

PSNC's brief guide to Community Pharmacy Funding



Funding for community pharmacy in England is negotiated annually by the Department of Health (DH) and the Pharmaceutical Services Negotiating Committee (PSNC).

Cost inquiry

A new national contractual framework was introduced in April 2005. The total level of funding was set based on the outcome of a Cost of Service Inquiry and included an allowance for a fair return on capital employed.

The initial Cost of Service Inquiry was undertaken in July 2003, using a statistically representative sample of pharmacies. In addition to the Cost of Service Inquiry, detailed modelling was undertaken of the new services to ensure they were fully costed. Leading consultants were used to assess the return on investment community pharmacies needed. Costs and returns were based on independent pharmacies.

Each year, adjustments to the funding arrangements are negotiated to maintain the value of the contract. The PSNC and the Department of Health agreed that it was necessary to undertake a new joint Cost of Service Inquiry in 2010. It is now expected to report in early 2011. Initial views of the results were reflected in the 2010/11 funding settlement.

Funding budget

A **budget** is agreed by PSNC and DH for each financial year. The budget increases annually in relation to three variables:

1. the **formula uplift** which generates an uplift based on prescription volume growth, general inflation and salary inflation, less an efficiency adjustment imposed by HM Treasury;
2. the **regulatory burden** which reflects the cost to pharmacies of new or amended regulatory requirements, e.g. NPSA guidance and changes in Controlled Drug regulations; and
3. any **exceptional uplifts**, e.g. in 2008/09 an extra £150m was provided by DH because it recognised the contract was underfunded.

The **total funding available for distribution** is the budget adjusted for any variance from the previous year. Funding available for distribution is now allocated across two main sources of funding being:

1. **PCT recharges** (£1,846m in 2010/11), from PCTs' general funding, which now includes the old Global Sum elements covering Item Fees, Establishment Payments, the Repeat Dispensing Annual Payment, Transitional Payments and Additional Fees. It also pays for Practice payments covering dispensing and services such as waste medication disposal, signposting plus clinical governance. It also covers payment for Medicines Use Reviews (MURs) and payments associated with the Electronic Prescription Service (EPS); and
2. **PCT drugs budget** (£640m in 2010/11), which pays for the allowed buying profit (guaranteed to be at least £500m pa).

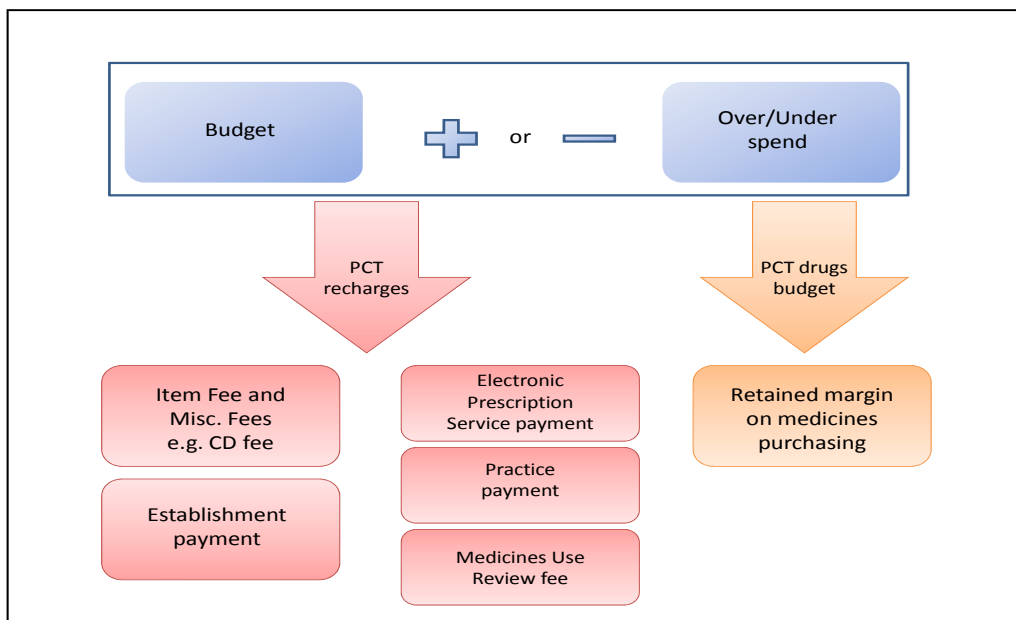
Fees, allowances and generic drug prices are set out in the monthly **Drug Tariff** (www.ppa.org.uk/ppa/edt_intro.htm) and are paid by NHS Prescription Services and then recharged to DH or the PCT as appropriate.

Margins Survey

Levels of buying margin are assessed for adequacy by PSNC and DH using an ongoing survey of independent contractors' actual purchase prices - **the margins survey**.

PSNC and DH work together on the margins survey to establish the level of buying margin earned in practice by independent pharmacy contractors (operating between 1 and 5 contracts). The survey uses invoices and statements





to determine the actual purchase prices paid by a national sample of these contractors and these results are then grossed up as if the market were all independent contractors.

Category M

Every year fees, allowances and generic drug reimbursement prices are adjusted in October to ensure the total funding is distributed as accurately as possible by the year end in March. The reimbursement prices adjusted are those for drugs in Category M.

The prices of drugs within Category M are shown in Part VIII of the Drug Tariff. They are set by the Department of Health with reference to information provided by manufacturers under an arrangement known as Scheme M. DH uses Category M prices to regulate the purchase margin available to pharmacy contractors. They adjust the prices on a quarterly basis in January, April, July and October. The October adjustment is known as a recalibration and includes any change required to ensure community pharmacy purchase margins are set at the right level going forward.

Devolving the Global Sum

In April 2010 the Department of Health devolved the Global Sum to PCTs, further information on this topic can be found on the PSNC website at www.psn.org.uk/globalsum.

Current funding issues

1. Attempts by manufacturers to avoid contributing to the allowable buying margin, which has resulted in losses on brands and branded generics;
2. Time spent sourcing product due to market shortages;
3. Concern around the impact of devolving the Global Sum;
4. Work pressures caused by pressure on funding and increased bureaucracy; and
5. A significant reduction in the accuracy of payments by NHS Prescription Services following the introduction of new systems.

More information on community pharmacy funding and on PSNC's response to these issues is available at www.psn.org.uk/funding.

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