

July 2015

PSNC Briefing 036/15: The 2015/16 Settlement Agreement and Funding

Introduction and background to the negotiations

In the reformed NHS, community pharmacy funding negotiations have been based on affordability for the NHS, reflecting the financial constraints within the health service. The pressure has not gone away and the 2015/16 negotiations have been based on the same principle.

Funding is extremely difficult across the NHS and the health service is requiring all healthcare providers to improve efficiency every year, i.e. to deliver more services for the same cost or the same services at a reduced cost. All parts of the NHS are required to make efficiencies of at least 4% each year. Community pharmacy has not been immune from this and it has been essential to protect funding levels and to provide stability for the sector. PSNC has also sought to develop the range of properly funded and sustainable services the sector can offer.

In 2014/15 PSNC secured recognition of the true levels of margin that pharmacies were earning and retaining leading to a settlement worth £2.8bn with £2bn to be delivered through fees and allowances and £800m through retained purchase margin. For 2015/16 we have agreed that funding and the agreed purchase margin allowance will stay at the same level; with additional funding available for provision of the new flu vaccination Advanced Service. PSNC accepted this as the best possible outcome for the sector.

For more information on last year's settlement, the changes to the allowed purchase margins and the way in which PSNC negotiates see:

[PSNC Briefing 017/15: Purchase Margin and Margin Reforms](#)

[PSNC Briefing 018/15: The Settlement Negotiations and Negotiation Process](#)

The 2015/16 agreement

As soon as the 2014/15 settlement had been finalised PSNC began pressing for the 2015/16 negotiations to begin. NHS England finalised its mandate for the negotiations (which would then be carried out by NHS Employers) early in 2015 and the negotiations began at that point. As well as discussions about efficiency and overall funding, NHS Employers and PSNC were discussing a range of service developments including the flu vaccination service that was eventually agreed, and other possible changes to the Community Pharmacy Contractual Framework (CPCF) to meet NHS priorities.

The discussions were led by PSNC's Negotiating Team in accordance with PSNC's negotiating strategy and priorities (as outlined in [PSNC Briefing 018/15: The Settlement Negotiations and Negotiation Process](#)). On funding it was agreed that:

- Funding will remain stable this year, set again at £2.8bn of which £2bn will be delivered through fees and allowances and there will be £800m agreed purchase margins; and
- A national Advanced Service for flu vaccinations will be introduced with funding to come from outside the agreed £2.8bn.

PSNC has protected funding levels in what is becoming an increasingly difficult negotiating environment in which NHS resources are extremely limited. This should provide security and continuity for contractors.

FAQ: Why has there been no uplift to the core £2billion in funding this year?

The NHS imposes strict efficiency discounts on all its contractors. These have been set at a minimum of 4% for 2015/16.

FAQ: Why have purchase margins not increased this year?

Total funding available through retained margins was increased to £800m in 2014/15. This level will be retained for 2015/16. As above, no increase in core funding was available this year.

FAQ: Will there be changes to the Drug Tariff in October 2015?

Discussions on changes to reimbursement prices will be held when the final results of the margins survey for 2014/15 are available. PSNC will update contractors on the outcome of the discussions as soon as is possible.

Ongoing work on funding

PSNC is continuing to work with the NHS on reforms to the systems for managing margin delivery and to changes to reimbursement as agreed as part of the 2014/15 settlement for community pharmacy. This work is extremely complex and is taking a considerable amount of time; brief updates from the work of PSNC's Funding and Contract Subcommittee on these issues are set out below. PSNC's priority is to ensure that any changes result in fair delivery of funding and margin to all contractors.

Multiples' margins

The Margins Survey which is used to assess the amount of purchase margin earned by community pharmacies is based on invoices from independent contractors. Working with the Department of Health to develop a methodology to assess multiples' margins formed part of the 2014/15 settlement. PricewaterhouseCoopers were commissioned by PSNC to analyse the feasibility of an assessment and suggest a credible option. Their report has been submitted.

Margin delivery systems

Revising the margin delivery system to ensure smoother delivery of agreed levels of funding formed part of the 2014/15 settlement. Work is in progress with DH on developing and assessing alternatives to the current systems for delivery and measurement. Monthly meetings between PSNC and DH (including respective statistical advisers) are considering sample size, selection and system design to develop principles and options.

Drug Tariff Reforms

Amendments to discount deduction formed part of the 2014/15 settlement. PSNC modelling on this has been shared and discussed with DH. Discussions on changes to Category A and non-part VIII and improvements to the current concessions system are ongoing. PSNC has emphasised that any changes must not increase dispensing at a loss, must be based on trusted data sources and that any changes with repercussions for workload must be considered carefully.

You can find out more about PSNC's work on community pharmacy finance in PSNC Briefing 090/13: PSNC's Ongoing Funding Work and at psnc.org.uk/funding-and-statistics.

If you have queries on this PSNC Briefing or you require more information please contact [Mike Dent, Director of Pharmacy Funding](#).