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PSNC Briefing 018/14: The Settlement Negotiations and the Negotiating Process - background information for contractors

This PSNC Briefing gives an introduction to the negotiations that have led to the community pharmacy funding settlement for 2014/15; explaining how the negotiations have changed in light of the NHS reforms and the roles that PSNC's staff and members have had in them.

Introduction and history

Past Negotiations

In the past, funding negotiations have focused on agreeing uplifts, regulatory burden allowances and other parts of the funding formula that was agreed when the 2005 community pharmacy contractual framework (CPCF) was introduced. Following the publication of the report of the more recent Cost of Service Inquiry (COSI) in July 2011, PSNC began negotiations to try to reach a new cost-based settlement based on this COSI.

PSNC and the Department of Health (DH) were not able to agree on a settlement based on COSI before NHS England took over responsibility for the national negotiations in 2013, and since then negotiations, as is the case for all healthcare professions in the reformed NHS, have had to be based on affordability for the NHS.

Contractors may recall that in 2011/12 total CPCF funding increased to £2.486 billion under an interim settlement, with a one-off £40m supplement; and that in 2012/13 PSNC agreed an interim settlement to the same value while the negotiations on COSI continued. No agreement was reached on funding for 2013/14 meaning this was settled by default.

Negotiations during and after the NHS reforms

The negotiations have taken a long time to reach a conclusion and this has understandably caused frustration and concern for all contractors, including those who sit on PSNC. The delays in part reflect the complexity of the negotiations, but progress was also slowed by the NHS reforms and the transitioning of responsibility for the CPCF from DH to NHS England.

PSNC has at all points been mindful of the need to take the time needed to agree the best possible settlement for contractors.

Negotiations with DH based on COSI were extremely complex (see below) and no agreement was reached on them before NHS England took over responsibility for community pharmacy funding in April 2013. At that point NHS England became the lead organisation in the negotiations on the NHS side and PSNC put considerable time and effort into building relationships with staff to ensure their understanding of pharmacy funding and the present and future contributions of pharmacy to the NHS and patients. Negotiations for all healthcare professions in the

reformed NHS have been largely determined by the NHS financial constraints and requirements for efficiency improvements.

In recent months NHS England have appointed NHS Employers to carry out some of the detailed negotiations around service and contractual requirements on their behalf, and DH have retained involvement as they still have responsibility for reimbursement and the supply of drugs.

FAQ: Why was no agreement reached on COSI-based funding?

COSI did not give a single answer to how much community pharmacy funding should be, but rather a range of conclusions and costing data which could be interpreted in a variety of ways. For pharmacy there were a number of issues with it, for example the under-capture of independent contractors' costs and the need to uprate the data to reflect cost increases since the survey was carried out. This meant that negotiations on it were extremely complex and difficult and PSNC and DH were not able to agree on a settlement based on it before NHS England took over responsibility for the national negotiations in 2013. You can read more about the COSI and our negotiations based on it in it in [Briefing 019/14: The Cost of Service Inquiry](#).

FAQ: Why have the funding negotiations taken so long?

The negotiations have taken a long time to reach a conclusion and this has understandably caused frustration and concern for all contractors, including those who sit on PSNC. The delays in part reflect the complexity of the negotiations, but progress was also slowed by the NHS reforms and the transitioning of responsibility for the CPCF from DH to NHS England. PSNC has at all points been mindful of the need to take the time needed to agree the best possible settlement for contractors.

The PSNC Negotiating Team and the Negotiating Process

PSNC and the Negotiating Team

PSNC is a representative committee of community pharmacy contractors established to conduct negotiations on national NHS matters. All members of PSNC are contractors or appointed representatives of contractors. This is deliberate because it ensures that as decision makers they are intimately affected by the outcome of negotiations on the contractual framework.

PSNC has a number of established subcommittees that it works through including Funding & Contract and Service Development who have been steering negotiations and monitoring progress. More detailed work was conducted by the Negotiating Team, a working group of PSNC, which consists of three independent and three multiple committee members. Each of these either owns or is an integral part of a successful commercial enterprise.

How the negotiations work

PSNC officials work closely with their counterparts in DH and NHS England. PSNC's Negotiating Team meets regularly and acts as a reference and steering group, reviewing the detailed arguments and process, and agreeing the approach to negotiations. On some issues PSNC takes the advice of external experts, for example, statisticians and economists, to ensure that it is making the best case possible. The full Committee has oversight of key issues in the negotiations and will make final decisions.

PSNC's negotiation style and objectives

PSNC has chosen a negotiating style that best suits its long term aspirations for contractors. This is to seek joint solutions to problems where possible but to be extremely robust in defending contractors' position. It is important

to maintain an effective working relationship with NHS commissioners if pharmacy's future in the NHS is to be secured.

PSNC had a clear set of objectives for its funding negotiations, which were understood by both DH initially and then NHS England when they took their part in negotiations. These stressed the importance of:

- Providing adequate funding, recognising and rewarding the costs, risks and importance of the core service;
- Delivering future predictability, allowing clarity to support effective decision-making by contractors;
- Ensuring accurate measurement of funding delivery and a system for adjustments in payments that does not risk underpayment and minimises income variation and unpredictability;
- Ensuring funding adjustments are subject to clear processes and systems, taking account of all relevant cost issues;
- Providing a framework for investment and reward of successful practice;
- Removing risks of distortion of funding delivery; and
- Improving transparency of payments and auditability.

Transparency of negotiations

The progress of discussions on future funding is confidential because the NHS, like other negotiators here and in the other home countries, will not negotiate in public. The same principle applies to the negotiations for other professions such as GPs and dentists. The elected and nominated contractor representatives on PSNC ensure that contractors' interests are represented at all times during the negotiations, and contractors are able to feed in to the committee via these representatives.

FAQ: Have the contractors on PSNC benefited from advance knowledge of the settlement?

All members of PSNC are contractors or appointed representatives of contractors. This is deliberate policy because it ensures that as decision makers they are intimately affected by the outcome of negotiations on the contractual framework. It is inevitable that in fulfilling this role they need to consider confidential information and are fully involved in negotiations as they progress. PSNC members are bound by a strict Code of Conduct and corporate governance principles.

For more information on the community pharmacy funding settlement for 2014/15 please visit the [PSNC Briefings page of our website](#) and see Briefings 015/14 to 019/14. If you require further information on the COSI please contact [Zoe Smeaton, Head of Communications and Public Affairs](#).