

# Summary Briefing: Economic Analysis of NHS Pharmaceutical Services in England

This summary outlines the key findings from the 'Economic Analysis of NHS Pharmaceutical Services in England', conducted by Frontier Economics and IQVIA.

*"The economic analysis shows, as we have been warning throughout many years of real-terms funding cuts, that the cost of delivering pharmaceutical services for the NHS has now vastly outstripped the funding available. The funding uplift for pharmacies in this coming financial year is much needed, but despite being the largest uplift across the NHS, it will not fill the full funding gap. We welcome Government's recognition of this and will need to see continuing progress on the commitment to working towards a sustainable funding and operational model for pharmacies."*

**Janet Morrison, Community Pharmacy England Chief Executive**

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## Background

At Community Pharmacy England's insistence during previous funding negotiations, NHS England [commissioned Frontier Economics and IQVIA](#) to conduct an Economic Analysis of NHS Pharmaceutical Services. This followed our ongoing concerns about the economic sustainability of the community pharmacy sector. Following a call for pharmacy owner participation, data was provided for 1,166 pharmacies across 102 companies (where companies only provided data for a sub-set of their pharmacies, IQVIA selected a representative sample to be provided). **The data sample covered over 10% of all pharmacies.**

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## Key Findings<sup>1</sup>

- 1. The economic costs of delivering NHS pharmaceutical services now far outstrip the funding available to pharmacies for delivering them.**
  - The central estimate of the full economic cost of NHS Pharmaceutical services for 2023/24 was £5.063 billion.**

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<sup>1</sup> All figures relate to the 12 months to 31st March 2024, except where stated otherwise.

- Total community pharmacy funding for 2023/24 was £2.755 billion<sup>2</sup>. The most immediate costs measured by Frontier Economics (their pharmacy-level and centralised cost categories) exceeded funding by £0.704 billion, with the **estimated total full economic cost resulting in a funding gap shortfall of £2.308 billion for community pharmacy.**
- The report also models how this could rise in the future, showing an average cost growth of ~8.2% p.a. driven by increases in existing commissioned activity, National Living Wage, and other inflationary pressures and changes from 1st April 2025. **In aggregate terms, the full economic cost could rise to £8.106 billion by 2029/30<sup>3</sup>** – this assumes the sector structure does not change and is able to absorb volume increases without any disproportionate stepped costs.

## 2. Nearly all pharmacies have funding which is lower than the full economic cost.

- The mean Full Economic Cost is £409–£573k to operate a community pharmacy, depending on the archetype being analysed.
- **Between 97.7% to 100% of pharmacies were funded (in 2023/24) below their Full Economic Cost of operation, depending on the archetype being analysed.** This is the cost needed to meet their operational needs, including allowing future investment and recognising that businesses need a return.
- Costs vary considerably between different pharmacies, both within and across archetypes. Many factors may contribute to the variability, including some beyond the control of pharmacy owners such as different regional costs, patient mix and demographics, and local GP and NHS 111 operating practices.

## 3. Loss making and severe cashflow issues are affecting large parts of the sector.

- **24% of parent companies had negative net current assets.**

This focuses on independents (singles and small chains) – Community Pharmacy England’s separate statutory accounts analysis highlights this is even worse for larger companies.

- **47% of pharmacy branches were not profitable at EBITDA level in their last accounting year.**

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<sup>2</sup> This includes over-delivery of some funding and margin received in 2023/24, plus flu vaccination fees and Pharmacy First fees (included as nationally commissioned Advanced Services despite being outside of the core Contract Sum).

<sup>3</sup> Note, this largely excludes Pharmacy First growth (given Frontier’s reference period only includes the initial two months of this service), assumes service growth only matches prescription growth, and does not build in any future policy changes such as Independent Prescribing Pharmacists or new clinical services.

This is based on EBITDA<sup>4</sup> before centralised and any hub costs. Centralised costs are those incurred by a business but not allocated back to individual pharmacies in their accounts – if these costs were recharged back to pharmacies this EBITDA statistic would be worse still.

- **7% net reduction in the number of pharmacies in England (Jan 2021 – Nov 2024).**

Over the last year, this reduction was concentrated in the large pharmacy chains. The report also notes the high point in pharmacy numbers (11,730 in May 2017).

#### 4. Financial pressures have led to significant challenges in pharmacy businesses.

- 99.9% of pharmacies reported significant changes in the management of staff;
- **99.9% reported significant changes in operations;**
- **74.7% reported significant change in financing their business;** and
- 81.0% reported significant changes in property management.

#### 5. Investment in community pharmacies offers opportunities for the NHS.

**Due to cost differences with other parts of the NHS, existing or new pharmacy services could, in some cases, be substitutes for activities being done more expensively elsewhere.** However, the report notes that a more detailed study would be required to understand the implications of transferring more care into pharmacies.

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## Conclusion

The economic analysis shows that delivering community pharmacy services at the current funding levels is **not economically sustainable** for almost all community pharmacies. **It shows the size of the funding gap that has built up over many years of real-terms funding cuts: this now stands at over £2 billion per year.**

*“The economic analysis shows the scale of the funding gap that has built over many years of real-terms funding cuts for community pharmacy: it is no surprise that we have seen pharmacies closing at such an alarming rate. The Government has recognised this gap and committed to working with us towards a sustainable funding and operational model for community pharmacy, and this cannot happen quickly enough.”*

**Janet Morrison, Community Pharmacy England Chief Executive**

**If you have any queries or require more information, please contact: [comms.team@cpe.org.uk](mailto:comms.team@cpe.org.uk)**

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<sup>4</sup> Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA): a standard measure of profitability used by many businesses.