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To: PCT Chief Executives
cc: SHA Chief Executives
SHA Directors of Finance

Gateway reference:14787

15 September 2010

Dear Colleague,

**COMMUNITY PHARMACY CONTRACTUAL FRAMEWORK (CPCF)
FUNDING FOR 2010/11**

I am writing to provide details of the community pharmacy contractual framework (CPCF) funding settlement for 2010/11.

In summary, the fees and allowances remain unchanged for the remainder of 2010/11, with the exception of the usual 3% increase in prescription volume thresholds. Generic medicine prices (Category M) will be reduced, yielding £120 million savings from October 2010 to March 2011, equivalent to £240 million in a full year. Some adjustments have also been agreed for 2011/12. Further details are provided at **Annex A**.

If you have any queries on the content of this letter, please direct them to mpig.support@dh.gsi.gov.uk.

Yours sincerely



Bob Alexander
Director of NHS Finance

COMMUNITY PHARMACY CONTRACTUAL FRAMEWORK (CPCF) FUNDING FOR 2010/11

Although the centrally held funding for the provision of NHS pharmaceutical services was devolved to PCTs from April 2010, the Department of Health (DH) continues to set the levels of fees and allowances for community pharmacies nationally for essential and advanced services. These fees and allowances are informed by the overall agreement between the DH and the Pharmaceutical Services Negotiating Committee (PSNC) on the funding for the community pharmacy contractual framework. For 2010/11 the funding settlement, as agreed with Ministers, takes account of:

- The usual annual uplift formula, including an efficiency assumption of 3.5%.
- Significant regulatory burden claims
- The outcomes of the medicines margin¹ survey, assessing the margin achieved by pharmacy contractors in the previous financial year, so that adjustments to medicine reimbursement prices can be made to bring the margin in line with the amount agreed under the CPCF.
- Early findings of the community pharmacy cost of service inquiry (COSI). The final outcome should be available in time to further inform next year's settlement. Taking account of provisional data now, should support smoother funding flows.

As a result, total funding for 2010/11 is £2.486 billion, consisting of:

- £2.336 billion from the application of the annual uplift formula and regulatory burden;
- £250 million to take provisional account for COSI; and
- recovery of £100 million from 2009/10 (£35 million uncommitted from the £125 million allocated for one-off infrastructure costs² and £65 million excess medicine margin left on account while further analysis was undertaken).

This compares to a contract sum in 2009/10 of £2.300 billion and overall funding provision of £2.490 billion.

As part of the agreement for 2010/11:

- the level of fees and allowances will remain unchanged for the remainder of the financial year. This includes the fee for the advanced service medicine use reviews (MURs);
- prescription volume thresholds for the establishment payment and practice payment will increase by 3%, as in previous years;
- from April 2011, fees and allowances will be set for 2011/12 to deliver £20 million less over the course of the year;

- generic medicine prices (Category M) will be reduced by the equivalent of £240 million per annum. This will yield savings to the NHS of £120 million from October 2010 to March 2011. In addition, generic medicine prices (Category M) will be reduced by a further £10m per quarter from April 2011.
- A risk sharing element to be considered in next year's settlement should the COSI outcome be less than the provision made this year.

In addition, a further reduction in generic medicine prices (Category M) from April 2011 has been agreed; the quantum will be informed by the early findings of the medicine margin survey for 2010/11.

The October 2010 Drug Tariff will reflect the amendments to generic medicine Category M prices and the threshold payments. The April 2011 Drug Tariff will reflect the further amendments to generic medicine Category M prices and required adjustments to fees and allowances.

These changes have little effect to the ready reckoner issued earlier this year and so PCTs should continue to use it for planning purposes.

Any queries should be directed to mpig.support@dh.gsi.gov.uk

Medicines, Pharmacy & Industry Group
Department of Health
15 September 2010

¹ The medicine margin is the difference between the price paid by a pharmacy contractor for a product from its supplier and the price reimbursed by the NHS.

² £90 million of investment has been agreed for unavoidable one-off infrastructure costs to support implementation of the electronic prescription service, information governance, responsible pharmacist provisions and business continuity.