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PSNC Briefing 055/18: How the 2018/19 funding settlement will affect your payments – information for contractors

In this briefing, PSNC's Funding Team explains the 2018/19 community pharmacy funding settlement and how it will affect your pharmacy business. The Briefing highlights the changes that have taken place, shows you how you can estimate the impact on your pharmacy, explains where you can find the relevant payment information in your FP34 Schedule of Payments, and should help you to understand the timing of your payments.

The 2018/19 funding settlement: what has been agreed?

It has been agreed by PSNC and the Department of Health and Social Care (DHSC) that national community pharmacy funding levels will be maintained in 2018/19, so the total funding envelope for the community pharmacy sector will be £2,592m for the financial year. The split between fees and margin also remains the same this year at £1,792m and £800m respectively.

In order to deliver the £1.792 billion in fees and allowances, the Single Activity Fee will be set to £1.26 from the November Drug Tariff, but this will remain under review throughout the year.

Alongside this, Category M prices will reduce by £10m per month from November for the next five months (until March 2019). This is to repay excess margin earned by pharmacies in previous years, in particular 2015/16, for which the results of the margin survey show that there was a significant over-delivery of margin.

This is a one-year funding settlement agreed some way through the financial year that it applies to; the first half of 2018/19 was an interim period pending the conclusion of the Judicial Review Appeal process. The settlement was agreed unanimously by PSNC in the context of previously planned cuts to funding and extremely tight finances across health and all public services.

Single Activity Fee changes

The Single Activity Fee (SAF) will reduce to £1.26 from November 2018. From April 2018 to October 2018 the SAF was £1.29 per item, but the latest forecasts of item volumes and fee payments show that continuing at this rate would lead to an over delivery of funding this year. PSNC and DHSC will closely monitor fee spend and item volumes through the rest of the year and further adjustments to the SAF are possible if forecasts show that there is still likely to be a deviation from the agreed funding level.

Category M price changes

November 2018 will see Category M reimbursement prices reduced by £10m per month for a 5-month period, i.e. until March 2019. PSNC has agreed the reduction of £10m per month for five months to help to mitigate an expected over delivery of margin by the end of this financial year, while we await firm 2017/18 margin survey results and have only preliminary 2018/19 data. The £10m per month reduction will represent a drop of around 11-12 pence per item in average item value from current Drug Tariff prices, although the impact on any individual pharmacy may differ from this according to its dispensing mix.

The impact on your pharmacy

Following this latest funding announcement, PSNC's Funding Team has updated its indicative income tables. These tables show the payments that a 'typical' pharmacy could expect to receive for dispensing prescription items.

We have also created a calculator which allows contractors to view easily an estimated income simply by entering the number of items they dispense per month.

You can find both PSNC's Indicative Income Tables and our Cashflow Calculator at: psnc.org.uk/incometables

Please note, payments between pharmacies of the same dispensing volume may differ due to factors such as dispensing mix and additional fees such as those for controlled drugs and expensive items.

Pharmacies, whether they are internet pharmacies or located within local communities, are paid according to the same Contractual Framework and with the same fee scales.

Navigating your Schedule of Payments

The advance and recovery payment mechanism operated by the Pricing Authority means the effect of funding changes can be hard to unpick, and the situation is further complicated by the fact that the impact on an individual pharmacy will depend on its prescription volume and dispensing mix (i.e. the combination of medicines its patients are being prescribed). This means that understanding where to find relevant information on your Schedule of Payments is an important skill.

The FP34 Schedule of Payments is a document sent out by NHS BSA monthly and which provides contractors with a breakdown of reimbursement for drugs and appliances provided against NHS prescriptions as well as the fees paid for dispensing these items and providing related services. The FP34 is split into the following sections:

- **Summary of payment amounts** – contains a short summary of details included in the FP34 plus the calculation of your total payment for the month.
- **Drug and appliance costs** – this is your reimbursement for medicines and appliances, including discount deduction, out of pocket expense claims and payment for containers and consumables.
- **Prescription fees** – this includes the number of Single Activity Fees you have been paid plus any additional fees, including unlicensed medicines and controlled drug fees, Establishment Payment and Advanced Service payments.
- **Charges** – the total of NHS prescription charges levied, including details of FP57 refunds.
- **Details of local amounts authorised by area team** – these are payments authorised by your local NHS England team, usually relating to locally commissioned services and pre-registration training grants.
- **Details of other amounts authorised** – any payments not included in the above, such as those relating to the Pharmacy Access Scheme and the Flu Vaccination Service.
- **Prescription data** – the number of prescription forms and items plus details of the numbers (not fees) relating to Advanced Service consultations undertaken.
- **Items transferred between exempt and chargeable groups** – the number of prescriptions which have been switched.
- **Summary of expensive items** – items which have a basic price equal to or more than £100, but not taking into account any adjustments for broken bulk.

