



Funding Webinar

October 2018

Simon Dukes – Chief Executive

Mike Dent – Director of Pharmacy Funding





Aims and objectives

During the webinar we will be covering:

- Key points from 2018/19 settlement
- Why PSNC agreed the funding offer
- What this means for future negotiations
- How community pharmacy funding works
- The detail of the 2018/19 settlement
- How to find out the impact on your pharmacy





Simon Dukes, Chief Executive



The 2018/19 settlement

- Funding levels maintained at £2.592bn
- Previous DHSC plans were for a cut of £33m
- Recovery of excess margin to continue following the pause over the summer



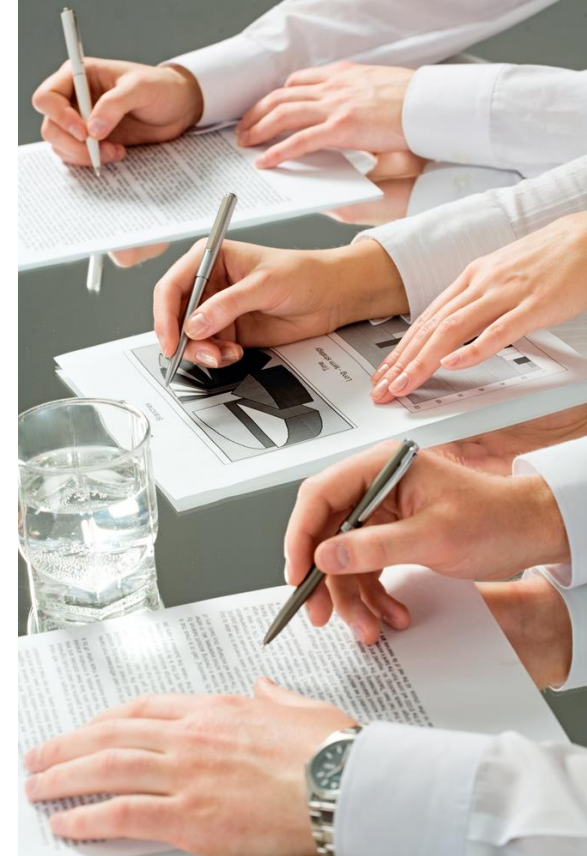
How did we get here?

- Financial pressures on health service
- Rebuilding relationship with HM Government
- Nearing end of financial year
- Foundation for the future



PSNC discussions

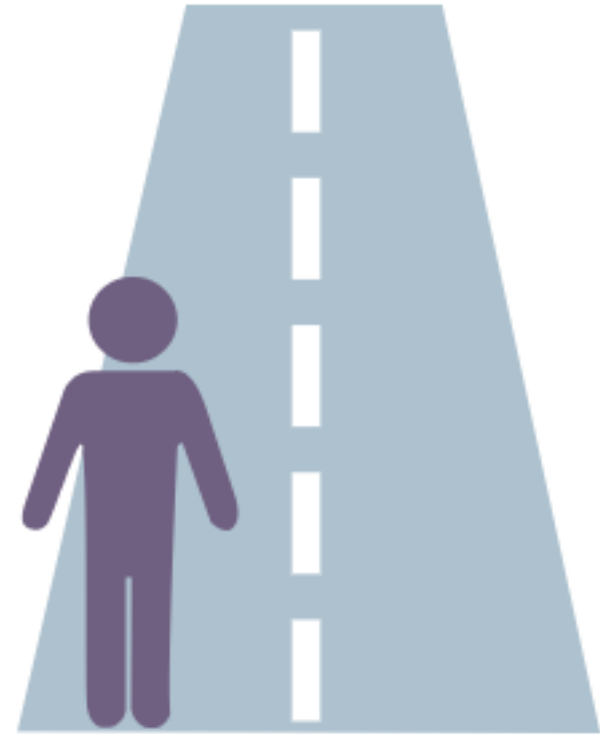
- Rigorous analysis of data
- Difficult debate
- Unanimous decision



