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PSNC Briefing 067/18: How the price concession system operates

PSNC's Dispensing and Supply Team has created this briefing to help explain how the price concession system works, as well as answering some common queries received from community pharmacy contractors and their teams.

What is a price concession?

Price concessions are a mechanism which allows contractors to be automatically reimbursed for a drug at a set price which is higher than that listed in the Drug Tariff. PSNC can request that the Department of Health and Social Care (DHSC) consider setting a price concession for any drug listed in Part VIIIA or Part VIIIB which is only available above the set Drug Tariff reimbursement price.

How does PSNC apply for price concessions?

PSNC receives monthly contractor reports (submitted via its [online reporting form](#), by email or telephone) of generic drugs purchased by community pharmacies above the Drug Tariff listed price. The reports received inform the current price availability of stock from wholesalers (both mainline and short-line) to the market and helps PSNC investigate and submit a request for a price concession. PSNC also monitors monthly price lists and price change notifications from mainline wholesalers.

At the start of each month, the PSNC makes an initial application to DHSC for generic drugs reported to us that are not available at or below Drug Tariff price. Further requests for any generic drugs reported by contractors later in the month are also submitted, as required.

Setting a price concession

Upon receiving PSNC's initial request, DHSC conducts their own research into the market which can take some time to complete. DHSC determines an initial concessionary price by looking at manufacturer and sometimes wholesaler data. The initial price setting is calculated using manufacturer ex-factory gate prices which are subject to a formula to allow an uplift of margin to be added.

The ex-factory gate prices are obtained by the DHSC through its new data-gathering powers as provided by the [Information and Disclosure Regulations](#). The regulations, which came in to effect on 1st July 2018, are intended to provide the DHSC with greater transparency and powers to scrutinise and control the price of drugs.

The primary focus of the Information and Disclosure Regulations is to require manufacturers and wholesalers to provide information on costs and stockholding to improve the robustness of the arrangements for setting reimbursement prices for community pharmacies and assure the DHSC that the supply chain provides value for money to the NHS and tax payer to the benefit of patients.

The information is also used by DHSC when reviewing shortages and for setting price concessions. As wholesalers are also subject to the new requirements, it is expected that DHSC have greater transparency and access to timely

data around stock availability and wholesaler selling out prices to apply downward pressure on manufacturers and wholesalers to maintain better control over generic medicine prices.

Following their initial investigation, DHSC may then decide to grant a concessionary price or grant no price concession at all.

Arriving at a decision

PSNC compares DHSC's initial proposed price, where offered, against the reported contractor purchase prices, mainline wholesaler prices and any further market data gathered after the initial application. PSNC uses this data to determine a minimum acceptable price below which a concession cannot be agreed to. Where PSNC does not accept a price proposal, we will approach DHSC and seek to negotiate a more acceptable price for contractors.

Care is taken to ensure that the prices requested by PSNC are fair and reasonable based on the available purchase data and wholesaler selling-out prices across the country. If inflated prices are requested by the PSNC, there is a risk of over-delivery of margin which would be subsequently clawed back by DHSC through Category M adjustments. For this reason, we urge contractors to only report actual purchase prices rather than the highest available prices from various wholesalers.

DHSC will consider PSNC's revised price proposals and any new requests submitted mid-month. DHSC will review its initial price offering against PSNC's requested prices and the latest supply and pricing data they have access to. DHSC may then decide to:

- agree a concessionary price that matches PSNC's initial request, or
- offer a lower concessionary price to PSNC's initial request; or
- grant no price concession at all.

Any drugs which PSNC has been unable to agree prices for are subject to further discussion with DHSC. If PSNC and DHSC are unable to come to an agreement on the final price, DHSC, following Ministerial approval, will impose a price they feel is reflective of the market data they have access to. DHSC often cite that the reasoning behind their decision is due to their research indicating that a considerable amount of stock has been available at or below the proposed concessionary price at some point during the month in question.

Whilst PSNC works to negotiate a concession as close to market prices as possible, we are also aware of the need to finalise price concessions as early as possible in the month so that contractors have certainty over what they will be reimbursed.

Price concessions are published on the PSNC website as soon as they are finalised with DHSC. Contractors can sign up to receive [email alerts](#) as soon as any price concession announcements are made.

A flow chart which illustrates how price concession negotiations progress throughout the month can be found on page 5 of this briefing.

Improving the system

PSNC understands the difficult challenges faced by contractors when the final price granted or imposed by DHSC falls below the purchase price they have paid. This can have a disproportionate effect particularly on those pharmacies dispensing large volumes of any affected lines.

Principles of a new fair system for granting price concessions were identified at a PSNC Committee Meeting early 2018 and are being used as the basis for on-going discussions with DHSC to ensure any new system is responsive to price rises so that contractors do not carry unreasonable costs on behalf of the NHS.

