Dispensing and Supply

August 2022

PSNC Briefing 028/22: FAQs on the Changes to the Discount Deduction Scale

Changes to Discount Deduction scale have been agreed between PSNC and the Department of Health and Social Care (DHSC). This briefing answers some of the key questions about the changes that are being introduced.

Background

From October 2022, the discount applied to the monthly total of reimbursement prices will be transitioning to new arrangements. Under the new arrangements, which will be fully in place by January 2024, the deduction scale will be split into three separate groups for appliances, brands and generics; a flat rate will apply to each group. **The changes to discount deduction form part of a series drug reimbursement reforms proposed by the Department of Health and Social Care's (DHSC's) following a public consultation in 2019.**

FAQs

1. **Q. Why are changes being made to the Discount Deduction scale?**

   A. PSNC has a policy of seeking to improve delivery of retained margin, in particular, to improve equity of access to margin and deal with the distortions presented by branded prescriptions. To achieve this, PSNC has been pushing the DHSC for a split discount scale for many years, due to the single scale being disadvantageous for pharmacies who receive higher than average volumes of branded prescriptions.

   As part of the consultation on reforms to community pharmacy drug reimbursement, DHSC proposed 'splitting' the existing deduction scale into separate scales for branded medicines and generic medicines. This was intended to recognise that brands do not typically attract the same level of discounts as generics, and that subsequently many brands were dispensed at a loss. DHSC indicated that splitting the scale would, on average, improve fair access to medicine margin for community pharmacies.

   Overall, a very large majority (70%) of respondents, including PSNC, agreed to the proposal, which would result in a more equitable distribution of margin and reduce dispensing of brands at a loss. PSNC has subsequently been discussing implementation of a split scale with DHSC, and these discussions reached a conclusion in summer 2022. It has therefore been agreed that, from October 2022, a new system will begin phasing in to replace the existing deduction scale. A transition from the old system to the new system will be enacted over six financial quarters, meaning the new system will be fully in place in the quarter that begins in January 2024.

2. **Q. What are the current arrangements for discount deduction?**

   A. Pharmacy contractors are paid monthly for the items they dispense each month. Every month a deduction is made to their payments, based on a scale known as the 'deduction scale'. This is an assumed amount of discount received to avoid pharmacy contractors having to calculate and declare discount received on each item dispensed. The existing single deduction scale has a slope, ranging from 5.63% at the low end up to

11.5% at the high end. This means that in the existing system, pharmacies with lower monthly reimbursement experience a lower rate of deduction and pharmacies with higher monthly reimbursement experience a higher rate. The amounts within this maximum and minimum are set out in a table in Part V of the Drug Tariff. When Integrated Care Board (ICBs) ('formerly Clinical Commissioning Groups (CCGs)) are recharged reimbursement costs, this is less an average level of deduction rate.

However, in the new system being implemented, the current single scale will be split into three groups: one each for generic medicines, branded medicines, and appliances. There will be fixed discount deduction rates for each group. All pharmacies will therefore have the same rate of discount deduction applied to their total deductible reimbursement value of products that belong to each group.

3. **Q. What are the new discount deduction rates for appliances, generics and brands?**

A. The table below outlines the definitions and deduction rates applicable to each group.

Group	Definition and products covered by the definition	Discount deduction rate
Appliances	**Products listed in Part IX of the Drug Tariff** This includes: • 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 The Appliances deduction rates applies whether the appliance is prescribed by brand name or generic name.	**9.85%**
Generics	**Products listed in Part VIIIA, Category A and M of the Drug Tariff** (excludes products granted price concessions for the given dispensing month)	**17.52%**
Brands	**Products not covered by Appliances and Generics definition above.** **This includes:** • Products listed in Part VIIIA, **Category C** of the Drug Tariff • Products prescribed by brand name, including **branded generics** • Products in **Category A and M granted concessionary prices** for a given dispensing month • Products **NOT** listed in Part VIII of the Drug Tariff i.e. non-Part VIII • Generics ordered with manufacturer name (rINN+MAH) for e.g. Atenolol 100mg tablets (Accord Healthcare Ltd) • All Tariff specials listed in **Part VIIIB** and **Part VIIID** of the Drug Tariff. Note non-Tariff specials are not subject to any discount deduction	**5%**

4. **Q. What is the reason for moving away from a sloped Discount Deduction scale?**

A. After an extensive examination of the evidence available to both PSNC and DHSC, from the pharmacy margins survey and other sources, 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, it was agreed by PSNC and DHSC that fixed deduction rates would be used instead of sloped scales.

5. **Q. How were the new discount deduction rates for generics, brands and appliances determined?**

A. Using data gathered from the Margins Survey, a fixed percentage for each of the three groups (branded, generics and appliances) was calculated to keep the total amount deducted overall the same as under the current system with the following principles:

a. As branded products earn less margin, to ensure these products are less likely to be dispensed at a loss, a reduced deduction rate than that currently used will be applied.
b. As generic products earn more margin, they will be subjected to a higher deduction rate than currently used.
c. The appliances deduction rate will be calibrated to keep the total amount deducted from appliances reimbursement in line with that estimated in the current system.

