July 2019

PSNC Briefing 028/19: Information on the community pharmacy contract settlement and funding for 2019/2020 to 2023/24

This briefing sets out the main elements of the five-year community pharmacy funding settlement for 2019/20 to 2023/24 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.

Changes for 2019/20 to 2023/24

The community pharmacy funding settlement for the next five years has been announced. It consists of the following main elements:

1. The headline figure, or 'contract sum', will remain unchanged at £2.592 billion for 2019/20, and for subsequent years until the end of 2023/24. This is the first time that PSNC, the Department of Health and Social Care (DHSC) and NHS England and Improvement (NHSE&I) have agreed a multi-year settlement.
2. As part of a new focus on clinical services, and in addition to the established dispensing and supply role, a new NHS Community Pharmacist Consultation Service (CPCS) will be introduced nationally as an Advanced service in October 2019. This will replace the current NHS Urgent Medicine Supply Advanced Service (NUMSAS) and local pilots of the Digital Minor Illness Referral Service (DMIRS). The new service will operate with a simple harmonised fee of £14 per consultation.
3. A new Pharmacy Quality Scheme will be introduced (previously the Quality Payments Scheme) under which pharmacies can earn additional payments for meeting quality criteria. Funding for the scheme will continue at £75m a year. Some elements of the former Quality Payments Scheme will become Terms of Service requirements under the Community Pharmacy Contract Framework (CPCF) from April 2020.
4. Pharmacies will receive monthly Transitional payments in the second half of 2019/20 and in 2020/21 to meet costs associated with changes such as integration into Primary Care Networks (PCNs), preparation for Serious Shortage Protocols (SSPs) and implementation of the Falsified Medicines Directive (FMD).
5. Medicines Use Reviews (MURs) will be phased out over the next two years, as clinical pharmacists working in PCNs start to undertake Structured Medication Reviews.
6. As previously announced, Establishment Payments - a tiered payment made to pharmacies dependent on the number of items dispensed - will be phased out by 2020/21. The Pharmacy Access Scheme (PhAS) remains with funding of £24m a year.

Funding for 2019/20 to 2023/24

1. The £2.592bn contract sum is the total amount of national funding that the government intends to deliver to community pharmacies in England throughout the financial year. This funding is distributed to pharmacies through a combination of fees and retained margin.

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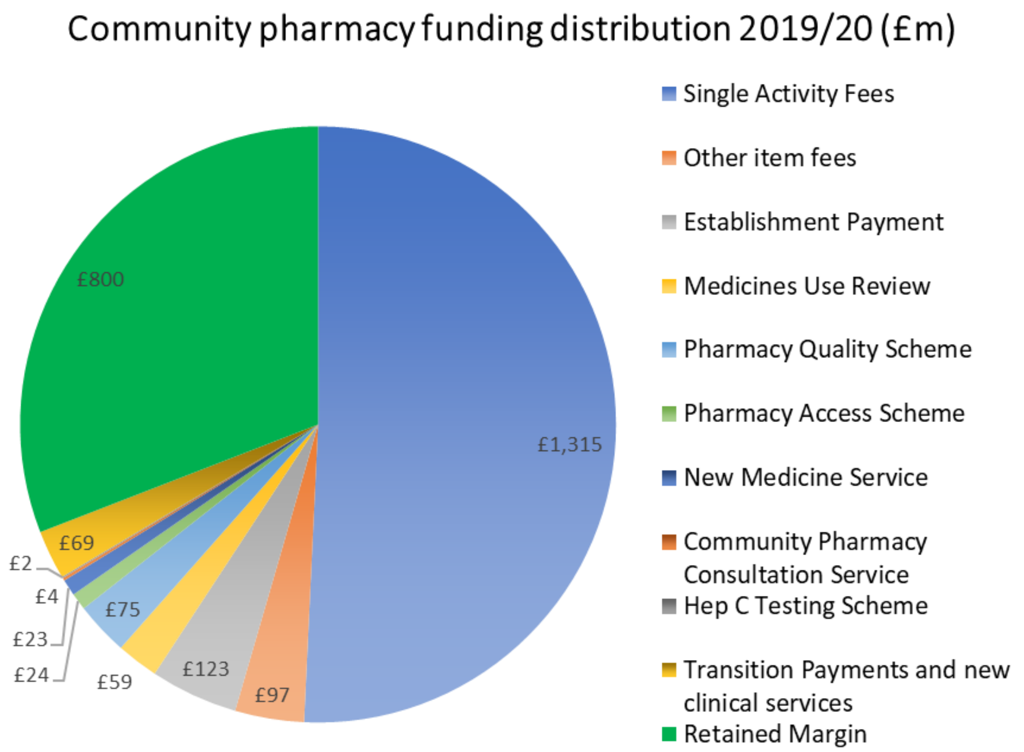
2. The proportion of funding delivered via fees and retained margin remains unchanged in 2019/20 at £1.792bn for fees and £800m in retained margin.
3. The Single Activity Fee (SAF) will be £1.27. It is currently £1.26 and will be adjusted upwards from August 2019 to deliver the agreed contract sum by March 2020.