Looking to the future

PSNC's ambitions:

- To start 2019/20 negotiations ASAP
- Continue to work towards a multi-year settlement
- To agree sustainable funding
- Cover service delivery costs





Mike Dent, Director of Pharmacy Funding



The two big questions

1. How much funding is there?
2. How is it distributed?



The contract sum

- The headline funding figure
- DHSC cuts were imposed on this sum in recent years
- A further cut for 2018/19 has been prevented



The contract sum: 2018/19

- Remained stable at £2,592m
- The settlement is very late due to:
 - Judicial Review Appeal
 - Change in Ministers
- Only for one year



Funding distribution

There are some key decisions...

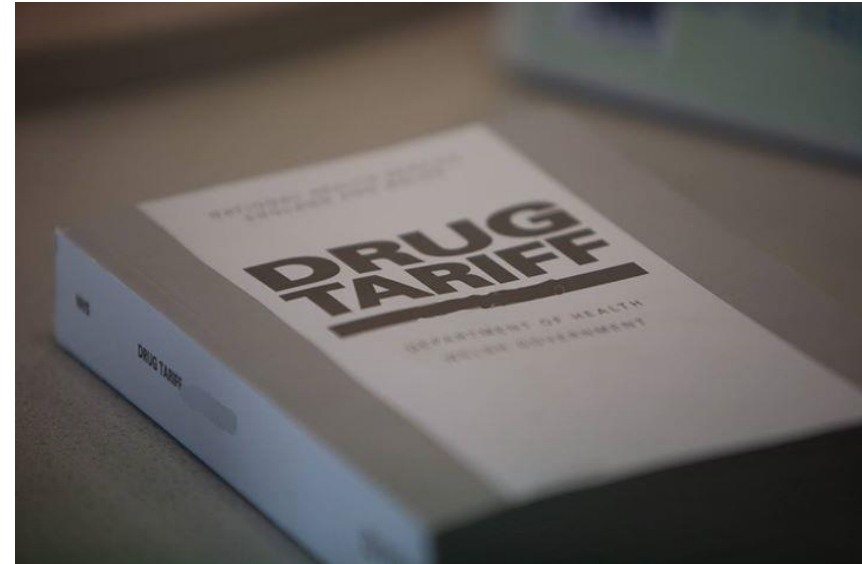
1. The allocation between fees & allowances and retained margin
 - In 2018/19 the split between fees and margin has remained stable at £1,792m and £800m



Funding distribution

There are some key decisions...