6. **Q. Why is there a different discount rate for brands and generics?**

A. We know from information obtained from pharmacy contractors, as part of the Margins Survey, that branded medicines do not attract as much discount as generic medicines. When taking into account the deduction scale, pharmacy contractors, on average, dispense branded medicines at a loss. Currently, the deduction scale does not take into account whether a pharmacy contractor dispenses more brands or generic medicines. Because of this, pharmacy contractors that dispense more branded medicines than average do not have fair access to medicine margin. The changes to discount deduction, on average, are intended to improve fair access to medicine margin for community pharmacies.

7. **Q. What discount deduction rate would apply to a generically prescribed product listed in Category C?**

A. Unless the product is a Discount Not Deducted (DND) item, the 5% brand discount deduction rate would apply to any Category C product (ordered generically or by its brand name).

8. **Q. What discount deduction rate would apply to a product listed in Category A or M, ordered by its brand name?**

A. Unless the product is a DND item, the 5% brand discount deduction rate would apply to any product ordered its brand name.

9. **Q. What discount deduction rate would apply to products granted concessionary prices each month?**

A. Unless the product is a DND item, products granted a concessionary price would be covered by the brands discount deduction rate of 5% during the period they are on concession. This is because the level of margin, as measured by the Margins Survey, on products granted concessionary prices tends to be lower than for non-concessionary products.

10. **Q. How will the changes to the discount deduction rates be implemented?**

A. From October 2022, there will be a transition from current arrangements to the new flat rates for all three groups. The transition period will last six financial quarters, with all contractors moving to the new flat rates from 1st January 2024.

11. **Q. How will the transition arrangements work?**

A. Every quarter between October 2022 to January 2024, the deduction will move more towards the new rates with a variable weighting of the old rates and the new rates being applied as set out in the table below. Accordingly, two calculations will be made, one in reliance on the old rates and one in reliance on the new rates, and the total discount will be the weighted total of those two discount calculations added together. From January 2024, the transition period will be complete, and contractors' discount deduction will be calculated solely using the new three flat rates.

Time Period	Old rate weighting	New rate weighting
October 2022 - December 2022	85%	15%
January 2023 - March 2023	70%	30%
April 2023 - June 2023	50%	50%
July 2023 - September 2023	30%	70%
October 2023 - December 2023	15%	85%
January 2024 onwards	0%	100%

12. **Q. How will the changes impact individual pharmacies?**

A. The new arrangements are being established in a way, that by using the discount deduction rates, it will overall be cost neutral to the NHS and the Community Pharmacy sector but will result in some pharmacies either being "levelled up" or "levelled down" to achieve fairer access to medicine margin.

13. **Q. How will contractors know whether the pharmacy will be "levelled up" or "levelled down" under the new discount deduction arrangements?**

A. For the dispensing month of October 2022 onwards, contractors will receive supplementary information with their monthly FP34 Schedule of Payments from the NHS Business Services Authority (NHSBSA) to show the level of discount deducted including the levels that would have been deducted under the old system and new system. The supplementary information will allow contractors to monitor changes in their monthly discount deduction during the transition period to determine if the pharmacy is levelled up or not. The overall impact of the change for each contractor will depend on the pharmacy monthly dispensing mix and the supplementary information will help guide contractors as to the direction of travel if their pharmacy dispensing mix is to remain broadly the same during the transition period. In practice, a pharmacy's reimbursement and dispensing mix will fluctuate from month to month.

14. **Q. Will current arrangements for Discount Not Deducted (DND) continue?**

A. Yes, there is no change to the current arrangements for Discount Not Deducted (DND) items. Discount will not be deducted for any items covered by the 'Group Items' heading or for those listed individually under the 'Individual Items' heading in Part II of the Drug Tariff. For a list of all the monthly changes to the DND status of products please visit PSNC's page on Notice of changes to discount not deducted (DND) status of products. PSNC is also seeking a review of the current assessment process, undertaken by the NHSBSA, of products against relevant Group Item DND criteria.

15. **Q. Will NHS England change the discount deduction apportionment arrangements to CCGs (ICBs from 1st July)?**

A. DHSC's consultation on community pharmacy drug reimbursement reforms also highlighted that CCGs in areas where more branded medicines are prescribed are not paying their fair share of medicine margin. It was recommended that NHSE would need to consider amendments to discount deduction apportionment arrangements to CCGs with a view to making them more equitable. DHSC's consultation recommended that apportionment to CCGs will reflect the split deduction scale i.e. CCGs with a high percentage of branded prescribing will find that under the new deduction scale arrangements their spend will be higher in comparison to the current arrangements; and CCGs with a high percentage of generic prescribing will find that their spend will be lower. DHSC and PSNC will continue to pursue these changes with NHSE.

16. **Q. Can the £800m retained margin be delivered by adjusting the discount deduction rates rather than using Category M?**

A. In time, there is potential to adjust margin delivery by changing the discount deduction rates rather than Category M prices. This would be consistent with how margin delivery is adjusted for in Scotland.