PSNC PHARMACY the Heart of our Community

Funding and Statistics

October 2018

PSNC Briefing 056/18: Background information on community pharmacy funding and the 2018/19 funding settlement

This briefing sets out the community pharmacy funding settlement for 2018/19 and gives background information on what the announcement means and how community pharmacy funding works. This may be of particular use to journalists and others wanting to know more about how community pharmacy funding works.

Funding for 2018/19

The community pharmacy funding settlement for 2018/19 has been announced, and consists of three main elements:

1. The headline figure, or 'contract sum', will remain stable at £2,592m for this financial year. This is the total amount of national funding that HM Government intends to deliver to all community pharmacies in England throughout the financial year. This funding is delivered to pharmacies through a combination of fees (which are paid to pharmacies when they dispense medicines, deliver other services, or meet certain Quality or location criteria) and retained margin (which is the margin that pharmacies are allowed to earn when they purchase medicines and then are reimbursed for them by the NHS). The proportion of funding delivered via these two routes has also remained the same this year at £1,792m for fees and £800m in retained margin.

2. The Single Activity Fee (SAF), which started the year at £1.29, will be adjusted to £1.26 from November 2018 to try to deliver the agreed contract sum by March 2019. This fee is paid to pharmacies each time they dispense a prescription item to a patient. The Department of Health and Social Care (DHSC) considers prescription volume trends and adjusts the value of the SAF to try to deliver the total agreed funding each year. These changes are an established part of the funding system; for example, the last adjustment to the SAF was in November 2017, when it increased from £1.25 to £1.29.

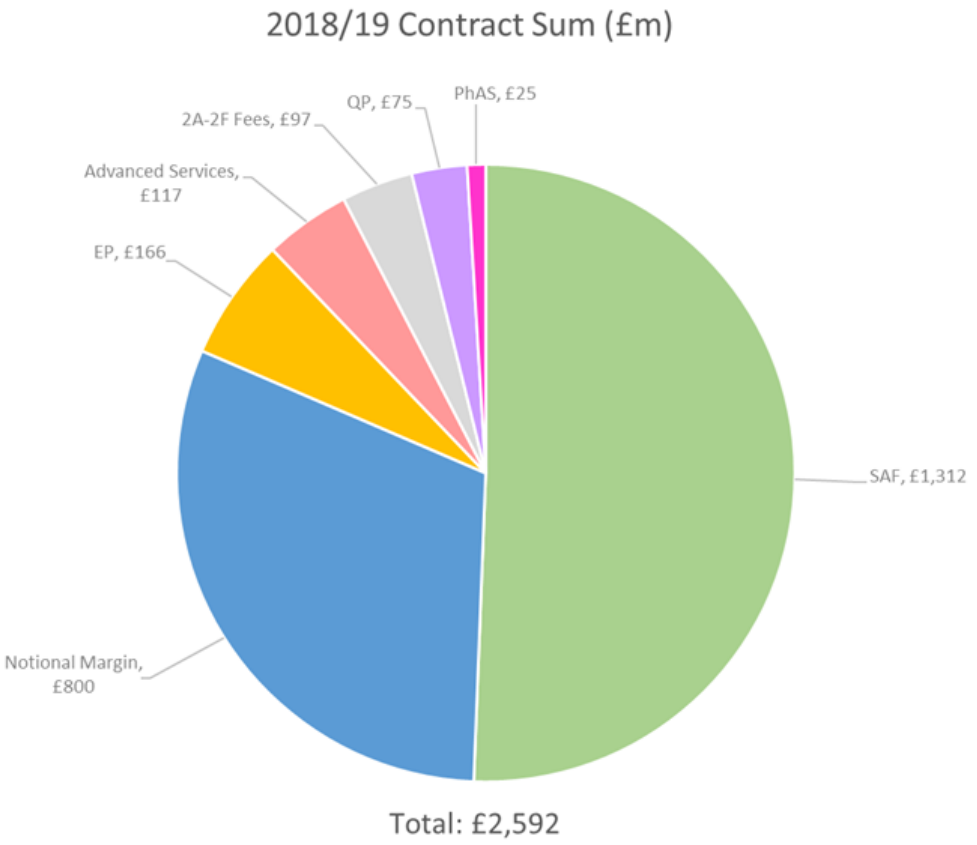
3. Category M prices will be reduced by £10m a month from November 2018 to March 2019. This is to try to recover excess margin that was earned by pharmacies in previous years – see an explanation of margins and the Category M mechanism below.

Funding: The contract sum

As described above, national NHS community pharmacy funding (the contract sum) comprises two key elements – fees (remuneration) and retained margin (part of reimbursement) which can be defined as follows:

- **Remuneration**: This is the fees and allowances paid to pharmacies for the professional services they provide; and
- **Reimbursement**: This reimburses the cost of the medicines that pharmacies supply to patients. Pharmacies first have to purchase these medicines, usually from medicines wholesalers, and they are then reimbursed for them by the NHS generally according to a Drug Tariff, which sets out prices for many medicines and a 'discount deduction' scale. The difference between reimbursement and purchase price constitutes 'retained margin', which pharmacies are allowed to keep as part of their agreed funding, subject to a collective agreed total (currently £800m).