2. The nature of the fees and allowances set out in the Drug Tariff



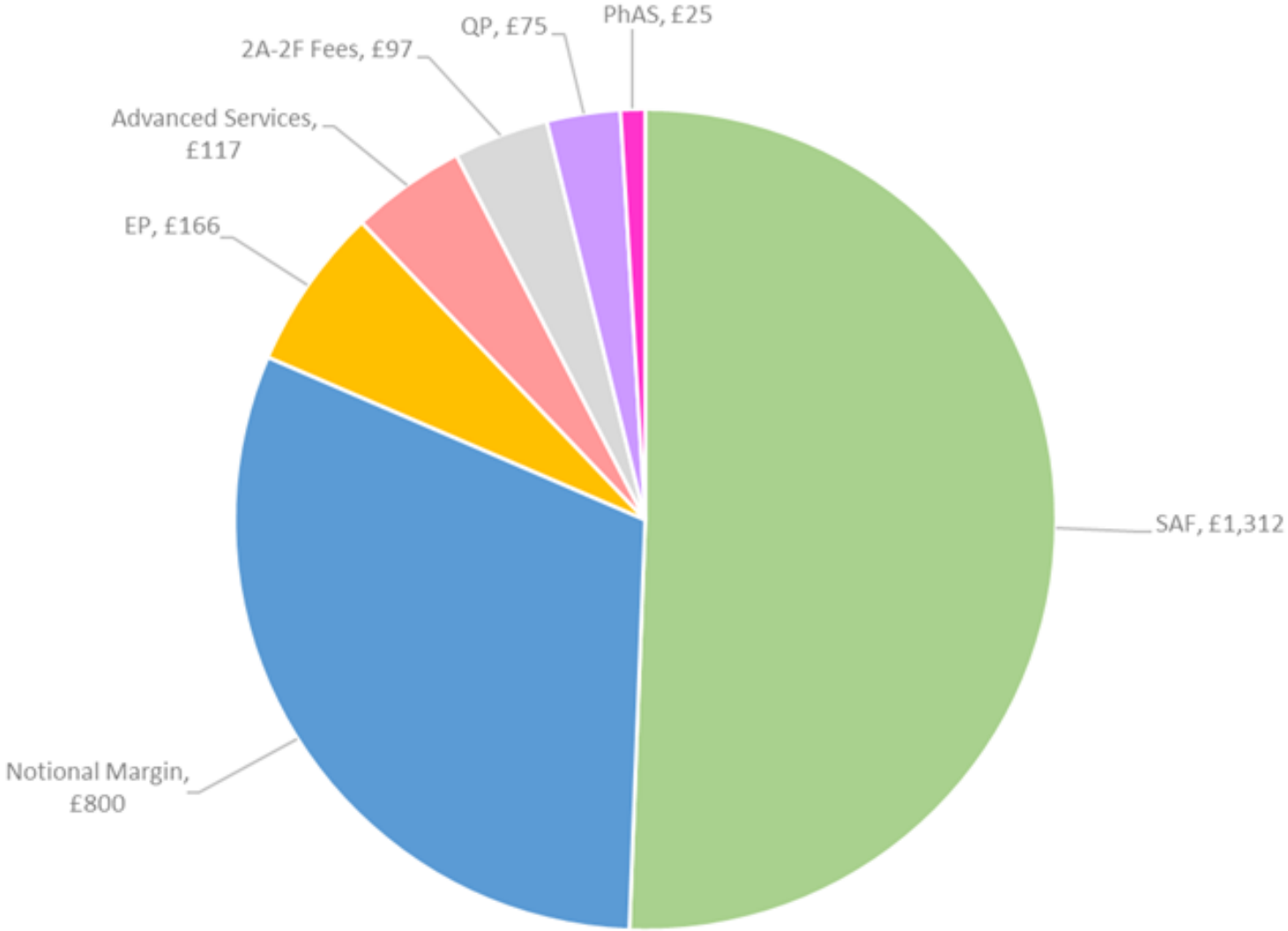
Fees and allowances

More key decisions...

- Fixed v. variable payments?
- What does the payment relate to?



2018/19 Contract Sum (£m)



Total: £2,592



Fees and allowances: in recent years

- DHSC intends to phase out fixed payments
- Single Activity Fee (SAF) increased prominence of variable payments



Fees and allowances: SAF

- 2017/18: started at £1.25 and later increased to £1.29
- 2018/19: started at £1.29 and **will now reduce to £1.26 from November 2018**
- In-year adjustments are the norm



Retained margin

- In 2005, a global margin pot of £500m was agreed
- Contractors consistently exceeded the £500m total
- It increased to £800m for 2014/15 onwards



Retained margin: in recent years

- The delivery system also changed in 2014/15
- Retained margin is measured using a survey



Margins survey

- Based on actual prices paid
- Independent contractors
- Representative sample of lines covering brands, generics and specials
- Conducted on a monthly basis



Margins survey: how it works

- Complex design
- Data taken from contractors' invoices by NHS BSA
- PSNC's Pricing Audit Centre audits their work
- Negotiations held for year end amendments



