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Pharmacy Funding Pressures

Current situation

Community pharmacy is uniquely placed in the English healthcare landscape. Like General Practice, pharmacies are private contractors who receive the vast majority (for most, more than 90%) of their income from the NHS.

However, unlike General Practice, whose funding has been boosted significantly over a multi-year period, pharmacy funding has been stringently restricted. When inflation and increases in business and staffing costs are taken into account, funding for community pharmacy is decreasing year on year.

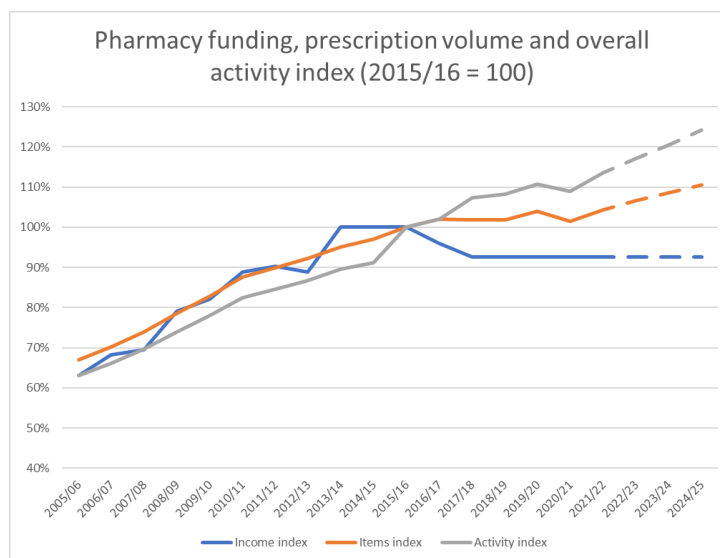
Unlike most other businesses, pharmacies cannot raise their prices to their primary customers (NHS patients) to address this funding squeeze.

All parts of the economy are under pressure and the community pharmacy sector is no exception, with pharmacy businesses of all shapes and sizes already struggling to meet patient demand, to manage their cashflow and pay spiralling costs, and, sometimes, even to remain open to provide the services that patients and the public rely on. Many pharmacies are operating in crisis mode and are being forced to reduce the services that they offer to patients and local communities.

This has been caused by a number of factors including systemic pharmacy funding cuts of at least 25% in real terms since 2015. Workforce issues have also led to locum pharmacist costs rising by 80% in the past year alone, and staffing costs overall have grown by close to 70% since 2015/16, with this expected to rise beyond 100% by 2024/25. Compounded by the rise in energy bills, inflationary pressures, rises in living wages and increasing instances of dispensing medicines at a loss due to market and pricing issues, the current financial situation is unsustainable.

Increase in demand on Pharmacy

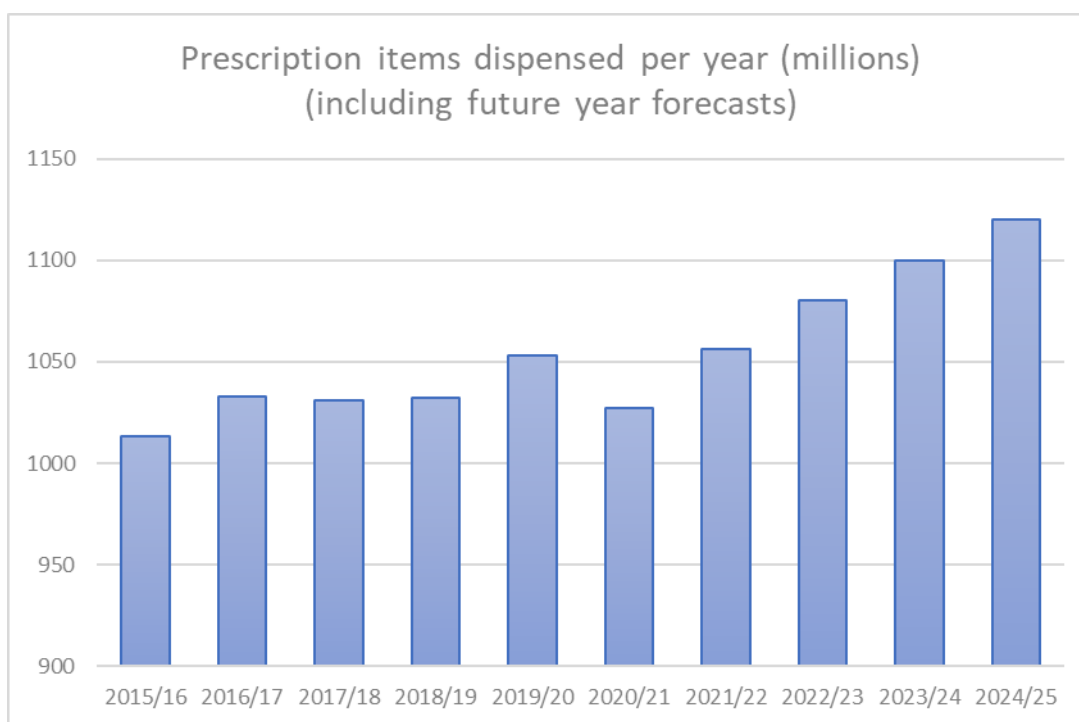
A new pharmacy contract framework was introduced in 2005/06. Between 2005/06 and 2015/16, pharmacy funding and overall pharmacy activity (including dispensing) increased commensurately.



Funding cuts were then imposed in 2016/17 and 2017/18. Since the funding cuts, pharmacy activity levels have continued to grow, and the gap between funding and activity has widened significantly. Growth in pharmacy activity has been driven both by the significant increase in prescription volumes, and the continued drive from NHS the increase clinical services delivered through community pharmacies.

