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

June 2026

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 May June 2026, the following services comprise the national element of the contract:

Essential Services

- Dispensing medicines and appliances
- Disposal of unwanted medicines
- Healthy Living Pharmacies
- Public Health (Promotion of Healthy Lifestyles)
- Repeat Dispensing and eRD
- Discharge Medicines Service (DMS)
- Signposting to other services
- Support for self-care

- Clinical Governance

Advanced Services

- Pharmacy First Service
- Seasonal Vaccination Service
- Pharmacy Contraception Service (PCS)
- Hypertension Case-finding Service
- New Medicines Service (NMS)
- Smoking Cessation Service
- Lateral Flow Device Service
- Appliance Use Review
- Stoma Appliance Customisation

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

https://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 core funding budget was held at a fixed £2,592m per year, with no increases to recognise any of the above mentioned factors.

In 2023/24 the Government introduced a Primary Care Recovery Plan initiative, the aim of which was to take pressure off general practice and included introducing a new Pharmacy First service enabling pharmacy teams to provide treatment for common illnesses, with associated funding which is additional to existing core Pharmacy funding.

In March 2025 the contract sum was increased to £3,073m for 2025/26. The settlement also included an additional £215m in 2025/26 for the Pharmacy First initiative.

It was announced in May 2026 that the contract sum would increase to £3,636m for 2026/27; this includes the incorporation of the previously separate Pharmacy First budget into the core contract sum.

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 2026/27, 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 £1.52 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 controlled drugs or unlicensed specials and measuring and fitting hosiery and trusses.

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 complete DMS consultation they provide.

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
Pharmacy First Service – item of service fees	£17 or £15	Separate fees for Clinical Pathways / Minor illness consultations, and urgent medicine supplies
Pharmacy First Service – monthly fixed payments	£500 or £,1000	Pharmacies who deliver the required number of clinical pathways consultations AND meet bundling requirements will receive monthly fixed payment
Seasonal Vaccination Service	£10.06, £8.70	Funded from NHS vaccination budgets, not CPCF contract sum. Lower fee for co-administration of C-19 vaccine during flu season

Pharmacy Contraception Service	£25	Fee applies to both initiation and repeat supplies of contraception
Emergency Hormonal Contraception (part of Contraception Service)	£20	Introduced as an extension of the Pharmacy Contraception Service
Hypertension Case-funding Service	£10, £50.85	Separate fees for clinic checks and ambulatory blood pressure monitoring
New Medicines Service	£14	Fee received per NMS consultation. One full NMS includes two consultations (Intervention and Follow Up) for which a total of £28 is claimable
Smoking Cessation Service	£30, £10, £40	Separate fees for first consultation, interim consultations and final consultation
Lateral Flow Device Service	£4.10	Fee + VAT paid for each supply of 1x5 box of COVID-19 test kits
Appliance Use Review	£28 or £54	Basic fee for AURs conducted on pharmacy premises, double rate for those carried out in a patient's home.
Stoma Appliance Customisation	£4.32	Fee paid per qualifying Part IXC item dispensed

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 £1,100m 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:

https://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 into forecast total funding delivery by the year end. If this analysis suggests that funding delivery will be outside the acceptable envelope, then fee adjustments may 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 agreed parameters, then corrections to pharmacy margin levels may 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 had been boosted significantly over a multi-year period, pharmacy funding had been stringently restricted for nearly a decade. This means that when inflation and increases in business and staffing costs are taken into account, funding for community pharmacy was decreasing year on year.

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

The settlement announced in March 2025 was the first uplift to Pharmacy Funding for a decade. While the increases to funding agreed in 2025 and 2026 are a welcome change from the continuously eroding funding picture of recent years, they do not undo a decade of funding contraction, or go far enough to stabilise the sector. This is clearly evidenced by the Independent Economic Analysis provided by Frontier Economics which was commissioned by NHS England to inform pharmacy negotiations.

Community Pharmacy England has said clearly that the current pharmacy funding framework is unfit for purpose, due to the spiralling and uncontrollable cost increases that have been experienced by pharmacies in recent years. Pharmacy businesses, and the services they provide for patients, continue to be significantly at risk.

Community Pharmacy England has been clear to Ministers that more investment is needed, alongside significant reform of the contractual framework. Crucially, the Government has

acknowledged the funding gap, and the need for reform, and has committed to working with us towards a sustainable model for community pharmacy. We will continue to put pressure on policymakers to ensure that this commitment is met.

Further Information

Find out more about the sector in our 'Learn more about community pharmacy' section: https://cpe.org.uk/learn-more-about-community-pharmacy/

Additionally, our latest animation explains this year's CPCF settlement and what it means for community pharmacies.