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PSNC Briefing 020/14: Community pharmacy funding settlement 2014/15 - Frequently Asked Questions

Following the announcement of the 2014/15 funding settlement PSNC has been asked a number of questions both by contractors and the pharmacy press. This document sets out our responses to these questions and may be of interest to contractors and LPCs.

The Funding Settlement and Past Funding

Q1 Does PSNC think its negotiations have been a success?

Of course PSNC would have liked to be able to agree even more funding for community pharmacy to maximise the role the sector can play in the NHS, but recognising the huge financial constraints on the NHS and the demands on all healthcare providers to deliver efficiencies, the Committee was unanimous in accepting the agreed settlement as the best possible outcome. PSNC also believes that important work has been done to ensure that the sector has been put in the best possible position to demonstrate its ongoing contribution to the NHS.

Q2 How does this settlement compare to previous years?

The NHS is demanding that all its providers do more work for the same money and pharmacy is not immune from these pressures. This settlement has stabilised funding for contractors and once the NMS and the increased assured margin are accounted for we believe contractors have been treated in line with the rest of the NHS. With this settlement PSNC has protected funding levels in exchange for some changes to Advanced Services and the Community Pharmacy Contractual Framework (CPCF).

Q3 How does this settlement compare to those reached for other professions like GPs?

The NHS budget constraints are affecting all parts of the health service and the requirement to deliver efficiencies is being applied to the negotiations with all contracted professions. The contracts are all extremely complicated and very different and as such it is not possible to compare headline results.

Q4 Why have purchase margins increased by so much?

To date pharmacies have been able to retain purchase margin earned above the agreed £500m each year, and this provided, almost every year, substantial additional income. Since the National Audit Office investigation reported in 2010, there has been a drive to account fully for all margin income and to deliver a known and set amount of funding to pharmacy. The settlement reflects this historical source of income for contractors.

Q5 Why was the assured margin increased rather than fees and allowances?

Fees and allowances and purchase margins come from different funding pots - drug reimbursement costs, including margin, are charged to CCGs; while the funds that pay for dispensing fees, practice payments etc. are held centrally by NHS England. The extra margin being delivered to pharmacies was therefore in CCG prescribing budgets and has been left there. Taking that margin out and delivering the sum in fees and allowances could have caused a big shock to the generics market and PSNC has been very keen to prevent major disruption to prices, particularly given the current issues with generic shortages.

Q6 Will this settlement affect independents and multiples in the same way?

Ensuring that funding is distributed smoothly and fairly to all contractors is a core PSNC objective. Of course it is impossible to say what the impact will be on any individual contractor, but when PSNC considered the offer, the members representing independent pharmacies that make up half the Committee fully considered the implications for them.

Q7 Is the settlement based on the COSI results?

The negotiations based on the most recent Cost of Service Inquiry (COSI) were very complex and PSNC and the Department of Health (DH) were not able to agree on a COSI-based settlement before NHS England took over responsibility for the national negotiations in 2013. Since then, as is the case for all healthcare professionals in the reformed NHS, negotiations have had to be based on affordability for the NHS. You can read more about the COSI and the negotiations based on it in [PSNC Briefing 019/14 The Cost of Service Inquiry](#).

Q8 Does the £2.8bn include funding for stock shortages and other issues?

In the reformed NHS, negotiations for all contracted professions have focused on affordability for the NHS and as such there has been no scope for specific discussion on regulatory burdens such as stock shortages or IT issues. PSNC's priority has been to maximise funding for community pharmacy, recognising the context of an NHS that is demanding efficiencies from all its providers.

Q9 Why has PSNC not negotiated more services for pharmacy this year?

Wholesale changes in the contractual framework were not feasible this year because of the current financial climate and the mandate on the NHS to deliver efficiencies and savings. We believe this settlement protects funding for the core community pharmacy service while also bringing in some manageable developments to the Advanced Services; noting that many pharmacies are still not completing 400 annual MURs or claiming payments for the NMS. Following its Call to Action, NHS England is still working on its plans for pharmaceutical services so at this stage discussing major changes to the structure of community pharmacy funding, or a multi-year settlement, was not possible. As outlined above, the additional assured purchase margin has come from a different funding pot than any further money for services would have done.

Q10 Is PSNC concerned about the business pressures pharmacies are facing at the moment?

In recent years the increase in the number of contractors, and thus in competitive pressures, has inevitably put strain on pharmacies, as has the systematic application of increasing efficiency discounts. PSNC members are of course concerned about the pressure faced by both their own businesses and those of other contractors and will continue to work to negotiate the best possible settlements for community pharmacy.

Q11 Does this settlement apply to funding for 2011/12, 2012/13 and 2013/14?

In 2011/12, while negotiations on COSI were ongoing, PSNC agreed to an interim funding settlement that increased total CPCF funding to £2.486 billion, with a one-off £40m supplement. In 2012/13 PSNC agreed another 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. The settlement just agreed is a settlement for the year 2014/15 only. PSNC's work is now focused on protecting funding for contractors in future years.

Q12 Why is funding not more transparent?

Community pharmacy funding is complex but details are published on our website and we provide briefings and materials on the topic including indicative income tables for contractors. The system itself is transparent (in that pharmacies are reimbursed in accordance with a published Tariff and are paid agreed fees and allowances) but the income sourced from margin is not, for pharmacy contractors, as predictable as fee income. The contractors on PSNC share the frustration of all contractors about the lack of transparency in the payment statements they receive from the BSA and this is something we are continuing to work to improve.

Q13 If there is recognition that GPs are holding back repeat dispensing, is it in their contract, too?

The agreement for community pharmacies to give advice on repeat dispensing forms part of a broader piece of work by NHS England and NHS Employers to increase uptake of the service. PSNC has been very robust in

highlighting the reluctance of GPs to adopt the service for paper-based prescriptions and NHS Employers have reassured us that they recognise this and do intend to work to ensure that all healthcare professionals make use of and promote the service.

Future Funding

Q14 When will you negotiate the 2015/16 settlement? Will this take a long time to agree?

One of the reasons for the extended negotiations this time was the NHS reforms, which slowed progress as NHS England had to take over commissioning responsibilities. PSNC spent a great deal of time trying to ensure that NHS England colleagues understood the value of the pharmacy service and all that it has to offer, but the delays were frustrating to everyone. Of course the committee is hopeful that future negotiations will not be so lengthy, but, as ever, that will depend upon the speed at which NHS commissioners are able to make decisions and allocate budgets.

Q15 What problems would you like to tackle in the 2015/16 settlement?

Negotiations on settlements beyond 2014/15 have not yet begun so it is not yet possible to comment on what outcomes those might lead to. NHS England has also not yet finished developing its strategy for primary care so we do not yet know what their plans for pharmaceutical services will look like. However, PSNC's objective is to continue to develop the community pharmacy service and to secure the maximum funding possible for contractors, to be delivered fairly and smoothly across the sector.

Q16 Are there likely to be further Category M adjustments in April, as we have seen in previous years?

The system for delivering the part of the contract sum to contractors through retained margin will change as part of the reforms we have agreed to under the settlement. The precise details have yet to be finalised but will probably involve managing margin to a target sum with more frequent adjustments in delivery rate to achieve this. At this stage it is impossible to predict what adjustments might or might not be necessary.

Q17 Is PSNC going to be negotiating for a new contract?

Wholesale changes in the contractual framework will not be feasible in the immediate future because of the current financial climate and the mandate on the NHS to deliver efficiencies and savings. NHS England is still developing its strategy and it is not yet clear what long-term changes it may wish to consider for pharmaceutical services.