**Pharmaceutical Services Negotiating Committee**

**Funding and Contract Subcommittee Minutes**

**Wednesday 1st February 2023 at 14.00**

**By Zoom**

**Items are confidential where marked**

**Members:** Peter Cattee (Chairman),David Broome (Deputy Chairman), Jas Heer, Tricia Kennerley, Has Modi, Bharat Patel, Prakash Patel, Adrian Price, Anil Sharma

**In attendance:** Ifti Khan, Faisal Tuddy, Fin McCaul, Roger Nichols, Rhys Martin, Sam Fisher, Gary Warner, Mark Griffiths, Stephen Thomas, Claire Nevinson, Gary Warner, Sunil Kochhar, Marc Donovan, Lindsey Fairbrother, Ian Cubbin, Mark Donovan Niamh McMillan, Clare Kerr, Reena Barai, Ian Cubbin, Rhys Martin, Jay Patel, Umesh Patel, Indrajit Patel, Tricia Kennerly, Sam Fisher, Sunil Kumar, Sian Retallick, Janet Morrison, Mike Dent, Alastair Buxton, Gordon Hockey, James Wood, Jack Cresswell, Suraj Shah, Rob Thomas, David Onuoha, Mitesh Bhudia, Katrina Worthington, Michael Digby and Shiné Brownsell

1. Welcome from Chair
2. Apologies for absence

Anil Sharma

1. Declarations or conflicts of interest

None

1. Minutes of last meeting **(Confidential Appendix FCS 01/12/23)**and matters arising

The minutes of the meeting held on 23rd November 2022 were approved

**REPORTS**

1. Work Plan
   1. Workplan for Pharmacy Funding and Finance teams **(Confidential Appendix FCS 02/02/23)**

The information in the agenda was noted. Most items on the workplan had papers either on FunCon or PSNC.

1. CPCF negotiations
   1. Independent economic review **(Confidential verbal update)**

Mike gave an overview of progress on the independent economic review. It was noted that NHSE&I had published a pre-engagement questionnaire for prospective suppliers following discussions with PSNC.

Work has focused on two levels. The first level has discussed the technical/detail practicalities, including methodology and sampling. This includes identifying that sustainable cost needs to be identified, and that contractor data will not be readily available, and the need for contractors to specifically work through this.

It was noted that it is key that the NHS work through the cost of providing pharmaceutical services.

The second level is looking at governance, stressing the need for NHSE&I to work with us to ensure data is provided, that we are assured that the results can be used and are representative, that it is independent, and that we can have detailed scrutiny of the methodology.

NHSE&I are looking to have a supplier in place in March 2023 to report in Autumn.

* 1. Social and economic value of community pharmacy (**Confidential verbal update)**

An economic consultant is working with us on establishing the economic value of community pharmacy – tying together the Vision work and the economic review. This should also provide strong messages for communications and lobbying.

There are three limbs: updating the PwC work on value from 2016, valuing new services established since then, and valuing essential services including dispensing.

Initial output on scoping the project has been undertaken.

* 1. Dispensing doctor’s funding and distribution – 2022/23 (**Confidential Appendix FCS 03/02/23)**

The paper on 2022/23 funding and fees were noted, with analysis being prompted by the high (+27.8%) increase in item fees from October 2022.

It was noted that the headline Global Sum for Dispensing Doctors is updated each year according to a mechanical formula that has been in place since 2012. The increase in headline Global Sum of +2.1% (+£3.8m) from 2021/22 to 2022/23 had largely been due to an underspend in fees of -£15.4m in 2021/22. Without the partial adjustment for this underspend the YoY increase in Global Sum would have been +0.4%.

These factors had led to the October 2022 change in fees. This included correcting the run rate (April 2022 levels were too low to deliver the full year amount), delivering the adjustment for the 2021/22 underspend, and also delivering the non-underspend related +0.4% increase. All of these needed changes have been concentrated in the six month period from October 2022 to March 2023.

It was noted that, apart from understanding that there had not been any increase due to inflation, cost of living pressures, or other ad hoc reasons, this was useful knowledge of a parallel sector and would be used in wider discussions.

1. Remuneration and reimbursement
   1. CPCF outturn **(Confidential Appendix FCS 04/02/03)**

There has been growth in items and services in 22/23 beyond that which was originally expected at the start of the year, and the rate of funding delivery means there is likely to be an over delivery this year.

Transitional Payments started to be phased down in Q3, in accordance with the trajectory that was published back in October. Further reductions had been anticipated for Q4, however proposed fee reductions were rejected in December due to the ongoing financial emergency being experienced by contractors.

Ministers determined the TP should be reduced to zero from February. Overall the amount of TP delivered in Q4 will be £7.5m which is in line with the original expectation, but this will all be delivered in January instead of spread across Q4.

The latest forecasts indicate the over delivery for 22/23 will be around £31m. This is in addition to the £25m from the previous year. PSNC’s forecasts for next year indicate continued growth of item volumes and services, and another potential over delivery of £22m, although forecasts for next year are very uncertain at this early stage. By the end of 23/24 the cumulative over delivery could be in the region of £79m.

We are due to discuss fee rates going into 22/23 shortly, and it is possible DHSC would seek some kind of adjustment, to avoid an over delivery in 23/24 and also potentially to recover the previous years’ over delivery.

