



28 October 2016

Community Pharmacy 2016/17 and Beyond

Background

On 17 December 2015 the Government announced its plans¹ for community pharmacy in England following its Spending Review – a better deal² in November 2015. The consultation concluded on 24 May 2016 following the formal consultation process and confidential discussions with the pharmacy bodies. This involved numerous submissions³ from many pharmacy owners and representative organisations including the Pharmaceutical Services Negotiating Committee⁴ (PSNC), Pharmacy Voice⁵ (PV) and the Royal Pharmaceutical Society⁶ (RPS). The National Pharmacy Association (NPA) led a successful public engagement campaign via community pharmacies obtaining over two million signatures.

Part of the proposals was to consult⁷ on ‘Hub and Spoke dispensing’ (remote assembly) and the required changes in legislation to allow this to happen across different business entities. The evidence supporting the consultation was undermined and this consultation has been postponed indefinitely.

In response to the proposed cuts, PSNC commissioned and published a report by PwC on the Value of Community Pharmacy which presents a compelling financial case for community pharmacy.⁸

The final document released by the pharmacy sector in answer to the proposals was a collaborative vision from PV and PSNC and endorsed by RPS – The Community Pharmacy Forward View⁹ which focuses on three key roles for community pharmacy of the future:

- as the facilitator of personalised care for people with long-term conditions
- as the trusted, convenient first port of call for episodic healthcare advice and treatment
- as the neighbourhood health and wellbeing hub

On 9 September the Government put forward revised proposals which were rejected by PSNC on 13 October.¹⁰ Finally on 20 October, the Minister (David Mowat MP) announced in the House of Commons that the planned reforms¹¹ would be imposed. The Government has stated that it endeavoured to collaborate with PSNC but agreement had not been reached.

Inevitably this has not been well received by PSNC or the broader community pharmacy sector who are considering next steps which may include a judicial review.

Throughout 2016 there has been a major public awareness campaign¹² and national press coverage about the proposed cuts and potential closures; this continues.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486941/letter-psnc.pdf

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/480797/a_better_deal_for_families_and_firms_print.pdf

³ <http://psnc.org.uk/psncs-work/communications-and-lobbying/community-pharmacy-in-201617-and-beyond/responses-from-other-organisations/>

⁴ <http://psnc.org.uk/our-news/psnc-publishes-counter-proposal/>

⁵ <http://pharmacyvoice.com/wp-content/uploads/2016/06/Final-PV-Response.pdf>

⁶ <http://www.rpharms.com/news-story-downloads/rps-comm-phy-proposal-response-public-final.pdf>

⁷ <https://www.gov.uk/government/consultations/pharmacy-dispensing-models-and-displaying-prices-on-medicines>

⁸ <http://psnc.org.uk/our-news/pwc-report-quantifies-value-of-community-pharmacy/>

⁹ <http://pharmacyvoice.com/forwardview/>

¹⁰ <http://psnc.org.uk/wp-content/uploads/2016/10/Jeanette-Howe-131016-Final.pdf>

¹¹ <https://www.gov.uk/government/publications/community-pharmacy-reforms>

¹² <http://psnc.org.uk/our-news/the-funding-imposition-raising-awareness/>



The Proposed Final Package

Overall Funding

This is a proposed settlement that unusually for community pharmacy covers two years in an attempt to give some stability and planning opportunity to pharmacy contractors:

- 2015/16 - £2.8bn made up of £2bn in fees and allowances + £800m in retained buying margin
- 2016/17 - £2.687bn – represents a 4% reduction (actually -12% over the 4 months from December)
- 2017/18 - £2.592bn – represents a further 3.4% reduction (-7.4% on current funding)
- 2018/19 and beyond – decision yet to be made and to be consulted on

Single Activity Fee

This will replace four current fees: the dispensing fee, the practice fee, the repeat dispensing fee and the electronic prescription service (EPS) payment. It is expected that the resultant single activity fee in December 2016 will be £1.13 per item. Additional fees for dispensing unlicensed medicines, appliances and controlled drugs etc. will remain as is.

Establishment Payment

Community pharmacies currently receive this payment provided they dispense above 2,500 items per month. The fee at that level is currently £23,278 pa and £25,100 pa if dispensing 3,150 items or more per month.

From December 2016 it will be reduced by 20% (from £2092/month to £1673/month for top payment). In April 2017 it will be reduced by 40% compared to 2015/16 levels (to £1,255/month for top payment). This payment will be phased out by the end of 2019/20.

