Department is managing the PPE that it has received (Part Two); and
- contractual issues that have arisen and how the Department is dealing with these (Part Three).

2 Our previous reports in November 2020, *The supply of Personal Protective Equipment (PPE) during the COVID-19 pandemic* and *Investigation into government procurement during the COVID-19 pandemic* focused on how the Department procured PPE. They highlighted the context in which PPE was purchased and raised some concerns around the management and distribution of PPE that had started to arrive in the UK.

3 Demand for PPE rocketed in England from March 2020, when NHS and care workers, together with key workers in other industries, started to require protection from patients, colleagues and members of the public who potentially had COVID-19. There was also a surge in demand in other countries. At the same time, the global supply of PPE declined as a result of a fall in exports from China (the country that manufactures the most PPE) in February 2020. Some other countries also imposed temporary restrictions on the export of PPE. The result was an extremely overheated global market – a 'sellers' market' with desperate customers competing against each other, pushing up prices and buying huge volumes of PPE often from suppliers that were new to the PPE market. In the two years that have passed the Department has been managing the PPE contracts it entered into in 2020 in an effort to reduce its exposure to risk and minimise losses to the taxpayer.

4 In evidence to the Public Accounts Committee in June 2021, the Department's performance update suggested to the National Audit Office (NAO) that problems with the management of PPE contracts had emerged. At that time, of the 12.6 billion PPE items in stock in the UK:

- 2.9 billion items had failed initial quality assurance checks with 226 million items seen as unsuitable for use in health and social care settings;
- 3.2 billion items had not been checked; and
- 6.6 billion items had been quality-assured and approved for use in health and social care settings.

5 Significant volumes of PPE have continued to be received in the UK. At the same time concerns have increasingly been raised in the media around whether the Department is getting what it paid for and the extent to which some suppliers have failed to deliver what they promised while still making significant profits from the taxpayer.

6 The NAO has also been contacted by members of Parliament and the public who have expressed concerns about the quality of PPE delivered through individual contracts. Some of the contracts they highlighted were awarded through the VIP lane, referred to as the 'High-Priority Lane' by the Department, to suppliers who had not previously worked with the Department.¹ Some of the issues raised have been addressed in this report.

7 In addition to looking at the PPE programme as a whole, we also examined in detail the performance of a sample of 36 contracts, with an initial total contract value of £1.8 billion. This sample was selected based on risk, considering intelligence from our previous reports and our financial audit work, as well as some randomly selected contracts. Although we looked at contracts procured by both the Department and NHS Supply Chain Coordination Limited, we viewed the Department's contracts to be higher-risk and have focused more of our work on those. Our sample is used to demonstrate the challenges facing the Department and how it is responding to these; it is not used to audit the performance of suppliers. The sample is not representative, and the findings cannot be extrapolated to all PPE contracts. The Department is currently in commercially sensitive negotiations with some suppliers where it believes suppliers have not delivered to the contracted requirement. Due to the stage that the Department is at with some suppliers, we have not reported on specific contracts as this could potentially have an impact on the Department's ongoing and future discussions with suppliers.

¹ The Department established a High-Priority Lane, widely referred to as a VIP lane, in April 2020 to follow up on potential offers of PPE supplies from government officials, ministers' offices, MPs and members of the House of Lords, senior NHS staff and other health professionals, that it considered to be more credible than other offers.

8 We conducted our fieldwork between August 2021 and February 2022. Our methodology focused on contracts that delivered goods, for example aprons and face masks, rather than services such as consultancy or legal advice. The report is a factual account of what has happened since the NAO's reports in November 2020. It does not seek to examine and report on the value for money of contracts either individually or collectively. Appendix One sets out our methods in more detail.

Summary

Key findings

How the Department of Health & Social Care (the Department) has purchased Personal Protective Equipment (PPE) and the costs of this

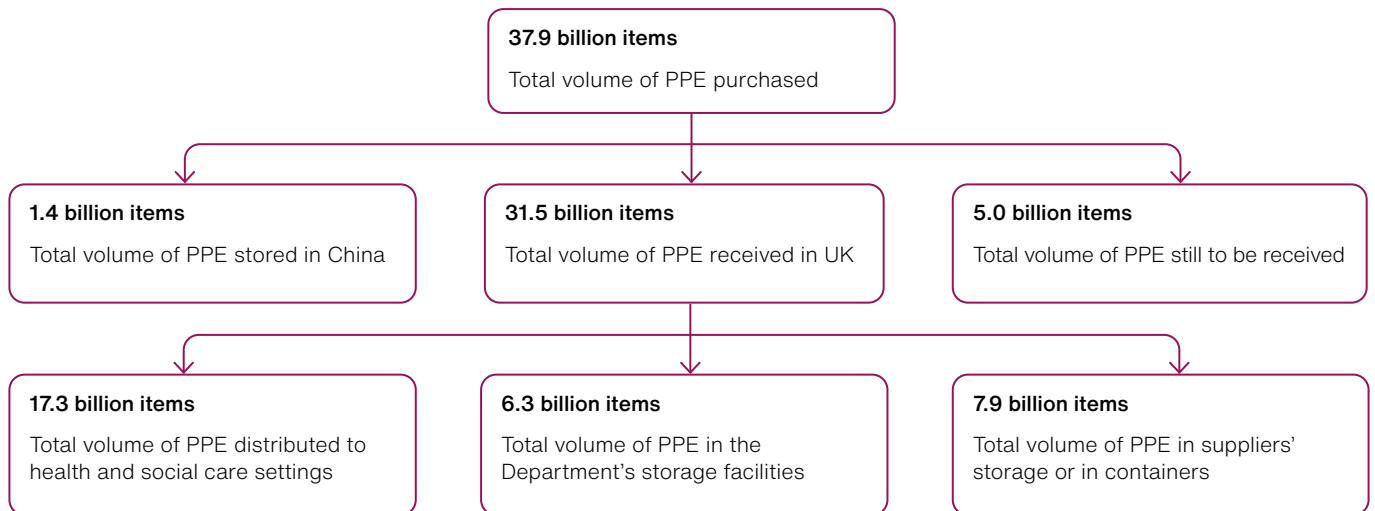
9 The Department has awarded 394 contracts, worth £7.9 billion, through two new procurement routes created to purchase PPE. The rate and scale of procurement to deal with the unprecedented demand for PPE at the start of the pandemic created a number of contract management risks. The Department awarded almost 10,000 contracts in total with a total planned expenditure of £13.1 billion. These contracts are expected to deliver 37.9 billion items of PPE (**Figure 1** overleaf). The Department agreed contracts to purchase a range of PPE including gowns, gloves and masks at an unprecedented rate and scale beginning in February 2020. The Department entered into contracts via three main routes, with the greater part of the expenditure going through two newly created routes:

- **The existing NHS Supply Chain Coordination Limited (SCCL):** The SCCL was established in 2018 to manage the sourcing, delivery and supply of healthcare products and food for NHS trusts and certain other healthcare organisations across England. Some 9,492 contracts for PPE were agreed in this way totalling £5.2 billion.
- **A new Parallel Supply Chain:** Established by the Department in late March 2020 because the Department acknowledged existing procurement routes could not purchase the volumes needed. Through this route, 357 contracts were agreed, totalling £6.9 billion.
- **A new UK Make route:** Established by the Department in April 2020 to purchase PPE from UK-based manufacturers. Some 37 contracts were agreed in this way totalling £1.1 billion (paragraph 1.3).

Figure 1

The Department of Health & Social Care (the Department) has received 31.5 billion items of Personal Protective Equipment (PPE) in the UK

Fifty-five per cent of PPE received into the UK has been distributed to health and social care settings following quality checks



Note

1 These data come from the Department of Health & Social Care's stock model. Analysis of these data show they include items that are not classified as PPE. For example, there are 836 million swabs and 404 million testing kits included in the data. The data presented are subject to change.

Source: National Audit Office analysis of Department of Health & Social Care data

10 Of the 394 contracts awarded through the Parallel Supply Chain and UK Make, 115 were awarded to 51 VIP lane suppliers, referred to as the 'High-Priority Lane' by the Department. Some 493 potential suppliers were suggested by government officials, ministers' offices, members of Parliament, senior NHS staff and other health professionals through a VIP lane. Contracts agreed through the VIP lane totalled £3.8 billion and were expected to deliver 7.8 billion items of PPE. The Department's process for checking suppliers evolved over time, and in May 2020 it introduced an eight-stage due diligence process. The Department told us that before May 2020, it conducted some due diligence such as financial, commercial and legal checks but not all of these were completed before contracts were awarded. Forty-six out of the 115 contracts awarded to VIP lane suppliers did not go through the eight-stage due diligence process as they were awarded before May 2020. This indicates that the Department was not in a position to fully understand the contract management risks it was exposing itself to with some of these suppliers (paragraph 1.6).

11 The Department has reported that by January 2022 it had spent £12.6 billion on PPE against total contractual commitments of £13.1 billion. Of the £12.6 billion, the Department reports that £6.6 billion has been spent through the Parallel Supply Chain, £4.9 billion through SCCL and £1.1 billion through UK Make. The Department does not routinely report on its expenditure by contracting route; instead, it monitors expenditure by the type of PPE purchased, for example aprons or gloves (paragraph 1.8 and Figure 4).

12 The Department paid £2.5 billion to suppliers through 298 upfront payments made before PPE was received. Due to the highly competitive global demand for PPE at that time, the Department accepted that upfront payments, often insisted upon by suppliers, were necessary to prevent contracted PPE being gazumped while in transit. Fifty-two (17%) upfront payments were made to new suppliers it entered into contracts with after the Government's Counter Fraud Function issued advice in May to avoid upfront payments. The Department has identified five contracts with prepayments, worth a total of £19 million, where it believes there is still a risk of non-delivery of the PPE. It is currently seeking a resolution on all of these contracts (paragraphs 1.9 and 1.10).

13 The Department has received 31.5 billion items of PPE in the UK, with 1.4 billion stored in China and 5.0 billion still to be received. Of the 31.5 billion items received in the UK, some 17.3 billion items (55% of received PPE) have been distributed to health and social care settings following quality checks. The remaining 14.2 billion items remain in UK storage including: 6.3 billion items stored across its 50 warehouses, with the remainder housed temporarily at suppliers' locations (2.3 billion) and in containers (5.6 billion). The Department estimates the initial purchase price of items yet to be distributed is £8.6 billion. Assessing the total demand for PPE at the start of the pandemic was extremely challenging due to the unprecedented nature of COVID-19 and the precise technical specifications for the PPE necessary to respond to it. By July 2020 the Department had largely stopped buying PPE as it already had "more than enough stock". The Department estimates it has 3.9 billion more PPE items than it needs, around 10% of the total PPE purchased and is trying to dispose of these items through sales (305 million items), donations to other parts of the public sector (253 million items) and recycling (232 million items). Storage figures are drawn from the Department's stock model, which it believes gives it an accurate high-level overview of its PPE. When we attempted to reconcile stock numbers on individual contracts, however, we were unable to gain assurance over its accuracy (paragraphs 2.2, 2.3, 2.8, 2.9, 2.10, Figure 1 and Figure 6).

14 By November 2021, it had cost the Department £737million to store PPE, £436 million of which was due to the Department not being able to remove items from shipping containers on time. The Department has incurred penalty charges of £436 million because it did not have sufficient storage capacity in the second half of 2020 and had to store PPE in containers for longer than planned. It has spent £301 million on regular storage costs (that is, non-penalty charges). The Department started to expand its warehousing capacity in late 2020, reducing its monthly storage costs (including charges) from £103 million in November 2020 to £61 million in March 2021, and down to £27 million in November 2021. The Department is currently spending an estimated £7.0 million a month storing 3.9 billion items it does not need. The Department is still to receive an additional 5.0 billion items of PPE into the UK (paragraphs 2.5, 2.6, 2.7, Figure 7 and Figure 8).

