05 June 2020

Attention: Chair – Pricing Committee  
National Department of Health

Per email: Sulemanf@ukzn.ac.za  
CC: minister@health.gov.za; dg@health.gov.za; Anban.Pillay@health.gov.za;  
jacqui.miot@gmail.com; MpanzM@health.gov.za;

Dear Prof Fatima Suleman

Dispensing fee for Pharmacists

Current position
The current dispensing fee for pharmacists is the fee that was published on 23 January 2019. It is seventeen months since the publication of this dispensing fee despite the requirements of the Regulations Relating to a Transparent Pricing System for Medicines and Scheduled Substances (GNR 1102 of November 2005) which specifies that the dispensing fee must be reviewed annually by the Minister of Health (Minister) (Regulation 12(3)).

The Pharmacy Stakeholders Forum (PSF) is aware that an un-numbered notice appeared on the National Department of Health’s (NDoH) SEP updates website, reflecting a dispensing fee for pharmacists but to-date, despite a number of attempted follow-ups with the NDoH, the dispensing fee has not been formally published in a Government Gazette. The PSF’s interactions with the Dispensing Fee Methodology Review Working Group, a subcommittee of the Pricing Committee (PC), during 2019 were constructive and we seemed to have been on the same page regarding the fee increase target of 4.8% for the 2020 dispensing fee.

We submitted comment on the draft dispensing fee published on 12 July 2019 (Notice No. 973 of Government Gazette No. 42576) in our letter dated 8 October 2019 (Attachment 1) in which we reflected comprehensive results of analysis done by two independent companies of the draft fee which showed an increase in the dispensing fee of only 1.9% and 1.95%, falling much short of the intended fee increase of 4.8%.

Subsequent to our submission we met with the Dispensing Fee Methodology Review Working Group on 13 November 2019 and our discussion focussed on the possible reasons for the huge difference between the intended increase and the results of the analysis of the draft fee.
During this meeting the following was established:

- The intended fee increase by the PC was 4.8%.
- The PC subcommittee used Mediscor data to determine the SEP range of products being dispensed.
- The PC subcommittee confirmed that they did not do an analysis of the increase calculated by the subcommittee of the draft fee (comparative test of the current fee with the proposed fee).
- The PC had already made a final proposal of the dispensing fee to the Minister at the time when the PSF met with them.
- The final proposal of the dispensing fee to the Minister does include some minor changes to the draft fee.
- The subcommittee agreed to approach Mediscor with a request that Mediscor should do an analysis of the intended dispensing fee as a matter of urgency.
- The PSF were informed that the term of the PC will come to an end soon and that the Minister must appoint a new PC.

Following the abovementioned meeting in November 2019, the PSF reviewed all information shared during that meeting in an attempt to understand the difference between the intended fee increase of 4.8% and the results of around 1.9% from our analysis done by two independent organisations.

The PSF’s analysis of the information identified the following:

- The PC increased the fixed rand component of the 4 tiers of the dispensing fee published in January 2019 with increases ranging between 4.75% and 4.77% in line with the intended inflation increase of 4.8% of the Draft fee published on 12 July 2019.
- The second component (percentage component) of the dispensing fee has been left unaltered.

These findings were communicated to the Chairperson of the Subcommittee (Attachment 2), Dr Miot, on 14 November 2019 expressing the PSF’s concern that by only increasing one of the two components of the dispensing fee with only the inflation target of 4.85%, the composite fee calculation comprising of the fixed rand component and a percentage component will not achieve the intended increase of 4.8%. **It is not possible to increase one “half” of the fee with only 4.8% and then to expect that the composite calculation will result in a 4.8% dispensing fee increase.**

Dr Miot responded on 20 November 2019 stating that:

“While the % in each Tier remains unchanged, the cap of each SEP Tier is increased by CPI so in effect there are higher SEPs in each successive tier which accounts for the additional CPI increase over and above the increase in the rand amount.”
The PSF’s submission on this statement is that when we use the current January 2019 dispensing fee and apply a Consumer Price Index (CPI) increase of 4.17% (increase from R109.55 to R 113.71) to the first Tier Cap; this delivers an increase in the dispensing fee of 1.83%. It must be noted that this increase will only apply on the products falling between the original Tier Cap and the CPI increased Tier Cap. This increase is insignificant in increasing the dispensing fee of the full basket of products dispensed and will definitely not achieve an increase of the dispensing fee with the CPI intended increase of 4.8% when combined with the increase on the rand component of the fee.

