"Annexure B2"

Pharmacists dispensing fee and the Zero based costing model

The first dispensing fee for pharmacists that came into operation was published on 19 November 2010 and was based on a Zero base costing model. Added to the dispensary costs was a return of investment component based on a theoretical investment of a basic pharmacy dispensary. This figure was then divided by 2300 which then gave the targeted average dispensing fee. This "fixed" fee per item was then translated into a four tiered dispensing fee model to accommodate products with a very low single exit price (SEP) and very expensive products. (The Pricing Committee (PC) decided that an efficient pharmacy will dispense 2300 items per month)

The PSF disagreed with the PC on a number of items used in the pharmacy cost model such as the ROI figure, salaries, rent as well as the figure used for the investment component to establish a pharmacy dispensary on which the ROI was calculated. The PC also only recognized 23 cost lines which were much less than the costing model used for the Reference price list model used for other professionals by the Council for Medical Schemes. In summary the PC figures were lower that the figures proposed by the PSF. The figures used were based on overhead costs as in January 2010 but the fee was only published 10 months later.

Costs such as prescription administrative fee (PAF) to facilitate payment and beneficiary status are not accommodated in the fee model nor does the fee recognize costs when payment is done utilizing credit cards.

Summary.

The dispensing fee was based on a low cost model and a conservative ROI component expecting that a pharmacy will dispense 2300 items per month. The average fee per item calculated therefore was at the lowest fee level as the ROI is the only component of this model that does not covers direct costs of dispensing. Normal trading income for a business is not provided for in this model.

Published dispensing fee and annual adjustments.

November 2010 fee;

- SEP less than R75.00 – Fee should not exceed R6.00 plus 46% of the SEP.
- SEP between R75.00 and less than R200.00 – The fee should not exceed R15.74 plus 33% of the SEP.
- SEP between R200.00 and less than R700.00 – The fee should not exceed R51.00 plus 15% of the SEP.
- SEP R700.00 or more – The fee should not exceed R121 plus 5% of the SEP.

This fee was developed to give a targeted average dispensing fee income of R38.00 VAT exclusive if charged and paid in full.

There was no fee adjustment during 2011 and 2012.

September 2013 fee;

- SEP less than R81.00 – The fee should not exceed R6.30 plus 46% of the SEP.
- SEP between R81.00 and less than R216.00 – The fee should not exceed R16.00 plus 33% of the SEP.
- SEP between R216.00 and less than R756.00 – The fee should not exceed R55.00 plus 15% of the SEP.
- SEP R756.00 or more – The fee should not exceed R131.00 plus 5% of the SEP.

The weighted average fee income for this fee lay between R45.00 and R48.00 VAT exclusive if the maximum fee is charged and paid. (Variance was as a result of different data sets used).

There was no fee adjustment during 2014

March 2015 fee;

- SEP less than R85.69 – The fee should not exceed R7.04 plus 46% of the SEP.
- SEP between R85.69 and less than R228.56 – The fee should not exceed R18.80 plus 33% of the SEP.
- SEP between R228.56 and less than R799.99 – The fee should not exceed R59.83 plus 15% of the SEP.
- SEP R799.99 or more – The fee should not exceed R140.00 plus 5% of the SEP.

The expected maximum fee income is calculated to be between R48.00 and R50.00. (Based on 2014 data set and a 4.13% overall increase)

Conclusion.

The dispensing fee was developed at the lowest cost level and the only "profit" component is in the ROI based on the investment in a basic dispensary. Most of the Good Dispensing Practice requirements such a temperature control expenses are not accommodated and therefore further lower the investment return or business trading income.

With the original fee being developed as a fixed fee target of R38.00 and with two adjustments over 5 years, despite the legal requirement that the fee must be reviewed annually, the wording in the published fee "....should not exceed..." creates the perception by funders and the public that the dispensing fee is designed to be at such a level that a pharmacist can afford to discount this very basic fee.

The public are also under the impression that the SEP includes the pharmacy "mark – up" and have difficulty in understanding that the dispensing fee in fact should cover both the "mark-up" component of a business to offer the product for sale, in addition to the professional fee that the pharmacist and assistant are entitled to. They do not understand that the SEP is in fact pharmacy cost or acquisition price.

In the absence of a fixed dispensing fee medical scheme such as Discovery Health takes over the role of a regulator in determining the dispensing fee. The following is an extract from the DISCOVERY HEALTH (PTY) LTD Response to Published Stakeholder Submissions Compiled in accordance with Supplementary Guideline No.1 of 5 February 2015. *"Any pharmacy may elect to join the DH Network provided they are willing to accept the DH dispensing fee."*

It should be noted that the SEP, inclusive of the logistics fee, is a capped fixed fee whilst the dispensing fee component in the transparent pricing scheme is not. The income of manufacturers is therefore fixed and is not discountable. This unfairly places the focus on the dispensing fee component where funders and consumers expect a discounted fee.

Constitutional Court Guidance: Minister of Heath and Another v New Clicks South Africa (Pty) Ltd and others Case CCT59/04.

All the judges of the Constitutional Court agreed that the most important principle in setting an appropriate dispensing fee is to achieve an appropriate balance between accessibility and affordability of medicines. (At para 315 and 714)

Ngcobo J stated that" *The dispensing fee must be appropriate not only to the public, but also to pharmacies."*(At para 518)

The dispensing fee was envisaged as a fee which is "fair", "just", "proper", and "well-suited". (Ngcobo J at para 518 and Moseneke J at para 713)

Chaskalson agreed with the statement of Professor McIntyre that the dispensing fee *"should be sufficient to enable a well-run pharmacy to make a reasonable profit"*. (At para 317)

Ngcobo J also emphasized that an appropriate dispensing fee *"must consider the need for pharmacies to receive, in addition to the cost to them of the drugs, some recompense for the trouble and expense of supplying the product"(At para 527).*

The Constitutional Court impliedly recognized that, although the dispensing fee is a professional fee for the provision of a service, the level of the fee must not only compensate pharmacists for the provision of that service but also for the costs associated with the fact that a pharmacy trades in medicine. An appropriate fee must ensure that these costs are recovered. (Chaskalson CJ at para 320)