15 The Department has identified some 3.6 billion PPE items that it has concluded are not currently suitable for front-line services, equivalent to 11% of all PPE it has received. These items were purchased at a cost of £2.9 billion. This compares with the Department's planning assumption that 20% of PPE might not be suitable for front-line services. Some 64% of all items assessed as not currently suitable for front-line services were procured through the Parallel Supply Chain and UK Make. Our analysis of departmental data shows that 53% of VIP lane suppliers provided some PPE items that are classified as not currently suitable for front-line services. PPE considered not currently suitable for front-line services includes:

- 1.1 billion items that cannot be used in health and social care settings, such as face visors that met the Department's specification, but ultimately required assembly, which was considered too time-consuming. The initial cost of these items was £1.8 billion. These items may be suitable for use in other parts of the public sector;
- 1.0 billion items that are wastage, purchased at an initial cost of £439 million. These items, equivalent to 3% of all stock that has been received and checked, cannot be used in any way. Some 99% of wastage items were procured through the Parallel Supply Chain and UK Make– 25% of VIP lane suppliers provided PPE that was wastage; and
- 1.4 billion items for other reasons such as incomplete paperwork or concerns about modern slavery, purchased at a cost of £646 million. The omission of paperwork means items cannot be confirmed as suitable for front-line services. If the required paperwork is received, the Department may then be able to distribute these items (paragraphs 2.11, 2.12 and 2.14).

16 The Department has 1.5 billion items of PPE where it estimates that the expiry date for use has already passed. The Department estimates the cost of these expired items to be £619 million. In addition, of the 3.9 billion items of excess stock, the Department estimates that 51% have an expiry date that is less than six months away. The Department has estimated the expiry date of its PPE by sampling PPE items it has in storage rather than complete data (paragraphs 2.9, 2.16 and Figure 11).

Managing contract risks

17 The management data that the Department holds show inconsistencies between the volume of PPE ordered and quantities reported through stock counts. In the data provided to us we found in 21 of the 36 contracts there were differences of more than 1% between how many PPE items the Department had contracted for and how many it reports as stock. The Department does not have a single end-to-end stock management system and has explained that discrepancies in stock data arise for several reasons including double-counting as PPE is moved between locations, and some stock being missed from the count, for example in cases where items are held in storage by the supplier. Our analysis found that the Department's stock data showed it held a total of 107 million fewer items than it had contracted for across 14 of the 21 contracts where there were discrepancies. Across the remaining seven contracts, the Department held 13 million items more than it had contracted for. For example, when the Department negotiated to reduce a contract for 71 million face visors to 53.7 million visors it had already taken receipt of 54.3 million visors. As a result it was unable to reduce the costs quite as much as planned and had to pay for these additional visors, even though all of the face visors delivered through this contract are held as items not currently suitable for use in front-line services because alternative products are preferred by the NHS (paragraphs 2.3 and 2.4).

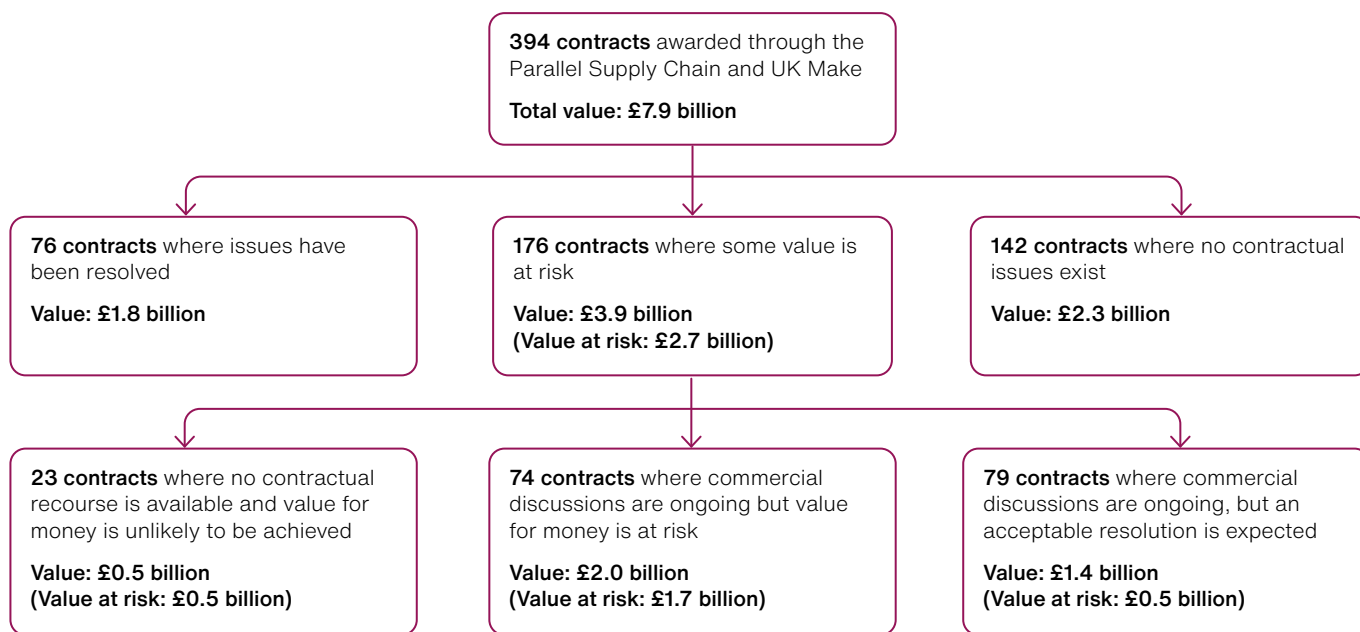
18 The Department has concluded discussions about contract disputes on 76 contracts with a total value of £1.8 billion (Figure 2 overleaf). This included issues such as product quality, expiry dates and the timeliness of deliveries. The Department resolved these issues in a number of ways, including:

- 18 contracts where the Department has agreed variations to contracts that have reduced costs by an estimated £264 million;
- 12 contracts, worth £218 million, where the Department has either cancelled, terminated or rejected the contract completely; and
- 46 contracts where issues such as product quality or timing of deliveries have been resolved with the supplier (paragraphs 3.4, Figure 2 and Figure 12).

Figure 2

The Department of Health & Social Care’s (the Department’s) assessment of value at risk across the 394 contracts that it is managing

The Department assesses that it has 176 contracts at risk of not achieving value for money, with the total amount at risk being £2.7 billion



Notes

- 1 Of the 394 contracts the Department is managing, three relate to contracts for fit testing of PPE worth £23 million. These are service contracts, but the Department includes them in its data for PPE contracts.
- 2 Numbers may not sum due to rounding.

Source: National Audit Office analysis of Department of Health & Social Care data

19 The Department estimates that on 38 contracts it has reduced volumes or cancelled contracts and expects to secure £572 million in reduced costs as a result.

The Department is still working to secure some of these savings so it is not certain that all of them will be realised. The savings calculation includes some savings that are attributable to the associated reduction in storage costs. We also found contracts where the Department has agreed to accept replacement or alternative items, but it has not always needed the replacement PPE. Its estimate includes:

- 18 contracts where the Department has resolved commercial issues by agreeing variations with estimated savings of £264 million (as set out in paragraph 18 above);
- 18 contracts where the Department is continuing to discuss issues with suppliers, with estimated savings of £283 million; and
- two contracts where no commercial action has been taken, with estimated savings of £25 million.

In our sample we reviewed a contract for 16.5 million face masks (specifically FFP2 masks) that the Department concluded were not currently suitable for front-line services. As part of resolving this dispute, the Department secured a reduction in the overall contract value, and the supplier bought back the FFP2 masks with the Department agreeing to purchase 60 million alternative face masks (specifically Type IIR), of which it currently has surplus quantities (paragraph 3.5).

20 The Department is managing 176 contracts where it believes it may not achieve full value for money, with an estimated £2.7 billion at risk.

The total value of these contracts is £3.9 billion, but the Department's assessment is that not all of this money is at risk as at least some PPE from these contracts may have passed quality checks. Some 57 of the 176 contracts were awarded through the VIP lane, valued at £2.0 billion, with an estimated £1.4 billion at risk (37% of the total value of all VIP lane contracts). The 176 contracts include:

- 23 contracts where the Department believes that it does not have contractual recourse available to it and value for money is unlikely to be achieved;
- 74 contracts where the Department believes that value for money is at risk; and
- 79 contracts where the Department believes an acceptable resolution can be found (paragraphs 3.6, Figure 2 and Figure 12).

21 The Department's 176 contract disputes are at different stages of the dispute resolution process (Figure 3). The Department is continually assessing the likelihood that issues can be resolved or whether they need escalating to another stage of the dispute resolution process. It is managing:

- 83 contracts that are at the first stage of review, meaning documentation is being examined and issues are being discussed with suppliers;
- 59 contracts that have ongoing formal commercial discussions;
- 27 contracts that are undergoing a mediation process to help resolve issues;
- seven contracts that are discussing settlement agreements; and
- 0 contracts have entered litigation.

The Department expects it will not resolve issues in 35% of these contracts until 2023 (paragraphs 3.8, 3.9, Figure 3 and Figure 14).

Figure 3

The Department of Health & Social Care's (the Department's) progress in resolving contracts in dispute

The Department has reached the first stage of commercial resolution on 83 out of 176 contracts

Commercial resolution stage	Number of contracts	Total value of contracts (£m)
Contract review	83	796
Commercial discussions	59	1,835
Mediation	27	994
Settlement	7	231
Litigation	0	0
Totals	176	3,885

Note

- 1 Data in the 'Total value of contracts' column shows the total value of the contracts. They do not show the Department's assessment of the value at risk.

Source: National Audit Office analysis of Department of Health & Social Care data

22 In around two-thirds of disputed contracts (117 out of 176 contracts) the primary cause of contractual dispute is the quality of PPE that has been delivered.

The value at risk in these 117 contracts is £2.2 billion. A further five contract disputes relate to PPE not being delivered. A further two contract disputes relate to payment issues. The remaining disputes are due to a range of issues including expired products and missing documentation (paragraph 3.10).

23 The Department has told us it expects fraud and error to be between 0.5% and 5% of PPE expenditure.

This is the Department's best estimate, and it expects to have finalised its estimate by early summer 2022. The Department is undertaking work looking at the risk of fraud on a sample of contracts, including some of those awarded through the VIP lane. Government's Counter Fraud Function advised the Department in May 2020 that "fraud and irregular spending will be happening – the question is not whether, but how much and how it can be limited". The Department estimates the checks it put in place have prevented £139 million of fraud occurring and recovered a further £18 million (paragraphs 3.14 and 3.16).

Part One

The Personal Protective Equipment (PPE) purchased by the Department of Health & Social Care (the Department)

1.1 This part sets out how much PPE the Department has bought and how much money it has spent as a result.

1.2 The Department began to award contracts to purchase a range of PPE, including gowns, gloves and masks in response to the COVID-19 pandemic at an unprecedented rate and scale beginning in February 2020 (Appendix Two sets out the items considered to be PPE). Following a period of intense procurement activity, which largely came to an end in June 2020, the Department faced new challenges in how it would manage its contracts to ensure the PPE was suitable for front-line services and that it got what it paid for.

1.3 The Department awarded almost 10,000 contracts for PPE with a total planned expenditure of £13.1 billion. The Department has awarded 394 of these contracts, worth £7.9 billion, through two new procurement routes. In total, almost 10,000 contracts are expected to deliver 37.9 billion items of PPE (**Figure 4**). The Department entered into contracts via three main routes, including two newly developed routes:

- **NHS Supply Chain Coordination Limited (SCCL):** The SCCL was established in 2018 to manage the sourcing, delivery and supply of healthcare products and food for NHS trusts and certain other healthcare organisations across England. Some 9,492 contracts for PPE were agreed by SCCL totalling £5.2 billion.²
- **A new Parallel Supply Chain:** Established by the Department in late March 2020 because the Department acknowledged existing procurement routes could not purchase the volumes needed. Through this route, 357 contracts were agreed totalling £6.9 billion.

² SCCL awarded contracts through existing frameworks some of which it recorded as purchase orders within existing contracts. We have described the awards made by SCCL as contracts, rather than purchase orders, throughout this report to remain consistent with the reporting methodology in Comptroller and Auditor General, *Investigation into government procurement during the COVID-19 pandemic*; Session 2019–2021, HC 959, National Audit Office, November 2020.

