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PSNC Briefing 090/13: PSNC's Ongoing Funding Work

This briefing is intended to inform pharmacy contractors and LPCs about the full range of work that PSNC carries out to negotiate and monitor the delivery of community pharmacy funding.

Introduction

Funding for the Community Pharmacy Contractual Framework (CPCF) is settled each year for the period from April of one year to March of the next. Although there is an annual settlement, funding negotiation and monitoring is a continuous and time consuming activity for PSNC.

This activity falls into five main areas:

- Negotiating baseline funding and uplifts
- Forecasting and monitoring fee delivery
- Assessing margins and monitoring Cat M prices
- Dealing with ad hoc issues
- Publishing statistics

Negotiating baseline funding and uplifts

Funding for the CPCF in 2005 was based on a Cost of Service Inquiry (CoSI) undertaken by the Department of Health (DH) and PSNC. A further inquiry has since been conducted in 2010, with DH commissioning PricewaterhouseCoopers to run the exercise.

Cost of Service Inquiries are intended to inform the total funding needed to meet the costs of and provide a fair return for an efficient community pharmacy service. For more information on the most recent CoSI, see PSNC's website.

Annual funding increases in the period from 2005 have been based on an uplift formula encompassing inflation, prescription volume growth, salary growth and an efficiency discount. The relevant inputs to the formula have to be agreed with DH. In addition to this, increased regulatory burdens affecting community pharmacy have been recognised. These are identified by PSNC over the course of each year and work is then undertaken to understand the impact on contractors. Scope and funding are subsequently negotiated with DH.

Occasionally DH has also responded to requests from PSNC to inject additional funding, e.g. in 2008/09 a further £150m was agreed to help contractors and maintain stability of funding.

Forecasting and monitoring fee delivery

Each year PSNC generates a series of forecasts covering volume of items, pharmacy numbers, MURs and NMS delivered, and likely fees payable under the CPCF. This is built into a draft budget for the CPCF and forms the basis of discussions with the DH on aspects of funding distribution.

There is an annual process of considering prescription volume thresholds for receipt of the Establishment Payment and the variable element of the Practice Payment with the DH.

Delivery of fees to pharmacies is monitored monthly against PSNC's calculated budget for the CPCF. Adjustments can then be negotiated to alter the delivery rate so that the budgeted funding is distributed by the year end.

Usually these adjustments are made through changes to the Practice Payment as part of the usual settlement process in the October Drug Tariff, but sometimes they may also be required at other times of the year (e.g. in December 2011 the Practice Payment was increased by 3.6p per item).

Assessing margins and monitoring Cat M prices

Category M reimbursement prices are set quarterly by DH, which uses data gathered from manufacturers as the basis for calculations on the amount of margin earned by community pharmacy contractors. Although the data used is confidential, PSNC is able to assess the prices for reasonableness and extensive work is undertaken to ensure that any recoveries made by DH through price reductions are accurate.

Independently from the calculations, PSNC and DH jointly conduct a survey to assess the margins being earned by independent pharmacy contractors. This is a laborious exercise based on extracting actual purchase prices for a large sample of medicines (including brands, generics and specials) from purchase documentation (invoices and statements) for a sample of contractors. These prices are entered into a database, subjected to rigorous analysis, and combined with reimbursement prices and clawback data. The original methodology for the Margins Survey was created by a Professor of Statistics and approved by another. However, lessons are learned from each survey and so there is a programme of on-going work to improve the methodology.

Once margins have been calculated the figures are subjected to exhaustive analysis and negotiation with DH.

Alongside the annual survey, PSNC works to ensure it is aware of market trends on an ongoing basis, using reports and data from a number of sources including contractor information provided to our Information Team.

Dealing with ad hoc issues

Within the agreed annual system for developing and delivering community pharmacy funding there is plenty of scope for the emergence of ad hoc issues. A few examples are:

- Electronic Prescription Service (EPS) – PSNC has secured various tranches of funding for the implementation of this service and continues to work to ensure it understands both the short and long term impact on contractors' operations and the associated costs and that these are recognised.
- Business Continuity Planning – PSNC has developed a template to allow contractors to fulfil their obligations as efficiently and effectively as possible, and it negotiates for appropriate funding from DH for this.
- Protection for contractors was vital following the devolution of fees from a central DH budget to local PCT budgets in 2010.
- PSNC monitors the impact of branded generics and ensures DH is aware of this.

Publishing statistics

PSNC maintains a database of useful statistics and publishes these on its website. These cover remuneration, community pharmacy service delivery levels, dispensing and EPS. You can view these statistics here.

If you have queries on this PSNC Briefing or you require more information please contact Mike Dent, Head of Finance.

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