Item growth

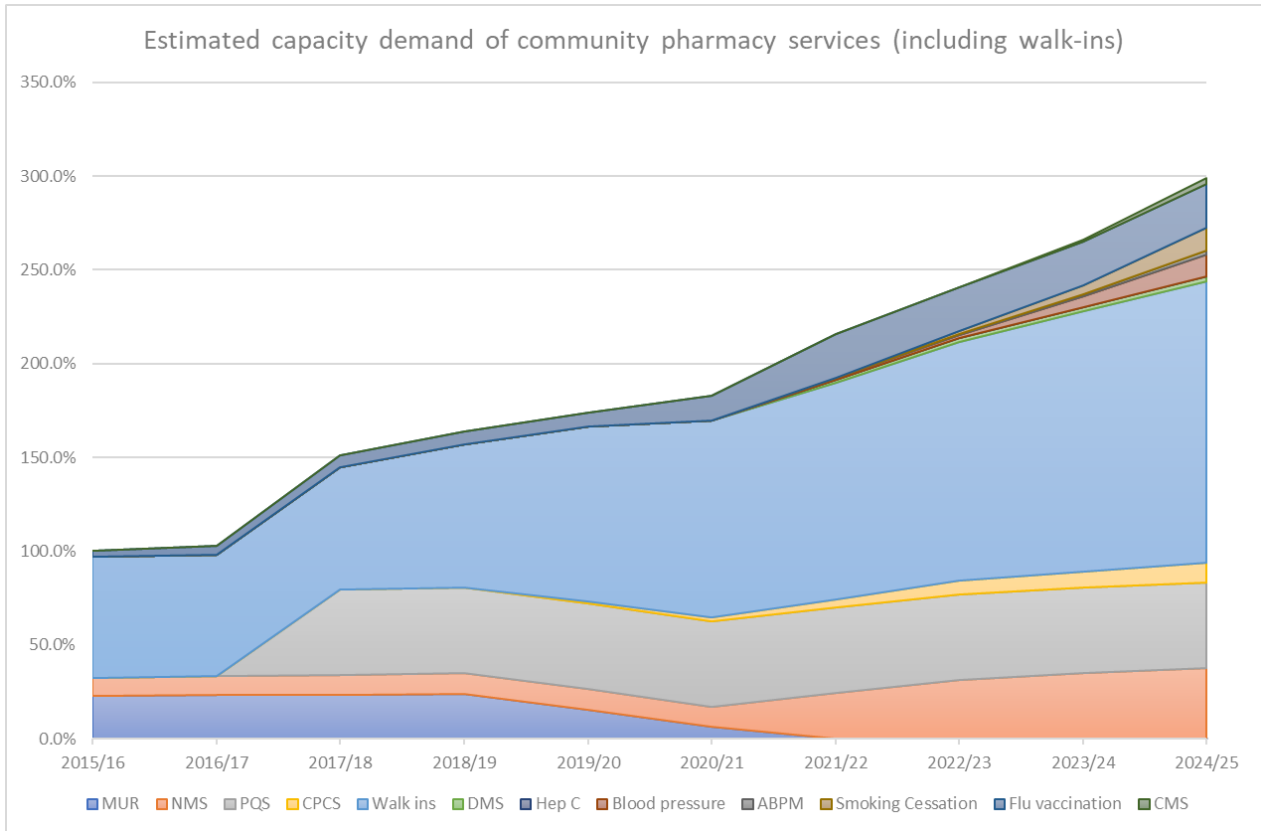
After a period of relative stability in prescription volumes between 2015/16 and 2020/21, in 2021/22 and 2022/23 we have now seen item numbers growing rapidly. This is projected to continue in the next 2 years:



