

# The new GMS contract explained

## Focus on....

### Superannuation Contributions - 2

This guidance note is an updated version of the original published in July 2004. It has been produced by the General Practitioners Committee and the BMA's Pensions Department to help GPs and Local Medical Committees in understanding the new arrangements for the funding, collection and payment of employer and employee superannuation contributions. It is one of a series of guidance notes on the new contract.

The guidance applies to all four UK countries. Where there are differences in approach or detail, this is indicated in the text of the guidance.

#### **Superannuation contributions**

It is essential that everyone understands this very complex area of policy and the changes that have taken place with the introduction of the new General Medical Services contract.

The main text of the guidance note provides an explanation of these changes, while the questions and answers that follow provide more detailed information.

#### **Pension contributions - background**

Following five-yearly valuations, the Government Actuary's Department sets the total cost of pension provision in the NHS.

It is currently 20% of pensionable pay. Historically:

- 6% has been paid by employees
- 7% (5.5% in Scotland) has been paid by employers
- 7% (8.5% in Scotland) has been paid by HM Treasury.

On 1 April 2003 Treasury transferred the funds and responsibility for its 7% (8.5% in Scotland) to the Departments of Health.

From 1 April 2004 the Departments of Health in England, Wales and Scotland transferred this responsibility directly to NHS employers with appropriate funding. This is known as the indexation transfer. This has not yet occurred in Northern Ireland but is expected to in the future, possibly from 1 April 2005.

The total responsibility and funding for pension costs now rests with the independent contractor in England, Wales and Scotland. For every pound of pensionable pay a practice will therefore pay 20 pence in pension costs: 6p from the employee and 14p from the employer. In Northern Ireland the figures are 6p for the employee, 7p for the employer and the Treasury currently pay the balance.

#### **Funding for employer and employee contributions**

The global sum includes provision for employee and employer contributions for partners and employed staff, including salaried GPs.

Early calculations of the cost per weighted patient did not include the amounts previously paid by the Treasury but this has been corrected and the amount per weighted patient has been adjusted from £50 to £54 (£52 to £58 in Scotland.) This is described in paragraph 2.3 of the Statement of Financial Entitlements.

Global Sum Equivalents have also been adjusted to reflect this change and so practices' correction factors should be unaffected.

All practices will therefore receive more money to fund the increase in superannuation contributions.

### **Funding for new income**

The gross funding available for the new income that practices will receive under the new GMS contract will also contain provision for employer contributions. The amount of this funding, and which funding streams would distribute it to practices, have recently been agreed between the Department of Health, the NHS Confederation and the GPC.

The Department of Health in England is providing an additional £28m in 2004-05 and £60m in 2005-06 to support employer contributions on new income. There has been an on-going disagreement about the amount of additional money needed to cover the full costs and the GPC still maintains that this amount is not sufficient. It is, however, a significant contribution.

Sixty per cent of this will be distributed through the Quality and Outcomes Framework and the remaining forty per cent through the global sum. This is in accordance with an estimate of the relative share of increased superannuable income from the quality framework. In other words, it is anticipated that proportionately GPs will see greater profits from the investment in the quality framework than through the global sum.

Equivalent funding and distribution arrangements are still being discussed in the other three countries, so the figures quoted below apply to England only, at this stage.

For GMS practices, the global sum price per patient will increase by £0.21 to reflect this additional funding. Thus, a value of £0.42 will now be given for the superannuation premium in paragraph 2.4(b) for the remaining six months of the Statement of Financial Entitlements for 2004-05. This will have no detrimental effect on the correction factor.

For PMS practices, there will be an equivalent increase in allocations to PCTs. The GPC is awaiting the draft documentation that will detail the amount of equivalent additional funding to be made to PCTs and guide PCTs on distributing this additional funding to PMS practices.

For GMS and PMS practices, the additional funding into the quality framework will be reflected through an increase in the pounds per point of £2.50 for 2004-05.

PMS practices taking part in the Quality and Outcomes Framework currently in 2004-05 do not get paid for the first 174 points as they already have money in their baseline budgets that GMS practices only receive through the quality framework. Therefore, when the price per patient is increased to reflect the additional funding for employer superannuation contributions, PMS practices will not receive these contributions relating to the first 174 points. It has been agreed that the best way to compensate PMS practices for this is to reduce the level of the points offset. PMS practices will now not be paid for the first 168 points.

All these figures will be uplifted for 2005-06.

### **Funding a practice-based contract**

Most funding for practices under the new GMS contract is through the Global Sum (or MPIG) and the Quality and Outcomes Framework.

Practices are free to use the funding received under the new contract to configure their services in the way that best meets the needs of their patients and the practice. There is not a direct relationship between a practice's funding and its expenditure and net profits. Therefore, a practice's funding through the global sum for employer superannuation contributions is not likely, in most cases, to bear a direct relationship to the superannuation contributions that it pays.

If a practice makes greater profits or pays higher staff salaries, it will have greater employer and employee contributions to pay and these will have to be met from practice funds as they will not be reimbursed directly from PCOs. It is therefore for the partners in each practice to make their own long- and short-term business decisions based on anticipated profits and expenses, including pension contributions.