Pharmacy Access Scheme

The Government believes that efficiencies can be made without compromising quality or access to services. Throughout the consultation process there have been statements on potential closures which have varied between 1000 and 3000; however, it should be noted that the Government's impact assessment¹³ assumes that there will be no closures. There will be some consolidation as a result of changes in the market entry regulations, however the exact impact of the funding cuts and reforms will take some months and even years to play out. Other factors such as increased consumer expectation for online and digital solutions may have an even greater impact on business viability.

The Pharmacy Access Scheme (PhAS) is designed to support access to pharmacy services where they are sparsely spread. A pharmacy will be eligible for the PhAS if it meets all of the following criteria:

- it is more than one mile away from its nearest pharmacy by road
- it is on the pharmaceutical list as of 1 September 2016
- it is not in the top 25% of pharmacies by dispensing volume

This will apply to 1356 pharmacies in England. The exact payment will be based on its funding in 2015/16 less an efficiency saving of 1% in 2016/17 and 3% in 2017/18. On average this will equate to £2,900/month in 2016/17 and £1,500 in 2017/18. The scheme will be reviewed before a decision is made on 2018/19 and beyond. More details on the scheme and a list of the eligible pharmacies is available on the reforms website.¹⁴

¹³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/561496/Community_pharmacy_impact_assessment_A.pdf

¹⁴ <https://www.gov.uk/government/publications/community-pharmacy-reforms>



Quality Payments Scheme

Up to £75 million will be made available as part of the overall funding sum in 2017/18 to pharmacies meeting certain quality criteria. To qualify for payments, pharmacies will have to first meet four gateway criteria including provision of at least one Advanced Service; their NHS Choices entry must be up-to-date; the pharmacy must be able to use NHS mail; and they must utilise the Electronic Prescription Service (EPS). Pharmacies meeting the gateway criteria can then receive a Quality Payment if they meet certain quality criteria which are weighted and assigned points which are reviewed at one or two points in the year. The points are expected to be equivalent of £64 so a maximum of £6,400 per pharmacy per year. The following criteria are in the proposals with further guidance available by December 2016.

Quality Payments Scheme				
Domain	Criteria	Number of Review Claim Points	Points at Each Review	Total Points
Patient Safety	Production of a written report that demonstrates evidence of analysis, learning and action taken in response to near misses and patient safety incidents, including implementation of national patient safety alerts and having shared learning	One	20	20
Patient Safety	80% of registered pharmacy professionals have achieved Level 2 safeguarding status for children and vulnerable adults within the last two years	Two	5	10
Patient Experience	Results of patient experience survey from last 12 months published on pharmacy's NHS Choices page	One	5	5
Public Health	Healthy Living Pharmacy Level 1 (self-assessment)	One	20	20
Digital	Demonstration of having accessed the summary care record and increase in access since the last review point	Two	5	10
Digital	NHS111 Directory of Services entry up to date at review point	Two	2.5	5
Clinical Effectiveness	Asthma patients dispensed more than 6 short acting bronchodilator inhalers without any corticosteroid inhaler within a 6 month period are referred to an appropriate health care professional for an asthma review	Two	10	20
Workforce	80% of all pharmacy staff working in patient facing roles are trained Dementia Friends	Two	5	10
Total				100

Pharmacy Integration Fund

The Pharmacy Integration Fund (PhIF) is now proposed to be £42m for the next two years, this compares with the original proposal of £300m over 5 years. The PhIF plans to support



the transformation outlined in the NHS's Five Year Forward View¹⁵ to improve access, relieve pressure on GPs and A&E, ensure optimal use of medicines, drive better value, improve patient outcomes and contribute to 7-day healthcare. This includes:

- the development of clinical pharmacy practice in a range of primary care settings including general practice, care homes and urgent care settings
- workforce development
- digital integration
- establishing the principles of medicines optimisation
- embed pharmacy in the NHS urgent care pathway

This final point will involve two pilot workstreams:

- A national urgent medicines supply scheme where people contacting NHS111 requiring urgent repeat medicines will be referred directly to a community pharmacy. This will be funded from the Pharmacy Integration Fund and is outside of the overall funding sum. Fees and detailed specification for the service have yet to be agreed but NHS England has budgeted for £2m based on the current 200,000 calls to NHS111 for this initiative.
- An urgent minor ailments service which will test the technical integration and clinical governance framework for referral to community pharmacy from NHS111 for people who need immediate help with minor ailments. The service is not available for patients referred by their GP or self-referred. NHS England will encourage all CCGs to commission a minor ailments service from community pharmacy.

Reimbursement

Department of Health plan to change some of the drug reimbursement systems including:

- Products not in Part VIII of the Drug Tariff (e.g. appliances, incontinence, stoma, chemical reagents)
- Category M medicines so they better reflect market prices
- The margin survey to account for multiple suppliers for non-part VIII and Category C (branded) products
- Splitting the discount scales to reflect that generic medicines have higher margins than brands
- The way that Category A prices are set

This will be phased in depending on the complexity of implementation and work in other parts of the supply chain.