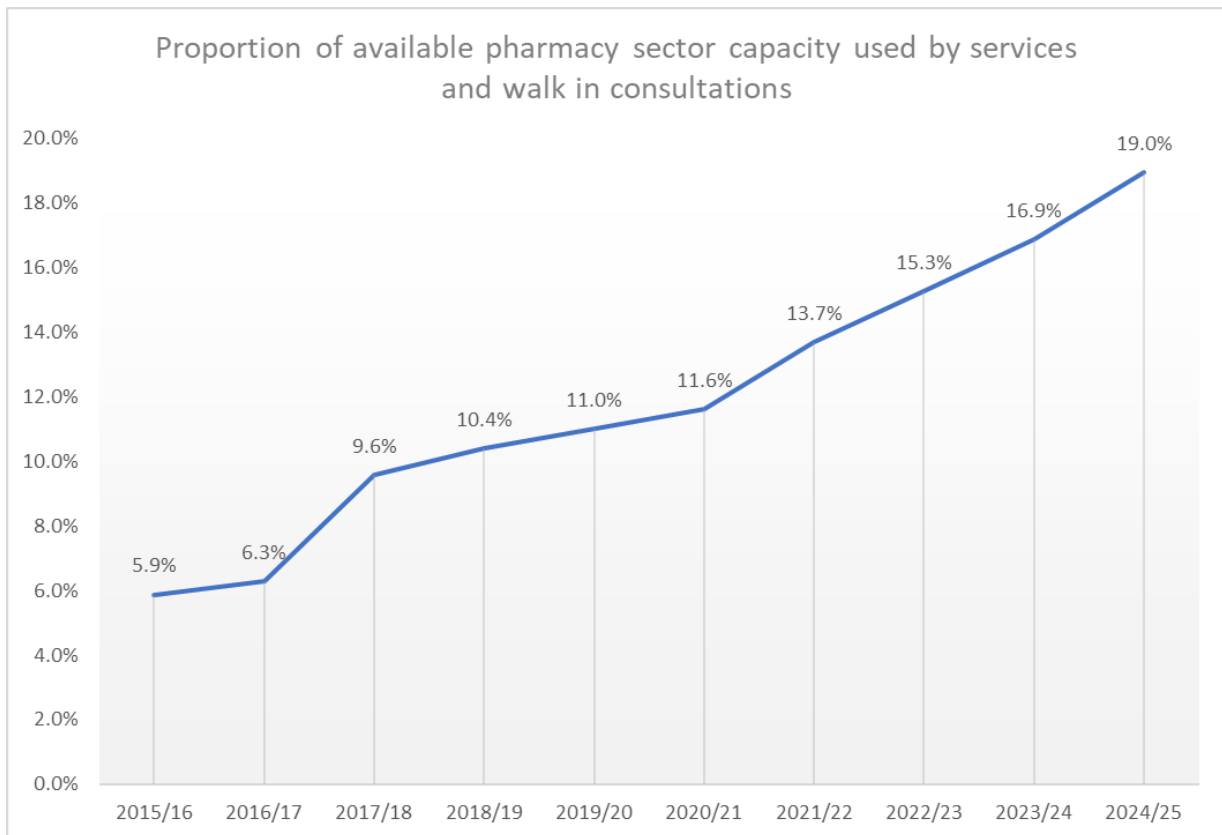
Service demand

New services have been introduced into the CPCF such as PQS, CPCS, DMS, Blood pressure checks and smoking cessation. A new contraception management service is also planned for introduction in 2023. The number of ‘walk-in’ patients who visit the pharmacy for informal / non-referred consultations has also increased massively due to displacement from other healthcare settings such as General Practice.

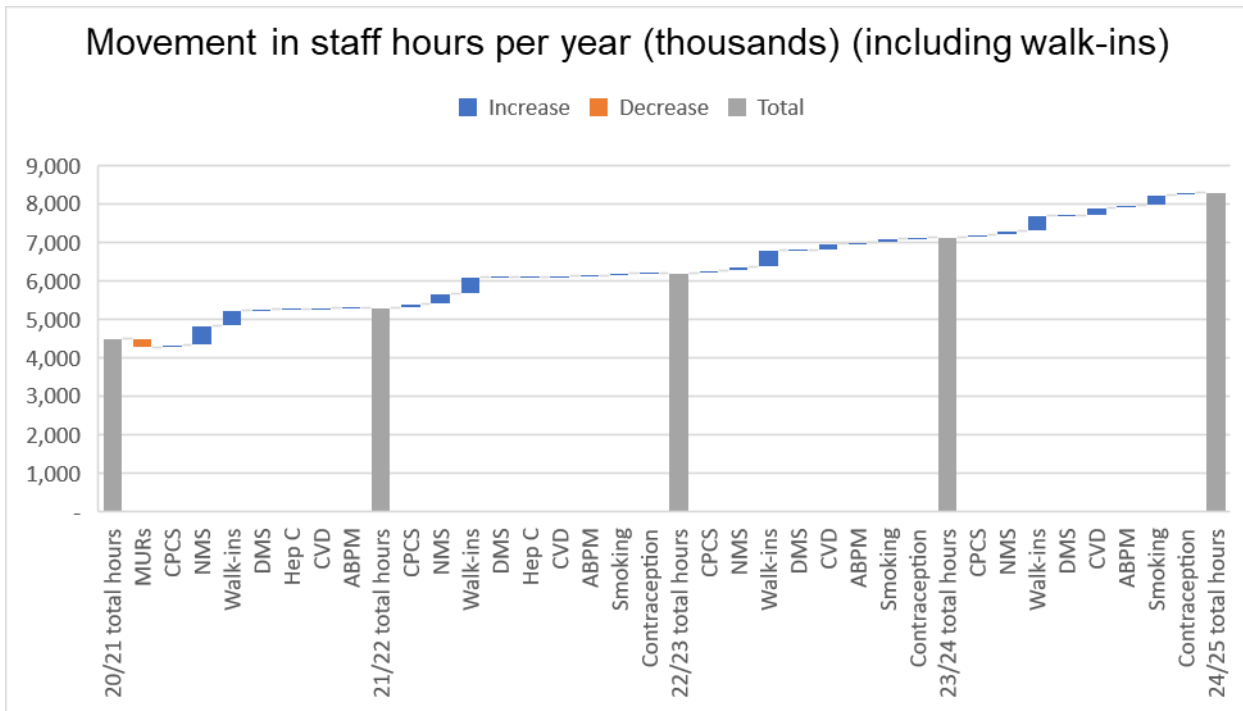
Analysis of the increasing demand on pharmacy contractors relating to services has previously been discussed with NHS / DHSC officials and Ministers. PSNC now projects that by 2024/25 overall service demand will be approaching 300% of the level it was in 2015/16:



The overall proportion of pharmacy capacity taken up by services has increased significantly:



The number of hours of staff time required to deliver services will almost double between 2020/21 and 2024/25:



Pharmacy cost growth

Pharmacy contractors have seen a significant rise in their operating costs over the last 2 years, far in excess of what would reasonably have been expected or forecast when the five-year CPCF settlement was originally put in place.

The nation as a whole is of course experiencing huge inflationary cost growth period which is clearly illustrated by the latest CPI growth figures from the OBR.



These rates include inputs utilities, rents and fuels, which impacts pharmacy contractors significantly.

