

Briefing 009/25: Discount Deduction Scale

Introduction

Changes to the discount deduction scale were implemented by the Department of Health and Social Care (DHSC) in October 2022. This briefing explains why the changes were introduced and how the current discount deduction system works.

Background

Each month, the NHSBSA reimburses pharmacy owners for the products they dispense, less an amount of discount deduction or 'clawback'. The monthly 'clawback' amount is calculated according to a discount deduction scale (in Part V of the Drug Tariff) which determines an assumed amount of discount received by pharmacy owners to avoid them having to individually calculate and declare the discount received on each item dispensed. Items listed within the 'Drugs for which discount is not deducted' list in Part II of the Drug Tariff do not have any discount deduction applied.

Discount deduction rates

The current discount deduction system is split into three groups: 'Generics', 'Brands', and 'Appliances'. The deduction rate for each group is a fixed value. The deduction rate for each group is:

- Generic medicines (excluding those granted a price concession*) – 20.00%
- Branded products – 5.00%
- Appliances – 9.85%

** Discount deduction does not apply to price concessions for the month in which they are granted.*

Discount deduction is less on average than actual margins achieved by pharmacy owners. The margin retained by pharmacy owners is measured using the margins survey and forms part of the overall margin pharmacies are allowed to retain as part of the contract sum each year.

The table below outlines the deduction rates applicable to different product groups.

Group	Definition and products covered by the definition	Discount deduction rate
Generics	Products listed in Category A and M of Part VIIA of the Drug Tariff (excludes products granted price concessions for the given dispensing month)	20%
Brands	All products not covered by Appliances and Generics groups This includes: <ul style="list-style-type: none"> Products listed in Category C of Part VIIA of the Drug Tariff Products prescribed by brand name, including branded generics Products NOT listed in Part VIII of the Drug Tariff i.e. non-Part VIII Generic medicines ordered with manufacturer name (rINN+MAH) for e.g. Atenolol 100mg tablets (Accord Healthcare Ltd) All specials listed in Part VIIIB and Part VIIID of the Drug Tariff. Note non-Tariff specials are not subject to any discount deduction 	5%
Appliances	Products listed in Part IX of the Drug Tariff This includes: <ul style="list-style-type: none"> Appliances listed in Part IXA e.g. dressings, elastic hosiery Incontinence Appliances listed in Part IXB Stoma Appliances listed in Part IXC Chemical Reagents listed in Part IXR 	9.85%

Group	Definition and products covered by the definition	Discount deduction rate
	The Appliances deduction rates applies whether the appliance is prescribed by brand name or generic name.	

Fixed deduction rates vs a slope

Previously, the discount deduction scale was based on the monthly total of prices paid to pharmacy contractors with a minimum of 5.63% and a maximum of 11.5% deducted from the monthly total. In that system, pharmacies with lower total monthly reimbursement experienced a lower rate of deduction whereas pharmacies with higher total monthly reimbursement experience a higher rate.

After an extensive examination of the evidence available to both Community Pharmacy England and DHSC, from the pharmacy margins survey and other sources, found there was no evidence to suggest that the discount rates obtained by pharmacies correlated with the monthly reimbursement of those pharmacies. As there was no discernible relationship between discount levels and monthly reimbursement, Community Pharmacy England and DHSC agreed that fixed deduction rates would be applied instead of sloped scales.

Following a public consultation in 2019, DHSC implemented a fixed rate deduction scale for three different product groups to try and achieve a more equitable distribution of margin and reduce the dispensing of branded products at a loss in recognition that brands, typically, do not attract the same level of discounts as generics. Under the current system, all pharmacies have the same fixed rates of deduction applied to reimbursement of items in each of the three product groups, regardless of the total value of their monthly reimbursement.

Deductions under the old system vs new system

One of the problems with the previous single sloped deduction scale was that it reimbursed all items equally and did not take a pharmacy's 'dispensing mix' of branded and generic medicines

into account. As pharmacy owners receive different rates of discount on branded medicines compared to generic medicines, the 'dispensing mix' has a significant impact on the total amount of discount pharmacy owners receive.

The new system was calibrated such that the overall amount of deduction applied to pharmacy payments would be the same as the previous system, on the national scale. However, at the individual pharmacy level, many pharmacies will experience a change in the amount of deduction they experience. This is by design.

As the new system splits medicines into different groups with different rates of discount, the dispensing mix of each pharmacy will now **directly** impact how much deduction they experience, resulting in a fairer level of deduction for all pharmacies.