- **A new UK Make route:** Established by the Department in April 2020 to purchase PPE from UK-based manufacturers. Some 37 contracts were agreed this way totalling £1.1 billion.

The contracts awarded through the two new supply routes have created a number of contract management risks.

Figure 4

Overview of the contracts the Department of Health & Social Care (the Department) awarded, volumes of Personal Protective Equipment (PPE) purchased and expenditure

The Department has awarded nearly 10,000 contracts of PPE worth £13.1 billion

	Parallel Supply Chain	UK Make	Supply Chain Coordination Limited (SCCL)	Totals
Number of contracts entered into	357	37	9,492	9,884
Value of contracts (£bn)	6.9	1.1	5.2	13.1
Spend to date (£bn)	6.6	1.1	4.9	12.6
Number of PPE items purchased (bn)	13.3	3.9	17.4	37.9

Notes

- 1 The values of the contracts are based on departmental data as at end of January 2022. The Department has made variations to contracts meaning that the original values are in many instances different to the current values.
- 2 The Department does not routinely report expenditure by supply route.
- 3 The value and spend to date data presented are estimates and are subject to change.
- 4 Of the 357 contracts that were procured through the Parallel Supply Chain, three relate to contracts for fit testing of PPE worth £23 million. These are service contracts, but the Department includes them in its data for PPE contracts.
- 5 The data on items purchased come from the Department's stock model. Analysis of these data show there to be items that do not meet the classification of PPE. For example, there are 836 million swabs and 404 million testing kits included in the data. Therefore, the data presented here are subject to error.
- 6 Of the 357 Parallel Supply Chain contracts, the Department subsequently cancelled, terminated or rejected 32 of these contracts, valued at £400 million.
- 7 The total sum of items purchased across the three supply routes listed is 34.6 billion whereas the Department reports that in total it has purchased 37.9 billion. For 3.2 billion items the Department does not have a record of the supply route, with the remaining 100 million items either part of the Department's pandemic influenza preparedness programme or donated stock.
- 8 In line with our previous procurement report, *Investigation into government procurement during the COVID-19 pandemic*, we have treated SCCL purchase orders as separate contracts.
- 9 Numbers may not sum due to rounding.

Source: National Audit Office analysis of Department of Health & Social Care and Supply Chain Coordination Limited data

1.4 Contracts awarded by the Department through the Parallel Supply Chain make up 3.6% of all contracts awarded but account for 52% of expected contract value at £6.9 billion out of a total planned expenditure of £13.1 billion. Contracts awarded by SCCL make up 96% of all contracts awarded and represent 40% of the total expected expenditure at £5.2 billion. UK Make contracts make up the remaining 0.4% of contracts, equivalent to 8% of total expected value (£1.1 billion).

1.5 We consider the 394 contracts awarded by the Department to be higher-risk than those awarded by SCCL and have subsequently focused our examination on these. Our methodology included looking in detail at the performance of 36 contracts, valued at £1.8 billion, which we selected on a risk basis. We refer to the findings from this sampling exercise throughout the report. This sample is not representative, however, and the findings cannot be extrapolated to the overall PPE programme. Full details of our methodological approach can be found at Appendix One.

1.6 Of the 394 contracts awarded through the Parallel Supply Chain and UK Make, 115 were awarded to 51 VIP lane suppliers, referred to as the 'High-Priority Lane' by the Department. Some 493 potential suppliers were suggested by government officials, ministers' offices, members of Parliament, senior NHS staff and other health professionals in this way. Contracts agreed through the VIP lane totalled £3.8 billion and were expected to deliver 7.8 billion items of PPE. The Department's process for checking suppliers evolved over time, and in May 2020 it introduced an eight-stage due diligence process. The Department told us that before May 2020 it conducted some due diligence such financial, commercial and legal checks but not all of these were completed before contracts were awarded. Forty-six out of the 115 contracts awarded to VIP lane suppliers did not go through the eight-stage due diligence process as they were awarded before May 2020. This indicates that the Department was not in a position to fully understand the contract management risks it was exposing itself to with some of these suppliers.

Types of PPE purchased

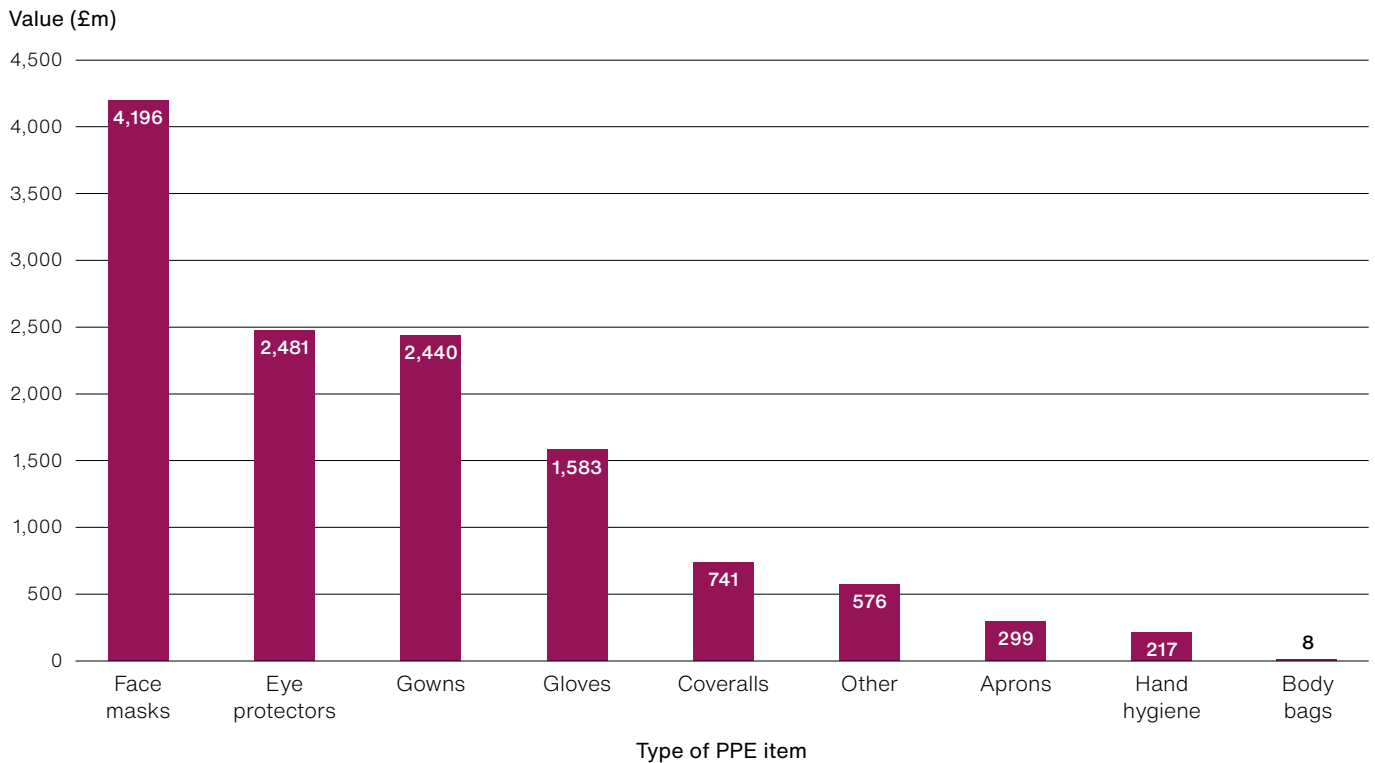
1.7 The Department has bought 37.9 billion items of PPE with an expected value of £13.1 billion of which 32.9 billion items have been received. **Figure 5** provides a full breakdown of what has been purchased and the associated costs. The received items include:

- 7.5 billion face masks valued at £4.2 billion;
- 1.5 billion eye protectors valued at £2.5 billion;
- 0.7 billion gowns valued at £2.4 billion; and
- 14.5 billion gloves valued at £1.6 billion.

Figure 5

Total value of Personal Protective Equipment (PPE) items the Department of Health & Social Care (the Department) has received

The Department's stock model shows that the Department has purchased more face masks by value (£4.2 billion) than any other type of PPE item

**Notes**

- 1 Data are taken from the Department's stock model as at 31 January 2022. It does not contain the value of any items that have been ordered but not yet received. At 31 January 2022, the Department was still to receive 5.0 billion items of PPE.
- 2 Analysis of these data show they include items that are not classified as PPE. For example, there are 836 million swabs and 404 million testing kits included in the data. Therefore, the data presented here are subject to error. These items are included in the category 'other'.

Source: National Audit Office analysis of Department of Health & Social Care data

Expenditure to date

1.8 The Department has reported that by January 2022, it had spent £12.6 billion on PPE against its total planned expenditure of £13.1 billion. Of the £12.6 billion, the Department reports that £6.6 billion has been spent through the Parallel Supply Chain, £4.9 billion through SCCL and £1.1 billion through UK Make. The Department does not routinely report on its expenditure by contracting route; instead, it monitors expenditure by the type of PPE purchased, for example aprons or gloves.

1.9 The Department paid £2.5 billion to suppliers through 298 upfront payments, which are payments made before goods were received. Due to the highly competitive global demand for PPE at that time, the Department accepted that upfront payments, often insisted upon by suppliers, were necessary to prevent contracted PPE being gazumped while in transit. Fifty-two (17%) upfront payments were made to new suppliers it entered into contracts with after the Government's Counter Fraud Function issued advice in May to avoid upfront payments.

1.10 Of those contracts with upfront payments, there are five contracts where the Department is still trying to negotiate with suppliers to ensure that the full amount of PPE is delivered. Upfront payments worth £19 million were made on these five contracts, where it believes there is still a risk of non-delivery of the PPE. It is currently seeking a resolution on all of these contracts.

Part Two

Personal Protective Equipment (PPE) the Department of Health & Social Care (the Department) has received

2.1 This part examines the PPE that has been received by the Department and its current location. It also sets out the results of the quality checks conducted by the Department to determine if the PPE it has received is suitable for front-line services.

The location of PPE

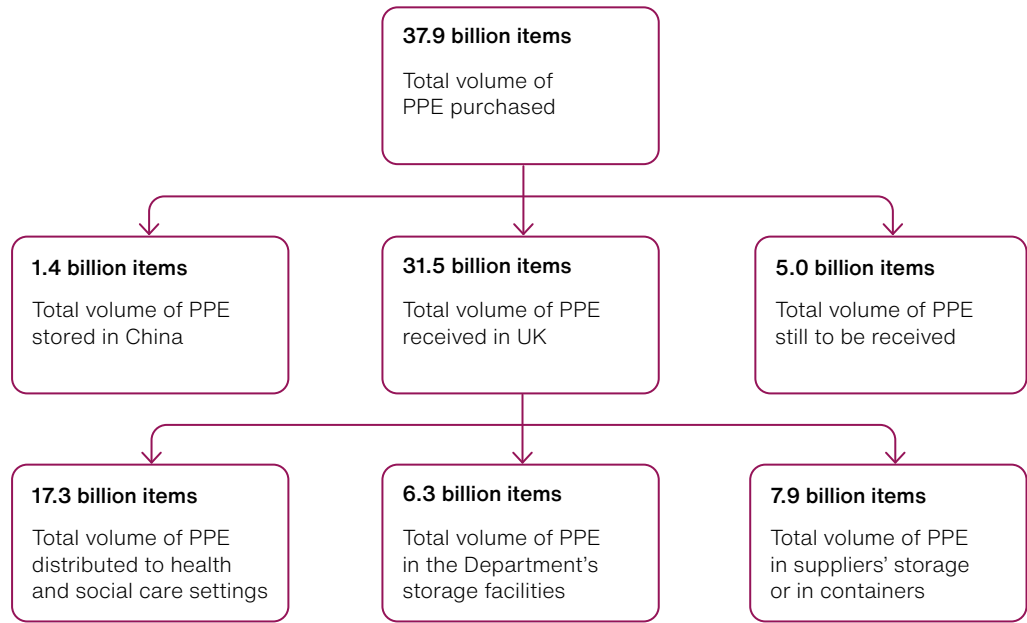
2.2 By November 2021, the Department had received into the UK 31.5 billion items of PPE from its expected total of 37.9 billion items. The Department has a further 1.4 billion items of PPE in storage in China, with the remaining 5.0 billion items still to be received. Of the 31.5 billion items the Department has received, 17.3 billion (55%) have been distributed to health and social care settings following quality checks. The remaining 14.2 billion items remain in UK storage including: 6.3 billion items stored across its 50 warehouses, with the remainder housed temporarily at suppliers' locations (2.3 billion) and in containers (5.6 billion) (**Figure 6** overleaf). The Department estimates the value of items yet to be distributed to be £8.6 billion. Storage figures are drawn from the Department's stock model, which it believes gives it an accurate high-level overview of its PPE. When we attempted to reconcile stock numbers on individual contracts, however, we were unable to gain assurance over its accuracy.

