



## SCOTTISH EXECUTIVE

Health Department  
Directorate of Primary Care and Community Care

**Primary Care Division**  
St Andrew's House  
EDINBURGH  
EH1 3DG

Dear Colleague

### PHARMACEUTICAL SERVICES FINANCIAL FRAMEWORK 2006-2007 - TRANSFER OF £30 MILLION FROM REIMBURSEMENT TO COMMUNITY PHARMACY REMUNERATION

#### Purpose

1. This Circular provides NHS Boards, Community Health Partnerships and community pharmacy contractors with updated advice concerning progress in the previously announced transfer of £30 million during 2006-2007 from prescribed drugs cost reimbursement to contractor remuneration. Key points to note are:

1.1 the actual amount transferred as a consequence of April and July 2006 Tariffs is likely to be less than the target £30 million in the full year;

1.2 from October 2006, further pricing amendments to Part 7 of the Drug Tariff are expected to yield an additional amount of savings worth around a further £30 million in a full year, subject to subsequent Tariff amendments; and

1.3 until the target £30 million is fully reconciled, **NHS Boards should not deploy any of the additional savings (estimated to be around £30m) referred to at paragraph 6.6.**

#### Background

2. [Circular PCA\(P\)\(2005\)5](#) advised the Service of new arrangements for the reimbursement to contractors for items on Part 7 of the Drug Tariff. The objective was to pave the way for an agreed transfer, during 2006-2007 of £30 million from the reimbursement funding stream to the remuneration stream.

5 December 2006

#### Addresses

For action  
Chief Executives, NHS Boards

For information  
Directors of Finance, NHS Boards  
Chief Executive, NHS: NSS

#### Enquiries to:

For general policy issues

Mr Stephen Tither  
Room 1 East Rear  
St Andrew's House  
EDINBURGH  
EH1 3DG

Tel: 0131-244 3096  
Fax: 0131-244 2326

For finance and audit issues

Mrs Jane Davidson  
Room 1 East Rear  
St Andrew's House  
EDINBURGH  
EH1 3DG

Tel: 0131-244 3475  
Fax: 0131-244 2371

[www.scotland.gov.uk](http://www.scotland.gov.uk)



3. [Circular PCA\(P\)\(2006\)3](#) provided a Financial Framework in respect of payments for Pharmaceutical Services for 2006-2007 and introduced new payments for 2006-2007, including a Transitional Reimbursement Payment (TRP) which provides the mechanism for balancing delivery of the remuneration element of the £30 million transfer from reimbursement during the transitional year of 2006-2007 after allowing for the costs of the new payments for the Minor Ailments Service (MAS), Public Health Service (PHS) and IM&T infrastructure support (IS).

4. Progress has been the subject of ongoing review by the Department, the Scottish Pharmaceutical General Council (SPGC) and NHS Board Finance leads. The following key points now emerge:

- An appropriate method for identifying savings achieved and projecting what will be delivered during 2006-2007 has been agreed by the reviewing parties. This is sensitive to changing volumes of items prescribed during 2006-2007 by comparison with 2005-2006.
- Significant recurring savings are now flowing to NHS Boards as a consequence of changes in the protocol introduced in stages since 1 April 2005 to set the majority of reimbursement prices for Part 7 drugs, ie most generic drugs.
- Not all of the savings are solely attributable to the change in protocol that became effective from 1 April 2006 for generic drugs already on the Tariff at 31 March 2005. This is because generic copies for certain high volume drugs were also added to Part 7 in two tranches from April 2005 and April 2006. These were added to the Tariff using the new protocol, which is delivering reductions in reimbursement prices earlier than was achieved under the previous regime.
- A significant proportion of the savings being achieved, and in particular those relating to addition of new generic copies to the Tariff since April 2005, have already been redeployed by NHS Boards for purposes other than community pharmacy under the Efficient Government programme. These are not being counted as savings to fund the transfer from reimbursement to community pharmacy remuneration.
- The switch to the new protocol at the level of April and July 2006 prices alone is therefore unlikely to generate uncommitted cash savings at the full target level of £30 million in 2006-2007.
- TRP payments under the new community pharmacy contract in respect of MAS, PHS and IS commenced in July 2006 and to smooth cash flow for contractors the normal discount clawback on Part 7 reimbursements was foregone for Quarter 1 of 2006-2007. The clawback rate was reinstated with effect from 1 July 2006 at the standard rate of 13.25%. No further adjustments in payment rates have been planned for the remainder of 2006-07 so far.
- It is currently estimated that qualifying aggregate new payment stream payments to contractors based on provisional projections at 30 September of MAS £5.7m, PHS £7.6m, IS £1.05m plus TRP through discount foregone in Quarter 1 of £8.7m, will total £23.0 million in cash (£26.5 million as GIC equivalent), which is less than the target transfer amount of £30 million in cash terms.