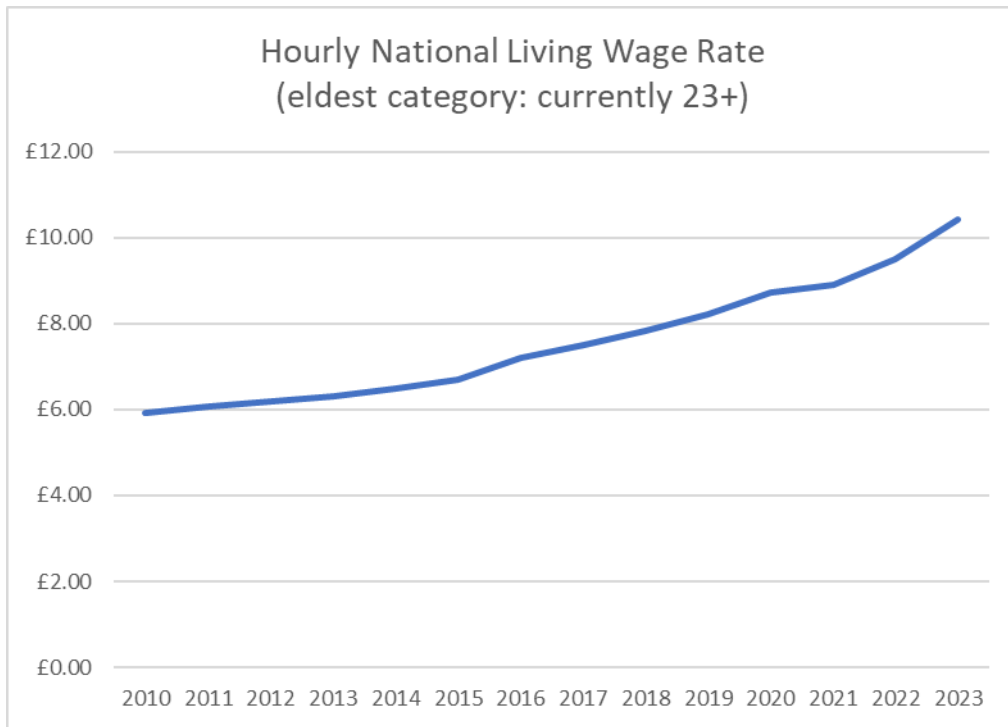
The Bank of England base rate has also increased massively from the start of 2022:

Official Bank Rate

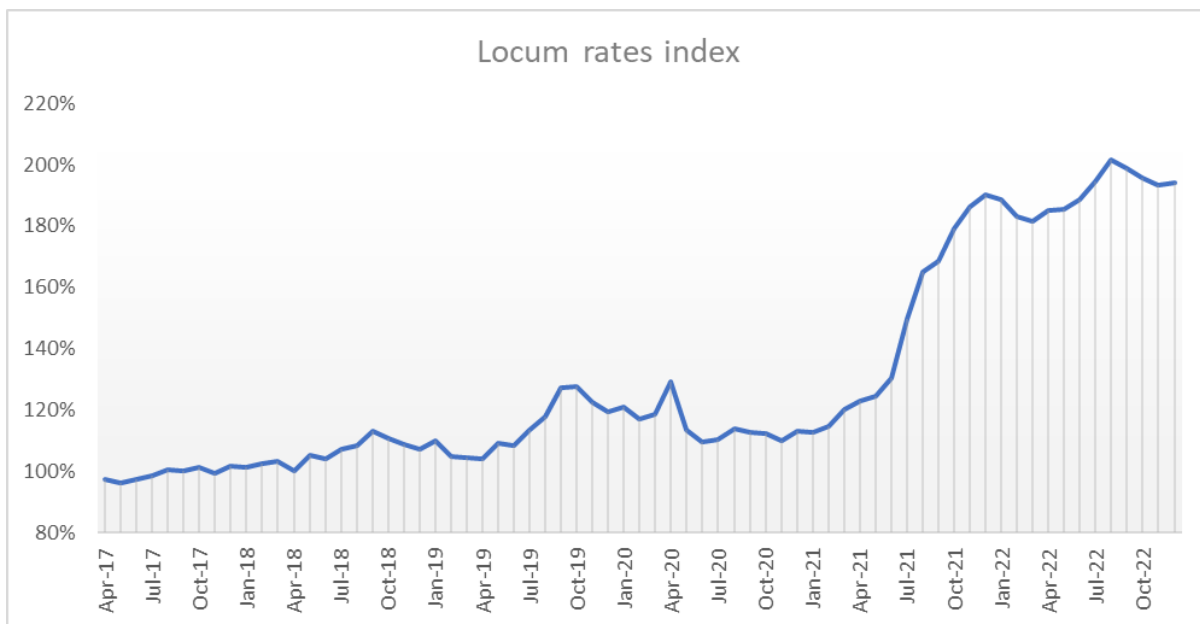


The implications for all business with loans / mortgages will be a significant rise in repayments.

