CPWY Community Pharmacy West Yorkshire

Working to represent, support and promote community pharmacy

Community Pharmacy Funding Overview for PCN Community Pharmacy Leads

Community pharmacy funding is complex. In this briefing, Community Pharmacy West Yorkshire (CPWY) attempts to provide an overview of how community pharmacy is funded to support your conversations within your PCN should questions arise about pharmacy funding or conversations make assumptions about the impact of proposed changes for community pharmacy.

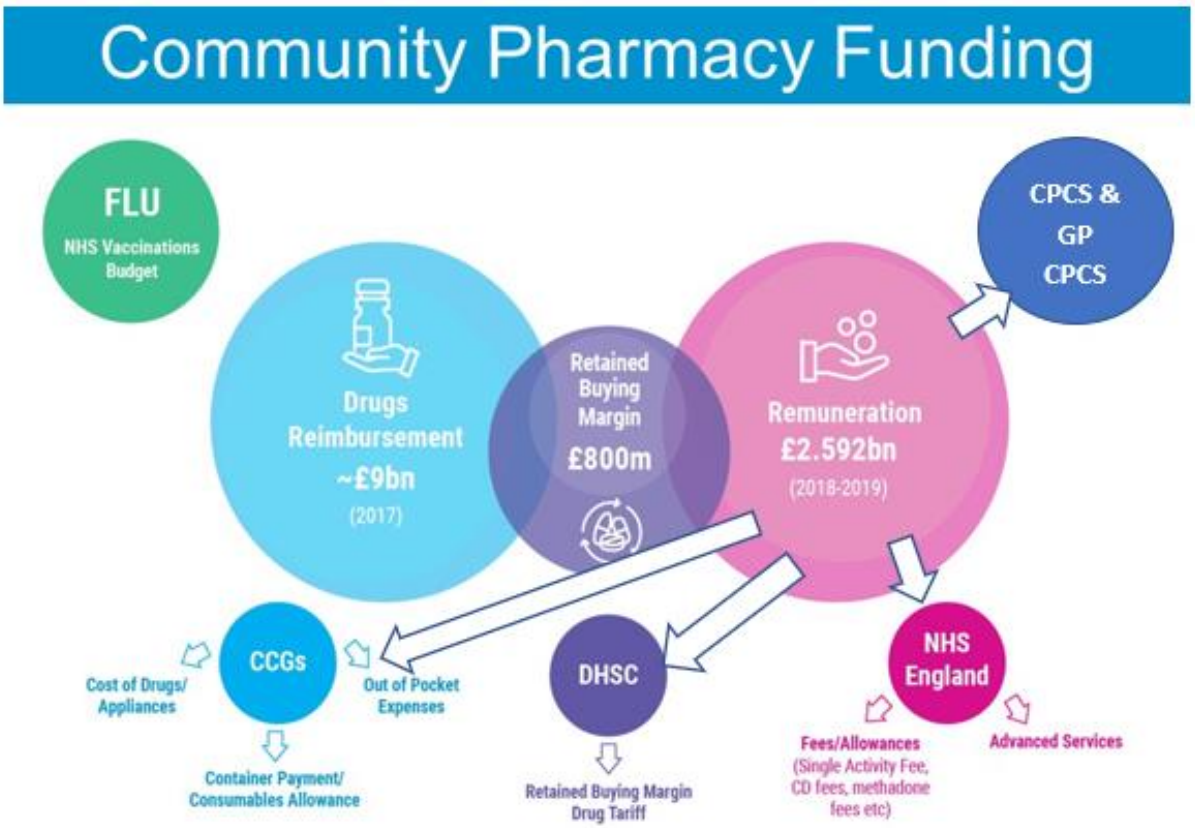
In July 2019, PSNC, NHS England and NHS Improvement (NHSE&I) and the Department of Health and Social Care (DHSC) agreed a five-year deal for community pharmacies, guaranteeing funding levels until 2023/24. The deal secures pharmacy funding and sets out a clear vision for the expansion of clinical service delivery over the next five years, in line with the NHS Long Term Plan.

