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Cllr Gideon Bull
Joint Health Overview and Scrutiny Committee
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19 JUL 2011

Dear Councillor Bull,

Thank you for your letter of 24 June 2011 on behalf of the Joint Health Overview and Scrutiny Committee for north central London about medicines management. It is encouraging to hear of the savings you have achieved from local prescribing budgets.

In your letter, you refer to the increasing cost of specially manufactured medicines ('specials'). The Department is aware of the cost to the NHS of these medicines and we also recognise that the system needs to be reformed. We are working with the Pharmaceutical Services Negotiating Committee (PSNC), who represents pharmacy contractors in discussions with the Department, on proposals for new payment arrangements for these products.

The Drug Tariff, a Secretary of State determination, outlines what NHS dispensing contractors will be paid for the products supplied as part of providing pharmaceutical services and the fees for providing those services.

As you know, specials may be prepared in the dispensary by the contractor (referred to as extemporaneous dispensing) or manufactured by a third party. Whether a pharmacist chooses to extemporaneously prepare the product or obtain it from a specials manufacturer may depend upon various factors, for example the availability of the raw materials, the business of the pharmacy that day, the staff available that day and the number of other unlicensed medicines required that day. However, as these products are not listed in the Drug Tariff, payment is based on how the product is sourced – where it is prepared in the dispensary, the contractor will be paid the cost of the ingredients along with a fee for

preparing the product but where it is sourced from a third party they will be paid the invoice price of the product.

In 2005, the Department issued *Proposals to simplify the reimbursement arrangements for NHS dispensing contractors: A consultation*, which included proposals for the simplification of specials reimbursement. The aim of the proposal was to create a more transparent system for specials reimbursement linking the cost of reimbursement to the cost of the product while providing value for money for the NHS. Following the consultation, DH progressed those areas, which were considered critical before returning to specials.

This is a complex area and I am sure you will understand the need to maintain a degree of flexibility in reimbursing contractors to ensure that these specialised medicines continue to be available for individual patients. As part of this work, we are looking to increase opportunities for saving in this area, although the diversity and number of preparations makes particularly challenging.

You also ask who will be responsible for securing best value from medicines procurement in the modernised NHS. The NHS Commissioning Board will be responsible for holding primary care contracts. Without wishing to pre-empt the Board's future decisions in any way, we would nevertheless expect it to have due regard for securing best value from procurement and use of medicines as it takes this work forward.

You will no doubt be aware that, on 8 July 2011, Sir David Nicholson, Chief Executive of the NHS and Chief Executive designate of the new Board published his initial thoughts on the design of the new NHS Commissioning Board in *Developing the NHS Commissioning Board*. Further information is available at:

<http://healthandcare.dh.gov.uk/commissioning-board/>

I hope this is helpful.

Yours ever,


ANDREW LANSLEY CBE