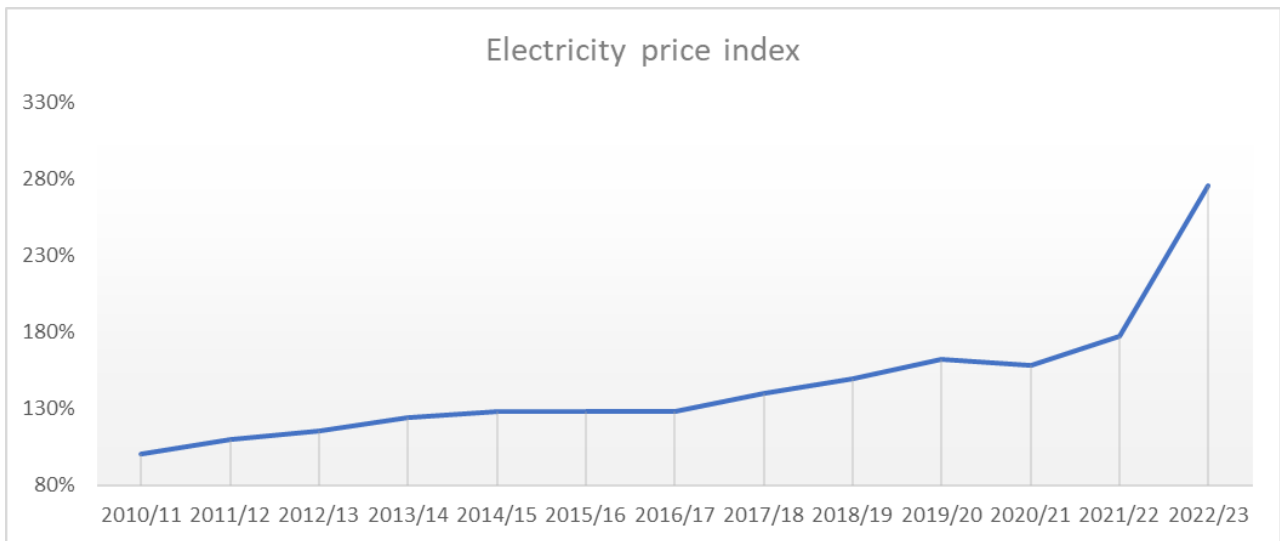
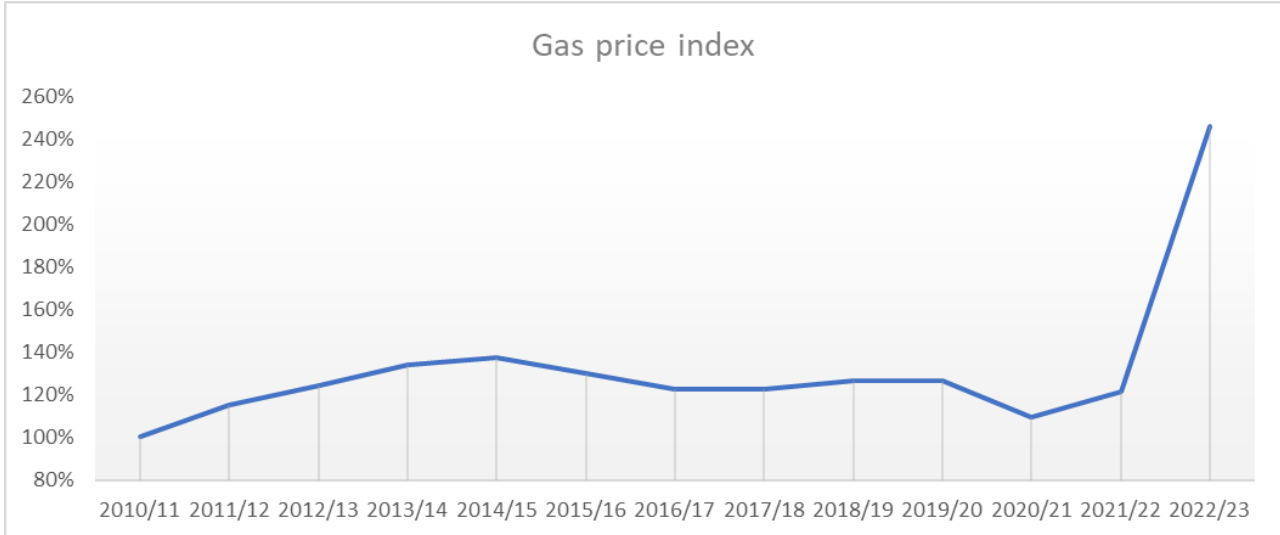
Growth in the National Living Wage has accelerated in the last 4 years, far faster than the historic rate of growth:



The ongoing shortage of pharmacists and the rising cost of locum staff has also massively impacted pharmacy businesses. Data from a large CCA company presented below also shows a massive increase in locum rates since 2021:



At the same time that pharmacy contractors are being hit with extraordinary inflation in their staffing costs, they are also being hit by the sudden rise in energy prices. Price indices from gov.uk demonstrate how these have increased wildly in 2021 and 2022:



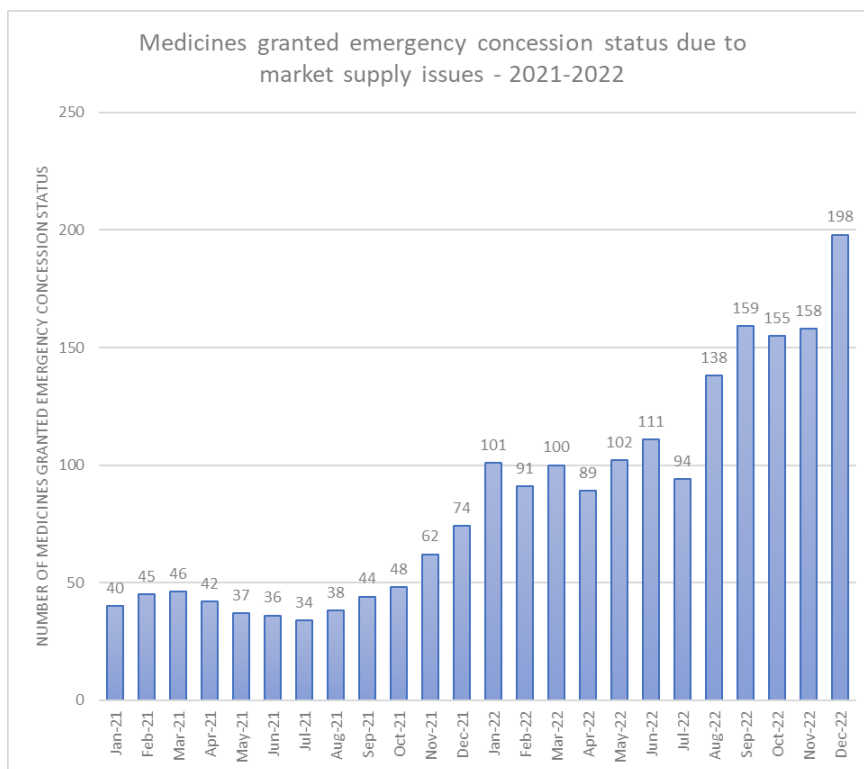
These increases are clearly way above traditional historic expectations for growth. Pharmacy businesses are being quoted cost increases of thousands of pounds in order to renew their energy contracts, at a time when they are already under untenable financial pressures.

