



Community Pharmacy England's brief guide to the Community Pharmacy Contractual Framework and Funding

August 2023

The Pharmacy Contract

The current contractual framework for community pharmacy was first introduced on 1st April 2005, comprising three levels of services:

- Essential Services
- Advanced Services
- Enhanced Services

Essential and Advanced services form the national element of the contract; Enhanced services are locally commissioned. All pharmacies must provide the Essential Services, and may choose to provide Advanced Services. They may also choose to provide Enhanced Services, dependant on what has been commissioned in their locality.

Since the contractual framework was first introduced, the services constituting the national element of the contract (Essential and Advanced) have been updated and expanded. As of April 2023, the following services comprise the national element of the contract:

Essential Services

- Dispensing medicines
- Disposal of unwanted medicines
- Healthy Living Pharmacies
- Public Health (Promotion of Healthy Lifestyles)
- Repeat Dispensing
- Discharge Medicines Service (DMS)



Advanced Services

- Community Pharmacist Consultation Service (CPCS)
- Flu Vaccination Service
- Pharmacy Contraception Service (PCS)
- Hypertension Case-finding Service
- New Medicines Service (NMS)
- Smoking Cessation Service

Detailed information about these Essential and Advanced services is available on the Community Pharmacy England website:

www.cpe.org.uk/national-pharmacy-services/

Contract funding

Overall funding for the community pharmacy sector in England is set by negotiation between the Department of Health and Social Care (DHSC), NHS England (NHSE), and Community Pharmacy England.

Historically, a budget was set for each financial year. The value of the Community Pharmacy contract sum (i.e. the funding budget) was originally set at £1,766m in 2005/06. This budget grew over the years in recognition of various factors such as:

- Growth in prescription volumes
- Introduction and growth of new clinical services
- Increased regulatory burdens
- Inflationary cost pressures

In 2015/16 the value of the contract sum was £2,800m. At that point, the DHSC imposed cuts to the pharmacy funding budget, reducing it to £2,687m in 2016/17 and £2,592m in 2017/18.

From 2017/18 until 2023/24, the funding budget has been held at a fixed £2,592m per year, with no increases to recognise any of the above mentioned factors.

A 5-year fixed funding package was put in place from 2019/20 – 2023/24, which kept contractual funding at £2,592m per year, but promised the sector measures to help pharmacy businesses increase efficiency and free up capacity over the period, such as:

- Legislative changes to allow all pharmacies to benefit fairly from hub and spoke dispensing and increased use of automation;
- Use of original pack dispensing to support efficient automation;
- Legislative changes to allow for better use of the skill mix in pharmacies;
- Support for pharmacy owners wishing to consolidate; and
- Removal of redundant administrative requirements.

In practice, progress on achieving the required legislative or regulatory amendments to deliver some of these changes has been slow, and pharmacy businesses have not yet been able to benefit from all of these promised measures.

Funding distribution

Detailed funding distribution arrangements are outlined in the Drug Tariff, which is a ministerial determination published monthly by NHS Prescription Services, on behalf of DHSC. This document outlines the various mechanisms used to distribute the contract sum to individual pharmacies. Pharmacy funding under the national framework is broadly distributed in two ways: i) fees and allowances, and ii) retained buying margin.

Fees and allowances

'Fees and allowances' refers to the payments pharmacies receive for the provision of pharmaceutical services, also commonly referred to as 'Remuneration'. All fees and allowances are recharged to NHS England.

National fees and allowances payments can be further categorised in two ways, i) payment for Essential Services, and ii) payment for Advanced Services.

Fees for Essential Services

As of 2023/24, the majority of fee delivery to pharmacies is through prescription dispensing fees. Pharmacies receive a Single Activity Fee (SAF) for every prescription item dispensed. This fee is currently £1.27 per item.



Pharmacies can also claim a range of additional fees which are set out in Part IIIA of the Drug Tariff including fees for things such as dispensing unlicensed specials or imports, measuring and fitting hosiery and trusses, and dispensing controlled drugs.

Pharmacies will receive an expensive prescription fee equivalent to 2% of the net ingredient cost of items dispensed that cost over £100.

