

7 September 2006

Gateway reference: 7089

Outsourcing of NHS supply chain services

This is to advise you A contract has been awarded to DHL to manage the supply chain services currently managed by the logistics division of the NHS Business Services Authority (NHSBSA) and part of the NHS Purchasing and Supply Agency (PASA).

The effective date is 1 October 2006 and the NHS Business Services Authority will hold and manage the contract. The new service will be known as *NHS Supply Chain*.

A world-class healthcare system needs a world-class supply chain service. The Department firmly believes that partnering with DHL, a specialist supply chain provider, is in the best interests of the NHS, patients and the taxpayer.

The outsourcing brings to a conclusion the work that the Commercial Directorate has been carrying out over the last three years under the auspices of the Supply Chain Excellence Programme (SCEP).

SCEP has promoted a new commercial landscape across the NHS. The collaborative procurement hub model is being rolled out across the Service and NHS PASA is being reconfigured to reflect a more market-facing, strategic procurement agency. *NHS Supply Chain* will complement the procurement activities carried out by the hubs and by NHS PASA. Together they will ensure that not only the NHS but also our supplier community benefits from this integrated, strategic approach to procurement and supply chain management.

This is a strategic 10-year partnership for the NHS and will deliver substantial benefits to the NHS frontline. Highlights of the deal are that::

- DHL will manage the procurement and supply chain services of up to £3.7bn of NHS non-pay spend
- DHL forecast savings greater than £1bn in savings for the NHS frontline
- It secures continuity of the services for at least 10 years
- ensures all Trusts will benefit from lower prices
- secures most of the 1,650 jobs for 10 years
- could create up to 1,000 new jobs to support expansion over the 10 years
- guarantees that no depots will be closed for at least 5 years and a new distribution centre will be built to support growth of volume and range.
- preserves staff terms under TUPE provisions

We recognise that Trust value the NHS logistics service and we have ensured that DHL will, at a minimum maintain the current service.

We also recognise that there is enormous potential to leverage the NHS' buying power by growing this supply channel. However, for DHL to be successful they will have to demonstrate value for money to the NHS. They will have to work closely with procurement specialists and with clinicians to source the right products at the best prices from suppliers.

DHL will be contacting all the collaborative procurement organisations shortly with a view to setting up meetings as soon as possible to discuss their expectations of the new service. I encourage you to endorse these meetings, as I believe that there is significant value to be achieved through this new relationship.

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Department of Health