There was a sentiment from the committee that a big driver of over delivery has been over commissioning from DHSC / NHS i.e. trying to use the limited funding pot to do too much.

A point was raised about pharmacies that are providing anomalously large volumes of services. Gordon explained that work is going on behind the scenes regarding provider assurance.

* 1. Cat M January 2023 **(Confidential Appendix FCS 05/02/23)**

The committee noted the analysis.

* 1. Target NIC and January 2023 price movements **(Confidential Appendix FCS 06/02/23)**

Mike explained the concept behind movements in the Drug Tariff relating to shifts in the underlying market.

‘Target NIC’ is the concept that as market prices go up, the Drug Tariff prices should go up accordingly (or down if prices go down). This works by looking at price changes of all Cat M lines from quarter to quarter, and forecasting volumes based on historic usage. These changes are systematic and not negotiated. They are separate from ‘margin adjustments’, which happen in reaction to the outturns from the pharmacy margin survey.

Our analysis showed that much of the Target NIC / DT price increases in January went into concession lines, market data suggested that this was appropriate.

We also looked at the direction of DT price movements and purchase price movements. Market data indicated that although many products went up (mainly driven by concessions), a lot of products went down in price as well.

We are currently pressing DHSC about whether there is an excess of ‘cheap’ lines in Cat M, and whether margin is concentrated in too few of the Cat M lines. This leads onto questions about margin headroom and whether or not the current margin allowance of £800m is enough. We will provide further updates on discussions when we have them.

* 1. Retained margin update **(Confidential Appendix FCS 07/02/23)**

Mike talked through the retained margin update paper. We are progressing with analysis of Q2 margin; broadly the data shows that generics margin went down as expected, however there was an increase in brand margin, so brands appear less negative in Q2 than usual.

There is also the issue of apixaban NIC allocation which is still to be finalised for Q1, and will run into Q2 as well. This makes a significant difference to the margin outcome. Margin survey data indicates generic was not fully available in Q2, and the court case between the generic and branded manufacturers is still ongoing. We know some generic manufacturing has now stopped.

A committee member asked how PI usage is tracked. Mike explained that PIs are identified from invoices at the transaction level, so the PI usage in the margin survey is based on real data, it is not theoretical.

A member noted that some contractors won’t be able to use PIs easily in future because of barcode scanning requirements.

* 1. Implementation of £100m write off **(Confidential Appendix FCS 08/02/23)**

Mike explained the mechanism by which the £100m margin write off was being delivered to contractors. The DHSC put prices up across 4 quarters from 22/23 Q3 to 23/24 Q2. They then adjust the margin allowance for those quarters so that the extra £100m is not taken back later.

The trajectory of delivering the £100m is shown in the appendix. We need to be aware that when the £100m starts to unwind this will have a supressing effect on the relevant quarterly Tariff adjustments.

* 1. C-19 cost claims update **(Confidential Appendix FCS 09/02/23)**

The detailed briefing paper was noted, with an overview given of the main changes from the last update.

It is understood that 14 pharmacies (13 pre-payment and 1 post-payment) have submitted appeals so far. NHS Resolution have not yet published final decisions on any of them.

Mike noted that we’re continuing to monitor this.

* 1. C-19 antivirals update **(Confidential Appendix FCS 10/02/23)**

In the latest update from DHSC, they have said that from April 2023 we should expect that prescriptions for Covid antivirals will be being received by pharmacies. They expect these to be a low volume (around 60,000 per year). Stocks will be provided to contractors free of charge by a supplier appointed by DHSC. Contractors will receive dispensing fees for the prescriptions but no reimbursement.

DHSC provided assurances on some aspects of PSNC’s concerns, however issues still remain such as:

* Stock only being available from limited suppliers
* Inherent extra risk of dealing with covid positive patients
* Extra costs / workload associated with supply of antivirals
  1. HRT PPC update **(Confidential Appendix FCS 11/02/23)**

Suraj provided an update on the proposals to introduce HRT prepayment certificate (HRT PPC). The changes are expected to go ahead in April and a meeting has been arranged for Janet and Gordon to discuss PSNC’s concerns with relevant Minister. The proposed changes to PLPS regulations will be considered by LRA subcommittee.

* 1. Price concessions update **(Appendix FCS 12/02/23)**

The information in the update was noted by the sub-committee

1. Reimbursement reforms
   1. Price concessions review **(Confidential Appendix FCS 13/02/23)**

Mike explained that the price concessions review will be discussed in more detail at the main PSNC Committee meeting on Thursday. The discussions will primarily focus on short-term improvements; long-term improvements will require wider engagement from NHS England and other stakeholders.

* 1. Retrospective top up payments for concession lines **(Confidential Appendix 14/02/23)**

The information in the update was noted by the sub-committee.

* 1. Discount deduction **(Confidential verbal update)**

Work is underway to analyse the changes to the discount deduction scale for October 2022 prescriptions. Thus far, PSNC has not identified any issues with NHSBSA’s calculations. A paper with the findings will be shared with the NT / Committee. Substantial development work is also underway on Prism to ensure that bottom-up auditing of the revised payments can be undertaken.

1. General funding update **(Appendix FCS 15/02/23)**

The information in the update was noted by the sub-committee.

1. Statistics **(Appendix FCS 16/02/23)**

The information in the update was noted by the sub-committee.

1. Any other business

None