The diagram below shows how much the different elements of funding are worth each year:



Remuneration

As shown in this diagram, the 'fees' or 'remuneration' element of funding covers a number of services and their associated fees. All pharmacies, whether they are internet pharmacies or located within local communities, are paid according to the same Contractual Framework (this is the framework which sets out all of the services that they must provide for the NHS) and with the same fees.

These include:

Single Activity Fee (SAF): The SAF is a payment made per prescription item dispensed. This was a new fee introduced in December 2016, when a number of other fees were removed.

Establishment Payment (EP): A fixed payment available to all contractors, subject to a volume (of prescription items dispensed) threshold.

Advanced Services: There are six Advanced Services within the NHS Community Pharmacy Contractual Framework (CPCF), these are: Medicines Use Reviews (MURs), the New Medicine Service (NMS), the Flu Vaccination Service, Appliance Use Reviews (AURs), Stoma Appliance Customisation (SAC), and the NHS Urgent Medicine Supply Advanced Service (NUMSAS). Community pharmacies can choose to provide any of these services as long as they meet the requirements set out in the Secretary of State Directions. Funding for four of the Advanced Services (MURs, AURs, NMS and SAC) is from within the agreed settlement. Funding for the Flu Vaccination Service and NUMSAS comes from separate NHS budgets.

2A-2F Fees: This refers to Part IIIA of the Drug Tariff, where a number of professional fees are described. These are payments to cover the dispensing of unlicensed medicines, certain appliances, oral liquid methadone, Schedule 2 and 3 Controlled Drugs, and expensive items.

Quality Payments (QP): This scheme makes payments to community pharmacies that are meeting certain gateway and quality criteria. Payments are made to eligible pharmacies depending on how many quality criteria they have met (or the number of 'points' earned). Each pharmacy can achieve a maximum of 100 points, with the value of each currently set at £64 – meaning a maximum of £6,400 could be payable to any individual pharmacy across the year. Find out more at: psnc.org.uk/QPS

Pharmacy Access Scheme (PhAS): PhAS is a scheme with the stated aim of ensuring that a baseline level of patient access to NHS community pharmacy services is protected. Qualifying pharmacies receive an additional payment. Find out more at: psnc.org.uk/PhAS

All fees and allowances are funded from NHS England budgets.

Reimbursement and the delivery of Retained (or 'Purchase') Margin

Purchase margin is the margin made when pharmacies are able to purchase medicines for NHS patients at prices below those at which the NHS reimburses them for those medicines. This is also known as 'retained margin' and it is measured annually with a 'margins survey' jointly conducted by DHSC, the NHS and PSNC.

Monitoring the value of the purchase margin being delivered to pharmacies is very complex; in each financial year PSNC and DHSC agree a figure based on the results of the margins survey. This survey examines prices paid for a representative sample of medicines by a number of independent community pharmacies, analysing prices and wholesaler discounts gathered from invoices collected from the pharmacies to estimate how much margin has been made in the year.

The survey is carried out retrospectively and so the results for any given financial year are only available in the summer of the following year (or later, as has happened this year). Once a survey is finalised and the margin result is agreed then PSNC and DHSC will discuss what changes if any are required to ensure the correct delivery of pharmacy funding (currently, pharmacies are allowed to earn £800m retained margin collectively in each financial year). Where it is necessary to adjust the run rate of margin delivery to pharmacy, for example because pharmacies have earned too much margin, DHSC will make adjustments to reimbursement prices in the Drug Tariff for medicines which fall within 'Category M'. Category M is the category of medicines which are readily available in 'generic' form i.e. non-branded medicines.

Frequently Asked Questions on Retained Margins

Q. How does the margin survey work?

The margin survey is based on the actual purchase prices paid by a sample of independent contractors for a representative sample of lines for different categories of medicines (brand, generic and specials). It is done on a monthly basis and builds up to give a picture for each financial year.

Margins are calculated for each category and multiplied up using national reimbursement data to give a national margin figure. It is effectively assuming that all contractors are in groups of 1-5. The survey has a complex design and has had much expert input.

The NHS Business Services Authority (NHS BSA) gathers data from contractors' invoices and PSNC's Pricing Audit Centre audits their work. Once the data has been gathered and initial margins calculated and checked, negotiations start on the year-end adjustments. This takes several months and can influence the initial results significantly.

Q. How are Category M reimbursement prices set?
Category M reimbursement prices are based on uplifted manufacturers' selling prices during a reference period. For example, Category M reimbursement prices for July to September are based on manufacturers' selling prices from January to March.

The manufacturers' data has been gathered by DHSC under a voluntary arrangement but at some point soon DHSC will use data gathered under new mandatory Information Disclosure regulations.

Category M prices are often adjusted to influence the amount of retained margin earned by pharmacy contractors.

It is important to note that some movements in Category M reimbursement prices will happen each quarter even without margin adjustments as the relative and absolute selling prices of products fluctuate. This is inevitable given the worldwide nature of the generics market. This was very prominent in the DTs for July and October.

Q. Why are margin adjustments made to Category M?
Generally, margin adjustments are made by adjusting Category M reimbursement prices although in principle they could be made by adjusting discount deduction scale or fees. Category M has generally been chosen as most margin originates on those lines. There are also some downsides to using discount deduction or fees.

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