   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.
4. Category M prices will increase by £15m a month from August 2019. This is to recognise that there was predicted to be a shortfall in margin in the current year (see below for an explanation of margins and the Category M mechanism).
5. The delivery of margin to pharmacy is carefully monitored by PSNC and DHSC. Where the Margins Survey identifies the delivery rate of margin to community pharmacy will be under or over the £800m target, DHSC re-calibrates Category M Drug Tariff prices to bring the margin delivery rate back on track.
6. PhAS will continue in its current design with funding of £24m until March 2020.
7. CPCS will commence in October 2019. Funding of £4m is allocated for 2019/20. A fee of £14 will be paid to pharmacies for each completed consultation. To incentivise rapid roll-out of the CPCS a supplement of £900 will be available to pharmacies signing up to provide the service by 1st December 2019, or £600 for those signing up by 15th January 2020.
8. Transitional fees will be paid from October 2019. The level of fees has not yet been finalised but will be included in the October 2019 Drug Tariff.



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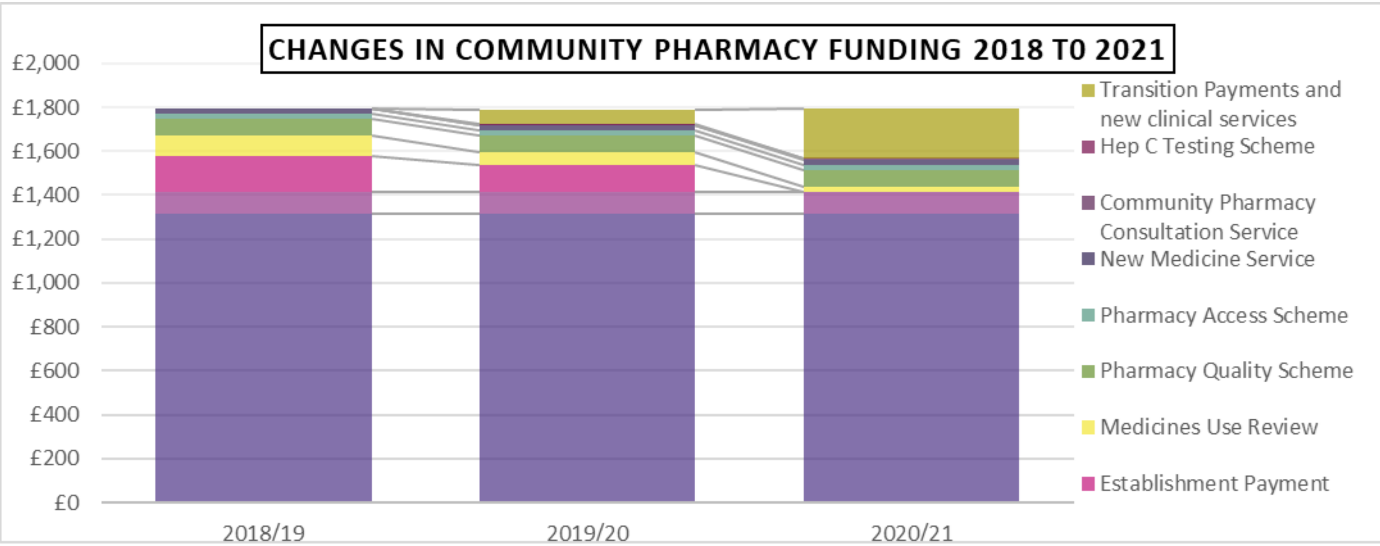
Community pharmacy funding distribution April 2018 to March 2021			
	2018/19	**2019/20**	**2020/21**
Single Activity Fees	£1,315	£1,315	£1,315
Other item fees	£97	£97	£97
Establishment Payment	£164	£123	£0
Medicines Use Reviews	£94	£59	£24
Pharmacy Quality Scheme	£75	£75	£75
Pharmacy Access Scheme	£24	£24	£24
New Medicine Service	£23	£23	£23
Community Pharmacy Consultation Service	£0	£4	£9
Hep C Testing Scheme	£0	£2	£2
Transition Payments and new clinical services	£0	£69	£223
Retained Margin	£800	£800	£800
Total funding*	**£2,592**	**£2,592**	**£2,592**

**Totals may not sum due to rounding*

From October 2019, the changes to fees will be as follows:



Funding: 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).

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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 (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.

Establishment Payment (EP): A fixed payment available to all contractors, subject to a volume (of prescription items dispensed) threshold. This has been reduced over the past two years and will be phased out by 2020/21.

Advanced Services: There are currently six Advanced Services within the 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).
The Community Pharmacy Consultation Service (CPCS) will replace NUMSAS from October 2019. MURs are being phased out by 2022/2023.
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). PQS is the new name for the Quality Payments Scheme.
Under the former Quality Payment Scheme, each pharmacy could achieve a maximum of 100 points, with the minimum value of each being £64 – meaning a maximum of £6,400 could be payable to any individual pharmacy across the year.
The points allocation to the criteria in the new PQS, and their value, is 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.

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 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, 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 a category of medicines which are readily available in ‘generic’ form, i.e. non-branded medicines.

Frequently Asked Questions on Retained Margin

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 products for different categories of medicines (brand, generic and specials). It is undertaken 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 (NHSBSA) gathers data from contractors’ invoices and PSNC’s pricing audit team checks 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 for many years, but since the early part of 2019, DHSC has gained powers to request data from manufacturers and wholesalers 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.

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 the discount deduction scale or fees. Category M has generally been chosen as most margin originates on those products.

If you have queries on this PSNC Briefing or you require more information please contact info@psnc.org.uk.