2.3 The management data that the Department holds show inconsistencies between the volume of PPE ordered and quantities reported through stock counts. In the data provided to us we found in 21 of the 36 contracts there were differences of more than 1% between how many PPE items the Department had contracted for and how many it reports in stock. This ranges from one example where the data show the Department holding 74% more PPE than ordered through the contract to another showing as having 62% less than ordered. The Department does not have a single end-to-end stock management system and has explained that discrepancies in stock data arise for several reasons including some double-counting as PPE is moved between locations and some stock being missed from the count, for example in cases where items are held in storage by the supplier. Without accurate data, it is more difficult for the Department to be certain it has got what it paid for and to allow it to challenge suppliers when necessary.

Figure 6

The Department of Health & Social Care (the Department) has received 31.5 billion items of Personal Protective Equipment (PPE) in the UK

Fifty-five per cent of PPE received into the UK has been distributed to health and social care settings following quality checks



Note

1 These data come from the Department of Health & Social Care's stock model. Analysis of these data show they include items that are not classified as PPE. For example, there are 836 million swabs and 404 million testing kits included in the data. Therefore, the data presented here are subject to error.

Source: National Audit Office analysis of Department of Health & Social Care data

2.4 We found examples of variances in our sample of contracts. Our analysis shows that in 14 out of the 21 contracts where there were discrepancies the Department held a total of 107 million fewer items than it had contracted for. Across the remaining seven contracts, the Department held a total of 13 million items more than it contracted for. For example, on one contract we examined:

- the Department contracted to purchase 71 million face visors in May 2020;
- the Department then amended the contract to reduce the number of face visors purchased to 53.7 million;
- the Department's records shows that it had already received 54.3 million face visors, 634,000 more than the amended contract volume;
- as a result it was unable to reduce the costs quite as much as planned and had to pay for these additional face visors;
- the Department assessed all of the face visors delivered through this contract as not suitable for use by front-line services because alternative products are preferred by the NHS; and
- it is investigating this issue and continuing discussions with the supplier.

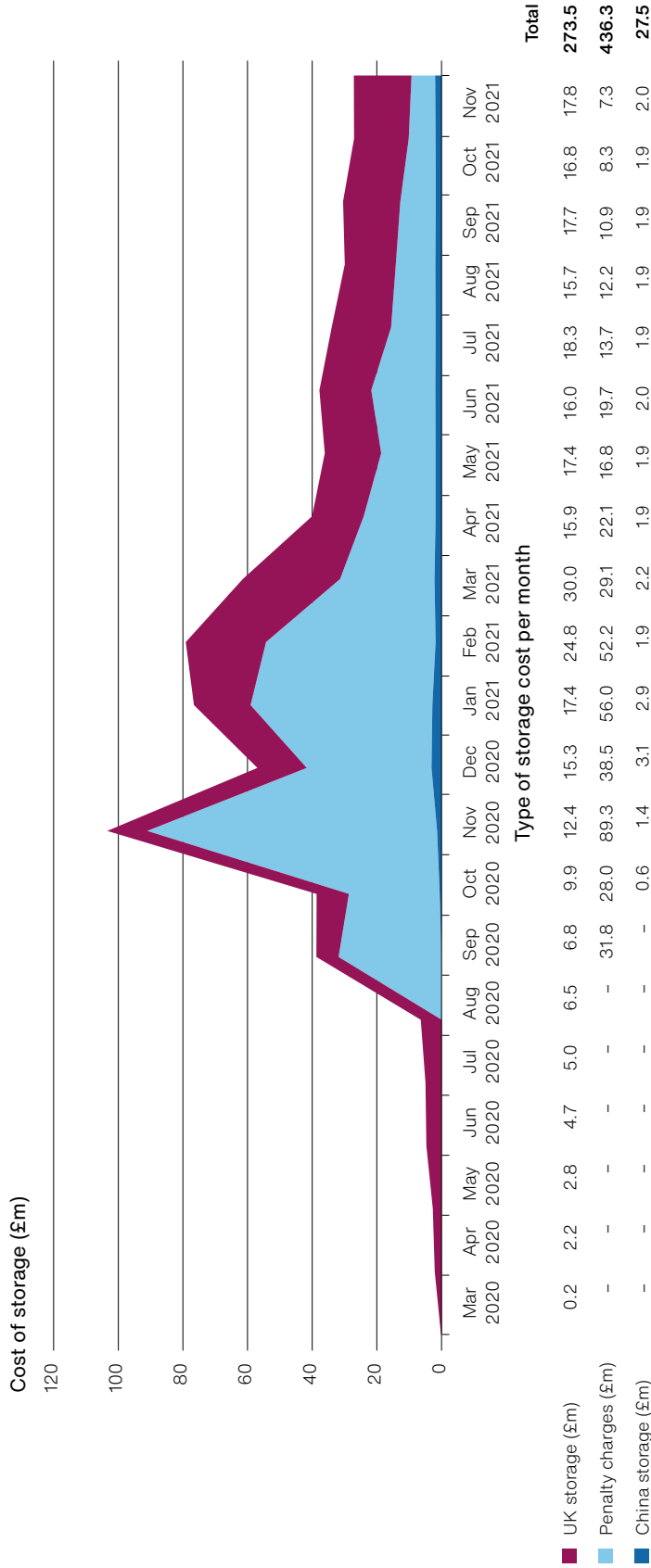
The cost of storing PPE

2.5 By November 2021, it had cost the Department £737 million to store PPE, £436 million of which was due to the Department not being able to remove items from shipping containers on time to avoid incurring penalty charges (**Figure 7** overleaf). The Department's storage costs include penalty charges incurred for storing PPE in containers for longer than planned because it did not have sufficient storage capacity in the latter part of 2020 (**Figure 8** on page 25). It has spent £301 million on regular storage costs (that is, non-penalty charges).

2.6 The Department's monthly storage costs increased from £220,000 in March 2020 to £6.5 million in August 2020, with a further increase to £38.6 million in September 2020 including £31.8 million of penalty charges, before peaking at £103.1 million in November 2020, including £89.3 million of penalty charges.

2.7 Since November 2020, the Department has reduced the penalty charges it incurs by increasing storage capacity at warehouses. The Department started to expand its warehousing capacity in late 2020 from 272,000 pallets in September 2020 to 698,000 in October 2021. It also secured additional storage space in China and is paying some suppliers to store PPE on its behalf. This has reduced its monthly storage costs (including charges) from £103 million in November 2020 to £61 million in March 2021, then down to £27 million in November 2021. The Department is currently spending an estimated £7.0 million a month storing 3.9 billion items it does not need. The Department is still to receive an additional 5.0 billion items of PPE in the UK.

Figure 7
 The Department of Health & Social Care's (the Department's) monthly storage costs for Personal Protective Equipment (PPE)
 Storage costs and charges peaked at over £100 million in November 2020



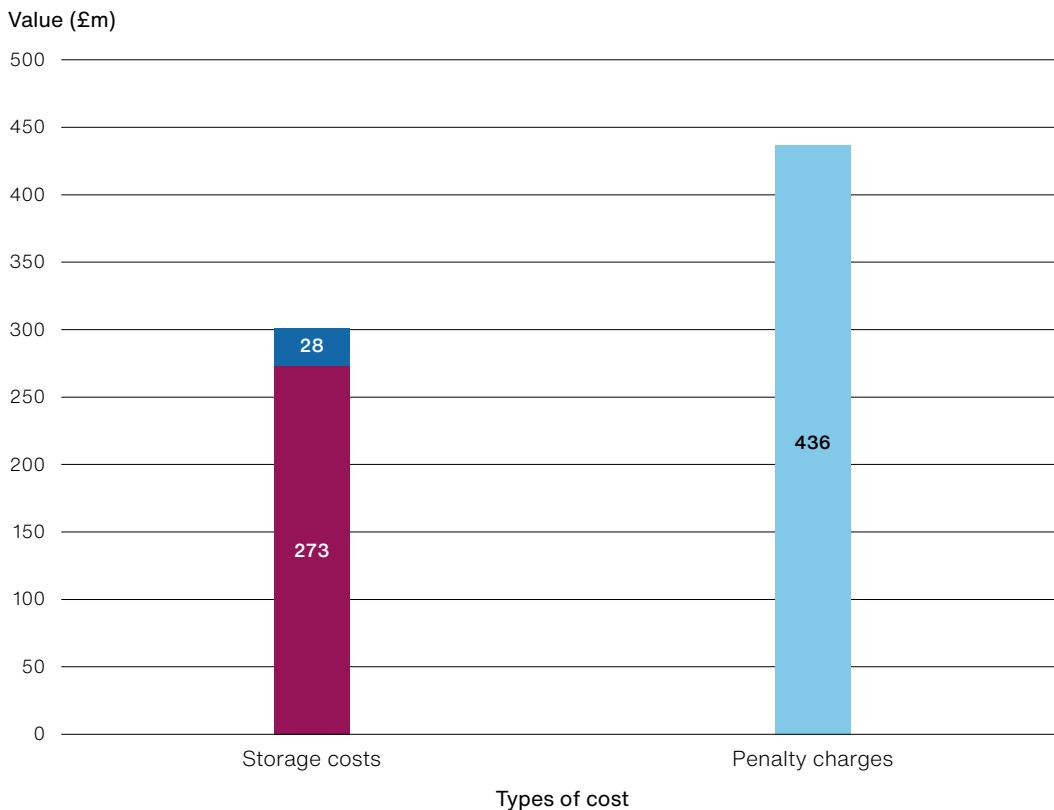
Notes

- 1 The Department has provided data up to November 2021 which is the most up to date data available. The data presented for October and November 2021 are classified by the Department as 'draft' and are therefore subject to change.
- 2 The Department is paying some suppliers to store PPE on its behalf. These costs have been included in contract variations and therefore are not included in the analysis shown.
- 3 Numbers may not sum due to rounding.
- 4 'UK storage' includes: UK storage costs, Supply Chain Coordination Limited (SCCL) storage costs and the purchase of containers.
- 5 'Penalty charges' includes: Detention, demurrage and storage, shunting and lifting.
- 6 'Detention' is defined as the costs of using shipping containers, outside of the arrival terminal, after the free period of time has expired.
- 7 'Demurrage' is defined as the costs of using shipping containers, within the arrival terminal, after the free period of time has expired.

Source: National Audit Office analysis of Department of Health & Social Care data

Figure 8
 Costs and charges relating to the storage of Personal Protective Equipment (PPE)

The Department of Health & Social Care (the Department) has spent £135 million more on penalty charges than on storage costs



- UK storage
- Penalty charges
- China storage

Notes

- 1 The Department has provided data up to November 2021 which is the most up to date data available. The data presented for October and November 2021 are classified by the Department as 'draft' and are therefore subject to change.
- 2 The Department is paying some suppliers to store PPE on its behalf. These costs have been included in contract variations and therefore are not included in the analysis shown.
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- 6 'Demurrage' is defined as the costs of using shipping containers, within the arrival terminal, after the free period of time has expired.
- 7 Numbers may not sum due to rounding.

Source: National Audit Office analysis of Department of Health & Social Care data

Understanding demand for PPE and managing excess stock

2.8 Before June 2020, the Department had very little understanding of how much PPE it had received and how much it needed. Assessing the total demand for PPE at the start of the pandemic was extremely challenging due to the unprecedented nature of COVID-19 and the precise technical specifications for the PPE necessary to respond to it. Between March and June 2020, decisions about what to buy were based on the reasonable worst-case scenario as set out by the Scientific Advisory Group for Emergencies. In June 2020, the Department's modelling started to take into account what the health and social care sector was using. By July 2020, the Department had largely stopped buying PPE as it already had "more than enough stock".

