Changes to the discount deduction scale

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The context

- Pre 2005, contractors were not allowed to earn purchase margin. The Discount Deduction Scale (DDS) was the means by which DHSC recovered it.

- The DT entry was based on an annual ‘discount inquiry’, which looked into how much discount full-liners gave, and generated the ‘slope’.

- DDS was unchanged in new CPCF in 2005 - allowed retained margin was measured after DDS taken into account.

- Big market changes since then:
  - growth in generics and short-liners
  - reduction in brand margins due to DTP and RWM
  - growth in BGs

The context

- These changes meant single DDS becomes increasingly untenable.
- Put another way, mix becomes important driver of margin, and funding distribution is distorted.
- Contractors have been asking for changes to the DDS for many years. The Committee was concerned about equal access to margin and wanted a ‘split scale’. This has been PSNC policy for a long time.
- Splitting the DDS became one of the many DT reforms which DHSC consulted on in 2019, and respondents agreed should happen.

The reform

- Total DD remains at c£600m per annum.

- Meds divided into categories with separate average rates for each:
  - Appliances 9.85%
  - Generic (A&M) 17.52%
  - Brand (rest incl. concessions) 5.00%

- Margins Survey results consulted for a steer on whether margins grow with scale.

- Clear picture for brands and generics was that they don’t, so the reform both splits the scale and moves from a slope to flat rates.

The reform

- The reform starts with October's scripts and DT.

- There will be a lengthy transition, during which contractors will see a weighted DD figure based on migrating from the old to the new figures:

	Prior to Oct-22	Oct-22 to Dec-22	Jan-23 to Mar-23	Apr-23 to Jun-23	Jul-23 to Sep-23	Oct-23 to Dec-23	Jan-24 onwards
Old method weight	100%	85%	70%	50%	30%	15%	0%
New method weight	0%	15%	30%	50%	70%	85%	100%

The reform

- Contractors will see the calculation along with their monthly paperwork from NHSBSA.
- There will be ongoing monitoring to ensure the reform lands properly.
- NHS needs to change its mechanism that recharges drug cost and DD to local NHS budgets to influence prescribing incentives.

The impact

- Levelling up for some pharmacies, and levelling down for others.
- Look at per item effect for true comparison.
- Let’s be clear, those levelled down have benefited from an unfair system for many years, at the expense of other contractors.
- Recent published figures dealt with scale aspect but **not** mix.
- We have a model that will allow contractors to run their own calculations, but it is not simple, and it is worth noting that dispensing volumes and mix varies every month anyway.

Example

- Pharmacy A has a mix which leans towards brands, Pharmacy B has a mix which leans towards generics:

Monthly deductible reimbursemnt	Pharmacy A	Pharmacy B
Appliance	£3,000	£3,000
Generic	£8,500	£11,700
Brand	£21,000	£17,800
Total	£32,500	£32,500
Discount under old method	£3,081	£3,081
Discount under new method	£2,835	£3,235

- Under the old system both pharmacies get deducted the same amount despite the differences in brand vs generic mix, unfairly skewing access to margin.
- The new method rebalances the deductions, so the level of deduction is dependent on each pharmacy's mix.

Demonstration...