

# NHS Supply Chain Customer Board

## Contract Governance and Financial Performance

12 February 2014

### Transparency statement

#### The Financial aspects

- NHS Supply Chain's EBIT\* averages between 2 and 3% as a % of sales - this is our total \*gross profit less all \*business expenses but before \*financing costs.
- NHS Supply Chain's \*transactional gross profit averages between 10.5% and 11.5% – this is the difference between our product buy and sell prices.
- NHS Supply Chain's total gross profit averages between 12% and 14% – this figure includes rebates and any other income.
- NHS Supply Chain's profit cap is a pound note figure, set at the contract outset, with no inflationary uplift. The profit cap is an annual figure which operates on an 'earn it in year or lose it' basis. NHS Supply Chain's profit earned in the contract year to 30 September 2013 was just below the profit cap.
- Tasked with delivering savings in excess of £1bn, unlike many of our competitors.
- Working capital and investments are funded by DHL which ensures very strong diligence around day-to-day business activities and investment decisions. At the end of December 2013 the working capital injection, by DP DHL was in excess of £64m. NHS Supply Chain absorbs the pressure of slow paying trusts in order to comply with its payment obligations to suppliers.

\*[see glossary of terms for financial definitions]

[Figures quoted refer to NHS contract year ending in September 2013 or DHL calendar year ending in December 2013].

## **The Assurance aspects**

- A governance and compliance structure exists within the NHS Supply Chain organisation which is strengthened by being part of a global organisation, Deutsche Post DHL (DP DHL).
- Externally audited from both a control (ISAE3402 (gross profit)) and a financial (EBIT) perspective by PwC.
- NHS Supply Chain is also overseen on an operational basis by NHS Business Services Authority.
- Accounts are reviewed quarterly and on an annual basis by our external auditors PWC as part of a wider DHL audit.
- NHS Supply Chain acts as an Agent for the NHS Business Services Authority who has full access to data and systems.

## **Glossary**

EBIT – Sales revenue less Business Expenses, without deducting interest or taxes.

Gross Profit – The difference between Sales revenue and cost of goods sold, before Business Expenses, interest payments and taxes.

Business Expenses – Indirect costs which cannot be directly related to any particular product or service, also known as Overheads and Operational costs.

Financing costs – The cost and interest and other charges associated with running a business.