We encourage contractors to submit, as evidence, copies of wholesaler invoices showing actual purchase prices to help us make further representations to DHSC. Contractors can email in copies of wholesaler invoices to medicines.shortages@psnc.org.uk.

PSNC is in the process of re-designing its [online reporting form](#) to simplify the process for contractors to share details of drugs unavailable at Drug Tariff-listed prices.

Margins Survey

As part of the margins survey each year, an exercise is conducted to calculate the financial impact of concession lines on contractors throughout the year. Data is gathered for all items which have been on concession and the financial impact of these lines is calculated and taken into account in the final margins survey result.

If an independent contractor selected in the survey sample purchased a sampled drug at price higher than the final concessionary price, this will be picked up by the margins survey. This is then factored into the overall retained margin survey result and is off-set against any excess margin made on other sampled drugs. On the contrary, if the concessionary price is higher than a contractor's actual purchase price, any margin made will count towards the community pharmacy's overall retained margin allowance.

Frequently Asked Questions

Q. Why isn't the full list of price concessions released early each month?

A. PSNC needs to make a fresh concession application for price concessions at the start of each month. DHSC then takes time to undertake their own checks to reach a proposal. The price concession updates are announced as soon as they are agreed. In some cases, there is a need for ongoing negotiation between PSNC and DHSC particularly on drugs where we are far apart on prices; this can take time. The final monthly update is often released late in the month as these include new drug applications submitted mid-month and any drugs where PSNC and DHSC have been unable to agree, resulting in imposed prices.

PSNC would like to see changes to the arrangements that would allow contractors to have certainty over what they will be reimbursed, much earlier in the month; but this must be balanced with the need to negotiate with DHSC where the initial proposed price of a drug is not deemed acceptable by the PSNC.

Q. If a price concession is granted in one month and is still a problem in the next month, why doesn't the price just roll over?

A. Price concessions only apply for the month in which they are granted. Because the market fluctuates on a regular basis in terms of stock levels and prices it would not be appropriate to roll the price over from one month to the next. PSNC regularly monitors the market through contractor reports and communications with wholesalers. As stock levels and prices can vary across the country, we rely on contractor reports to help feed into our market surveillance and our discussions with DHSC. It is also important to note that the DHSC may not act on something unless contractors have reported it.

Q. Why does the price concession for a drug not reflect the price I'm having to purchase it at?

A. PSNC and DHSC negotiate price concessions and try to agree to a price that both parties feel is reflective of market availability. Whilst this may not be the price that you have purchased at, PSNC only agrees when we believe that price is one that most contractors can obtain the drug for.

However, there are also times where an agreement cannot be reached and DHSC decides to impose a price concession instead. The decision to grant a concession ultimately lies with DHSC so they have the power to impose a price if they feel unable to agree to PSNC's requested prices.

Q. Can you tell me where the drug is available to purchase at the stated concessionary price?

A. Unfortunately competition law prevents us from directing pharmacies to purchase drugs from a specific wholesaler or manufacturer.

We do often see prices for drugs vary quite significantly between different mainline wholesalers and also via short-line wholesalers, and therefore we advise contractors to check with multiple suppliers before ordering to make sure they are purchasing at the best possible price.

Q. Why are NCSOs no longer granted?

A. The last NCSO was granted in April 2013. Due to endorsement errors, PSNC found that a large number of contractors were not being paid for the NCSO endorsements and therefore agreed to move to the current price concession system which automatically prices drugs that are on price concession.

Q. What endorsement do I need to put on a prescription that has a price concession drug on it?

A. No endorsement is needed. All drugs granted a price concession are automatically picked up during pricing by the NHS Business Services Authority (NHS BSA).

Q. Can I refuse to dispense a generic drug that I cannot obtain at or below Drug Tariff price?

A. No; it is against a pharmacy's NHS Terms of Service to refuse to dispense a drug on cost grounds. If a generic drug is unavailable at the Drug Tariff price, pharmacy teams may wish to contact the prescriber to request a prescription for a particular brand or make of drug to ensure reimbursement is based on the item dispensed.

Q. How do I report supply issues to PSNC?

A. Please get in touch with us to report any supply issues by using the [online reporting form](#). Alternatively, you can report any concerns about drug availability at Drug Tariff-listed prices by contacting us via telephone on 0203 1220 810 or by emailing info@psnc.org.uk. You can email in copies of wholesaler invoices as evidence to medicines.shortages@psnc.org.uk or fax 0207 278 1127.

If you have queries on this PSNC Briefing or you require more information, please contact [PSNC's Dispensing and Supply Team](#).

Monthly price concession flow chart

Week 1

