

Business Improvement Initiative – Review of the Special Advance arrangements for Pharmaceutical Contractors in Northern Ireland

INTRODUCTION

There are approximately 35 million prescription items costing £400 million dispensed by pharmaceutical contractors each year in Northern Ireland. The Business Services Organisation (BSO) makes payment for these items on behalf of the Health and Social Care Board (HSCB).

Contractors dispense prescriptions for a complete month and then submit those prescriptions to the BSO for processing in the following month. The BSO then process the prescriptions and make payment at the end of the second month following submission.

A Special Advance (SA) payment equivalent to one month of a contractors payment is therefore made in recognition of this current payment profile.

The general basis of the SA has not been subject to review for many years and this paper outlines plans to improve the process which will provide:

1. A reduction to the time required to make payments to contractors.
2. Improved adherence to “prompt payment” policy
3. More responsive information on this element of the HSC budget
4. A reduction in resources tied into the SA payment
5. A SA which is more reflective of overall community pharmacy business

Background and Context of the Proposals

The Department of Finance and Personnel is committed to the Better Payments Practice Code and has a stated policy that all government departments and statutory bodies should adhere to a “prompt payment” policy of 30 days (This is consistent with Confederation of British Industry’s Prompt Payment Code and British Standard BS 7890 – *Achieving Good Payment Performance in Commercial Transactions*).

It is recognised that there is a need to continually improve processes in order to achieve this. Given the volume of prescription items dispensed and the manual nature of processing, it is not currently possible to move to actual payment within 30 days. However, where it is not possible to adhere to this policy due to operational constraints, processes ought to be put in place to achieve and/or mitigate.

The current system does not achieve actual payment until approximately two months after submission and attempts to mitigate using SA.

The SA amount held by each contractor is then subject to a biannual review by the BSO. If a contractor resigns from the Pharmaceutical list the SA is recovered from their payment prior to removal from list. At the present time pharmaceutical contractors in Northern Ireland hold £37.5m in SA.

Phase One – Reduction of Turnaround from Submission to Payment

The current payment process facilitates a 60 day payment schedule and a SA is provided in recognition of this 60 day cycle. Given the duration of the current cycle, business processes have been reviewed and the BSO has advised the HSCB that the payment schedule can be reduced to 45 days.

It is our view that the payment schedule of 45 days is a sustainable improvement to the current system. It is therefore appropriate that the special advance provided should be reviewed and amended accordingly in line with the decreased payment period therefore reducing the SA held by contractors by 50%.

The BSO has indicated that it can move to this payment schedule in March 2011. The HSCB proposes to make the SA adjustment at the same time.

We seek consultees views on this proposal.

Phase Two – Review of Methodology of Calculation of Special Advance

The methodology to calculate the current SA is not consistent with other parts of the UK (or indeed the Republic of Ireland). The methodology used in NI is based on ingredient cost of drugs dispensed and does not currently include fees paid to community pharmacists. It is described as follows:

SA is reviewed on a biannual basis and is based on the data collected on the premises number for the year prior to the review. The January review, paid at the end of March, is based on prescriptions dispensed and payments made for previous July to December. The July review, paid at the end of September, is based on prescriptions dispensed and payments made for previous January to June.

In both cases the data is split into two six monthly periods

	January Review	July Review
Period 1 Current	July to December	January to June
Period 2 Previous	July to December	January to June

Stage 1

The percentage change is calculated for both the number of items paid and the net ingredient cost per item (ingredient cost after discount) between both periods. If the percentage change is greater than twice the Northern Ireland change factor then the Northern Ireland change factor is substituted for the premises values.

Stage 2

The average number of items and the average net ingredient cost per item is then calculated for Period 2.

Stage 3

The percentage change factors calculated in stage 1 are then applied to the averages calculated in stage 2 and the new special advance is produced.

Stage 4

The new Special Advance is then compared to the old Special Advance and the difference is calculated.

A report is produced at this stage showing the New Special Advance, the Old Special Advance, the difference and also the average net ingredient cost paid in the second period. This is reviewed manually.

Stage 5

A letter is produced detailing the findings of the review any adjustments required are applied to the appropriate contractor account.

It is proposed to move to a rolling advance method similar to that used by England which reflects not only the ingredient cost of drugs dispensed but includes the fees paid to community pharmacists.

The advance* is calculated on the following basis:

The average cost of prescriptions from the previous month's pricing is paid for the current month's submission and uplifted by 1%. The account value is reduced to 80% and in addition appropriate local payments or deductions are included.

Average item value

The average cost of prescriptions is calculated using the total of drug and appliance costs plus fees, less the value of medicine use reviews and adjustments, divided by the total number of professional fees.

The example below shows how the 80% advance is calculated.

Average prescription value £9.29 multiplied by 80% = £7.43

Advance items 8178 multiplied by £7.43 = £60,762.54

£60,762.54 multiplied by 1% inflation factor = £61,370.17, less number of prescription charges at current rate 222 x £7.20 = £1,598.40

£61,370.17 minus £1,598.40 = £59,771.77 Total advance payment

The average prescription value is calculated using the total of drug and appliance costs plus fees, less the value of medicine use reviews and adjustments, divided by the total number of professional* fees.

For contractors who have not submitted for three months previously, a national average will be applied.

* Professional fee is paid for each individual prescription

It is proposed that Northern Ireland would use a similar method based on amount payable less any adjustments to account and using the number of forms submitted.

Changes in the calculation methodology will not take place before September 2011.

The HSC Board seeks consultees' views on these proposals.