A breakdown of the contract sum 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:

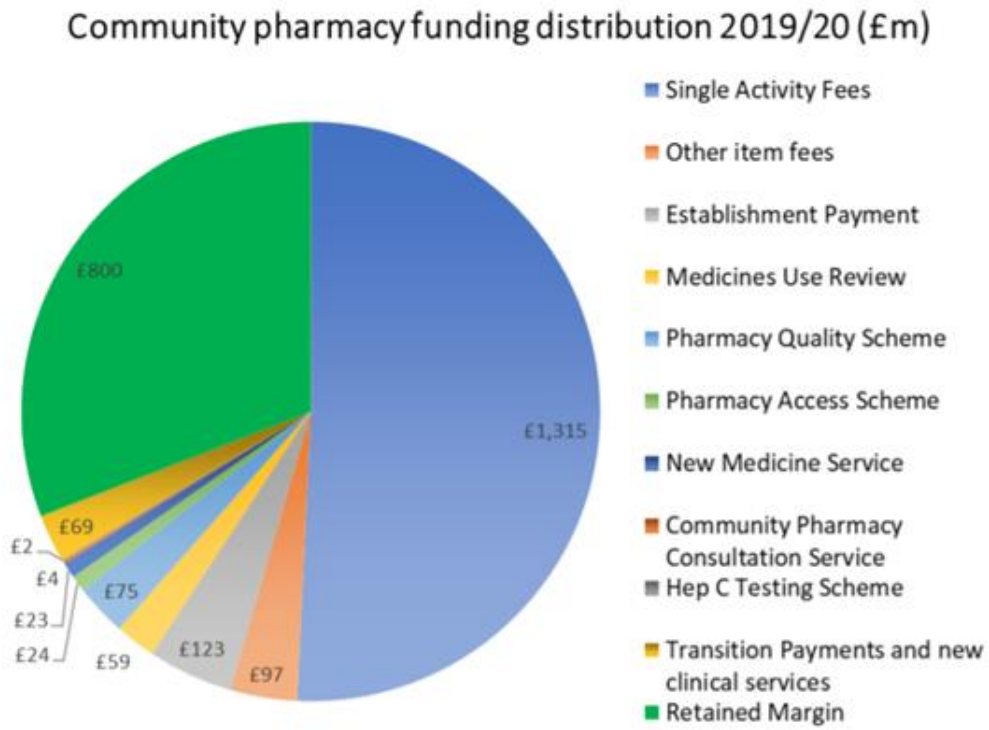
Remuneration: This is the fees and allowances paid to pharmacies for the professional services they provide.

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 the 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).



While the overall global sum will remain at £2.592bn per year until 2024, how funds will be distributed will be negotiated on an annual basis. Please note that the £2.592bn per year is comprised of £1.792bn rumuneration and £800bn of retained buying margin. This is a fixed GLOBAL SUM.



- **Remuneration**
  The 'fees' or 'remuneration' element of funding covers a number of services and their associated fees. All pharmacies, whether they are distance selling pharmacies or located within local communities, are paid according to the same CPCF (Community Pharmacy 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 fee is paid to pharmacies each time they dispense a prescription item to a patient. The 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.

  Establishment Payment (EP): A fixed payment available to all contractors, subject to a volume (of prescription items dispensed) threshold. This has been reduced in recent years and ended in March 2021.

  Essential Services: Essential Services are offered by all pharmacy contractors as part of the NHS CPCF. The Essential Services are:

  - *Dispensing Medicines*
  - *Dispensing Alliances*
  - *Repeat Dispensing*
  - *Clinical Governance*
  - *Discharge Medicines Service (DMS)*
  - *Public Health (Promotion of Healthy Lifestyles)*
  - *Signposting*
  - *Support for Selfcare*
  - *Disposal of Unwanted Medicines*

Advanced Services: The Advanced Services within the CPCF are the New Medicine Service (NMS), the Flu Vaccination Service, Appliance Use Reviews (AURs), Stoma Appliance Customisation (SAC), and the Community Pharmacy Consultation Service (CPCS). 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 the Advanced Services, bar Flu Vaccination, is from within the agreed settlement. Funding for the Flu Vaccination Service comes from NHS England's Section 7A Public Health Budget.