Market Entry

Department of Health propose to make regulations which provide protection for two pharmacies that choose to consolidate on a single site through merger or acquisition. This is planned to be in place by December 2016 and may result in some reduction in numbers to streamline business and reduce clustering.

Modernising the Service

The Government plans to take steps to improve the prescription ordering journey to maximise patient choice and convenience through a digital pathway.

The Department of Health plans to explore new terms of service for distance-selling pharmacies.

¹⁵ <https://www.england.nhs.uk/ourwork/futurehns/>



The Department does not plan to implement any new measures with regards to prescription duration as part of this package of changes.

There is currently a review of the value of community pharmacy services being undertaken led by Richard Murray of the Kings Fund who is due to report back to the Chief Pharmaceutical Officer before the end of 2016. Until that time, there are no planned changes to Advanced Services¹⁶ in the contractual framework as part of these reforms.

So What Does This Mean?

For Community Pharmacy?

Community pharmacy owners in England will see a significant reduction of income for dispensing within Essential Services.¹⁷ The following table illustrates the impact for a pharmacy dispensing the 'average' number of 7,500 prescription items per month:

Period	Total Fees & Allowances (pcm)	Estimated Retained Profit (pcm)	Indicative Income (pcm)	Reduction (pcm)	Reduction in Full Year	% Reduction (from Nov-16)
Nov-16	£13,830	£4,764	£18,594			
Dec-16	£10,897	£4,764	£15,661	−£2,933		-16%
April-17	£11,288	£5,689	£16,977	−£1,617	−£19,404	-9%

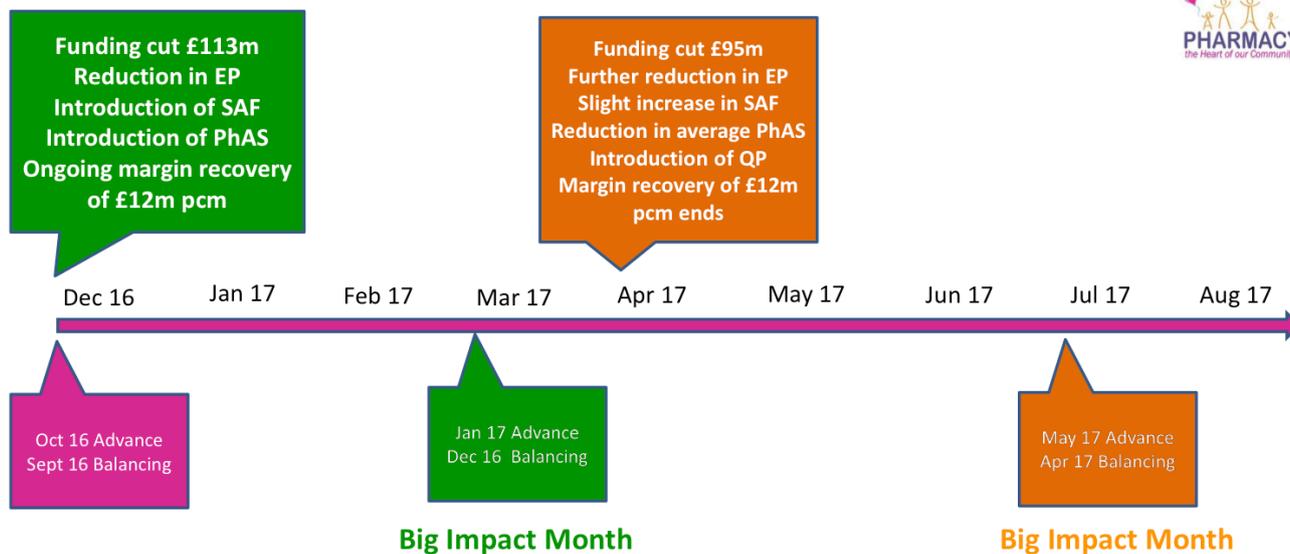
N.B. This data excludes any funding from Advanced Services (MURs worth up to £11,200 pa; NMS on average worth up to £11,760 pa for a pharmacy dispensing 7,500 items per month; Flu Vaccination worth £9.14 per vaccination), the Quality Payment Scheme (worth up to £6,400 pa or £533 per month from April-17) or the Pharmacy Access Scheme if eligible (worth £2,861 per month from December 2016 and £1,545 per month from April 2017).

