



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

11 August 2016

PRIME MINISTER

*Dear Prime Minister*

REFORMING NHS COMMUNITY PHARMACY

I have seen the Secretary of State for Health's letter to you of 2 August regarding NHS community pharmacy and am writing to express my support for taking action.

The level of Government subsidy to community pharmacy is too high. Of the £10bn we spend on the system, £2.8bn is spent dispensing £7.2bn of medicines. Each store that meets a minimum volume threshold gets £25,000 annually in a lump sum, and further receives at least 90p per item dispensed. It is inefficient to spend 39% of the value of medicines to get them into patients' hands. Owing to Government subsidy, the number of pharmacies has increased by 20% over the last decade to over 11,500. The package that the Department of Health have consulted upon is a good first step towards a reformed and more efficient market and should deliver savings of £142m in 16/17, and £208m in 17/18.

I understand you have been concerned about the cuts and their potential effects on SMEs. I have confidence in the Pharmacy Access Scheme that the Department of Health has developed to support pharmacies important to patient access.

Longer-term, I would like the community pharmacy market to follow trends we have witnessed in other retail markets. This might include a shift away from the traditional bricks-and-mortar business model towards scaled-up, innovative supply solutions employing digital technology, where Government expenditure is minimised.

Choosing to make active reprioritisation decisions within the NHS budget should not be taken lightly. However, the context of challenging NHS finances presents a host of other difficult choices. Given these community pharmacy proposals have already been consulted on, and are expected by the sector, we should follow-through and take the first step to reforming the inefficient and over-subsidised market.

PHILIP HAMMOND