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.

Pharmacy Quality Scheme (PQS): 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 of the Quality Criteria they have met (the number of 'points' earned). Details of the 2021/22 scheme have yet to be announced. Find out more at: psnc.org.uk/PQS.

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 NHSE&I budgets and,with the exception of flu, are within the global sum.

- **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 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, and analyses prices and wholesaler discounts gathered from invoices collected from 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).

Once a survey is finalised and the margin result is agreed, PSNC and DHSC will discuss what changes, if any, are required to ensure the correct delivery of pharmacy funding.

Currently, the pharmacy sector is allowed to earn £800m retained margin collectively in each financial year. The share of retained margin to each pharmacy reflects the number of prescriptions dispensed and the medicines prescribed. 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 a category of medicines which are readily available in 'generic' form, i.e., nonbranded medicines.

Branded generics skew the retained margin as the margin on these products is less than on the generic itself. PSNC and CPWY are completely against the practice of using branded generics, not only because they reduce the retained margin to pharmacies who dispense these items but that branded generics are more expensive overall to the NHS, increase risk to patients and create additional workload for GPs and community pharmacies. See the CPWY Branded Generics Letter for further details.

See further information on branded generics at: https://www.cpwy.org/pharmacy-contracts-services/essential-services/dispensing/#BG.

Further information on retained margin is available at: https://psnc.org.uk/funding-and-statistics/funding-distribution/retained-margin-category-m/.

Locally Commissioned Services: Locally commissioned community pharmacy services can be contracted via a number of different routes and by different commissioners, including local authorities, Clinical Commissioning Groups (CCGs), Primary Care Networks (PCNs) and local NHS England teams. See the Local Services page on our website (list of services can be found on the left of this page): https://www.cpwy.org/pharmacy-contracts-services/local-services-enhanced/.

Key Messages

- Although community pharmacies are businesses, they earn the vast majority (90-95%) of their income from the NHS.
- They are paid according to a Contractual Framework – at the moment this is effectively a five-year arrangement which gives the pharmacy sector **flat funding until 2024**. This followed funding cuts in previous years.
- Combined with inflation and other increasing costs, this means that **pharmacies are already underfunded and that their financial situation will worsen further by 2024**.
- Pharmacies have taken on significantly higher costs during the COVID-19 pandemic to cover their staffing costs and all the safety measures needed to keep people safe.
- The sector has so far only **received loans (not new money)** to help with cashflow.
- Many pharmacy owners are now using their own money to make vital changes to how they work, and some are having to **reduce services or staff levels** to cut down on costs.
- Some are having to make even more difficult decisions, including merging or even closing down some pharmacies.

Useful Links

The PSNC website provides further detail on community pharmacy funding, fees and allowances: https://psnc.org.uk/funding-and-statistics/pharmacy-funding/.

