

## Appendix 1-Cost Effective Medicine Dispensing

The following sets out the basis for reviewing arrangements for cost effective medicine dispensing. These arrangements provide a consistent approach that was set out initially in NHS England 2016/17 commissioning intentions and continues into 2017-19:

There are two specific areas of action:

### **A. Arrangements for outsourced and wholly owned pharmacy dispensing**

Many providers have put in place outsourced and wholly owned pharmacy arrangements to dispense outpatient medicines. Such arrangements do not incur VAT. In line with General Condition 12 any sub-contracting arrangements should be approved by commissioners, including approval of terms. A variety of legacy arrangements are in place for these services:

1. The model arrangement for these services, consistent with National Tariff Payment System obligations, is
  - Dispensing costs form part of the National tariff (or local) outpatient prices, since they are incurred for both tariff included and tariff excluded activity.
  - Trusts retain 100% of VAT savings on in-tariff drugs dispensed
  - For Tariff excluded drugs commissioners are charged the actual drug price charged by pharmaceutical suppliers (net of any discounts or rebates) so reinvest the benefits from VAT savings in the overall commissioning of services.

Any funding arrangements which go beyond the model arrangement are discretionary and must only continue if mutually agreed. The examples of other types of arrangement across the country include:

2. Flat fee per item dispensed – Commissioners pay a fee per item dispensed to contribute a share of dispensing costs for tariff excluded drugs with Trusts bearing the equivalent cost per item for in-tariff dispensing. Although discretionary under national tariff payment system guidance, this reflects the driver of dispensing costs and reflects commissioning of outsourced or wholly owned dispensing as a specific service to commissioners.
3. Block contract - Commissioners may pay an overall annual revenue charge rather than the flat fee approach
4. **Percentage of Drug Value Dispensed – This arrangement is NOT reflective of costs incurred but is in place in a number of contracts.**

## 2017/18 Contracting Arrangements

NHS England will be applying a consistent approach to such arrangements from 2017/18, continuing on our approach from 2016/17:

1. The model arrangement represents best practice, and contracts with the model arrangement should continue
2. Flat fee arrangements are a nationally endorsed alternative for an outsourced or wholly owned subsidiary pharmacy where provider agreement for the model arrangement cannot be achieved to avoid barriers to the introduction, extension or continuation of outpatient or wholly owned subsidiary dispensing arrangements. Flat fee “fee per item” dispensing prices\* will be agreed based on benchmarked data from 2016/17 contract arrangements. Where provider pharmacy arrangements are above the most efficient level of cost, providers will be expected to put in place SDIPs to transition pharmacy arrangements to the most efficient level of service cost within a reasonable timeframe.
3. Block contract arrangements may continue by mutual agreement but commissioners should review the number of items dispensed per year to ensure that block value represent similar value for money as per the flat fee arrangement rates above.
4. **“Percentage of medicine price” dispensed fees are NOT supported and must not be continued in 2017/18 contracts.**

**For the avoidance of any doubt no dispensing fee charges of any kind are appropriate for normal, in-house Trust pharmacy arrangements.**

Achieving a negotiated solution, by agreement or through arbitration where necessary is a priority for 2017/18.

### **B. Arrangements for medicines dispensed via a homecare company**

Many providers have contracts in place with homecare companies to dispense outpatient medicines and deliver them to the patient’s home or a nominated delivery point. Such arrangements do not incur VAT. In line with General Condition 12 any sub-contracting arrangements should be approved by commissioners, including approval of terms. A variety of legacy arrangements are in place for these services.

1. Dispensing costs form part of the National tariff (or local) outpatient prices.
  - Trusts retain 100% of VAT savings on in-tariff drugs dispensed
  - For Tariff excluded drugs commissioners are charged the actual drug price charged by pharmaceutical suppliers (net of any discounts or rebates) plus any delivery costs so reinvest the benefits from VAT savings in the overall commissioning of services.
2. Flat fee per item dispensed – Commissioners pay a fee per item dispensed to contribute a share of dispensing costs for tariff excluded drugs with Trusts bearing the equivalent cost per item for in-tariff dispensing. Although discretionary, this reflects the driver of dispensing costs and reflects commissioning of homecare dispensing as a specific service to commissioners.
3. Block contract to reflect costs associated with staffing required to support homecare - Commissioners may pay an overall annual revenue charge rather than the flat fee approach
4. **Percentage of Drug Value Dispensed – This arrangement is NOT reflective of costs incurred but is in place in a number of contracts.**

## 2017/18 Contracting Arrangements

NHS England will be applying a consistent approach to such arrangements from 2017/18, continuing on our approach from 2016/17:

- a. Flat fee arrangements are a nationally endorsed approach for homecare dispensing service where additional resource is required to ensure appropriate contractual and quality standards are met to avoid barriers to the introduction, extension or continuation of homecare dispensing arrangements. Flat fee “fee per item” dispensing prices\* will be agreed based on benchmarked data from 2016/17 contract arrangements. Where provider arrangements are above the most efficient level of cost, providers will be expected to put in place SDIPs to transition homecare arrangements to the most efficient level of service cost within a reasonable timeframe.
- b. Block contract arrangements may continue by mutual agreement but commissioners should review the number of items dispensed per year to ensure that block value represent similar value for money as per the flat fee arrangement rates above.
- c. **“Percentage of medicine price” dispensed fees are NOT supported and must not be continued in 2017/18 contracts.**

Achieving a negotiated solution, by agreement or through arbitration where necessary is a priority for 2017/18.

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\*Note that the cost per item should reflect actual costs, i.e. there should be no financial incentive for a Trust to choose A over B or vice versa – the decision should be based on what is the most suitable for the patient.