

October 2018

## **PSNC Briefing 057/18: Funding 2018/19 – Frequently Asked Questions**

To accompany the funding announcement for 2018/19, PSNC has set out responses to a number of questions to help to answer any queries that community pharmacy contractors may have.

### **Community pharmacy funding**

#### **Q. What has happened to funding levels?**

Funding levels will be maintained at £2.592bn for 2018/19, which is the same as the total funding for 2017/18. Previous DHSC plans, as revealed through the Judicial Review process, had been to reduce pharmacy funding by a further £33 million this year.

#### **Q. If levels are to be maintained, why is there an adjustment to the Single Activity Fee (SAF)?**

The SAF will be set to £1.26 from November. The SAF is being used to try to ensure that the agreed amount of fee-based funding is delivered to pharmacies in the year – this is £1.792 billion, with the remaining £800 million of the total funding to be delivered through medicine margin. Fee rates are set using forecasts for key variables such as the number of pharmacies, the volume of prescription items being dispensed and service activity. Inevitably there is some variation in these factors and thus in-year adjustments to fees are a normal part of the funding delivery system.

#### **Q. How does the recent announcement about Quality Payments fit into this?**

Quality payments form one part of the total agreed community pharmacy funding. The total available for Quality Payments in 2018/19 will remain the same as in 2017/18 i.e. £75m, and the value of the payments is set to deliver all of the available £75m to those pharmacies taking part in the scheme. Quality payments are made to pharmacies following specific 'Review Points' in the year. There are two review points in 2018/19, the first was in June 2018 and the second will occur in February 2019. Quality Payments continue to be assessed on a points basis, with contractors able to earn up to 100 points at both review points. The minimum value of a point is £32, which assumes all pharmacy contractors achieve the maximum number of points. At this level a contractor would earn £3,200 at both review points for a total of £6,400 in the year.

#### **Q. Will the Pharmacy Access Scheme (PhAS) continue?**

Eligible pharmacies receiving PhAS payments in 2017/18 will continue to do so in 2018/19. This was part of the interim funding arrangements put in place at the start of 2018/19. PhAS payments going forward from 2019/20 onwards will form part of the discussions between DHSC and PSNC for funding in 2019/20 and beyond.

#### **Q. What has happened to Category M prices?**

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 to pharmacies. The price reductions follow the pause in margin recovery which PSNC agreed over the summer to help ease cash flow for contractors.

### **Q. When will the settlement impact my payments?**

The settlement relates to the financial year 2018/19, i.e. it covers April 2018 to March 2019. The adjustment to SAF and Category M reimbursement prices will be implemented in the November 2018 Drug Tariff and will apply to prescriptions from that month. Contractors need to be mindful of the timing of cashflows. The advance payment for November scripts within the December end of month payment will be based on October's Average Item Value (AIV), meaning that the real impact of the changes will not be noticeable until the balancing payment for November is paid within the January end of month payment. For a fuller explanation, please see **PSNC Briefing 55/18: How upcoming changes will affect your payments.**

### **Q. How can I work out what the impact will be on my pharmacy?**

The impact of any funding changes on an individual pharmacy can vary significantly depending on the pharmacy's prescription item mix, but PSNC has refreshed its indicative income tables to reflect this settlement (see [psnc.org.uk/incometables](https://psnc.org.uk/incometables)). These can be used to see what payments for an average pharmacy, depending on their dispensing volume, might be. We also have a cash flow calculator on our website which will help you to assess when and how much the impact might be. For a fuller explanation, please see **PSNC Briefing 55/18: How upcoming changes will affect your payments.**

## **Category M and retained margin**

### **Q. How much excess retained margin have pharmacies earned?**

As part of their national funding, pharmacies in England are collectively allowed to earn £800m in medicine margin in each financial year. The amount of margin that pharmacies earn is measured each year in a margins survey, which assesses the amount of margin available to independent pharmacies using invoices from a number of pharmacies for a sample of medicines. This is very complex work, particularly in recent years because of the high number of price concessions which need to be taken into account, and the results of the margins survey for 2017/18 are still being finalised. In 2015/16 pharmacies earned more than £200m more than the agreed margin, and in 2016/17 almost £100m more. Although some of this has been recovered by the Department of Health and Social Care (DHSC) through previous Category M price reductions, indications are that without further action now there would still be up to £100m excess owing by the end of 2018/19. PSNC has therefore agreed to the reduction of £10m per month for the next five months to help to reduce the expected over delivery while we await firm 2017/18 results and preliminary 2018/19 data.

### **Q. Haven't the previous margin recoveries been sufficient?**

Previous adjustments to Category M reimbursement prices implemented by DHSC have gone some way to reducing the excess margins owing to the Government, but they have not yet been sufficient to recover the full amount.

### **Q. How long will the recovery last?**

The recovery will be in place from November 2018 to March 2019. However, the process of earning, measuring and adjusting for margin is a continuous process, so we do not know what further changes to Category M prices might be needed in the future.

