# Pharmaceutical Services Negotiating Committee Funding and Contract Subcommittee Minutes

**Zoom virtual meeting held on Friday 20th November 2020 at 13.30pm**

**Items are confidential where marked**

**Members:** David Broome, Peter Cattee (Chairman), Jas Heer, Tricia Kennerley, Margaret MacRury, Has Modi, Garry Myers (Vice - Chair), Bharat Patel, Adrian Price, Anil Sharma

**In attendance:** Simon Dukes, Mike Dent, Jack Cresswell, Suraj Shah, Rob Thomas, Gemma Hackett

1. Welcome from Chair
2. Apologies for absence

No apologies were received

1. Declarations or conflicts of interest

No conflicts or interests were declared

1. Minutes of last meeting and matters arising

The minutes of the meeting held on 26th August 2020 were approved

**ACTION**

1. Remuneration  
   1. 2020/21 contract sum forecast out-turn   
        
      The overall balance from 2019/20 was a £12m overspend.  
        
      We have updated forecasts for 2020/21, which have three main areas of complexity:   
        
      i) Items. Volumes are impossible to forecast using normal methodology due to impact of C-19. As such DHSC have presented several ‘scenario’ options which predict an items volume outturn based on an older forecast and applying certain levels of volume growth to it (e.g. -1.5%, 0%, +1.5%, +3%). Because the August data looked very low, we have suggested DHSC also produce a -3% scenario.  
        
      The scenarios produce a wide possible range for volume outturn so are not that helpful in informing discussions on what should happen to SAF / TP levels.  
        
      ii) Service levels. We are broadly happy with DHSC forecasts, with the possible exception of that for MURs, which we feel may be too high. We have raised this as a challenge to DHSC.  
        
      iii) Ring fenced HMT funding for C-19 related dispensing activity. How much of this we get to keep depends on both years’ (2019/20 and 2020/21) outturns.  
        
      We have said to DHSC that, due to this uncertainty, there is not enough evidence to make any change to SAF or TP levels for the rest of the year. DHSC said they would consider this and get back to us; we await their response.  
        
      It was suggested by the sub-committee that we should also consider a scenario where the outturn is even higher than the DHSC’s 3% growth scenario due to C-19 and Brexit in the later part of the year. If this is the case, then we could argue that there should be extra ring-fenced funding for those issues.
   2. C-19 operating cost survey

Mike talked through the briefing paper, opening by thanking those providing data on an ongoing basis and highlighted how crucial that is.

The survey highlights C-19 related impacts of ~£260m to the end of September but this does not include any income protection for pharmacies that have been closed or suffered a significant diminution in CPCF activity/income due to C-19 related factors (whereas other three primary contracts have been afforded this, with dentists and opticians needing to undertake a minimum threshold of activity).

With expected October amounts, and including an element of income protection, it was expected that the £370m would be used up by the end of October. Early sight of October survey responses suggests that contractors are reporting lower levels of cost increases than originally anticipated, possibly as a result of the lack of C-19 reimbursement to date. However, October analysis is still ongoing, with not all surveys yet received, and clarifications still being sought.

The modelling on income protection (‘staircase’ matrix, looking at protection provided once a certain decline was reached, and then income topped up to various levels) was also talked through.

* 1. Costing services and overheads

The discussion paper in the agenda was included to raise awareness of the topic and as a precursor to PSNC decisions which will be required at a future meeting. The notion of ensuring complete costing was agreed, and the importance of cost of capital was emphasised. It was noted that our contractual framework was fundamentally different to GPs, and that seeking to deal with underlying differences might help with pricing and commissioning services.

* 1. PAC report and EPS errors

The briefing paper gave an overview of PAC activity over the previous year. It highlighted the high level of change within PAC, both for team members and the adaptation needed of the supporting Prism auditing system.

The increase in EPS2 scripts explains the focus on system rules and exceptions by PAC and DST (especially on DM&D). The auditing PAC does on the NHSBSA margin survey process, and concessionary prices, was also noted.

1. Reimbursement
2. Category M October 2020   
     
   The introduction of the Confidential Appendix explains the key drivers of the October 20 Cat M price list. We broadly expected a flat DT due to the netting-off of margin changes against underlying price movements.  
     
   The rest of the paper looks at the overall movement according to our usual weighted analysis (broadly flat as expected) as well as showing some of the variation within individual segments and considering high impact lines.  
     