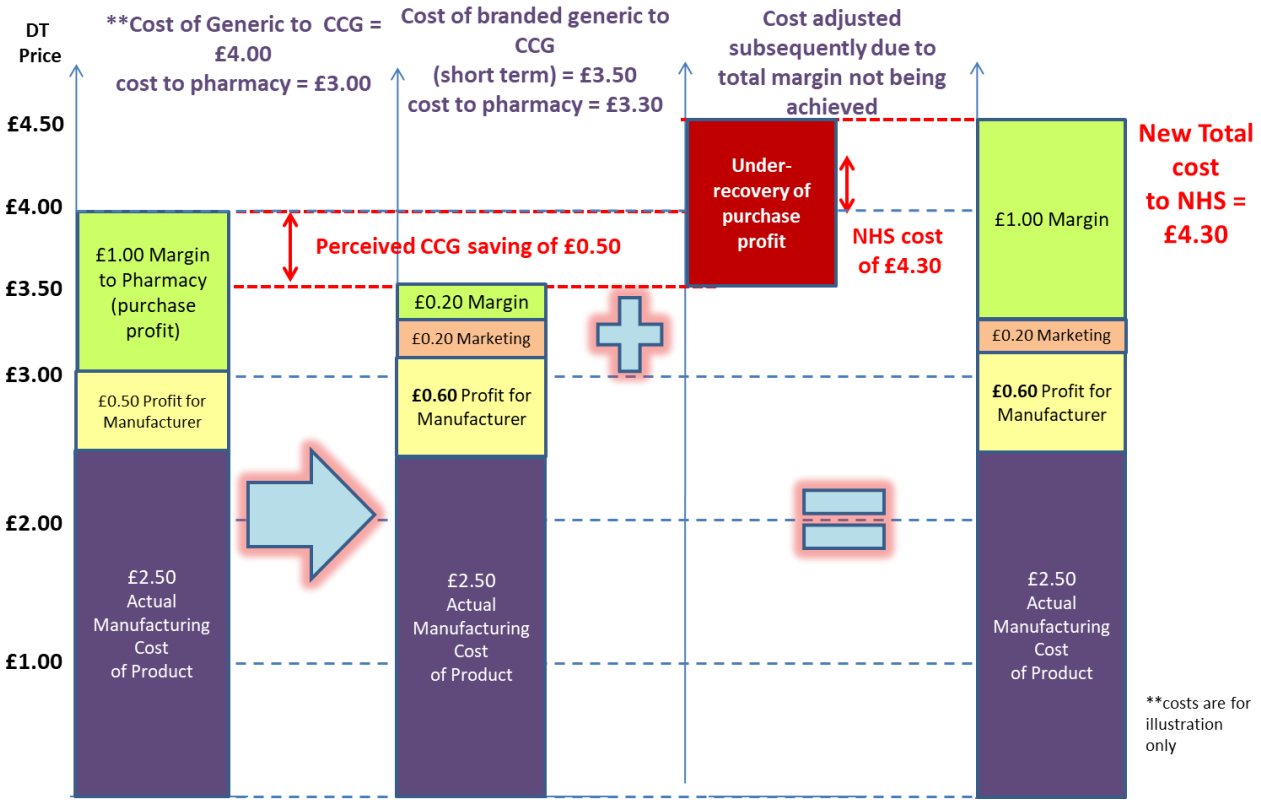
PSNC CEO blogs are a useful resource to highlight the current situation, including financial, for community pharmacy: https://psnc.org.uk/blog/.

PSNC also publish their negotiation plans which again highlight the current financial pressures within community pharmacy: https://psnc.org.uk/psncs-work/the-latest-from-psnc/negotiation-updates/.

Common Questions / Assumptions with Responses

GP CPCS – GPs are not paid for minor ailment consultations why should community pharmacy be paid? Community pharmacies who provide CPCS are paid per consultation, however, the payments come from the global sum which is a fixed cost for the NHS. So, although a pharmacy providing CPCS will be paid for the consultations they undertake, this will not cost the NHS any additional money. Essentially pharmacies are just providing a different service for the same global funding. Those providing more CPCS consultations will just receive a bigger proportion of the global sum - helping them to remain viable - so the more CPCS consultations in your PCN, the more likely your community pharmacies are to remain open.

Branded generics are cheaper for the NHS than generics. See information on branded generics above. The diagram below is a worked example of how branded generic prescribing can be detrimental to the NHS on cost grounds:



Prescribing for 3 months at a time, rather than 3 x 28 days, is cheaper for the NHS. Pharmacies are paid a Single Activity Fee for each item dispensed, so a pharmacy providing one item for 84 days will only receive one fee where are a pharmacy dispensing 3 x 28 days (ie one month supply each month) will receive three single activity fees. However, the global sum is a fixed fee so the overall impact for the NHS is no change to community pharmacy funding however the single activity fee will be adjusted to ensure that the global sum remains at the agreed amount.

Increasing the duration of a prescription has the impact of reducing the funding for the community pharmacies dispensing the prescription but does not affect the cost of community pharmacy for the NHS as this is a fixed global sum. Local increases to prescription duration impact on the viability of the community pharmacies within the PCN without any cost benefit to the NHS community pharmacy payments.