The calculation of the 1.83% can be illustrated as follows:

- We will compare the fee for a product with an SEP of R 111.00 with the different Tier Cap levels. The reason why we chose the SEP of R 111.00 is that it falls between the “current” Tier Cap of R 109.55 and the CPI increased Tier Cap of R 113.71.
- The dispensing fee of a product with an SEP of R 111.00 is calculated as 33% of the SEP and adding the rand component of R 27.75 as it falls in the second Tier Band, delivers a dispensing fee of R 64.38.
- Calculating the fee of a product with the same SEP of R111.00 when the Tier Cap is increased to R 113.71 with no other changes to the dispensing fee formula, the fee is calculated as falling in the first Tier, the fee is 46% plus R14.50 which delivers a fee of R 65.56.
- The increase of the fee when only the Tier cap is increased is therefore R 1.18 or 1.83%.

It must be noted that an increase of the Tier Cap only impacts on those products that fall in the SEP range between the current Tier Cap (R109.55) and the increased Tier Cap (R113.71) and does not impact on the other products.

Our experience over the years has been that changes in the Tier Cap is only done to achieve a smooth curve in the dispensing fee and not to achieve an increase in the fee. The increase of the rand component of the fee must therefore be adequate (and higher than the CPI) to achieve a composite fee increase of CPI target.

Comment on the unpublished fee which appeared on the DoH website
It is noted that when this unpublished fee is compared to the draft fee of 12 July 2019 some of the fixed rand components and Tier Caps have been amended with either 1 cent up or down. There is however one substantial change and that is the change of the Fixed Rand component of the first Tier from R 15.19 in the draft fee to R 15.95. If we compare this with the January 2019 fee the increase is from R14.50 to R 15.95 or an increase of this fixed rand component of 10%.
Whilst this is welcomed if published, it results in a situation where the dispensing fee for a product with an SEP of R 113.72 will be R 68.26 whilst a product with an SEP of R 113.73 (only one cent more), the dispensing fee drops to R 66.60. The result of this is an unsmooth curve as the second Tier has not been amended to achieve a smooth dispensing fee curve.

Going forward in determining a dispensing fee for 2021 the following needs to be considered:

1. The Consumer Price Index for January 2020 was 4.5%, February 2020 was 4.6% and March 2020 was 4.1%. The impact of the lockdown due to Covid-19 at this stage is not known. The CPI for 2019 must also be added due to the non-publication of a dispensing fee.

2. Pharmacies had to incur huge additional expenses due to the requirements to prevent transmission of the Covid-19 virus and for the month of March 2020, for one pharmacy with 20 staff members the additional expense was approximately R 45 000 due to the installation of screens and purchasing of masks and sanitizers. This dropped in April 2020 to approximately R 20 000 as a result of cheaper masks, etc. This new cost, which will be with us for at least a year, needs to be added to the Zero Base Cost Model.

3. Fee target for 2021: In our submission to the DoH dated 14 August 2018 we commented on the draft dispensing fee published on 9 July 2018 (Dispensing fee for 2019). Our submission indicated that the fee target for 2019 should at least be R 60.12. Our analysis of the January 2019 dispensing reflected a weighted average dispensing fee of R 55.77. The draft fee of July 2019 delivered an expected weighted average dispensing fee of R 56.86 or an increase of 1.95% falling much short of achieving the intended increase of 4.8%.

Increasing the current (January 2019) fee target of R 55.77 with the agreed 4.8%, results in an average dispensing fee target for 2020 of R 58.45. If we assume the CPI for 2020 to be 4% then based on the intended fee target for 2020 the target for 2021 should then be at least R 60.79 plus an additional amount to make provision for the additional Covid-19 expenses that pharmacies now incur.

If this is compared with our 2020 target (R60.12 plus 4.8%) of R 63.00 and 2021 target (R63.00 plus 4%) of R65.52 then the PSF target and the intended PC target differs with approximately R 4.73.
Conclusion

1. We request that the unpublished fee despite the flaws as indicated be published as a matter of urgency.

2. We request that the PC should set a dispensing fee for 2021 with a weighted average dispensing fee income of not less than R 63.00.

3. We request that the dispensing fee wording should reflect that the fee is a fixed fee rather than a “maximum fee”.

Yours sincerely

Mr Sham Moodley
Coordinator

Mr Ivan Kotzé
Coordinator