   It was suggested by the sub-committee that more margin was going back into the lower priced / higher volume commodity lines. It was noted there is another paper on Category M later in the agenda which explains how the DHSC assess market NIC levels and set prices.
3. Margin update  
     
   The result for 20/21 Q1 is roughly £160m. This is down from the £174 the DHSC originally asserted, after corrections found by PSNC were made to the data.  
     
   Our analysis of Wavedata and buying group data suggests purchases prices have been falling over the summer, which would suggest that an improvement in margins could be seen in Q2.  
     
   We are seeing an increase in the number of products reported as being above DT price in the last few weeks.  
     
   Our margin scenarios suggest we should be somewhere in the region we need to be by the end of the year in terms of cumulative margin position.   
     
   There is lots of debate going on in the background with DHSC about how the quarterly margins survey (QMS) model should account for the one-off payments that were made to correct for shortfall in 19/20 (i.e., the £60m which was added in from June to Sep 20). The model is good, but it is felt that DHSC haven’t dealt with these extra payments in the best way and it adds unnecessary complexity to the model. We are making progress with these discussions.  
     
   The EPS payment we negotiated has been fully recognised in the cumulative margin position (along with the Cat C margin adjustments that the committee agreed).  
     
   There was a question about how the £15m per month that was put in from June is recognised and how big the shortfall in Q1 is (i.e., £160m vs £200m or £215m). This is part of the discussion on how the model deals with the extra payments – an ongoing live issue.  
     
   It was argued that, given the apparent size of the current cumulative shortfall, they would need to deliver roughly £700m in Q2 – Q4 to be square by the end of the year, and this feels unlikely given anecdotal reports. This was acknowledged but we need a better idea of how Q2 looks. As previously stated, we expect underlying margin levels to pick up. DHSC are also saying that once the theoretical level of margin adjustment from the QMS is known we then need a strategic discussion about what adjustment is applied. This could be good or bad i.e., they want to pay us more because of Brexit, or they want to pay us less because of the £370m C-19 advances we hold.  
     
   The £370m was originally requested to cover all issues of higher costs linked to C-19 which would have included growth in procurement prices. However, DHSC subsequently decided they wanted to deal with any margin shortfall through the normal process, implying the £370m might be too high (although see 5b above).  
     
   There is some feeling in the sector that margins haven’t been as good as expected but the £370m has covered us so not causing the levels of distress to contractors it otherwise would have.
4. Category M and margin discussion paper  
     
   The paper explaining the mechanisms behind how Cat M price lists are determined was noted. This also explains how the issue of price concessions and margin changes interacts with Cat M processes.
5. Reporting for price concessions

The sub-committee noted the time and resource pressures faced by staff when it comes to reporting of purchase prices over Drug Tariff prices. A question was raised about the lines where prices are not agreed to by PSNC and it was explained that prices are negotiated on a line-by-line basis and that DHSC and PSNC refer to different sets of data to determine concessionary prices. It was noted that contractors do not have access to every wholesaler so may not be able to purchase stock at the lower prices referred to by DHSC during discussions. A suggestion was made on changing the way we capture reports and DST will explore possible ideas. A concern around wholesaler surcharges was also raised as these are not factored into prices granted by the DHSC.

**REPORT**

1. General funding update  
     
   We have changed how the number of closures is calculated. There are varying sources of data for this. There has been a net reduction of around 360 pharmacies since the announcement of the funding cuts.  
     
   The rest of the update demonstrates the work done by the PSNC DST in seeking to help contractors in terms of reimbursement issues. For example, there has been hundreds of extra DND drugs recognised on dm+d with many more still in discussion. We are pressing them on many other issues as well, such as special containers. A recent price increase in Priadel tablets was flagged to the Committee and DST will assess its impact on reimbursement.
2. Statistics   
     
   The information in the agenda was noted
3. Any other business   
     
   PPE – the Govt has said they will pay for certain types of PPE. A system has been set up to allow health care providers to get PPE for free.  
     
   The NT will need to consider how contractors will get reimbursed for PPE they have purchased themselves. Claims will be allowed for PPE purchased up to the end of December, after which they will not be paid for PPE they choose to purchase, as they will be expected to use the portal.  
     
   Pre-reg payments – there was a discussion around how the structure of pre-reg placements will change, and this will lead to a change in how they are funded as well. It would be appropriate to raise this as an issue to the main PSNC, or to the workforce working group. The sub-committee acknowledged the need to be able to attract new pharmacists into working in community pharmacy.