

From Joe Brogan, Assistant Director of Primary Care, Head of Pharmacy and Medicines Management



By email

To all community pharmacies

Strategic Planning and Performance Group

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Dear Contractor

PHASED INTRODUCTION OF REVISED DISCOUNTING ARRANGEMENTS

Further to my letter on November 30th when I provided an update on community pharmacy funding, I wish to provide additional information to you on the phased introduction of the new (“revised”) discount rates.

As I previously advised, the Department consulted on new discount clawback arrangements which would remove the sliding scale arrangement and introduce three fixed discount rates for generics, appliances and brands.

The proposed Northern Ireland rates are:

- Discount Scale 1: Generic medicines (excluding those on price concession*) – 18.48%
- Discount Scale 2: Appliances – 10.39%
- Discount Scale 3: Branded medicines (and those on price concession*) – 5.27%

*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

The table in Appendix 1 outlines the definitions applicable to each group. To note, those products which are listed on the “Zero Discount” list, [Zero Discount \(hscni.net\)](http://Zero Discount (hscni.net)), are exempt from the revised discounting arrangements, as they are from the current arrangements.

The phased introduction of new rates had been postponed but it is now planned to take this forward with the **February 2024 payment (January 2024 prescriptions)**.

The Department acknowledges that CPNI remains opposed to the new discount clawback arrangements within the context of the current level of funding and Drug Tariff arrangements applicable to community pharmacy service provision in Northern Ireland.

Transition mechanism

The sliding scale discount arrangements will be re-introduced for the January 2024 payment (December 2023 prescriptions) as advised in my previous correspondence (30th November)

There will then be a transition to the new fixed rates over six financial quarters, beginning with January '24 prescriptions (February '24 payment) and concluding with March'25 prescriptions (payment in April 2025). This means the new system will be fully implemented by April 2025.

Throughout the transition process, there will be the ability to adjust both the fixed discount rates and the pace of implementation of the revised discounting arrangements, in collaboration with the Business Services Organisation (BSO) and CPNI colleagues, subject to Ministerial (Permanent Secretary) approval.

For the dispensing months that occur during the transition, the BSO will calculate two deduction values for each pharmacy for each month. The first calculation will be based on the current existing, or "old" system, and the second calculation will be based on the new, or "revised" system.

To determine the final amount of deduction that is applied to pharmacies' payments during the transition, the BSO will apply a weighting to both the calculated totals. The weighting will increase in favour of the new system as we progress towards April 2025.

The weightings applied for each quarter up to April 2025 are shown below:

Prescription month	Prior to Jan'24	Jan-March'24	April-June'24	July-sept'24	Oct-Dec' 24	Jan-March'25	April'25 onwards
Old system weight	100%	85%	70%	50%	30%	15%	0%
New system weight	0%	15%	30%	50%	70%	85%	100%

The Northern Ireland Drug Tariff Part VI, Net Ingredient Cost Scale for Chemist Contractors, will be amended to reflect the information above, [Drug Tariff - Business Services Organisation \(BSO\) Website \(hscni.net\)](https://www.hscni.net)

Appendix 2 contains two worked examples such that contractors can visualise how this incremental implementation will work for two pharmacies with different dispensing “mixes”

Contractors Accounts Issued by Business Services Organisation (BSO)

Contractors will continue to receive their accounts from BSO which will document the discount applied. During the transition to the new discount model, both the old (“legacy”) rate and new (“revised”) rates of discount will be detailed.

A *draft* example is provided below; please note the 9.6% will vary for each contractor as per current sliding (“old”) scale

	Others (HS21) (£)	Stock (£)	PV1 (£)	Hospice (£)	Total (£)
Gross Ingredient Cost					
Ingredient Cost (ZD)					
Ingredient Cost (NZD)					
Old Discount (9.6%)					
Discount Rate 1 (18.48%)					
Discount Rate 2 (10.39%)					
Discount Rate 3 (5.27%)					
Net Ingredient Cost					

A simple modelling tool will be made available to contractors such that they can track how the transitional changes to the new discount may impact their pharmacy. This will be available via the BSO website once the first payment has been made under the transitional arrangements (at the end February 2024) when contractors will have information on the gross cost for the 3 fixed discount bands (generics, appliances and brands). Modelling at a contractor level will not be available until then.

Further correspondence will be issued as we progress through the transition and SPPG and BSO will continue to monitor the impact of the revised discounting arrangements on all contractors.

