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PSNC Briefing 027/22: Discount Deduction Scale changes explained

A new Discount Deduction Scale has been agreed between PSNC and the Department of Health and Social Care (DHSC). This briefing explains the changes that will be introduced from October 2022, describing how and why it differs from the current system.

Background

As part of its [consultation on reimbursement reforms in 2019](#), 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.

In its [response to the consultation](#), PSNC was supportive of the proposal to split the scale, which would result in a more equitable distribution of margin and reduce dispensing 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 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.

Design of the new system

The new discount deduction system will see the current single scale split into three groups: one each for generic medicines, branded medicines, and appliances. The deduction rate for each group will be a fixed value. The deduction rates for each group will be:

- Appliances – 9.85%
- Generic medicines (excluding those on price concession*) – 17.52%
- Branded medicines (and those on price concession*) – 5.00%

*Any generic medicine which is granted a concessionary price will have the brand rate of deduction applied to it for the month in which the concession applies.

Group definitions

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	<p>Products listed in Part IX of the Drug Tariff This includes:</p> <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 <p>The Appliances deduction rates applies whether the appliance is prescribed by brand name or generic name.</p>	9.85%
Generics	<p>Products listed in Part VIIIA, Category A and M of the Drug Tariff (excludes products granted price concessions for the given dispensing month)</p>	17.52%
Brands	<p>Products not covered by Appliances and Generics definition above. This includes:</p> <ul style="list-style-type: none"> • 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 VIID of the Drug Tariff. Note non-Tariff specials are not subject to any discount deduction 	5%

Fixed deduction rates vs a slope

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.

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. However, **in the new system being implemented, there will be fixed rates for each group, rather than sloping scales.** All pharmacies will therefore have the same rates of deduction applied to their reimbursement for the three different groups, regardless of the total value of that reimbursement.

Deductions under the new system vs old system

The new system was calibrated such that the overall amount of deduction applied to pharmacy payments would be the same as the existing 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.

A problem with the existing single deduction scale is that it effectively treats all reimbursement the same, not recognising that a pharmacy's 'dispensing mix' of branded and generic medicines has a significant impact on the amount of discount they actually receive.

As the new system splits medicines into groups, **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.**

Transition mechanism

The new system will not fully come into place straight away. **There will be a transition to the new system over six financial quarters, beginning in October 2022 and concluding in January 2024.** This means the new system will be fully implemented in January 2024.

For dispensing months that occur during the transition, the NHS Business Services Authority (NHSBSA) will calculate two deduction values for each pharmacy for each month. The first calculation will be based on the current existing system, and the second calculation will be based on the new system.

To determine the final amount of deduction that is applied to pharmacies' payments during the transition, the NHSBSA will apply a weighting to both the calculated totals. The weighting will increase in favour of the new system as we progress towards January 2024.

The weightings applied for each quarter up to January 2024 are shown below:

	Prior to Oct-2022	Oct-2022 to Dec-2022	Jan-2023 to Mar-2023	Apr-2023 to Jun-2023	Jul-2023 to Sep-2023	Oct-2023 to Dec-2023	Jan-2024 onwards
Old system weight	100%	85%	70%	50%	30%	15%	0%
New system weight	0%	15%	30%	50%	70%	85%	100%

Worked examples

The following examples demonstrate how the deduction amounts for two pharmacies would change in the first transitional month (Oct-22), and then over the course of the transition period. Pharmacy A has a dispensing mix which leans more towards branded medicines, and Pharmacy B has a dispensing mix more in favour of generic medicines:

Pharmacy	A	B
Dispensing mix		
Appliance	7%	7%
Generic	25%	35%
Brand	68%	58%
Total of basic prices	£50,000	£50,000

The numbers used in these examples are hypothetical, with the intention to help explain the principles of the mechanism. They are not intended to represent any specific pharmacy. For simplicity we imagine that the total reimbursement and dispensing mix of both hypothetical pharmacies stays the same each month. In practice, a pharmacy's reimbursement and dispensing mix will fluctuate from month to month.

Example A

Pharmacy A has a 'total of basic prices' each month of £50,000 which is split in the following way:

	Total of basic prices at standard discount rate	Total of basic prices at zero discount rate*
Appliance	£3,000	£500
Generic	£8,500	£4,000
Brand	£21,000	£13,000
Total	£32,500	£17,500

*The values of spend at 'zero discount rates' are presented here for completeness, but are not used by NHS BSA for discount deduction calculations, and will have no deduction applied.