The extraordinary level of increase in costs could not have been expected or foreseen at the time when the five-year deal was put in place. While national inflationary pressures affect all business types, as a regulated sector pharmacies cannot simply increase prices to their customers as other business can. These cost increases will undoubtedly lead to an acceleration in pharmacy closures, as these costs cannot be borne under the inadequate funding levels of the contractual framework.

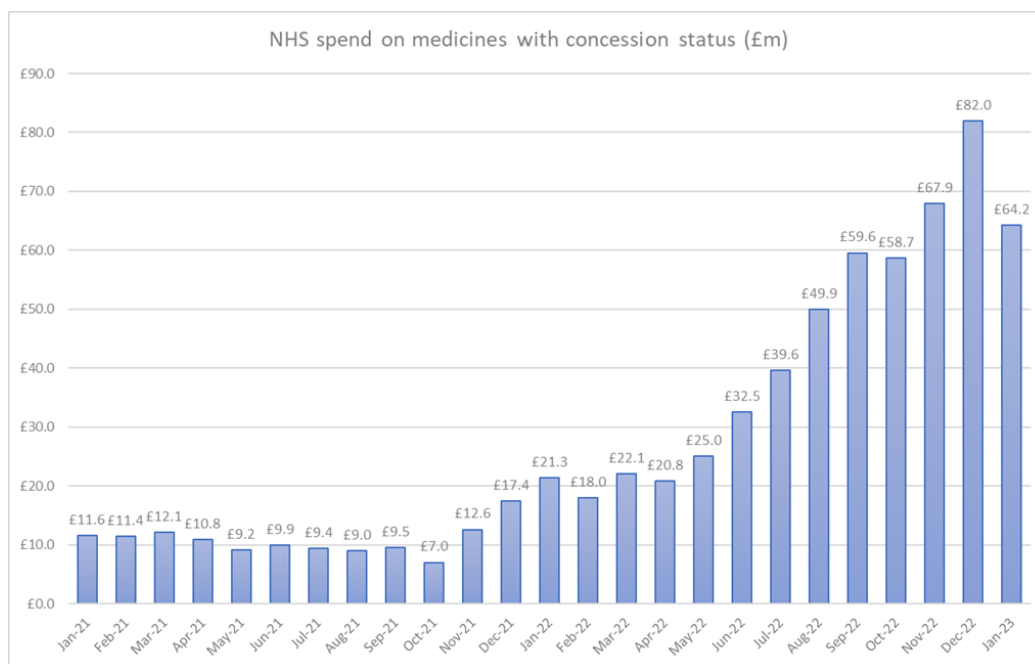
Market volatility impacting drug supply

Medicine markets in England are now so dysfunctional that hundreds of medicines per month are being granted emergency 'price concession' status. This occurs when shortages or price rises mean the drugs cannot be obtained at the NHS Drug Tariff price.

In Dec 2022, 198 different medicines were granted concession status:



The cost of concession status products in December 2022 is forecast to be £82m, and to account for over 44% of all medicine spend on 'Category M' medicines:



The strain that the current levels of market disruption are causing for pharmacies is unsustainable. The effects these pressures are having on pharmacy teams is debilitating, and arguably affecting safe supply. The resources required for sourcing these products is exponentially greater than what is required in normal functioning market conditions.

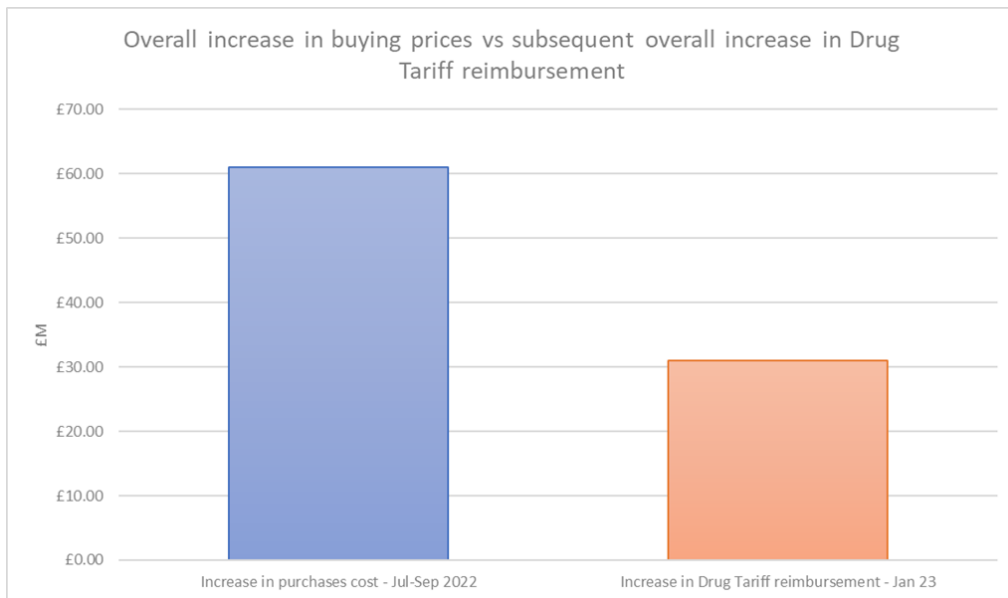
Additionally, the situation for pharmacy contractors is made even worse as many concession prices are set at a level which many pharmacies simply cannot procure at. PSNC understands DHSC objectives and that setting what may be perceived as high concessionary prices could encourage gaming in the market at the taxpayers' expense, which has to be avoided. However, we are clear that contractors cannot subsidise the NHS medicines bill and that it is untenable for there to be such a difference between concession and market prices for particular medicines. The concessions system is no longer coping with the current price volatility in the market.