Yours sincerely,



Joe Brogan
Assistant Director of Primary Care
Head of Pharmacy and Medicines Management

Appendix 1

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

Group	Definition and products covered by the definition	Discount Deduction rate
Discount rate 1: Generics	Products listed in Part I, Category A and M of the Drug Tariff (excludes products granted price concessions for the given dispensing month)	18.48%
Discount rate 2: Appliances	<p>Products listed in Part II or Part III of the Drug Tariff This includes:</p> <ul style="list-style-type: none"> • Appliances listed in Part III e.g. dressings, elastic hosiery • Incontinence Appliances listed in Part III • Chemical Reagents listed in Part II <p>The Appliances deduction rates applies whether the appliance is prescribed by brand name or generic name.</p>	10.39%
Discount rate 3: Brands¹	<p>Products not covered by Appliances and Generics definition above. This includes:</p> <ul style="list-style-type: none"> • Products listed in Part I, 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 I of the Drug Tariff i.e. non-Part I 	5.27%

Appendix 2

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 BSO for discount deduction calculations, and will have no deduction applied.

For prescriptions in the month of January'24, two deduction values are calculated, one using the old/ "legacy" method and one using the new "revised" method:

Old deduction rate	9.6%
Deductible NIC	£32,500
Deduction	£3,120

New generic rate (Discount rate 1)	18.48%
Deductible generic NIC	£8,500
Generic deduction	£1,570.80
New appliance rate (Discount rate 2)	10.39%
Deductible appliance NIC	£3,000
Appliance Deduction	£311.70
New brand rate (Discount rate 3)	5.27%
Deductible brand NIC	£21,000
Brand deduction	£1,106.70
Total deduction	£2,989.20

The final deduction that will be applied to Pharmacy A's January '24 prescriptions would be the weighted sum of the two calculated deduction values, as follows:

Old deduction amount	£3,120
Old rate weighting	85%
Weighted value	£2,652
New deduction amount	£2,989.20
New rate weighting	15%
Weighted value	£448.38

Total January '24 prescription deduction	£3,100.38

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:

Prescription month	Prior to Jan'24	Jan-Mar'24	April-June'24	July-Sept'24	Oct-Dec'24	Jan-March'25	April'25 onwards
Old deduction calculation	£3,120	£3,120	£3,120	£3,120	£3,120	£3,120	£3,120
Old deduction weight	100%	85%	70%	50%	30%	15%	
New deduction calculation		£2,989.20	£2,989.20	£2,989.20	£2,989.20	£2,989.20	£2,989.20
New deduction weight		15%	30%	50%	70%	85%	100%
Final monthly deduction	£3,120	£3,100.38	£3,080.76	£3,054.60	£3,028.44	£3,008.82	£2,989.20

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 BSO for discount deduction calculations, and will have no deduction applied.

For prescriptions in the month of January '24, two deduction values are calculated, one using the old method and one using the new method:

Old deduction rate	9.6%
Deductible NIC	£32,500
Deduction	£3,120

New generic rate (Discount rate 1)	18.48%
Deductible generic NIC	£11,700
Generic deduction	£2,162.16

New appliance rate (Discount rate 2)	10.39%
Deductible appliance NIC	£3,000
Appliance Deduction	£311.70
New brand rate (Discount rate 3)	5.27%
Deductible brand NIC	£17,800
Brand deduction	£938.06
Total deduction	£3,411.92

The final deduction that will be applied to Pharmacy B's January'24 prescriptions would be the weighted sum of the two calculated deduction values, as follows:

Old deduction amount	£3,120
Old rate weighting	85%
Weighted value	£2,652
New deduction amount	£3,411.92
New rate weighting	15%
Weighted value	£511.79
Total January'24 prescription deduction	£3,163.79

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:

Prescription month	Prior to Jan'24	Jan-Mar'24	April-June'24	July-Sept'24	Oct-Dec'24	Jan-March'25	April'25 onwards
Old deduction calculation	£3,120	£3,120	£3,120	£3,120	£3,120	£3,120	£3,120
Old deduction weight	100%	85%	70%	50%	30%	15%	
New deduction calculation		£3,411.92	£3,411.92	£3,411.92	£3,411.92	£3,411.92	£3,411.92
New deduction weight		15%	30%	50%	70%	85%	100%
Final monthly deduction	£3,120	£3,163.79	£3,207.58	£3,265.96	£3,324.34	£3,368.13	£3,411.92