### **Q. Why are we reducing prices now rather than waiting for the latest margin survey results?**

The agreed levels of margin recovery are set to repay a conservative estimate of the excess margin that pharmacies have earned. The reduction of Category M prices will come into effect from November 2018 but will be reassessed at regular intervals and adjusted as necessary once the margin survey results for 2018/19 are known. PSNC felt that spreading the remaining margin recovery over five months would minimise the impact on contractors' cash flow as much as possible, and was only prepared to agree to the recovery of £50m of historical excess margin, pending agreement on the final results of the latest margin surveys.

### **Q. Why do we have a margins system like this?**

The system of retained margin is designed to both help the NHS to control medicines costs and also to reward pharmacies for effective purchasing of medicines. Pharmacies are incentivised to purchase effectively, which keeps

the prices of generic medicines low, and they are allowed to keep some of the profits from that as a core part of their national funding. As the medicines market becomes increasingly complex and volatile, the retained margin system is becoming very difficult to monitor and to manage, and reforming this part of funding is something that PSNC is exploring in great detail as part of work to develop alternative funding models.

## Negotiations and the future

### **Q. Why is funding being announced now?**

PSNC typically negotiates with NHS England and DHSC – though one of those may be the lead negotiator on any given topic. Discussions happen on an ongoing basis, e.g. negotiations over the Margin Survey and retained margin, or discussions on the flu vaccination service, but throughout the period in which PSNC and the NPA were seeking Judicial Review of previous funding impositions, substantial discussions on funding and the future of community pharmacy have not been possible. The Judicial Review Appeal process was only concluded in August 2018, and PSNC is now in the early stages of rebuilding a constructive working relationship with HM Government. The first half of 2018/19 was treated as an interim period pending discussions. Following the appeal and changes of Secretary of State over the summer, the DHSC and PSNC were able to agree a funding settlement.

### **Q. Why has PSNC agreed to this settlement?**

In the context of widespread austerity and immense financial pressures on health and all public services, and also knowing the previous plans to reduce pharmacy funding by £33m this year, maintaining funding levels had to be a priority. PSNC was also conscious that with only five months of this financial year left, funding for 2018/19 would need to be settled before we can embark on substantial discussions about the long-term future of community pharmacy. Agreeing to this settlement was a difficult decision for PSNC to take and we have stressed our concerns about the impact of flat funding on pharmacies to DHSC, but community pharmacy would not have had a better funding offer than this, and accepting this offer has helped to move community pharmacy forward away from the adversarial relationship with HM Government that has halted progress over the past two years. This settlement should give us a foundation on which to build (both financially and collaboratively) with HM Government in the future.

### **Q. Did everyone on PSNC agree this decision?**

The Committee found this a very hard decision to make but did agree unanimously to the settlement after a difficult debate and rigorous analysis of the available data.

### **Q. Was PSNC pushing for a multi-year funding contract?**

Community pharmacy is still in the very early stages of rebuilding its working relationship with HM Government following the conclusion of the Judicial Review Appeal process in August, so substantial discussions on the longer term future of the sector have not yet been possible. PSNC has expressed its wish to commence negotiations on funding for 2019/20 as soon as possible and in those discussions we will be explaining our aim to work with HM Government on a multi-year funding settlement that sets out how the role of community pharmacies should develop to enable them to do more for patients and the NHS. This would allow contractors to plan more effectively.

### **Q. What has happened to PSNC's proposals for a services-based contract?**

PSNC and the other community pharmacy organisations have previously set out a shared vision for the future in which pharmacies are neighbourhood health and wellbeing hubs, act as a first port of call for episodic healthcare advice and treatment and facilitate personalised care for people with long-term conditions. Achieving this remains PSNC's ambition, and earlier this year PSNC set out some proposals on how pharmacies could develop their services along some of these lines. We hope very much to begin substantial discussions with HM Government on the future of community pharmacy soon, and to work together with them to move the sector towards a future with new funding models that allow pharmacies to focus on services rather than dispensing volumes. The scale of the challenges must not be underestimated and community pharmacy will need to make its case using evidence, through strategic influencing and by demonstrating that it is a sector innovating and embracing change and new technologies to deliver the outcomes that HM Government wants. PSNC believes that if we can do all of this, then we will be able to create

positive opportunities for community pharmacies, and it will work closely with the other pharmacy organisations to do so.

**Q. Will future negotiations cover the costs of things such as implementing the Falsified Medicines Directive (FMD)?**

PSNC's ambition is to maintain a network of fully funded community pharmacies that local patients, communities and other healthcare professionals can continue to rely on and to agree sustainable funding for community pharmacies. That will of course include making the case for the value of the services that community pharmacies deliver, and seeking funding to cover the costs of delivering those services, recognising of course the very severe constraints on all public finances at the moment.

If you have queries on this PSNC Briefing or you require more information, please email [info@psnc.org.uk](mailto:info@psnc.org.uk).