Useful payment information

Fee	Where to find it on your FP34
Single Activity Fees	Under the 'Prescription fees' section, labelled as 'Activity payment'.
Establishment Payment	Under the 'Prescription fees' section, labelled as 'Establishment payment'.
Quality Payment ¹	Under the 'Details of other amounts authorised' section, labelled as 'Quality Payment'.
Pharmacy Access Scheme Payment	Under the 'Details of other amounts authorised' section, labelled as 'Pharmacy Access Scheme Payment'.
Payments relating to the NHS Urgent Medicine Supply Advanced Service	Under the 'Details of other amounts authorised' section, labelled as 'Urgent Medicine Reimbursement Payment' and 'Urgent Medicine Remuneration Payment'.
Payments relating to the Flu Vaccination Service	Under the 'Details of other amounts authorised' section, labelled as 'Flu Reimbursement Payment' and 'Flu Remuneration Payment'.

¹Note, payments due from each Quality Payments review point will be paid as part of the full value of services for the month following the review point, i.e. payment from June 2018's review point was paid at the end of August and the payment from February 2019 will be paid at the end of May.

The timing of your payments

Contractors should also consider how the timing of their upcoming payments may affect their cashflow.

Using the example of the dispensing month of November; prescription forms for items dispensed in November must be submitted to the Pricing Authority for pricing before the 5th of the following month (i.e. 5th December). The pharmacy will receive an advance payment for these items within the December end of month payment, which is an estimated 100% of the total payment due. This is calculated based on October's average item value (AIV)² with a deduction for the value of prescription charges retained by the contractor as declared on the November FP34c submission document.

Advance payment = declared item figures for the month x AIV for previous month

Once the prescriptions have been processed and total payment calculated by the Pricing Authority, the advance is recovered and the balance settled at the end of the second month following the month of dispensing (i.e. the November 2018 advance payment will be recovered and a balancing payment will be made within the January end of month payment). Contractors can find their advance payment under the 'Summary of payment amounts' section, labelled as 'Payment on account for'.

²The AIV is calculated using the total of drug and appliance costs plus dispensing fees, less the value of MUR, NMS and AURs, divided by the total number of fees paid.

As a range of factors can affect a pharmacy's AIV – including changes to fees – changes to how pharmacies are funded may impact on pharmacies' cashflow at times different to those which contractors might expect.

Appendix 1 summarises how and when the funding changes will have an impact on your pharmacy's cashflow.

Reconciling your payments

Fee	How to check your payment
Quality Payment	After submitting the Quality Payment declarations in June 2018 and February 2019 (by completing the online form via www.nhsbsa.nhs.uk/QualityPaymentscheme during the allotted declaration periods), you will receive an email confirming that it has been successfully submitted and containing the details that have been declared. This email will show how contractors have responded to each of the gateway and quality criteria so can be used to compare with the amount shown in the Schedule of Payments.
Payments relating to the NHS Urgent Medicine Supply Advanced Service	It is recommended that contractors keep a copy of their monthly claim forms (available via psnc.org.uk/numsas) so these can be used to compare with the amount shown in the Schedule of Payments.
Payments relating to the Flu Vaccination Service	It is recommended that contractors keep a copy of their monthly claim forms (available via psnc.org.uk/flu) so these can be used to compare with the amount shown in the Schedule of Payments.

Find out more

For more information on the 2018/19 funding announcement, please visit <https://psnc.org.uk/our-news/community-pharmacy-funding-announcement-funding-of-2-592bn-agreed-for-2018-19/>

For more information on how payments are calculated, please visit: psnc.org.uk/schedule

If you have queries on this PSNC Briefing or you require more information please contact [Jack Cresswell, Funding Strategy Manager](#).