2.9 The Department estimates it has 3.9 billion more items than it needs, referred to as excess stock.³ This is equivalent to around 10% of all PPE that was purchased. The excess stock includes 1.8 billion aprons and 1.3 billion face masks, with the remainder eye protection and gowns. **Figure 9** gives a breakdown of excess stock. The Department estimates that 51% of excess stock has an expiry date that is less than six months away.

2.10 The Department is trying to dispose of excess stock in three ways:⁴

- Selling 305 million items to other countries or organisations.
- Donating 253 million items to schools, transport operators and polling stations.
- Recycling 232 million items.

The Department has told us it is considering options to dispose of stock which cannot be used, sold or donated before its expiry date passes and is aiming for a zero-landfill target for disposal of PPE.

Checking PPE is fit for purpose

2.11 The Department is storing some 3.6 billion PPE items it has concluded are not currently suitable for front-line services, equivalent to 11% of all PPE that it has received. These items were purchased at a total cost of £2.9 billion. This compares with the Department's planning assumption that 20% of PPE might not be suitable for front-line services. Not currently suitable for front-line services includes several categories including items where:

- PPE are classified as not fit for any use and are therefore wastage.
- Front-line services prefer alternative items, for example face visors that require some self-assembly, or aprons that are flat packed rather than being on a roll.

3 The Department's estimate is based on the PPE that is needed up to March 2022, the creation of a four-month stockpile and the identification of the Omicron variant.

4 The Department was unable to share the value recouped or the costs of these activities as it may impact on the value for money achieved in future sales.

- Technical assurance checks have been passed but the items are not currently in high demand and are awaiting final sign-off through the supply process.

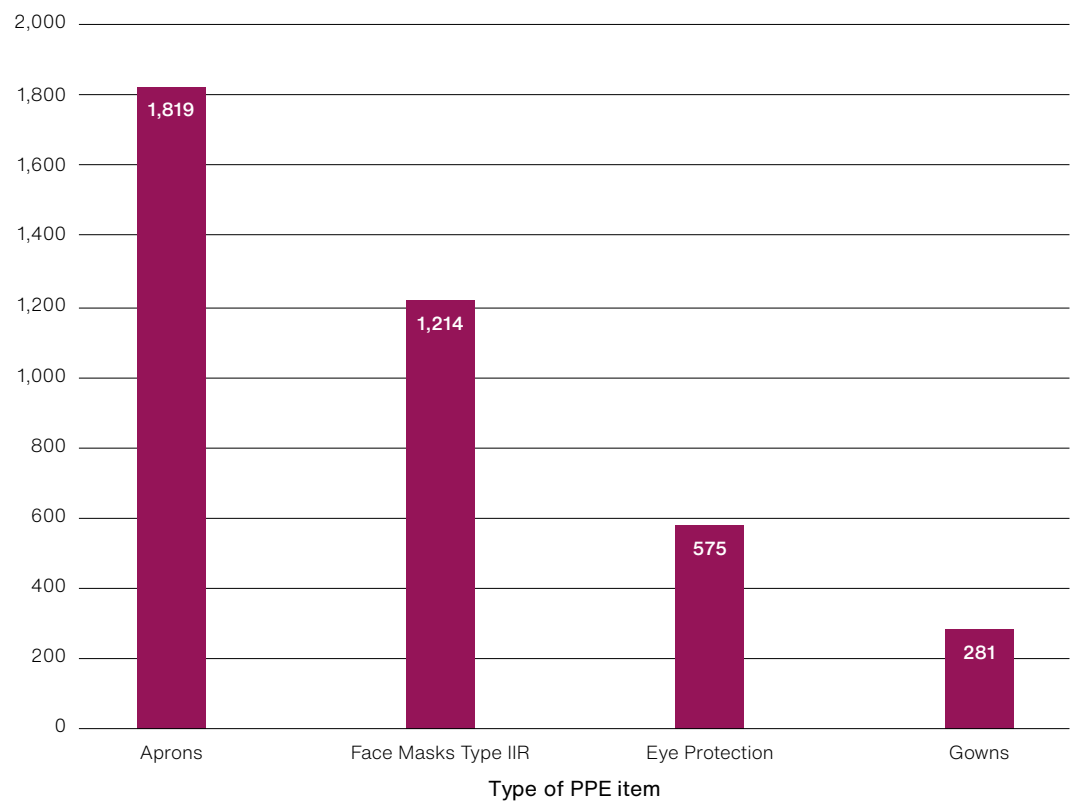
Its quality checks are prioritised using data about stock levels and demand. Its approach has evolved from 'first in, first checked', which was the approach initially adopted by the Department.

Figure 9

Personal Protective Equipment (PPE) that the Department of Health & Social Care (the Department) does not need

The Department estimates that it has 3.9 billion items of PPE that it does not need

Volume of PPE items (million)



Notes

- 1 The Department is continually assessing what level of stock it needs to meet demand.
- 2 Numbers may not sum due to rounding.

Source: National Audit Office analysis of Department of Health & Social Care data

2.12 Some 64% of all items assessed as not currently suitable for front-line services were procured through the Parallel Supply Chain and UK Make.⁵ The Department does not report on how many contracts across the different supply routes have provided PPE that is not suitable for front-line services. Of the 51 VIP lane suppliers, 27 (53%) have provided PPE that the Department has classified as not currently suitable for front-line services. PPE considered not currently suitable for front-line services includes:

- 1.1 billion items that cannot be used in health and social care settings, such as face visors that met the Department's specification, but ultimately required assembly, which was considered too time-consuming. The initial cost of these items was £1.8 billion. These items may be suitable for use in other parts of the public sector;
- 1.0 billion items that are wastage, purchased at an initial cost of £439 million. These items, equivalent to 3% of all stock that has been received and checked, cannot be used in any way. Some 99% of wastage was procured through the Parallel Supply Chain and UK Make – 25% of VIP lane suppliers provided PPE that was wastage; and
- 1.4 billion items for other reasons such as incomplete paperwork or concerns about modern slavery, purchased at a cost of £646 million. The omission of paperwork means items cannot be confirmed as fit for purpose. If the required paperwork is received, the Department may then be able to distribute these items.

2.13 The Department is continually assessing whether PPE is suitable for front-line services (**Figure 10**) and has evolved its quality assurance processes. It told us it established a quality and technical function with a market surveillance authority from October 2020 onwards to check the quality of PPE provided against the essential technical specifications.⁶ Continual assessment of the quality of PPE has meant that the volume of PPE that cannot be used in health and social care settings but may be suitable for use in other parts of the public sector has changed from 1.6 billion items in November 2020 to a peak of 3.6 billion items in April 2021 to its current level of 1.1 billion items. The Department's volume of wastage steadily increased from 97 million items in November 2020 to 633 million items in August 2021 and had reached 1.0 billion by January 2022. The Department is yet to assess 1,000 of the 30,000 containers of PPE it has received.

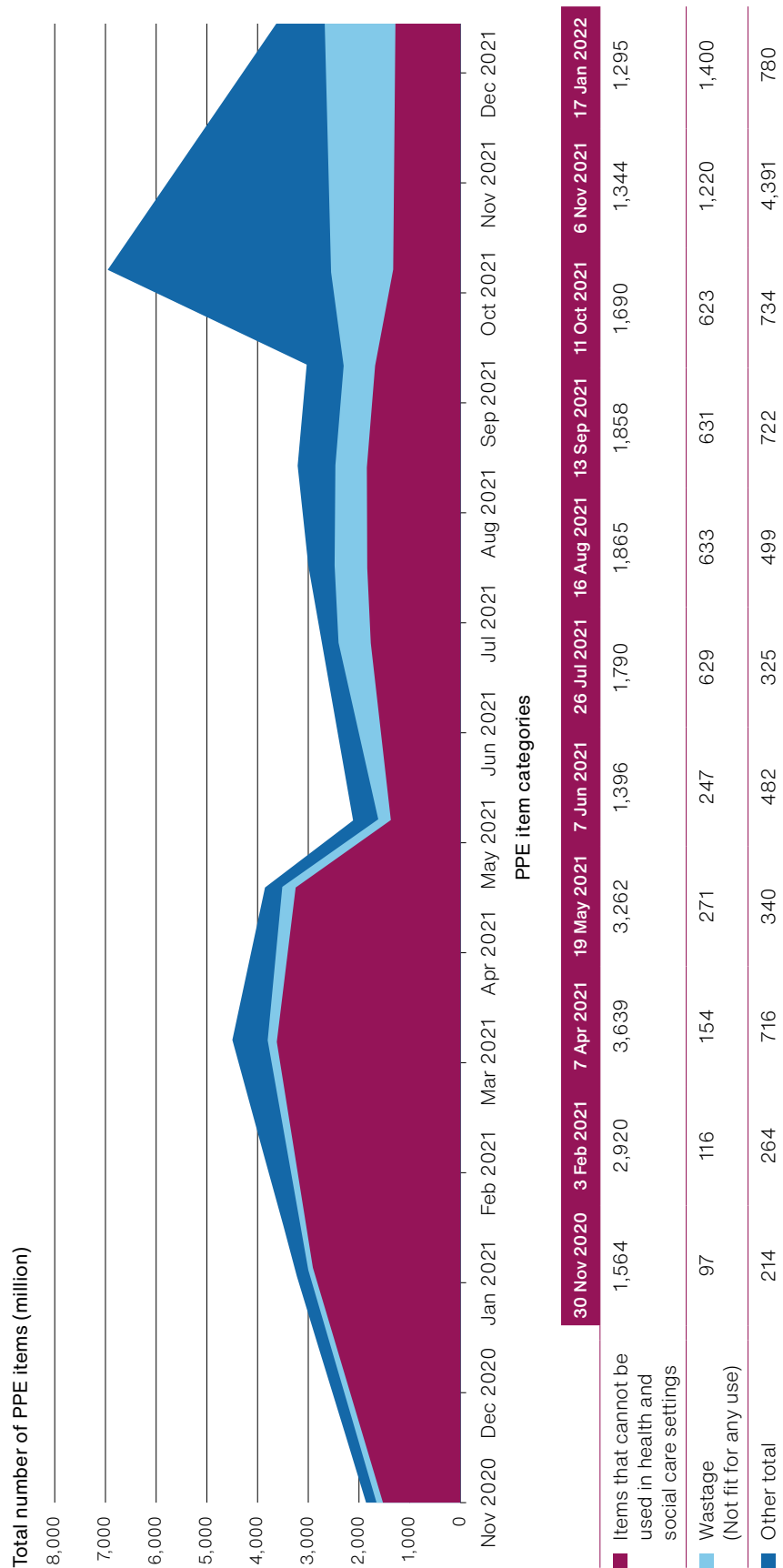
2.14 The Department had a planning assumption that 20% of PPE it purchased would not be suitable for front-line services given the demanding global conditions and the likelihood that some suppliers would not deliver what was expected. It reported in its Annual Report and Accounts 2020-21 that its purchasing of PPE in terms of its receipt of items, and the volume that was suitable for front-line services had exceeded its predictions.

5 These data may also include a small volume of items from other sources including donations and the pandemic influenza preparedness programme.

6 Market surveillance authority refers to the Health and Safety Executive and the Medicines and Healthcare Products Regulatory Agency.

Figure 10
 Number of Personal Protective Equipment (PPE) items classified as not currently suitable for front-line services since November 2020

Since March 2021 the number of items classified as not currently suitable for front-line services has reduced from 4.5 billion to 3 billion



Notes

- 1 The Department does not hold complete data before November 2020.
- 2 The Department has iteratively refined its categorisations of what is not currently suitable for front-line services. The monthly data presented here are consistent with how the Department categorised the data at that point in time.
- 3 The category 'other total' consists of the following categories: 'Donations or pandemic influenza preparedness programme'; 'to be investigated further'; 'take off Do Not Supply'; and 'other'.
- 4 Data used to produce this figure are recorded at different points throughout the month. The dates used to report these data are shown within the table.

