

# Opposition Day Debate on Community Pharmacies

2 November 2016

## An Alternative to Pharmacy Funding Cuts – and a Big Saving for the NHS?

Briefing Document



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## The scale and the impact of the cuts

The Government has announced that it will cut £113 million from community pharmacy funding from 1 December 2016 to 5 April 2017 (a 12% cut on funding for that period), and a 7.4% cut of £208 million for the 2017/18 financial year relative to the amount funded in 2014/15.<sup>[1]</sup>

Alistair Burt MP (NE Bedfordshire), former pharmacy minister, said in January 2016 that the Government's planned cuts could lead to the closure of up to 3,000 pharmacies.<sup>[2]</sup>

This will inevitably damage vital primary care services based in local communities, forcing more patients to visit their already overstretched GP surgery, or worse still attend the Accident and Emergency Department at their local hospital to seek assistance with conditions that are currently handled by their local community pharmacy.

The Pharmacists' Defence Association Union (PDAU) believes that there are other, much more intelligent ways of securing such savings from the medicines supply budget, if indeed they must be made. Under the PDAU's proposals, savings secured by these alternative means could be far greater than what is currently being proposed, but they would not in any way harm the vital network of community pharmacies, hence avoiding altogether the damaging impact of the government's current proposals.

## Urgent questions the government *must answer*

**There are certain questions that the Pharmacists' Defence Association Union (PDAU) believes must be answered urgently, which are included below, along with supporting information.**

### Alternative sources of savings

Some of the largest pharmacy chains in the UK are owned by the same parent company as one of the three largest pharmaceutical wholesalers (this is called vertical integration). In 2007, the Office of Fair Trading identified competition implications with vertical integration of pharmacies and pharmaceutical wholesalers.<sup>[3][4]</sup> Vertical integration is allowed, either with or without restrictions, in just 10 of the 28 EU countries.<sup>[5]</sup> In a vertically integrated company, profits from the NHS may appear in either the wholesaler or the pharmacy's accounts and in any event, they are extremely difficult for a payor like the NHS to establish. This situation becomes even more difficult to unravel if the wholesaler is owned by an overseas entity.

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The PDAU believes that, ironically, the profits made by vertically-integrated pharmaceutical wholesalers will likely increase in the event of independent pharmacy closures. The number of NHS medicines supplied to patients will continue to grow annually, but with less competition and fewer pharmacies to deliver to across the country – resulting in greatly reduced overheads and dramatically increased wholesaler profits. Currently, there is a lack of government regulation of the profits made by pharmaceutical wholesalers, neither is there a requirement to pass on any cost saving benefit to the NHS. The proposed funding cuts may, therefore, have the effect of supporting those pharmacies that are part of a larger corporate infrastructure and reduce competition from independent pharmacies.

***Does the government agree that vertically-integrated pharmaceutical wholesalers could benefit at the expense of independent pharmacies, which could be forced to close as a result of these cuts?***

Currently, the government controls the costs of operating community pharmacies and it also has a significant say in the costs charged by medicines manufacturers. However, despite £15.5 billion annual expenditure on NHS medicines,<sup>[6]</sup> the government currently does not know or regulate how much profit vertically-integrated pharmaceutical wholesalers and large pharmacy multiples make from the NHS. For the NHS, this is a highly unusual state of affairs in an area that after staff costs accounts for the second largest item of expenditure in the NHS budget.

***Does the government agree that it should evaluate the profits made by vertically-integrated pharmaceutical wholesalers and large multiple pharmacies from the NHS, and consider whether this could provide an alternative source of back-room operational savings to avoid closing up to 3,000 mainly independent community pharmacies?***

The Department of Health agreed in 2005 not to examine the prices paid by vertically-integrated multiple pharmacy chains for NHS ('category M') medicines and, as a result, it does not know the profit margins made by those companies on those purchases. By contrast, it does examine the prices paid by independent pharmacies and often imposes clawbacks if they have extracted significant discounts on their drug purchasing activities ('category M' clawbacks). In 2010, the Department of Health stated that establishing the true costs paid by vertically-integrated multiples for medicines would be difficult since the invoiced costs followed accounting principles rather than true costs.<sup>[7]</sup>

***Does the government agree that it should evaluate the profit margins that vertically-integrated multiple pharmacies can earn from the purchase of category M NHS medicines, with a view to creating equality with independent pharmacies?***

Alistair Burt MP (NE Bedfordshire), former pharmacy minister, said in January that the Government's planned cuts could lead to the closure of up to 3,000 pharmacies, with multiples more likely to be able to adapt than independents.<sup>[2]</sup>

***Does the government agree that the funding cuts as proposed will favour large multinational corporations and imperil smaller businesses?***

***Does the government agree that the rational distribution of pharmacies would be best achieved through a nationally-led review of local patient need and that it should not be attempted through funding cuts and led by financial attrition?***

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In 2013/14, Alliance Boots reported a net consolidated profit of £971m for the year.<sup>[8][9]</sup> A report in 2013 said that the company drew an estimated 40% of its UK revenue from health services largely paid for by the taxpayer, but had lawfully lowered its UK tax bill by an estimated £1.12–1.28 billion up to that point since it went private in 2007, through taking on excessive debts, profit shifting and corporate restructuring. It also said that the company had taken advantage of the low tax rates that come with location in tax havens.<sup>[10]</sup> £1.12 billion is more than five times the amount being proposed as a cut from community pharmacy funding in 2017/18 (relative to the amount funded in 2014/15).

***Does the government agree that before cutting pharmacy funding and damaging the network of local community pharmacies, it must first evaluate whether the tax arrangements of large multinational pharmacy companies providing NHS services result in a fair contribution of tax to the UK public purse?***

Pharmacies owned by the vertically integrated wholesalers represent nearly 40% of all community pharmacies in the UK. The PDAU is concerned that this is already leading to an inherent focus on medicines supply by volume by those companies. The success of medicines supply should be measured and rewarded by patient outcomes and the quality of clinical relationships held between pharmacists and patients and not as currently is the case, by the sheer volumes of medicines that can be supplied to the public.

***Does the government agree that it is time for a wide-ranging public inquiry into:***

- the impact of the proposed funding cuts and pharmacy closures on patient safety and care, and the UK healthcare infrastructure;***
- whether the continuation of vertically-integrated wholesaler / pharmacy operations is in the public interest;***
- whether breaking up or regulating such arrangements would release public funds and provide the NHS savings required without damaging the vital network of community pharmacies and improve patient-facing services?***

## The PDAU

The Pharmacists' Defence Association Union (PDAU) has more than 25,000 members; half of the patient-facing pharmacists in the UK. There are other pharmacy organisations that exclusively represent business owners, but nowadays only a relatively small minority of pharmacists are business owners. The PDAU represents pharmacists who are employees or self-employed workers.

## Further information

For further information, please contact the PDAU on **0121 694 7000**

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