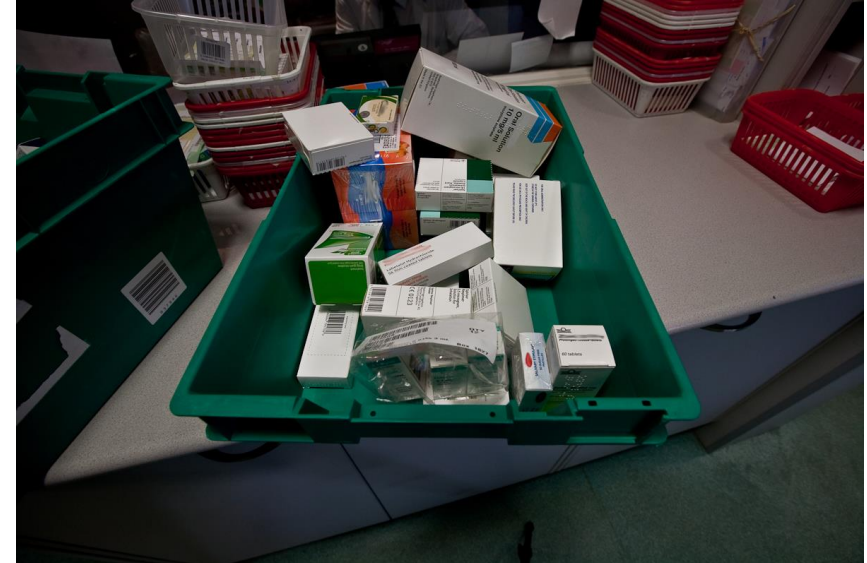
Margin adjustments

- Generally made by adjusting Category M prices because:
 - Most margin originates on these lines
 - There are some downsides to using discount deduction or fees
- **Reduction of £10m a month for five months**



Category M

- Based on manufacturers' prices
- Relate to an earlier reference period (e.g. prices for Jul-Sept are based on data from Jan-Mar)
- New Information Disclosure regulations



Category M: how it works

- Movements happen outside of margin adjustments because:
 - Manufacturers' prices fluctuate
 - This is inevitable given the worldwide nature of the market
- This effect was very prominent in July and October





APRIL 2018:

Funding for 2018/19 remains flat at £2,592m

This is split between fees (£1,792m) and margin (£800m)

Single Activity Fee carries on at rate of £1.29 per item

AUGUST 2018:

Margin recovery of £15m pcm (via Category M) ends

NOVEMBER 2018:

Margin recovery of £10m pcm (via Category M) begins

Decrease in Single Activity Fee to a rate of £1.26 per item

Apr 18 May 18 Jun 18 Jul 18 Aug 18 Sep 18 Oct 18 Nov 18 Dec 18 Jan 19 Feb 19 Mar 19 Apr 19 May 19 Jun 19

AUGUST 2018 (end of month payment):

First Quality Payment for 2018/19 made for eligible pharmacies

OCTOBER 2018 (end of month payment):

Category M price changes reflected in Schedule of Payments

JANUARY 2019 (end of month payment):

Category M price changes and SAF change reflected in Schedule of Payments

MAY 2019 (end of month payment):

Second Quality Payment for 2018/19 made for eligible pharmacies





Key issues

1. Price concessions
2. Branded generics
3. Closures



Price concessions

- Massive spike from spring 2017
- Huge problem for contractors
- PSNC gathers data from contractors and the supply chain to influence prices set by DHSC
- The margins survey captures the effect of concessions



Branded generics

- Becoming prevalent as local NHS budget holders seek to make 'savings'
- PSNC has made many representations to DHSC on the scale of the problem
- DHSC's ability to solve is limited without radical change and public consultations



Closures

- c165 closures since Dec 2016
- We are looking into their nature
- PSNC has made many representations to DHSC and NHS about the pressure on contractors and the 'barriers to exit'