- However, with effect from October 2006 the new protocol is working to provide a further significant and recurring reduction in aggregate Tariff prices such that the target level of £30 million savings to fund the transfer to remuneration of an equivalent amount will be achieved by the end of Q2 2007-2008.
- It will not be possible to provide a realistic projection of the level of aggregate savings for 2006-2007 until prescribing volume outturns for the first months of Q3 2006-2007 and the January 2007 Tariff prices become available.

## **Conclusions and way forward**

5. As a consequence of the above review it has been concluded that:

- The full £30 million transfer from reimbursement to remuneration may not be completed during 2006-2007.
- A review will be conducted by the Department and SPGC as soon as actual data for Q2 2006-07 is available and the January 2007 Tariff prices are set. This will use, as a projection, actual volume adjusted savings achieved for the first half of 2006-2007 plus a projection for the second half based on line by line volume turnover for the second half of 2005-2006 multiplied by price changes since 2005-2006.
- In the event that the projected gap between savings and benefits to contractors for the full year 2006-2007 is significant, the discount clawback rate for the dispensing months of January 2007 onwards will be adjusted upwards or downwards as appropriate to achieve balance between projected savings and benefits at the national level up to the maximum in cash terms of £30 million.
- The review will be repeated as actual dispensing volumes for October and then November 2006 become available and further adjustments made as may be necessary
- Any residual action to achieve balance in the transfer for 2006-2007 at national level will be carried forward and effected through continued adjustment of reimbursement arrangements in the early part of 2007-08 once outturn for 2006-2007 has been finalised.
- The global sum for 2007-2008 will be maintained at the level already negotiated, ie including the £30 million permanently transferred from reimbursement to remuneration. The method whereby this target is delivered to contractors is the subject of ongoing negotiations between the Department and SPGC.

## **Action**

6. **NHS Boards should:**

**6.1 copy this circular to Community Health Partnerships in their area and to community pharmacy contractors on their pharmaceutical list;**

**6.2 note the intention to maintain the Part 7 discount clawback rate at the current rate for months up to and including December 2006 dispensings;**

**6.3 note the intention to review and revise the clawback rate for January, February and March dispensings as may be necessary to achieve a projected balance in savings and benefit to contractors;**

**6.4 note that there may be a requirement to carry forward into 2007-2008 a deficit or credit in respect of this balance which will fall to be either a call on or a gain to the Unified budget for 2007-2008 on a Board by Board basis. ISD will work with individual Boards to confirm the position of each;**

**6.5 note that as the reviews will be based on a projection for second half year volumes, based on 2005-2006 levels for months where actual current year data is not yet available, the projected savings for the second half are likely to be lower than those which will eventually be achieved;**

**6.6 ensure that savings arising from the lower level of aggregate reimbursement prices which have effect from October 2006 onwards are not deployed until the final review has been completed (based on actual outturns and reimbursement prices for the whole of 2006-2007) and clawback rates for 2007-2008 have been adjusted as may be necessary. It is expected that the agreed approach will need to be agreed with External Auditors prior to Annual Accounts Closure; and**

**6.7 note that arrangements for the payment of the 2007-2008 community pharmacy global sum will be announced in due course.**

**Further advice**

7. Questions on the policy content of this Circular should be directed to Stephen Tither, contact details as above.

8. Questions on the Finance and Audit implications of this Circular should be directed to Jane Davidson, contact details as above.

Yours sincerely

**Dr Jonathan Pryce  
Head of Primary Care Division**

**Jane Davidson  
Deputy Director of Finance**