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To: PCT Cluster Chief Executives
cc: SHA Cluster Chief Executives
SHA Cluster Directors of Finance

Gateway reference: 16606

8 September 2011

Dear Colleague,

**COMMUNITY PHARMACY CONTRACTUAL FRAMEWORK (CPCF)
FUNDING FOR 2011/12**

My letter of 15 March 2011 (Gateway reference: 15772) communicated changes to be made to the Drug Tariff from April 2011 to deliver the remaining elements of the 2010/11 community pharmacy contractual framework (CPCF) funding settlement. I am now able to inform you of the overall settlement package agreed between the DH and the Pharmaceutical Services Negotiating Committee (PSNC) for 2011/12.

In summary, the package consists £2.526 billion funding for 2011/12, a further reduction in generic medicine prices (Category M), yielding £78 million savings from October 2011 to March 2012, and a number of changes to the drug reimbursement arrangements to be implemented over the next six months, including a 'Specials' Tariff from November 2011. Further details are provided at **Annex A**.

If you have any queries on the content of this letter, please direct them to mpig.support@dh.gsi.gov.uk.

Yours sincerely



Bob Alexander
Director of NHS Finance

COMMUNITY PHARMACY CONTRACTUAL FRAMEWORK (CPCF) FUNDING FOR 2011/12

Although the centrally held funding for the provision of NHS pharmaceutical services was devolved to PCTs from April 2010, the Department of Health (DH) continues to set the levels of fees and allowances for community pharmacies nationally for essential and advanced services through negotiation with the Pharmaceutical Services Negotiating Committee (PSNC). Informed by the community pharmacy Cost of Service Inquiry (COSI) report, published by PricewaterhouseCoopers in July 2011, the Department and PSNC are working together on reforms to the community pharmacy contractual framework (CPCF) funding arrangements. These comprise:

- assessing the costs for the efficient provision of NHS pharmaceutical services currently, including return on investment, and establishing an uplift mechanism for future years
- reviewing the arrangements for medicine margin¹, taking into account the recommendations of the National Audit Office (NAO) (report 2010); and
- reviewing the distribution of funding, through fees and allowances etc, to reward performance and incentivise and support high quality and efficient services.

In the meantime, the Department and PSNC have reached agreement on an overall settlement package for 2011/12 taking into account:

- The financial pressures on public services and efficiency savings being sought from the NHS;
- Maintenance of funding stability for the NHS and community pharmacy, ahead of reforms to the CPCF funding, indicated above;
- The outcomes of the medicines margin survey, assessing the margin achieved by pharmacy contractors in the previous financial year, so that adjustments to medicine reimbursement prices can be made to bring the margin in line with the amount agreed under the CPCF;
- The implications of significant reductions in generic medicine prices (Category M) for the stability of the medicines supply chain and pharmacy contractors' cash flow; and
- Simplification of drug reimbursement rules, and thus payment processes, and achieving greater transparency and fairness, with payment more closely reflecting the costs to individual pharmacy contractors.

¹ The medicine margin is the difference between the price paid by a pharmacy contractor for a product from its supplier and the price reimbursed by the NHS.

The settlement package comprises:

- Funding for 2011/12 of £2.526 billion;
- A further reduction in generic medicine prices (Category M), yielding £78 million savings from October 2011 to March 2012. This is over and above the reduction made from April 2011 to generic medicine prices (Category M) to deliver £90 million savings during 2011/12²;
- All things being equal, from April 2012 generic medicine prices (Category M) will be reduced by an additional £40 million per annum;
- Prescription volume thresholds for the establishment payment and practice payment will increase by 3% from October 2011, as in previous years;
- Various changes to the drug reimbursement arrangements, to meet the objective set above, including a 'Specials'³ Tariff from November 2011 and other changes later in the year⁴;
- A package with £20 million for pharmacy contractors in respect of prescription payment inaccuracies.

The Department keeps the prescription item volume forecast under regular review. This is important because it forms the basis of payments (prescription item fee, establishment payment and practice payment) to pharmacy contractors, such that if prescription item volume for this financial year is under or over-estimated there will be under or over-delivery of the agreed funding settlement. A possible under-delivery of around £30 million has been identified for 2011/12. Therefore, practice payments are being increased from October 2011 to deliver £15 million of this possible shortfall (with the per item payment rising from 70.3p to 73.5p). It is important to recognise that this does not create a new cost pressure for PCTs. It just seeks to deliver the amount of funding from fees and allowances, which formed the basis of PCT projections from 1 April 2011, with excess medicine margin making up the difference to deliver the agreed £2.526 billion.

Additional monthly dispensing data and work between the Department and PSNC on future prescription item projections will inform any further necessary adjustments in 2011/12. Any significant change in prescription volume, and thus pharmacy workload, will also feed into future funding settlements, informed by the Cost of Service Inquiry. One possible explanation is that prescribers are writing prescriptions for a longer duration (eg two or three months, instead of one month). The Department will explore this in its further analysis.

² See letter from Bob Alexander of 15 March 2011 (Gateway reference: 15772) for further details.

³ Unlicensed medicines, not generally commercially available, prepared specially to meet the needs of patients, for example a liquid preparation, where a patient cannot swallow tablets, or without a particular preservative or colouring due to allergy.

⁴ These include changes from April 2012 to reimbursement for liquid methadone prescriptions, broken bulk and to support the use of patient packs.

Overall, the settlement delivers £168 million savings during 2011/12 from reductions in generic medicine prices (Category M). Set against this is the investment in the new medicine service of up to £55 million per annum in 2011/12 (and 2012/13), which is expected to be implemented from October, alongside targeted medicine use reviews⁵ and strengthening clinical governance, and the £20 million for prescription payment inaccuracies.

The Drug Tariff will be amended accordingly, for October and subsequently, to reflect these various changes to fees and allowances, generic medicine Category M reimbursement prices and drug reimbursement rules.

These changes to fees and allowances have little effect to the ready reckoner issued earlier this year and so PCTs should continue to use it for planning purposes.

Any queries should be directed to mpig.support@dh.gsi.gov.uk

Medicines, Pharmacy & Industry Group
Department of Health
8 September 2011

⁵ The fee for medicines use reviews remains unchanged.