Available resources

- Funding webpage: psnc.org.uk/funding
- Indicative income tables and cash flow model: psnc.org.uk/incometables
- Check34: psnc.org.uk/check34
- Check Rx: psnc.org.uk/checkrx



		input: 7,000 per month											
		2018/19 H1						2018/19 H2					
Dispensing / SOP Month		Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
AIV		£8.56	£8.61	£8.66	£8.52	£8.70	£8.70	£8.70	£8.55	£8.55	£8.55	£8.55	£8.55
Items Dispensed		7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Items Submitted for Payment		7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Advance Payment		£60,393	£60,309	£60,000	£59,933	£60,249	£60,612	£59,648	£60,869	£60,869	£60,869	£59,839	£59,839
Advance Recovered		-£61,069	-£60,393	-£60,309	-£60,000	-£59,933	-£60,249	-£60,612	-£59,648	-£60,869	-£60,869	-£60,869	-£59,839
Total value of account		£60,393	£60,309	£60,000	£59,933	£60,249	£60,612	£59,648	£60,869	£60,869	£60,869	£59,839	£59,839
Total payment		£59,717	£60,226	£59,691	£59,865	£60,566	£60,975	£58,684	£62,089	£60,869	£60,869	£58,810	£59,839

Cashflow forecast calculator

- Use this to forecast how income might change from month to month given expected changes to AIV
- See cash change and percentage change over time





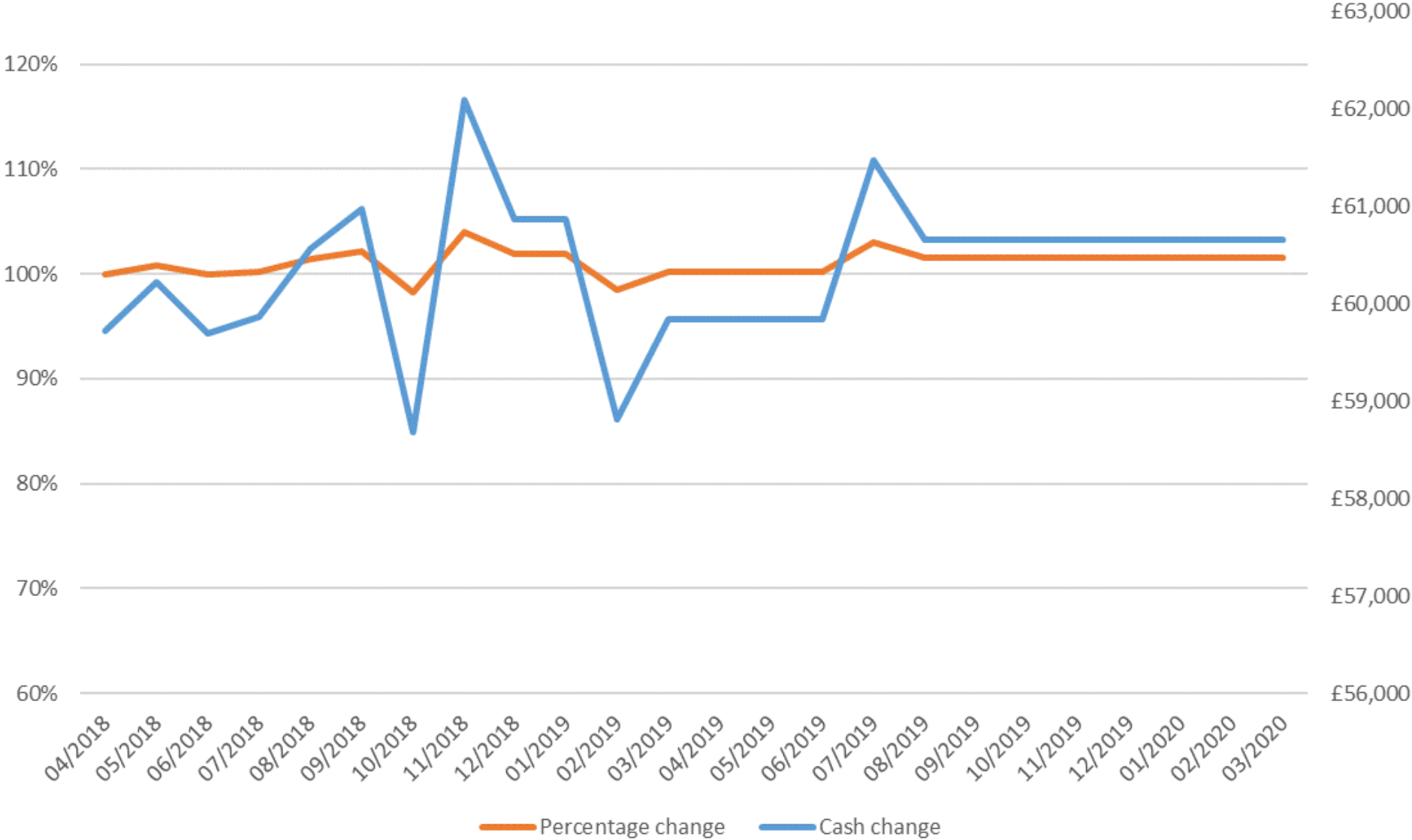
Pharmacy average monthly item volume: input:
7,000 per month

