



September 2014

PSNC Briefing 019/14: The Cost of Service Inquiry (COSI)

This PSNC Briefing summarises information about the most recent community pharmacy Cost of Service Inquiry, its findings and their use in the community pharmacy funding negotiations.

Introduction and background to cost inquiries

Cost inquiries have historically formed an important part of PSNC's negotiations on community pharmacy funding. They do not give a single answer as to how much community pharmacy funding should be, but they give a range of information and data about the cost of running community pharmacies. PSNC has then used this as evidence to support our arguments and to make a strong case for the best possible funding settlement for pharmacy contractors.

For example, the negotiations leading to the 2005 community pharmacy contractual framework (the CPCF, which introduced MURs and other changes to the national framework) were underpinned by a cost inquiry undertaken in 2003. Periodic surveys were agreed as part of that framework and PSNC and the Department of Health (DH) agreed that it was necessary to undertake a new joint Cost of Service Inquiry (COSI) in 2010.

The 2010 COSI

Following meetings with a number of accountancy and consultancy firms, PricewaterhouseCoopers (PwC) were appointed by DH and PSNC to conduct the 2010 COSI. This was intended to form the evidence base for negotiations on future funding and it was vital that it fully captured the range of costs associated with running pharmacy businesses as well as the costs of future developments of the community pharmacy service.

PwC have undertaken work for PSNC in the past and are very familiar with the community pharmacy sector. Their work on the COSI was overseen by a Steering Group that included members of PSNC's staff and contractor members of the Committee, and we were able to nominate two expert advisors. We nominated two professors: an expert economist and a small business expert. There was also a CoSI Working Group which met more frequently than the Steering Group to monitor and advise on implementation issues, and staff members of PSNC sat on this, together with representatives from DH and PwC.

The inquiry was carried out through a survey which was completed by a range of pharmacy businesses across the independent and multiple sectors in March 2010, and following extensive analysis of the survey findings the final report was published in July 2011.

FAQ: Who paid for the 2010 COSI?

DH paid for PwC to carry out the COSI. PwC undertook the work, from conducting the contractor surveys through to writing the final report, and this was overseen by the Steering and Working Groups on which PSNC had representation. Independent contractors who took part in the COSI received payment for completing the surveys, to defray any costs incurred.

Findings and conclusions of the 2010 COSI

Cost of service inquiries never give a single answer as 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. They are the starting point for negotiations.

The COSI report outlined the average costs per pharmacy branch (including fair return, a portion of head office and common costs and also the cost of Enhanced services) and allocated NHS costs per item dispensed by a pharmacy. Separate costs were given for the independent and multiple sectors.

PSNC had flagged before the inquiry the immense difficulty of obtaining accurate data on the costs borne by independent pharmacies, whose owners will do much work outside business hours, may use family members to help who are not officially employed, etc. And this was reflected in the report of the COSI as it showed massive cost variations between the independent and multiple sectors. Costs for small and large multiples and supermarkets are broadly comparable, and costs for RDLMs – multiple-owned pharmacies that have high retail turnover – are far higher.

For pharmacy there were a number of other issues including the need to uprate the data to reflect cost increases since the survey was carried out, such as from inflation, prescription volume growth and new regulatory requirements, and so calculating a total funding figure from the COSI figures was not straightforward.

Negotiations based on the 2010 COSI

Following the publication of the report of the COSI in July 2011, PSNC began negotiations with DH to try to reach a new cost-based settlement based on COSI. PSNC analysed and tested the results of the COSI extensively, using the findings to shape the arguments used in the negotiations. The Committee was particularly mindful to ensure that systems for uprating the COSI data took full account of all the additional costs that pharmacies would have been incurring since the period to which the COSI data related.

The negotiations were extremely complex and difficult, and some of PSNC's main arguments centred on the unreliability of independent cost capture and the need to include the high costs of RDLMs as they are a significant part of the market. In addition PSNC had to negotiate about how the tough efficiency targets being set by the Government and applied to all public sector funding should be applied to the community pharmacy funding system.

Given these complexities, PSNC and DH were not able to agree on a settlement based on COSI before NHS England took over responsibility for the national negotiations in 2013. Since then negotiations, as is the case for all healthcare professionals in the reformed NHS, have had to be based on affordability for the NHS.

FAQ: So was the COSI a waste of time?

It is essential that negotiations are informed by relevant information and the COSI report and data have provided essential intelligence for our discussions on funding with both DH and NHS England. Of course PSNC was disappointed not to be able to reach a settlement based on the findings of the COSI, but the Committee was mindful of the need to take the time needed to get the best possible outcome for contractors, and to ensure that any COSI-based settlement fully reflected the conclusions of the report and the difficulties with it. We have also had to accept that NHS financial constraints have become the key determinant of the settlement. You can read more about the negotiations in [PSNC Briefing 018/14: The Settlement Negotiations and Negotiating Process](#).

The 2010 COSI and the future

The COSI provides us with useful information on the costs of running community pharmacy businesses and offering pharmacy services, and it still stands as a study of costs as they were in 2010. It has provided essential intelligence and may be of use in future discussions with commissioners, but over time, inevitably, the figures will become less reliable as an indicator of current costs. There has been no indication that work and discussions on the COSI and its findings will resume in the context of our national negotiations.

For more information on the community pharmacy funding settlement for 2014/15 please visit the PSNC Briefings Page and see Briefings 015/14 to 019/14. If you require further information on the COSI please contact [Mike Dent, Head of Finance](#).