Pharmacy owners will undoubtedly be looking to closely manage their overhead costs and leverage margin opportunities. This may mean that some will focus on the price of drugs they purchase, particularly in the generics market. However, the reimbursement aspect of the proposals would indicate that the pricing of medicines throughout all levels of the supply chain will be under even closer scrutiny than ever before to ensure that the NHS and the tax payer gets even better value for money. Hence, any reductions in prices and perceived improvement in purchase margins will be clawed back and not add value to overall remuneration for pharmacy businesses.

The biggest short-term challenge to pharmacy owners, particularly small independents and/or those highly geared, will be cash flow shortfall. Even under normal circumstances, January is a difficult month following a busy December from a purchasing perspective but with lower NHS payments reflecting quieter months in October and November; corporation and personal tax payments; quarter rent and rates payments. This will be exacerbated by the c£3,000 per month reduction in Essential Service funding from December. The following timeline illustrates the critical pain points.

¹⁶<http://psnc.org.uk/services-commissioning/advanced-services/>

¹⁷ <http://psnc.org.uk/services-commissioning/essential-services/>



The overall impact of these changes have been estimated to reduce profitability for the average pharmacy in the 4 months from December by £9,800 and by £18,000 in 2017/18.¹⁸

There are also a number of other factors that impact revenue, profit and cash flow at this time:

- Category M rebalancing if there continues to be an overheating of retained margins (£48m was clawed back in the period from June-September 2016)
- De-commissioning of local services e.g. smoking cessation
- Personal and corporation tax payments due
- Quarter rent and rates payments due
- The impact of Brexit on the general economy and consumer confidence and spending plus its impact on the value of Sterling. This has already decreased parallel import opportunities (accounted for in reimbursement discounts), increased medicine prices where manufactured outside of the UK, and the potential increase in workload from supply shortages resulting from increased parallel export to Europe – the impact of Brexit has been estimated at £200 per month (£2,400 pa)¹⁹

The risk for the sector is that pharmacy owners cut back on staff numbers and development, reducing service delivery and activity and further compounding the impact of the reforms. This would take pharmacy into a supply function only, increasing the risk of a digital and remote dispensing function.

What should pharmacy owners be doing?

1. Examine non-personnel costs carefully to minimise unnecessary expenditure
2. Ensure that they are fully and appropriately remunerated and reimbursed for all NHS activity – many pharmacies fail to claim correctly (or at all in some cases) for dispensing and other NHS services

¹⁸ <http://www.chemistanddruggist.co.uk/news/accountant-calculates-how-much-cuts-will-cost-your-pharmacy?cid=ENL-CDNEW-DAILYB-LN-TOPSTORY-2016-1026>

¹⁹ <http://www.chemistanddruggist.co.uk/news/independents-could-face-%C2%A32400-profit-loss-wake-brexit>



3. Maximise and optimise the delivery of existing national and locally commissioned services
4. Develop a clear purpose and plan for their business based on their strengths and opportunities whilst minimising their weaknesses and threats that are in their sphere of influence
5. Consider reducing their reliance on non-NHS revenue and profit activities including delivery of private services and increasing their over-the-counter revenue
6. Invest in their people to ensure that they have an engaged and motivated team with the right people doing the right things at the right time, to increase productivity
7. Ensuring that they meet the gateway and quality criteria within the Quality Payments scheme before 1 April 2017

For Patients and the Public?

The big potential issue will be ready access and this is where the current public and media campaigns are focused. Whether in reality we will see closures on any substantive scale, there will be those independent pharmacies who do not move forward and may struggle to maintain a sustainable viable business in the future. There are some groups (multiple and regional) who are ready and waiting to acquire should this happen. We may also see some consolidation where there are clusters of pharmacies either by single companies closing a branch and moving the business into one premise or by acquisition followed by closure.

The public should witness a shift in the quality of their experience and access to services as new technologies are adopted more widely and as the Healthy Living Pharmacy programme is rapidly expanded. Patients may also witness a withdrawal of non-funded/non-contracted services such as home deliveries, domiciliary monitored dosage systems (outside of the requirements of the Disability Discrimination Act) and a reduction in opening hours down to the minimum contracted hours (40 or 100 hours) as pharmacies look to manage their costs.

For other Health and Care Professionals?

The drive to better integrate community pharmacy into the NHS may be seen as a threat by other NHS providers (witness the backlash from some GPs on flu vaccination or the lack of CCG commissioning from pharmacy) but it may also be seen as part of the solution to resolve some capacity, access, quality and funding challenges by others. The intention to encourage more CCGs to commission a common illness (minor ailments) service and more appropriate NHS111 referrals should support this.

At this stage the Government has not indicated whether it plans to reduce funding to Dispensing Doctors under their remuneration for the supply of medicines. However, the current and any future claw back of an overheating Category M does impact on Dispensing Doctors.