2018/19 H1 2018/19 H2

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Cashflow series



Indicative income tables

- These show how much income pharmacies of different volumes might expect to earn per month
- Calculations assume margin earned at average level
- Tables cover specific periods based on fee levels, ongoing Category M adjustments etc.





Indicative income tables

Nov-18 to Mar-19

Indicative **monthly** income for national contract Essential Services by item band during dispensing months **Nov-18 to Mar-19** inclusive

Items per month	Total income from fees and allowances pcm	Estimated average buying profit	Indicative total income pcm	£ per item
1,000	£1,353	£661	£2,013	£2.01
2,000	£2,705	£1,321	£4,027	£2.01
2,500	£4,546	£1,652	£6,197	£2.48
2,830	£5,037	£1,870	£6,907	£2.44
3,150	£5,516	£2,081	£7,597	£2.41
4,000	£6,666	£2,642	£9,308	£2.33
5,000	£8,018	£3,303	£11,321	£2.26
6,000	£9,371	£3,964	£13,335	£2.22
7,000	£10,724	£4,624	£15,348	£2.19
8,000	£12,076	£5,285	£17,361	£2.17
9,000	£13,429	£5,945	£19,374	£2.15
10,000	£14,781	£6,606	£21,388	£2.14
11,000	£16,134	£7,267	£23,401	£2.13
13,000	£18,839	£8,588	£27,427	£2.11
15,000	£21,545	£9,909	£31,454	£2.10

Indicative **monthly** income from fees and allowances for Essential Services by item band during dispensing months **Nov-18 to Mar-19**

Items per month	Establishment SAF	Special fees Payment and allowances	from fees and allowances pcm	£ per item
1,000	£1,260	£0	£1,353	£1.35
2,000	£2,520	£0	£2,705	£1.35
2,500	£3,150	£1,164	£4,546	£1.82
2,830	£3,566	£1,210	£5,037	£1.78
3,150	£3,969	£1,255	£5,516	£1.75
4,000	£5,040	£1,255	£6,666	£1.67
5,000	£6,300	£1,255	£8,018	£1.60
6,000	£7,560	£1,255	£9,371	£1.56
7,000	£8,820	£1,255	£10,724	£1.53
8,000	£10,080	£1,255	£12,076	£1.51
9,000	£11,340	£1,255	£13,429	£1.49
10,000	£12,600	£1,255	£14,781	£1.48
11,000	£13,860	£1,255	£16,134	£1.47
13,000	£16,380	£1,255	£18,839	£1.45
15,000	£18,900	£1,255	£21,545	£1.44





Check 34 & Check Rx

- IT platform for analysing prescription payment data
- View trends in a number of KPIs and look back at historical data
- Uses data and processes derived from PSNC's prescription audit work



Schedule of payment analysis



Prescription item analysis



Check 34 & Check Rx

Check 34
Schedule of payment analysis

Dashboard

FP34c

Reporting Extract

Troubleshooting Guide

PSNC

1.1.20

EBI solutions



-87% Data

Bottom performer...

-87% Data

nal switching rate?



Questions



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