While the pressures on pharmacy teams to try and procure many medicines are overwhelming, there is also significant disruption and stress caused for patients, who in many cases are unable to get their medicines in a timely fashion, or at all. Action needs to be taken by DHSC and the NHS to both stabilise the supply chain, and reform the price concession system immediately.

Drug Tariff lag

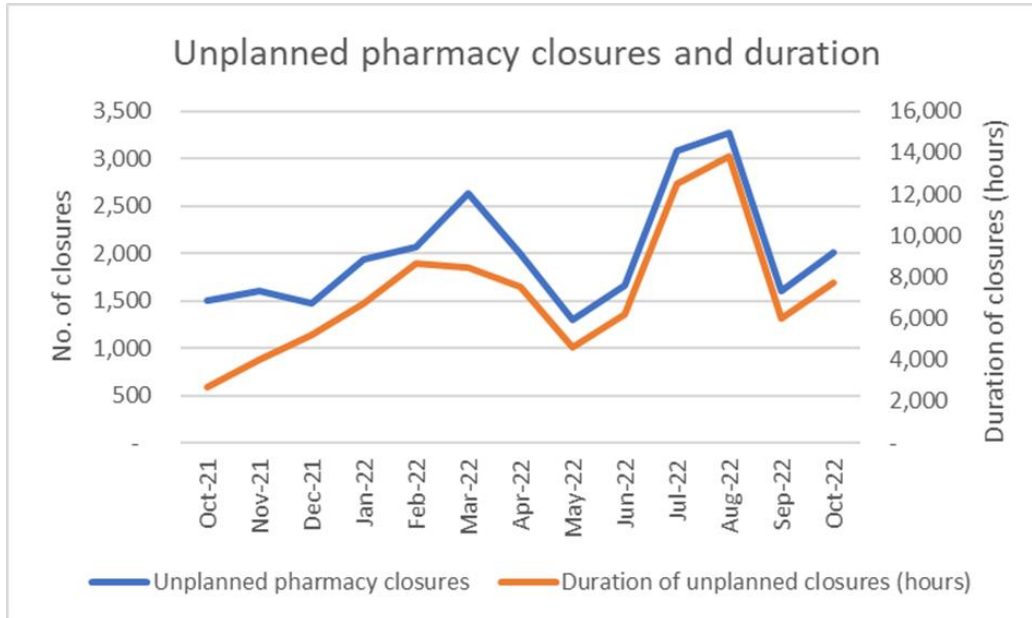
The Drug Tariff is failing to keep pace with drug price rises. Even when Drug Tariff prices increase, there is a significant lag period before this happens, for example increases in buying prices in the reference period Jul-Sep 2022 only filter through into the Drug Tariff in January 2023.

Furthermore PSNC analysis of prices available from a large pharmacy buying group indicates that the level of reimbursement increase is not proportionate to the overall level of buying price rises seen in the market.