Where can pharmacy owners find their discount deduction

The '*Discount on Schedule*' section of the monthly FP34 Schedule of Payments shows a breakdown of discount deduction by group for all prescription supplies. The image below shows how the discount deduction breakdown appears in the monthly Schedule of Payments.

DISCOUNT ON SCHEDULE

	BASIC PRICE	DISCOUNT RATE	DISCOUNT	PRICE AFTER DISCOUNT
	£	%	£	£
Generic	6,381.66	20.00	-1,276.33	5,105.33
Branded	19,283.01	5.00	-964.15	18,318.86
Appliances	2,436.53	9.85	-240	2,196.53
DND	17,607.20	0.00	0.00	17,607.20
Sub total (Prescriptions)	45,708.40		-2,480.48	43,227.92
Generic (PFCP)	389.57	20.00	-77.91	311.66
Branded (PFCP)	80.16	5.00	-4.01	76.15
Appliances (PFCP)	0.00	9.85	0.00	0.00
DND (PFCP)	213.44	0.00	0.00	213.44
Sub total (PFCP)	683.17		-81.92	601.25

The Schedule of Payments also shows the discount deduction split between different product groups for supplies made under the Pharmacy First service (labelled PFCP).

Discount Not Deducted (DND) - previously ZD (zero discount)

Certain products are exempt from discount deduction, and these are known as Discount Not Deducted (DND) items i.e. reimbursement for these products will have no discount deduction applied. The list of DND items in Part II of the [Drug Tariff](#) is updated monthly by the DHSC and includes grouped and individual items. Pharmacy teams can also check the Actual Medicinal Product pack (AMPP) listing on the NHS [Dictionary of Medicines and Devices \(dm+d\)](#) to identify whether a product has DND status. The eligibility criteria for entry to the DND list is outlined below:

Group items

Any products covered by the definition of one or more of the Group items categories listed below are reimbursed without any discount deduction applied.

- Concessionary Price products (applicable only for the dispensing month(s) for which the product is on concession)
- Cold Chain Storage (ALL)
- Schedule 1, 2 or 3 Controlled Drugs: Products containing drugs listed in Schedules 1, 2 and 3 of the Misuse of Drugs Regulation 2001
- Cytotoxic or Cytostatic item (ALL):
- Immunoglobulins (ALL)
- Insulins for injection (ALL)
- Vaccines and antisera (ALL)
- Unlicensed medicines: 'Specials' not listed in Part VIIIB and Part VIIID where the product has been sourced from a supplier holding a MHRA specials or importers licence (prescriptions must be endorsed with invoice price less discount/rebate)
- Hazardous chemicals

Individual items

Individual DND items are listed separately in Part II of the [Drug Tariff](#). Any items covered by the 'Group Items' headings are not listed again individually in Part II.

Products not covered by the definition of any Group item DND categories above must fulfil all three of the following Individual Items DND criteria to qualify for exemption from discount deduction:

- the manufacturer(s), AAH and Alliance do not offer pharmacy owners a discount
- fewer than 500,000 items per year are dispensed of the product
- average Net Ingredient Cost (NIC) per item is more than £50

The NIC per item is the average reimbursement value of the prescribed item (NIC/item) and not the Drug Tariff basic price or NHS list price of the product. As the NIC is based on the quantity of the product dispensed, it is independent of product pack size.

Please note: If a product is listed generically in the Individual items DND list, any equivalent branded products are also treated as exempt from discount deduction and not listed separately. However, there may be occasions where a particular branded product meets the Individual item DND criteria but other equivalent brands or generics do not. In this case, only the eligible branded product will be listed in Part II and its generic description will not be included in the list.

Endorsements

Pharmacy owners are **NOT** required to apply any prescription endorsements to claim exemption from discount deduction for eligible products. The NHSBSA automatically recognises products granted DND status and will not apply any discount deduction to these.. Any endorsements applied by the pharmacy such as 'DND', 'DNG' or 'ZD' will be ignored by the NHSBSA during prescription pricing.

Application for inclusion to the DND list

To make a request for a product to be included in the DND list, please write to ds.team@cpe.org.uk. A member of the [Community Pharmacy England Dispensing and Supply Team](#) will investigate whether the product(s) meets the DND criteria and where appropriate, make an application to the Department of Health and Social Care for the product to be granted DND status..

If you have any queries on this Community Pharmacy England briefing or you require more information, please contact Community Pharmacy England's Dispensing and Supply Team by emailing ds.team@cpe.org.uk or calling 0203 1220 810.