Source: National Audit Office analysis of Department of Health & Social Care data

2.15 Our analysis of 36 contracts found seven instances, initially worth £453 million, where quality assurance checks were performed by organisations outside of the Department and as a result the Department does not have all of the quality assurance documentation as it is held by those organisations. All PPE in two out of the seven contracts were assessed as suitable for front-line services with the remaining five having PPE that is not deemed fit for such use. For those five contracts, initially worth £415 million, the Department is taking action to resolve issues – it is doing so without immediate access to all of the quality assurance documents.

Managing PPE expiry dates

2.16 The Department has 1.5 billion items of PPE where it estimates that the expiry date for use has already passed. The Department estimates the cost of these expired items to be £619 million. The Department has estimated the expiry date of its PPE by sampling PPE items it has in storage rather than complete data. This means the Department has sampled the 16 billion items it has in storage, rather than complete stock checks. The Department's sampling methodology means 10% of the total stock is checked. Of the 14.0 billion items still in date the Department estimates that 66% will expire by the end of 2023 (**Figure 11**).

2.17 Of the 1.5 billion items where the expiry date for use has already passed, 47% of these are aprons with the remainder including face masks, eye protectors and gowns. The Department is examining inventory items to consider whether some of it can have its expiry date extended. It is continuing to work on this and a decision has not yet been taken.

The Department's strategy for managing PPE in future

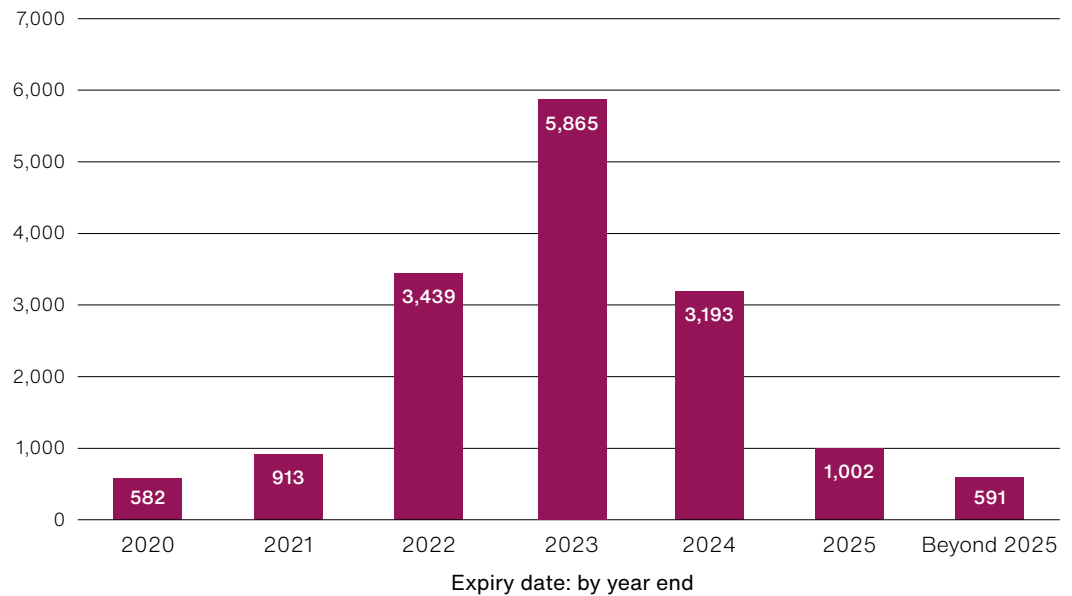
2.18 The Department has told us it intends to publish a revised PPE Strategy by summer 2022. The Department plans that from April 2022, it will transfer the responsibility for managing the supply of PPE to Supply Chain Coordination Limited. Oversight of SCCL transferred from the Department to NHS England and NHS Improvement in October 2021. The Department will also need to continue to ensure that the right balance is struck between minimising ongoing storage costs, maximising the benefits from items that can be used elsewhere and minimising the environmental impact of items that are not currently suitable for front-line services. Our report on the Department's Annual Report and Accounts 2020-21 noted that, given the scale of the ongoing issues with PPE, the Department will need to stay involved after the transfer of responsibilities to SCCL given its ownership of the stock.

Figure 11

The Department of Health & Social Care's (the Department's) estimate of expiry dates of Personal Protective Equipment (PPE)

The estimated expiry date for use has already passed on 1.5 billion PPE items

Number of PPE items (million)

**Notes**

- 1 The Department has estimated the expiry date of its PPE by sampling PPE items it has in storage rather than complete data. Therefore the Department has sampled the 15.6 billion items it has in storage, rather than complete stock checks. As this is an estimate these data are subject to change.
- 2 Numbers may not sum due to rounding.

Source: National Audit Office analysis of Department of Health & Social Care data

2.19 The Department has 179 full-time equivalent (FTE) staff members working on the PPE programme, of which 22% are permanent staff with the remaining 78% a mixture of contractors, secondees and consultants. Just under 25% of the 179 FTEs are commercial specialists. At its peak in 2020, the programme had around 450 staff, with many drawn from other government departments. The Department reported a staff turnover rate of 42% between July and September 2021, which the Department reported as a risk for the programme.

Part Three

Managing contract risks

3.1 Part Three sets out what the Department of Health & Social Care (the Department) is doing to resolve contract issues that have arisen. Our examination focuses on the 394 contracts awarded through the Parallel Supply Chain and UK Make as we consider these contracts to be higher-risk than those agreed by Supply Chain Coordination Limited (SCCL).

The Department's assessment of how much contract value is at risk

3.2 The Department has assessed, for each of these 394 contracts, the risk of not achieving value for money or of some of the monetary value of the contract being lost. The Department estimates it is at risk of losing £2.7 billion out of the total expected expenditure on these contracts of £7.9 billion, equivalent to around one-third of their total expected cost (34%). The Department's analysis, set out in **Figure 12**, shows there are:

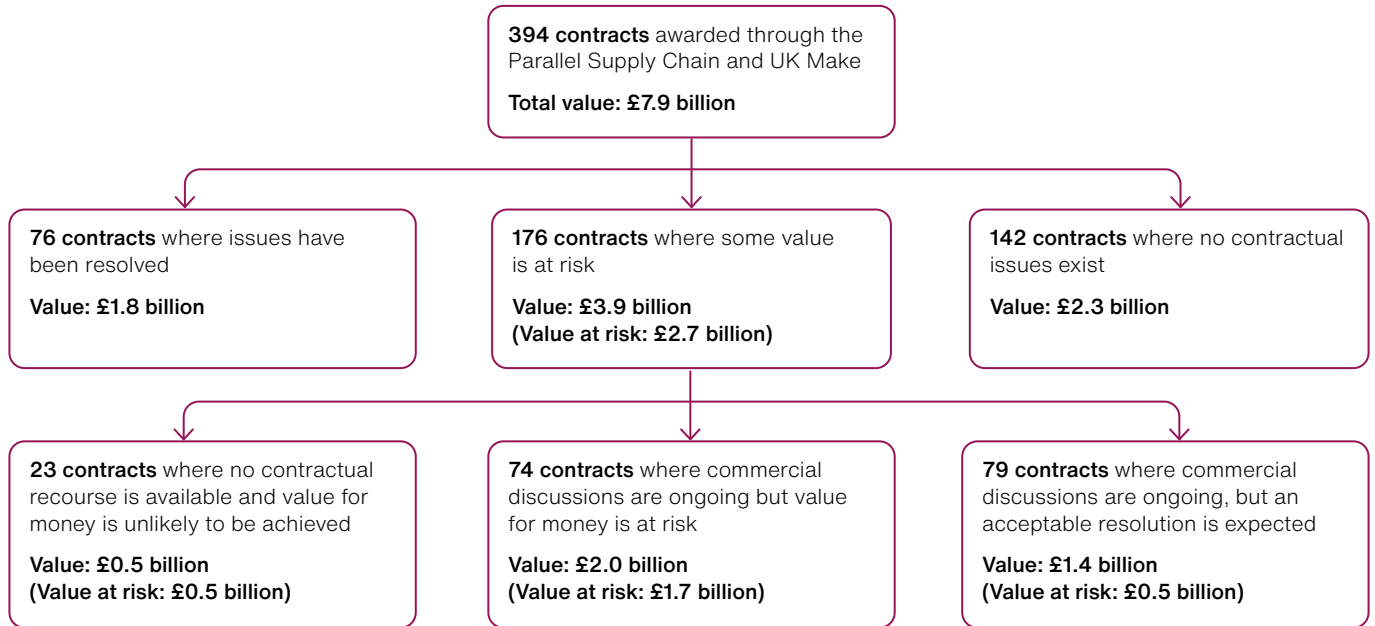
- 176 contracts where the Department believes some value is at risk. These contracts are worth £3.9 billion;
- 76 contracts where the Department has resolved issues with suppliers, totalling £1.8 billion; and
- 142 contracts where no contractual issues exist, totalling £2.3 billion.

3.3 The Department's assessment of the value at risk steadily decreased throughout 2021 (**Figure 13** on page 34). In September 2021 the Department estimated the value at risk to be £3.1 billion, falling to £2.8 billion in October, before reaching its current level of £2.7 billion. The Department's assessment changes as it examines and resolves contract issues.

Figure 12

The Department of Health & Social Care's (the Department's) assessment of value at risk across the 394 contracts that it is managing

The Department assess that it has 176 contracts at risk of not achieving value for money, with the total amount at risk being £2.7 billion

**Notes**

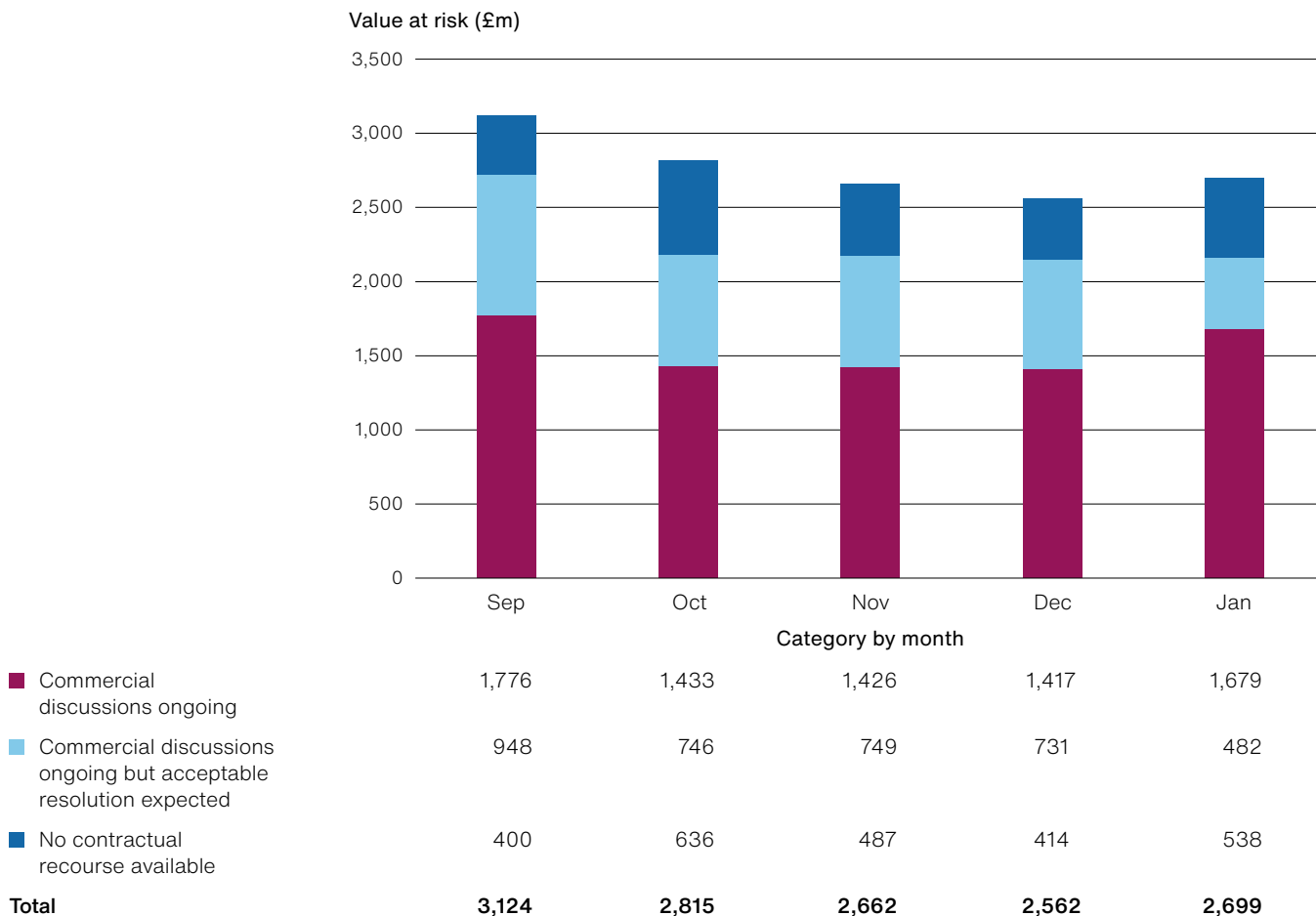
- 1 Numbers may not sum due to rounding.
- 2 Of the 394 contracts the Department are managing, three relate to contracts for fit testing of PPE worth £23 million. These are service contracts rather than PPE contracts, but the Department include them in its database for PPE contracts.