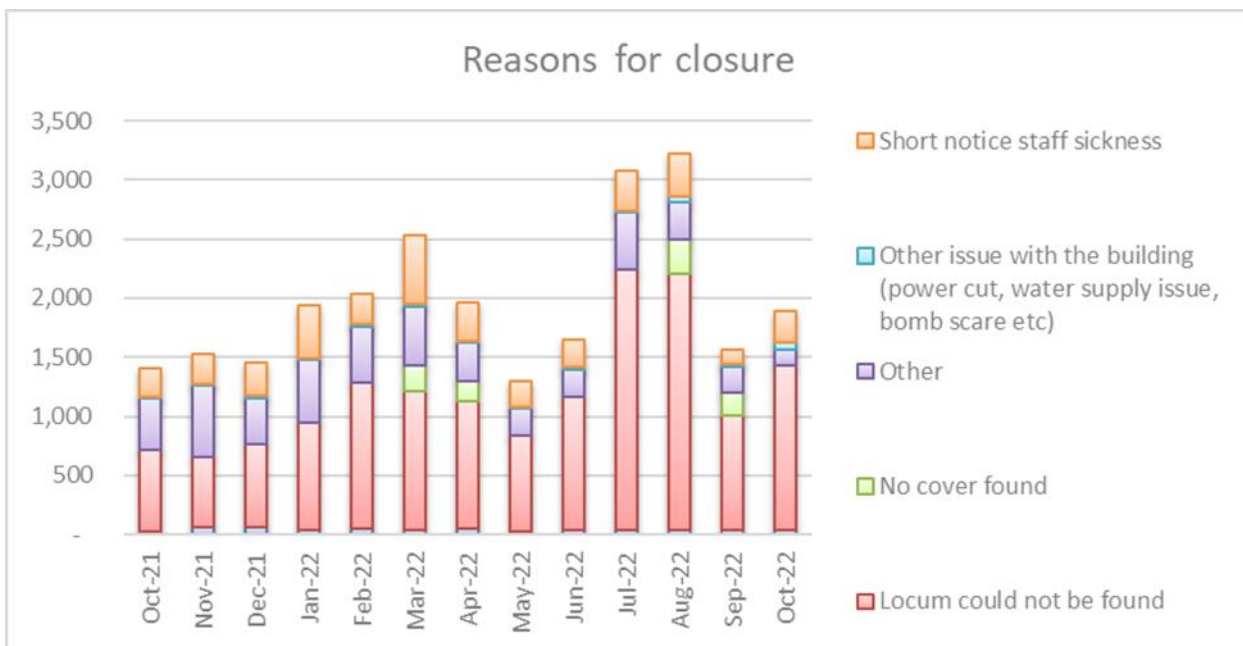


Pharmacy closures

The unsustainable pressures we have described in this briefing are significantly impacting the ability of pharmacy contractors to even open their pharmacies on a day to day basis. NHS data shows that 1000s of unplanned closures are occurring every month, in some months resulting in over 10,000 hours of patient access time being lost:

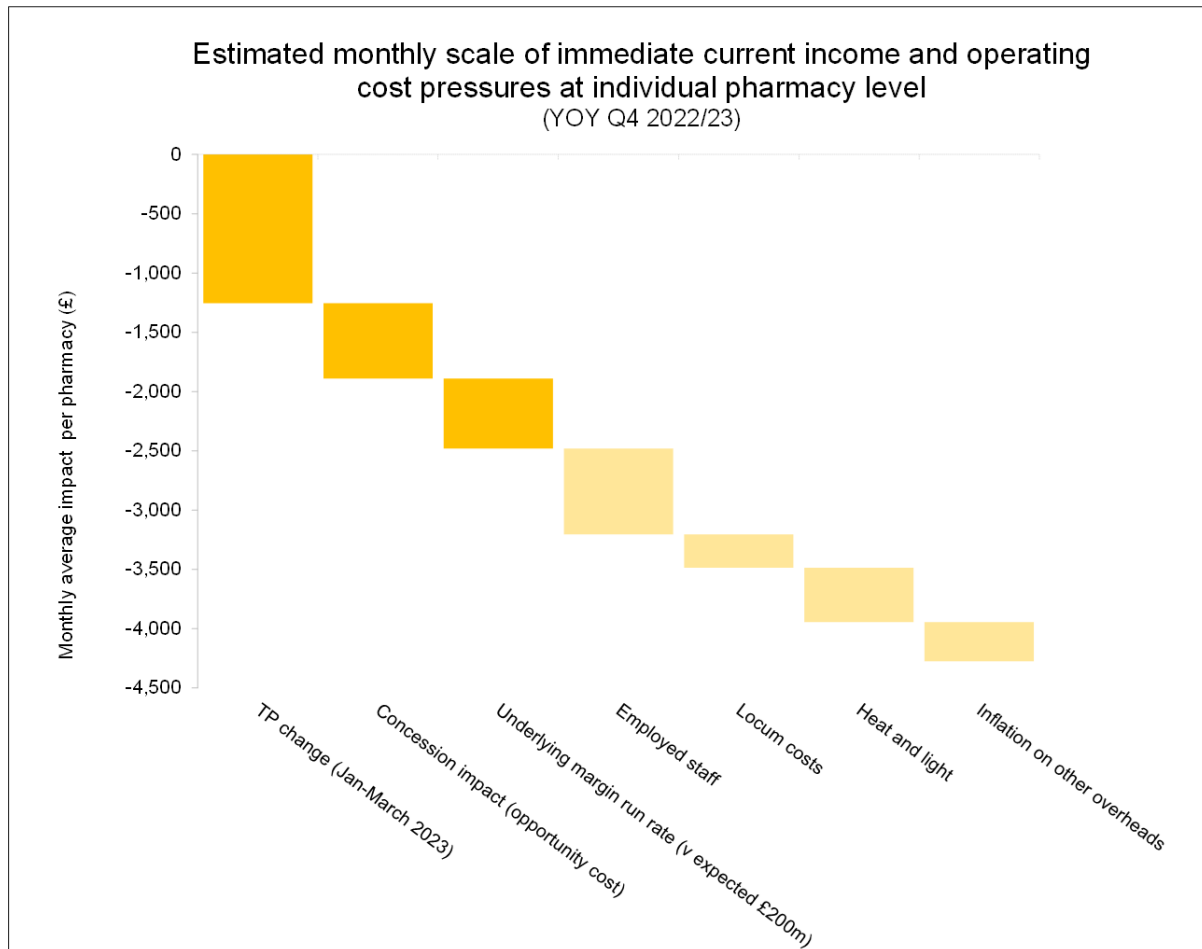


These closures are mainly due to the massive workforce issues being experienced by the sector:



Summary

One way to capture the impact of income reductions and cost increases is as follows:



Conclusion

Urgent intervention is needed from policymakers just to maintain the system in its current form. The pharmacy network is so fragile that permanent closures of large numbers of pharmacies are a risk and these may happen at an unplanned and uncontrollable rate, unevenly distributed throughout the country.

The risk is that patients could suddenly find themselves being directed to alternative locations for access to medicines and pharmaceutical services – which may or may not be easily accessible to them – causing major disruption at a primary care level with inevitable upstream impacts for hospitals.

The pharmacy funding settlement is also so unfit for purpose, there is a risk that other pharmacies would not be able to pick up increased demand should pharmacies start to suddenly close, particularly if this happens in clusters.

It is no longer the case that more patients and prescriptions means more income as many patient interactions are now loss-making. This could pose a serious threat to the Government's responsibility to safeguard the supply of pharmaceutical services and could mean real hardship for some patients.

PSNC

February 2023