Pharmacies will receive an item of service fee of £35 for each DMS they provide.

Pharmacies who dispense at least 101 items in a month will receive a 'Flat Fee' every month of £533.

Fees for Advanced Services

Pharmacies will receive item of services fees for any of the Advanced Services they provide. The fees differ for each service and are outlined in the table below:

Service	Fee	Note
Community Pharmacist Consultation Service	£14	Fee applies to both urgent medicines supply and consultation for minor ailments
Flu vaccination Service	£9.58	Funded from NHS vaccination budgets, not CPCF contract sum
Pharmacy Contraception Service	£18	Fee for Tier 1 of the service
Hypertension Case-funding Service	£15, £45	Separate fees for clinic checks and ambulatory monitoring
New Medicines Service	£20–£28	Fee received per NMS is threshold based, and depends on the volume of



		NMS provided by the pharmacy
Smoking Cessation Service	£30, £10, £40	Separate fees for first consultation, interim consultations and final consultation

Retained buying margin

‘Retained buying margin’ is the profit community pharmacies are allowed to retain through the cost effective purchasing of prescription items. The national arrangements allow for £800m to be delivered to community pharmacies annually in retained buying margin. The DHSC uses Category M in the Drug Tariff to calibrate the amount of margin available to the community pharmacy sector.

Detailed information about category M is available on the Community Pharmacy England website:

www.cpe.org.uk/funding-and-reimbursement/pharmacy-funding/funding-distribution/retained-margin-category-m/

Monitoring of funding delivery

The distribution of funding to pharmacies through various fees, allowances and retained margin is complex and requires careful monitoring by both DHSC and Community Pharmacy England to ensure that overall funding is delivered in accordance with the set budget.

Fee adjustments

The total value of funding delivered through fees and allowances accumulates throughout the year. This is closely monitored, and future expectations for prescription and clinical service volumes are factored in to forecast total funding delivery by the year end. If this analysis suggests that funding delivery will be outside the acceptable envelope, then fee adjustments can be enacted to correct this.



Margins survey

As part of the funding agreement, pharmacy margin levels are monitored and adjusted with the aim of delivering a specific level of margin to the community pharmacy sector each year.

The margin survey measures the margin levels obtained by a sample of Independent pharmacies throughout the year, and this is used to estimate the overall cash margin delivered to the sector.

If Margins Survey results indicate that margin delivery is not in accordance with the agreed parameters, then corrections to pharmacy margin levels will be enacted via the adjustment of Category M reimbursement prices.

Detailed information about Margins Survey processes are available on the Community Pharmacy England website:

<https://cpe.org.uk/funding-and-reimbursement/pharmacy-funding/margins-survey/>

Funding Crisis

Community pharmacy is uniquely placed in the English healthcare landscape. Like General Practice, pharmacies are private contractors who receive the vast majority (for most, more than 90%) of their income from the NHS.

However, unlike General Practice, whose funding has been boosted significantly over a multi-year period, pharmacy funding has been stringently restricted. When inflation and increases in business and staffing costs are taken into account, funding for community pharmacy is decreasing year on year.

Unlike most other businesses, pharmacies cannot raise their prices to their primary customers (NHS patients) to address this funding squeeze.

All parts of the economy are under pressure and the community pharmacy sector is no exception, with pharmacy businesses of all shapes and sizes already struggling to meet patient demand, to manage their cashflow and pay spiralling costs, and, sometimes, even to remain open to provide the services that patients and the public rely on. Many pharmacies are operating in crisis mode and are being forced to reduce the services that they offer to patients and local communities.



This has been caused by a number of factors including systemic pharmacy funding cuts of at least 30% in real terms since 2015. Community Pharmacy England has been warning officials at NHSE and DHSC, as well as Ministers, that community pharmacies are at crisis point.

We have said clearly that the current pharmacy funding settlement is unfit for purpose, due to the spiralling and uncontrollable cost increases that have been experienced by pharmacies in the last three years.

Pharmacy businesses, and the services they provide for patients, are now significantly at risk. An immediate and significant injection of funding is required, just to maintain the pharmacy service in its current form.