Source: National Audit Office analysis of Department of Health & Social Care data

Figure 13

The Department of Health & Social Care’s (the Department’s) assessment of value at risk on contracts since September 2021

The Department has reduced the value at risk from £3.1 billion in September 2021 to £2.7 billion in January 2022



Source: National Audit Office analysis of Department of Health & Social Care data

Issues with suppliers that have been resolved

3.4 For the 76 contracts where commercial issues have been resolved, the Department has concluded that it has reached an agreement with the supplier that protects taxpayer money, usually by agreeing variations that replace PPE items or reduce volumes. This includes:

- 18 contracts where the Department has agreed variations to contracts that have reduced costs by an estimated £264 million;
- 12 contracts, worth £218 million where the Department has either cancelled, terminated or rejected the contract completely; and
- 46 contracts where issues such as product quality or timing of deliveries have been resolved with the supplier.

3.5 The Department estimates that on 38 contracts it has reduced volumes or cancelled contracts and expects to secure £572 million in reduced costs as a result. The Department is still working to secure some of these savings so it is not certain that all of these will be realised. The savings calculation includes some savings that are attributable to the associated reduction in storage costs. We also found contracts where the Department has agreed to accept replacement or alternative items, but it has not always needed the replacement PPE. Its estimate includes:

- 18 contracts where the Department has resolved commercial issues by agreeing variations with estimated savings of £264 million (see paragraph 3.4);
- 18 contracts where the Department is continuing to discuss issues with suppliers, with estimated savings of £283 million; and
- two contracts where no commercial action has been taken, with estimated savings of £25 million.

In our sample, we reviewed a contract for 16.5 million face masks (specifically FFP2 masks) that the Department concluded were not currently suitable for front-line services. As part of resolving this dispute, the Department secured a reduction in the overall contract value and the supplier bought back the FFP2 masks. The Department also agreed to purchase 60 million alternative face masks (specifically Type IIR) of which it currently has surplus quantities.

The Department's ongoing work to resolve issues with suppliers

3.6 The Department is managing 176 contracts where it believes it may not achieve full value for money, with an estimated £2.7 billion at risk. The total value of these contracts is £3.9 billion but the Department's assessment is that not all of this money is at risk. For example, contracts may have delivered some PPE that passed quality checks, whereas other items did not. Of the 176 contracts where value for money may not be achieved, 57 were awarded through the VIP lane, valued at £2.0 billion. The estimated value at risk across the 57 contracts awarded to VIP lane suppliers is £1.4 billion (37% of the total value of all VIP lane contracts).

3.7 The Department has put in place a dispute resolution process to help it manage contractual issues. Each of the Department's 176 contract disputes are at different stages of the process. The Department is continually assessing the likelihood that issues can be resolved or whether it needs to escalate them to another stage of the dispute resolution process (**Figure 14**). As part of the Department's assessment, it has told us that it considers a range of factors including the financial health of a supplier and the profit margins made. We found an example of the Department considering profit margins as part of its process for preparing to resolve a contract dispute. The Department told us that profit is a central consideration in assessing a supplier's financial reserves available to settle a dispute. When awarding contracts, the Department told us, it considered the unit price of goods but did not separately consider the profit margin or how costs were attributed across the supply chain, meaning it did not know if intermediaries were making significant profits on these contracts. It took this approach because potential contracts were "on the table for hours or a day", meaning "there was no time to secure a detailed breakdown of costs" at the time. The Department told us that, while it engages with suppliers with a view to obtaining information on profit, it is dependent on suppliers being willing to disclose that information as the Department has no contractual or other right to demand this information and must therefore negotiate its release.

3.8 The Department expects it will not resolve 35% of these contract issues until 2023. The Department is at the first stage of its dispute process, which involves reviewing documentation, for 83 contracts where the total value of those contracts is £796 million. It is currently discussing issues with suppliers on 59 contracts with a total contract value of £1.8 billion.

Figure 14

The Department of Health & Social Care's (the Department's) progress in resolving contracts in dispute

The Department has reached the first stage of commercial resolution on 83 out of 176 contracts

Commercial resolution stage	Number of contracts	Total value of contracts (£m)
Contract review	83	796
Commercial discussions	59	1,835
Mediation	27	994
Settlement	7	231
Litigation	0	0
Totals	176	3,855

Note

1 Data in the 'Total value of contracts' column shows the total value of the contracts. They do not show the Department's assessment of the value at risk.

Source: National Audit Office analysis of Department of Health & Social Care data

3.9 If discussions with suppliers do not bring about an acceptable resolution, the Department enters a mediation process, which involves further discussions with the supplier that are overseen by a jointly appointed mediator. The Department told us that it is obliged by the Civil Procedure Rules to explore alternative means of resolving its disputes with suppliers before taking legal action and the majority of its contracts specify that mediation is the required format for alternative dispute resolution. The Department believes that mediation is proving to be an effective tool in progressing its disputes with PPE suppliers. It is currently in mediation for 27 contracts worth a total of £994 million. It is negotiating settlements on seven contracts worth £231 million. The Department to date has not entered litigation, involving the courts, on any contract, but has told us it is close to doing so.

3.10 In around two-thirds of contracts (117 out of 176 contracts) the primary cause of contractual dispute is the quality of PPE that has been delivered. The value at risk in these 117 contracts is £2.2 billion. A further five contract disputes relate to PPE not being delivered. A further two contract disputes relate to payment issues. The remaining disputes relate to a range of issues including expired products and missing documentation.

3.11 Our analysis of 36 contracts includes 14 that are in the dispute resolution process, with a total value of £1.1 billion. Our analysis shows that the majority of these contracts were awarded through the Parallel Supply Chain in April 2020.

The Department's assessment of fraud

3.12 The Department has told us it expects fraud and error to be between 0.5% and 5% of PPE expenditure. This is the Department's best estimate, and it expects to have finalised its estimate by early summer 2022. The Department is undertaking work looking at the risk of fraud on a sample of contracts, including some of those awarded through the VIP lane.

3.13 The Department's changes to its normal procurement processes in the context of an overheated global market for PPE meant it was exposed to a heightened risk of fraud in 2020-21. The Department recognises the increased risk it was exposing itself to and accepted that significant fraud and irregular spending threats were present. It subsequently identified ways fraud could occur, including:

- suppliers applying an inflated price to invoices; and
- goods not being received when upfront payments were made.

For the latter, the Department noted that many of these will be VIP lane recommendations.

3.14 The Government's Counter Fraud Function advised the Department in May 2020 that "fraud and irregular spending will be happening – the question is not whether, but how much and how it can be limited". It made a number of recommendations to the Department including:

- introducing an enhanced due diligence process to provide an increased understanding of risks associated with the supplier;
- managing processes robustly to ensure 'red flags' are not overridden and that any checks not performed before agreeing a contract should be completed retrospectively;
- avoiding upfront payments where possible; and
- ensuring contracts contain ways to claw back any irregular payments.

3.15 The Department estimates the checks it put in place have prevented £139 million of fraud occurring and recovered a further £18 million. Within the 36 contracts we analysed, we found no evidence that the Department had detected any fraud.

Appendix One

Our investigative approach

Scope

1 We conducted an investigation into the Department of Health & Social Care's (the Department's) management of Personal Protective Equipment (PPE) contracts. These contracts were awarded in 2020 as part of the Department's response to the COVID-19 pandemic. Our fieldwork took place between August 2021 and February 2022.

2 The report covers:

- the PPE purchased by the Department;
- how the Department is managing the PPE that it has received; and
- contractual issues that have arisen and how the Department is dealing with these.

Methods

In examining these issues, we drew on a variety of evidence sources.

3 We reviewed a range of data and documentation. This included:

- planned and actual expenditure for the purchase of PPE;
- a list of all PPE contracts awarded by the Department as part of its pandemic response up to 31 July 2021;
- commercial papers and papers associated with the management of contracts, including contracts, contract variations, purchase orders, delivery receipts, quality checks and assessments of risk within particular contracts;
- performance monitoring data including regular reporting packs, risk registers and meeting minutes;
- documents that set out the Department's approach to managing the PPE programme, including governance arrangements, strategy papers and operational delivery;
- advice to the Department from other parts of government on how to manage the risk of fraud within the PPE programme;

- evidence given to parliamentary select committees and media reports on the management of PPE contracts; and
- correspondence received by the National Audit Office (NAO) in relation to the management of PPE contracts.

4 We examined in detail the management of 36 contracts. This consisted of 21 contracts awarded through the Parallel Supply Chain, seven through UK Make and eight through Supply Chain Coordination Limited (SCCL). Our sample is used to demonstrate the challenges facing the Department and how it is responding to these; it is not used to audit the performance of suppliers. The sample is not representative, and the findings cannot be extrapolated to all PPE contracts. The Department is currently in commercially sensitive negotiations with some suppliers where it believes suppliers have not delivered to the contracted requirement. Due to the stage that the Department is at with some suppliers, we have not reported on specific contracts as this could potentially have an impact on the Department's ongoing and future discussions with suppliers.

5 How we selected our sample:

- We asked the Department to provide a list of all PPE contracts awarded as part of its pandemic response up to 31 July 2021.
- We adopted a targeted risk-based approach, informed by the methodology used in our financial audit practice. We considered:
 - **supply route:** Through discussions with the Department, internal colleagues and a review of media and parliamentary coverage we concluded that those contracts awarded through the Department's new supply routes, the Parallel Supply Chain and UK Make carried a higher risk than those awarded through the already established SCCL route;
 - **value of contracts within the supply route:** Contracts awarded through the Parallel Supply Chain were valued at £6.9 billion, with SCCL and UK Make accounting for £5.2 billion and £1.1 billion, respectively; and
 - **known issues with PPE contracts:** We considered the NAO's previous report, *The supply of personal protective equipment (PPE) during the COVID-19 pandemic* and consulted with colleagues who are responsible for conducting the financial audit of the Department's annual report and accounts to identify contracts that may potentially be high risk for the taxpayer.⁷ We kept this information under review and added contracts to our sample when necessary.
- We supplemented this risk-based approach with a random sample of contracts resulting in a total of 36 contracts being selected.

⁷ Comptroller and Auditor General, *The supply of personal protective equipment (PPE) during the COVID-19 pandemic*, Session 2019–2021, HC 961, National Audit Office, November 2020.

6 How we analysed our sample:

We analysed each contract using the NAO's *Good practice guidance managing the commercial lifecycle* as a framework for areas to examine.⁸ To support this analysis, we requested the following evidence from the Department:

- The contract award letter and any subsequent variations to the contract.
- Regulation 84 report or equivalent.
- Details of key performance indicators for the contract and performance against those.
- Spend to date on the contract, including any upfront payments made.
- Delivery schedules and evidence of proof of delivery and current location of PPE items.
- Quality assurance and due diligence checks.
- Expiry date of goods.