### **Mechanism for paying employer superannuation contributions**

PCOs will deduct the contributions from practices' global sums on a monthly basis and will be responsible for paying that money to the Pensions Agency. Given that the actual amount due will not be known until after the end of the financial year, interim deductions will be made by the PCO. This deduction should be negotiated and agreed between the PCO and the practice. In England, the PCOs should take all reasonable steps to agree the amount to be deducted with the contractor, and must duly justify the amount to be deducted. In Scotland, 15% of the global sum is being deducted as an interim measure. An adjustment can be calculated once practices' profits are known.

Most PCOs are basing the calculation of monthly contributions on previous levels of contributions. This is in line with guidance from the NHS Pensions Agency. The calculation needs to take account of the increase in contributions from the indexation transfer and the new income. Some practices, factoring in the impact of the increase on both cash flow and anticipated profits, have agreed with the PCO to deduct more than this so that they will be required to make a smaller adjustment when the final, end-of-year, superannuable profits are known.

Once a doctor's profits have been determined by an accountant and certified by the doctor, the actual level of contributions can be calculated. A balancing adjustment will be calculated (actual contributions due, less contributions paid). Depending on whether monthly contributions were under- or over-estimated, a balancing payment is either due to the Pensions Agency via the PCO or to the doctor.

### **Funding for locum work**

In 2004-05, employer superannuation contributions for locum work will be paid by the employer (including GP co-operatives), except for practice-employed locum work, where these will be paid by the PCO.

The position for 2004-05 reflects the fact that the funding for the employer superannuation contributions was transferred to the PCO-administered funding stream and not the global sum.

It is the intention, however, that funding for employer superannuation contributions for practice-employed locum work should in future be transferred to the global sum. Therefore, all practice-employed locum work will become the responsibility of the practice. If it is possible to disaggregate the figures from the PCO-administered funding stream, the Departments of Health will be seeking to negotiate the transfer of the funding to the global sum with effect from April 2005.

The GPC believes that, as this will add costs to those practices that have chosen not to opt out of out-of-hours provision, this might further act as an incentive for these practices to opt out. For those very few practices that are unable to opt out, in other words some of those in the Highlands and Islands of Scotland, a range of support arrangements are being established locally.

The GPC's preference had been for the funding to remain as part of the PCO-administered funding stream. It would be best, at the very least, for the present arrangements to run until the end of 2005-06.

The GPC is currently awaiting the draft Regulations to implement this arrangement.

## **Questions and Answers**

### **Question**

How has the Global Sum Equivalent been adjusted to include the 7% of employer superannuation previously paid by the Treasury?

### **Answer**

The GSE has been adjusted to include the 7% of employer superannuation contributions previously paid by the Treasury in respect of both practitioners and practice staff.

For practitioners' contributions, the increase to the GSE has taken for the form of doubling the existing 7% contribution element (see paragraph D.3(xxi) of the SFE).

For practice staff, the amount contained in the GSE is not separately identifiable so it is not possible simply to double the existing 7% contribution. Using aggregated Pensions Agency data for staff contributions, this was apportioned between GMS and PMS and divided by the number of weighted patients. This led to a figure of £1.46 per weighted patient which is added to the GSE to take account of the projected price increase (see paragraph 3.3(c) of the SFE).

### **Question**

Will PMS practices receive funding for the indexation transfer?

### **Answer**

PCOs have received funding for the indexation transfer for PMS practices. It will be up to local negotiation to determine how this funding is distributed to practices although we are pressing the departments to provide clear guidance to PCOs and practices.

### **Question**

I have just taken on some new staff; will my Global Sum be increased?

### **Answer**

Your Global Sum will not change in relation to your staff numbers as it is determined by the number and weighting of the practice's patient list multiplied by the price per patient as detailed in the Statement of Financial Entitlements. There is no longer a direct reimbursement system or staff budget arrangement with PCOs.

### **Question**

My practice manager has decided to join the NHS Pension Scheme from 1 June 2004. Will my funding increase to cover my employer contributions?

### **Answer**

Your funding does not alter if a staff member enters or leaves the pension scheme as there is no direct relationship between actual superannuation costs for a practice and its funding.

### **Question**

Our practice is likely to perform really well this year and make more profit than in previous years. Will we be able to recover the additional employer pension contributions that we will have to pay from the PCO?

**Answer**

Your practice will be responsible for paying the employer contributions out of the profit you make. Higher superannuation costs borne by a practice, whether because of employing more staff or making greater profits, are the responsibility of the practice from the total funding received by the practice through the contract.

**Question**

My practice is in Northern Ireland and is getting a GSE calculated from the baseline year. During this time the employer contribution rate changed from 5% to 7% but this has not been adjusted in my funding and now I have to pay all my employers superannuation at 7%. Will I receive more funding to compensate me for this?

**Answer**

There is currently no mechanism for GSE practices in Northern Ireland to have their funding increased to reflect this anomaly. Negotiators are in discussion with the Health Departments to try to resolve this issue.

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