In the month of October 2022, two deduction values are calculated, one using the old method and one using the new method:

Old deduction rate	9.48%
Deductible NIC	£32,500
Deduction	£3,081

New appliance rate	9.85%
Deductible appliance NIC	£3,000
Appliance deduction	£295.50
New generic rate	17.52%
Deductible generic NIC	£8,500
Generic deduction	£1,489.20
New brand rate	5.00%
Deductible brand NIC	£21,000
Brand deduction	£1,050.00
Total deduction	£2,835

The final deduction that will be applied to Pharmacy A’s October 2022 payment would be the weighted sum of the two calculated deduction values, as follows:

Old deduction amount	£3,081
Old rate weighting	85%
Weighted value	£2,615.85
New deduction amount	£2,835
New rate weighting	15%
Weighted value	£425.21
Total Oct-2022 deduction	£3,044.06

Assuming that Pharmacy A’s monthly reimbursement and dispensing mix stayed the same each month during the transition, the table below shows how their final deduction each month would change:

	Prior to Oct-2022	Oct-2022 to Dec-2022	Jan-2023 to Mar-2023	Apr-2023 to Jun-2023	Jul-2023 to Sep-2023	Oct-2023 to Dec-2023	Jan-2024 onwards
Old deduction calculation	£3,081	£3,081	£3,081	£3,081	£3,081	£3,081	£3,081
Old deduction weight	100%	85%	70%	50%	30%	15%	
New deduction calculation		£2,835	£2,835	£2,835	£2,835	£2,835	£2,835
New deduction weight		15%	30%	50%	70%	85%	100%
Final monthly deduction	£3,081	£3,044	£3,007	£2,958	£2,909	£2,872	£2,835

Example B

Pharmacy B has a 'total of basic prices' each month of £50,000 which is split in the following way:

	Total of basic prices at standard discount rate	Total of basic prices at zero discount rate*
Appliance	£3,000	£500
Generic	£11,700	£5,800
Brand	£17,800	£11,200
Total	£32,500	£17,500

* The values of spend at 'zero discount rates' are presented here for completeness, but are not used by NHS BSA for discount deduction calculations, and will have no deduction applied.

In the month of October 2022, two deduction values are calculated, one using the old method and one using the new method:

Old deduction rate	9.48%
Deductible NIC	£32,500
Deduction	£3,081

New appliance rate	9.85%
Deductible appliance NIC	£3,000
Appliance deduction	£295.50
New generic rate	17.52%
Deductible generic NIC	£11,700
Generic deduction	£2,049.84
New brand rate	5.00%
Deductible brand NIC	£17,800
Brand deduction	£890
Total deduction	£3,235

The final deduction that will be applied to Pharmacy B's October 2022 payment would be the weighted sum of the two calculated deduction values, as follows:

Old deduction amount	£3,081
Old rate weighting	85%
Weighted value	£2,615.85
New deduction amount	£3,235
New rate weighting	15%
Weighted value	£485.30
Total Oct-2022 deduction	£3,104.15

Assuming that Pharmacy B’s monthly reimbursement and dispensing mix stayed the same each month during the transition, the table below shows how their final deduction each month would change:

	Prior to Oct-2022	Oct-2022 to Dec-2022	Jan-2023 to Mar-2023	Apr-2023 to Jun-2023	Jul-2023 to Sep-2023	Oct-2023 to Dec-2023	Jan-2024 onwards
Old deduction calculation	£3,081	£3,081	£3,081	£3,081	£3,081	£3,081	£3,081
Old deduction weight	100%	85%	70%	50%	30%	15%	
New deduction calculation		£3,235	£3,235	£3,235	£3,235	£3,235	£3,235
New deduction weight		15%	30%	50%	70%	85%	100%
Final monthly deduction	£3,081	£3,104	£3,127	£3,158	£3,189	£3,212	£3,235

What information will pharmacies receive

Initially, the monthly FP34 Schedule of Payments statements that pharmacies receive will only show the final amount of deduction applied to their payment, after all calculations described above have been performed. However, NHSBSA will develop the FP34 reporting to include additional information such as the total of basic prices at standard rates within each group.

During the transition period, along with their FP34 statement pharmacies will receive an additional supplementary letter which shows how the discount on the Schedule was calculated based on the weighted sum of the calculated old and new discount values, as described above. It will also include a basic prices breakdown, showing the total of standard rate basic prices within each of the groups.

If you have any queries on this PSNC Briefing or you require more information, please contact PSNC’s Dispensing and Supply Team by emailing info@psnc.org.uk or calling 0203 1220 810.