7 We interviewed officials from:

- the Department of Health & Social Care including those working in different parts of the PPE programme including commercial, dispute resolution, finance, strategy and operations;
- Supply Chain Coordination Limited to help us understand the contracts awarded through this route;
- Government's Commercial Function to understand its role in managing PPE contracts; and
- Government's Counter Fraud Function to understand its role in managing the fraud risk associated with the PPE programme.

We did not interview any PPE suppliers.

⁸ National Audit Office, *Good practice guidance managing the commercial lifecycle*, July 2021.

8 The majority of data presented in the report are the Department's own. However, in some areas, we conducted new quantitative analysis including:

- the value and timing of upfront payments made to suppliers;
- the relationship between supply route and PPE classified as not currently suitable for front-line services; and
- the number of contracts at each stage of the dispute resolution process and the causes of issues with suppliers.

Data limitations

9 In conducting our work, we found that the Department's data did not create a full picture of how the PPE programme is performing. The Department has explained these data limitations are because of:

- stock being managed on a weekly basis and there being no end-to-end stock management system;
- double-counting of some PPE items, for example when a container is moved from one storage location to another, due to its reliance on multiple data sources that do not always reconcile;
- quality checks not always being completed quickly; and
- pressure to make decisions at pace when purchasing PPE in early 2020 that limited its ability to look in detail at some commercial arrangements.

10 The data presented are our best understanding of the Department's performance. Where we have been unable to reconcile data or explain variances, we have made this clear throughout.










Appendix Two

Items classified as Personal Protective Equipment (PPE)

1 Our previous report, *The supply of personal protective equipment (PPE) during the COVID-19 pandemic*, set out in detail those items classified as Personal Protective Equipment (PPE) and how they are used (**Figure 15** overleaf).

Figure 15
Personal Protective Equipment (PPE) used to manage COVID-19

A range of PPE items are used to manage COVID-19, including during the care of patients who do not have COVID-19. Higher levels of PPE are needed for aerosol-generating procedures (AGPs)¹

PPE item	Further detail
 Aprons	A single-use apron is used when providing direct care within two metres.
 Body bags	Used by those managing the human remains of COVID-19-related deaths.
 Clinical waste bags	Used across all health and care settings, at all times and for all patients or individuals, for the safe disposal of used PPE.
 Eye or face protectors	These visors or safety spectacles are used during AGPs and otherwise if blood and/or body fluid contamination to the eyes or face is likely.
 Face masks	Non-fluid-resistant face masks (Type II masks) are used by health and care workers when entering a hospital or care setting. Fluid-resistant face masks (Type IIR masks), are used when delivering direct care within two metres of a suspected or confirmed COVID-19 case.
 Gloves	Used during AGPs and otherwise if blood and/or body fluid contamination to the eyes or face is likely.
 Gowns or coveralls	Used during AGPs and otherwise if blood and/or body fluid contamination to the eyes or face is likely or when an apron provides inadequate cover for the task.
 Hand hygiene	The use of alcohol-based hand rub is part of hand hygiene in all health and care settings, at all times and for all patients or individuals.
 Respirator face masks or hoods	Respirators are used to prevent inhalation of small airborne particles during an AGP. Respirator masks are known as a filtering face piece (FFP) mask. There are three categories of FFP mask (FFP1, FFP2, FFP3), as well as loose-fitting powered TH2 hoods which provide the highest level of protection. FFP3 masks should be worn when performing an AGP. Workers should first be fit-tested for an FFP3 mask to ensure an adequate seal. In some circumstances FFP2 masks can be used as a safe alternative to FFP3 masks or TH2 hoods.

Note

1 An aerosol-generating procedure (AGP) is a medical procedure that can result in the release of airborne particles (aerosols) from the respiratory tract.

Source: National Audit Office analysis of Public Health England and other official guidance (published 31 July and 20 August 2020)

CORRECTION SLIP

Title: Investigation into the management of PPE contracts

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Correction One:

Where we talked about a new Parallel Supply Chain in paragraph 9, second bullet, on page 7; paragraph 1.3, second bullet, on page 16; and in Appendix One, paragraph 5, second sub-bullet, on page 40, a total value of £6.7 billion was stated, it was incorrect and should have stated a total value of £6.9 billion.

Paragraph 9, second bullet should read:

- **A new Parallel Supply Chain:** Established by the Department in late March 2020 because the Department acknowledged existing procurement routes could not purchase the volumes needed. Through this route, 357 contracts were agreed, totalling £6.9 billion.

BACK

Paragraph 1.3, second bullet should read:

- **A new Parallel Supply Chain:** Established by the Department in late March 2020 because the Department acknowledged existing procurement routes could not purchase the volumes needed. Through this route, 357 contracts were agreed totalling £6.9 billion.

BACK

Appendix One, paragraph 5, second sub-bullet should read:

- **value of contracts within the supply route:** Contracts awarded through the Parallel Supply Chain were valued at £6.9 billion, with SCCL and UK Make accounting for £5.2 billion and £1.2 billion, respectively; and

BACK

Correction Two:

In paragraph 9, third bullet, on page 7; paragraph 1.3, third bullet, on page 17; and in Appendix One, paragraph 5, second sub-bullet, on page 40, we talked about 37 contracts agreed through a new UK Make route, with a total value of £1.2 billion, it was incorrect and should have stated £1.1 billion.

Paragraph 9, third bullet should read:

- **A new UK Make route:** Established by the Department in April 2020 to purchase PPE from UK-based manufacturers. Some 37 contracts were agreed in this way totalling £1.1 billion (paragraph 1.3).

BACK

Paragraph 1.3, third bullet should read:

- **A new UK Make route:** Established by the Department in April 2020 to purchase PPE from UK-based manufacturers. Some 37 contracts were agreed this way totalling £1.1 billion.

BACK

Appendix One, paragraph 5, second sub-bullet should read:

- **value of contracts within the supply route:** Contracts awarded through the Parallel Supply Chain were valued at £6.9 billion, with SCCL and UK Make accounting for £5.2 billion and £1.1 billion, respectively; and

BACK

Correction Three:

In paragraph 13 on page 9 and paragraph 2.2 on page 21, we stated that the remaining 14.1 billion items remain in UK storage, it was incorrect and should have stated 14.2 billion.

Paragraph 13, should read:

13 The Department has received 31.5 billion items of PPE in the UK, with 1.4 billion stored in China and 5.0 billion still to be received. Of the 31.5 billion items received in the UK, some 17.3 billion items (55% of received PPE) have been distributed to health and social care settings following quality checks. The remaining 14.2 billion items remain in UK storage including: 6.3 billion items stored across its 50 warehouses, with the remainder housed temporarily at suppliers' locations (2.3 billion) and in containers (5.6 billion). The Department estimates the initial purchase price of items yet to be distributed is £8.6 billion. Assessing the total demand for PPE at the start of the pandemic was extremely challenging due to the unprecedented nature of COVID-19 and the precise technical specifications for the PPE necessary to respond to it. By July 2020 the Department had largely stopped buying PPE as it already had "more than enough stock". The Department estimates it has 3.9 billion more PPE items than it needs, around 10% of the total PPE purchased and is trying to dispose of these items through sales (305 million items), donations to other parts of the public sector (253 million items) and recycling (232 million items). Storage figures are drawn from the Department's stock model, which it believes gives it an accurate high-level overview of its PPE. When we attempted to reconcile stock numbers on individual contracts, however, we were unable to gain assurance over its accuracy (paragraphs 2.2, 2.3, 2.8, 2.9, 2.10, Figure 1 and Figure 6).

BACK

Paragraph 2.2, should read:

2.2 By November 2021, the Department had received into the UK 31.5 billion items of PPE from its expected total of 37.9 billion items. The Department has a further 1.4 billion items of PPE in storage in China, with the remaining 5.0 billion items still to be received. Of the 31.5 billion items the Department has received, 17.3 billion (55%) have been distributed to health and social care settings following quality checks. The remaining 14.2 billion items remain in UK storage including: 6.3 billion items stored across its 50 warehouses, with the remainder housed temporarily at suppliers' locations (2.3 billion) and in containers (5.6 billion) (**Figure 6** overleaf). The Department estimates the value of items yet to be distributed to be £8.6 billion. Storage figures are drawn from the Department's stock model, which it believes gives it an accurate high-level overview of its PPE. When we attempted to reconcile stock numbers on individual contracts, however, we were unable to gain assurance over its accuracy.

BACK

Correction Four:

In paragraph 18 on page 11, we stated that disputes on 76 contracts had a total value of £1.9 billion, it was incorrect and should have stated £1.8 billion.

Paragraph 18, should read:

18 The Department has concluded discussions about contract disputes on 76 contracts with a total value of £1.8 billion (Figure 2 overleaf). This included issues such as product quality, expiry dates and the timeliness of deliveries.

The Department resolved these issues in a number of ways, including:

- 18 contracts where the Department has agreed variations to contracts that have reduced costs by an estimated £264 million;
- 12 contracts, worth £218 million, where the Department has either cancelled, terminated or rejected the contract completely; and
- 46 contracts where issues such as product quality or timing of deliveries have been resolved with the supplier (paragraphs 3.4, Figure 2 and Figure 12).

BACK

Correction Five:

In paragraph 1.4 on page 18, we stated that the Department through the Parallel Supply Chain made up 3.6% of all contracts awarded but accounted for 52% of expected contract value at £6.8 billion, it was incorrect and should have stated £6.9 billion.

Paragraph 1.4, should read:

1.4 Contracts awarded by the Department through the Parallel Supply Chain make up 3.6% of all contracts awarded but account for 52% of expected contract value at £6.9 billion out of a total planned expenditure of £13.1 billion. Contracts awarded by SCCL make up 96% of all contracts awarded and represent 40% of the total expected expenditure at £5.2 billion. UK Make contracts make up the remaining 0.4% of contracts, equivalent to 8% of total expected value (£1.1 billion).

BACK

Correction Six:

In Figure 4 on page 17, the Parallel supply chain column and Value of contracts (£bn) row states a value of 6.8 – it was incorrect and should state a value of 6.9; consequently, the numbers stated in the row do not sum to the total, hence a new note 9 to say, Numbers may not sum due to rounding.

Figure 4 should read:

Figure 4

Overview of the contracts the Department of Health & Social Care (the Department) awarded, volumes of Personal Protective Equipment (PPE) purchased and expenditure

The Department has awarded nearly 10,000 contracts of PPE worth £13.1 billion

	Parallel Supply Chain	UK Make	Supply Chain Coordination Limited (SCCL)	Totals
Number of contracts entered into	357	37	9,492	9,884
Value of contracts (£bn)	6.9	1.1	5.2	13.1
Spend to date (£bn)	6.6	1.1	4.9	12.6
Number of PPE items purchased (bn)	13.3	3.9	17.4	37.9

Notes

- 1 The values of the contracts are based on departmental data as at end of January 2022. The Department has made variations to contracts meaning that the original values are in many instances different to the current values.
- 2 The Department does not routinely report expenditure by supply route.
- 3 The value and spend to date data presented are estimates and are subject to change.
- 4 Of the 357 contracts that were procured through the Parallel Supply Chain, three relate to contracts for fit testing of PPE worth £23 million. These are service contracts, but the Department includes them in its data for PPE contracts.
- 5 The data on items purchased come from the Department's stock model. Analysis of these data show there to be items that do not meet the classification of PPE. For example, there are 836 million swabs and 404 million testing kits included in the data. Therefore, the data presented here are subject to error.
- 6 Of the 357 Parallel Supply Chain contracts, the Department subsequently cancelled, terminated or rejected 32 of these contracts, valued at £400 million.
- 7 The total sum of items purchased across the three supply routes listed is 34.6 billion whereas the Department reports that in total it has purchased 37.9 billion. For 3.2 billion items the Department does not have a record of the supply route, with the remaining 100 million items either part of the Department's pandemic influenza preparedness programme or donated stock.
- 8 In line with our previous procurement report, *Investigation into government procurement during the COVID-19 pandemic*, we have treated SCCL purchase orders as separate contracts.
- 9 Numbers may not sum due to rounding.

Source: National Audit Office analysis of Department of Health & Social Care and Supply Chain Coordination Limited data

[BACK](#)

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