

ANSWERS TO QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Inquiry into the National Health Amendment (Pharmaceutical Benefits Scheme) Bill
9 November 2010

Question no: 1

OUTCOME 2 Access to Pharmaceutical Services

Topic: Impact of Further PBS Reform on pharmaceutical wholesalers

Written question on notice

Senator Moore asked:

The National Pharmaceutical Services Association has raised concern about the implementation of price reductions proposed by the bill and the devaluation of stock.¹ The NPSA stated that the transitional arrangements for 'the price reductions on 1 August 2008 were problematic for manufacturers, wholesalers and pharmacies and the losses experienced by wholesalers through stock devaluations were significant'.²

- a) Did the Department assist with or have a role in the transitional arrangements to manage the devaluation of stock experienced by wholesalers in 2008?
- b) How does the Department anticipate the stock devaluation arising from the proposed price reductions in the bill will be managed?
- c) What options are there to address difficulties transitioning to reduced prices and stock devaluation?

Answer:

- a) In recognition of the impact of the transition to the 2007 PBS reforms on wholesalers, in August 2008, the Community Service Obligation (CSO) was increased by around \$23 million a year. This is an indexed amount and continues to be paid today, well after wholesalers have adjusted to the original reforms.
- b) The Department does not believe there will be any supply issues as a result of the Further PBS Reforms. The Department will provide over three months notice of which medicines are affected by the further PBS reforms under price disclosure arrangements. This allows time for wholesalers and community pharmacies to effectively manage stock levels, as they have demonstrated with previous price reductions under the 2007 PBS reforms.

Australian Pharmaceutical Industries (API), a pharmaceutical wholesaler and member of

1 NPSA, *Submission 3*, p. 7.

2 NPSA, *Submission 3*, p. 7.

the National Pharmaceutical Services Association, has noted in a release to the Australian Stock Exchange on 28 October 2010 that 'The impact of PBS reforms announced this year is significant, however we are confident that initiatives are in place to offset or mitigate any major impact on the business'.

This statement reflects that eligible wholesalers are sharing in some \$950 million over five years to distribute medicines under CSO arrangements, 58 per cent more than the previous agreement. The payments from the CSO are in addition the wholesale margin of 7.52 per cent for most drugs which is paid under the Fifth Community Pharmacy Agreement (5CPA). Further, the wholesale remuneration for PBS medicines that are priced over \$930.06 is a fixed payment of \$69.94 and is not impacted by price reductions.

Australia's biggest supplier of medicines to wholesalers and community pharmacies, DHL Supply Chain (DHL), in their submission to the Inquiry is supportive of the Bill. Further, DHL suggest that the Commonwealth pays too much in wholesaler remuneration (\$3.24 per prescription on average in 2008-09, including both wholesale margin and CSO) and recommends the application of a significantly reduced unit rate for all PBS items of \$0.70 per unit.

- c) The Department expects that the management of stock levels in the context of changing stock prices is an aspect of their business operations that wholesalers are responsible for and that the arrangements already in place are sufficient to ensure the continued supply of medicines, and as such no additional measures are considered necessary.

Finally, it should be noted that \$1 billion in savings were achieved under the 5CPA, however in recognition of the important role pharmaceutical wholesalers play in the PBS medicines supply chain wholesale remuneration remained unchanged.

Senate Community Affairs References Committee

ANSWERS TO QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Inquiry into the National Health Amendment (Pharmaceutical Benefits Scheme) Bill
9 November 2010

Question no: 2

OUTCOME 2 Access to Pharmaceutical Services

Topic: Impact of Further PBS Reform on pharmaceutical wholesalers

Written question on notice

Senator Moore asked:

In their submission, the National Pharmaceutical Services Association recommended that an 'adjustment mechanism' be implemented to compensate wholesalers for 'the negative flow on impact of the savings sought to be achieved' from the PBS reforms proposed in the bill.¹

- a) Is the government aware of the NPSA's recommendation to compensate wholesalers?
- b) What do you see as the potential implications of the NPSA's recommendation?

Answer:

- a) Yes.
- b) Please see response to written question 1.

1 NPSA, *Submission 3*, p. 1.

ANSWERS TO QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Inquiry into the National Health Amendment (Pharmaceutical Benefits Scheme) Bill
9 November 2010

Question no: 3

OUTCOME 2 Access to Pharmaceutical Services

Topic: Impact of Further PBS Reform on pharmaceutical wholesalers

Written question on notice

Senator Moore asked:

Some witnesses have argued that there may be security of supply issues at the commencement of the reduced prices. What mechanisms are in place to avoid this situation occurring?

Answer:

The Department does not believe there will be any supply issues as a result of the Further PBS Reform measure.

Since 2008, all drugs on the F2A formulary have been subject to statutory price reduction on 1 August each year. These price reductions have not resulted in any supply issues for PBS medicines, nor has the application of price disclosure affected supply of drugs since price changes came into effect in 2009.

The Department will continue to provide over three months notice of which medicines are affected by the further PBS reforms under price disclosure arrangements and statutory price reductions. This allows time for wholesalers and community pharmacies to effectively manage stock levels, as they have demonstrated with previous price reductions under the 2007 PBS reforms.

In addition, regulation 33 (1) of the National Health (Pharmaceutical Benefits) Regulations 1960 require a community pharmacy to keep in stock adequate supply of medicines that they reasonably expected to dispense as pharmaceutical benefits.

Further, for eligible wholesalers participating in the Community Service Obligation (CSO) there are a range of contractually enforced standards in operation,

- that at all times a wholesaler will hold stock of one originator brand and two premium-free brands of every PBS medicine; and
- will deliver any PBS medicine to any pharmacy anywhere in Australia within 24 hours when requested.

There are sanctions for failing to meet these standards.

Senate Community Affairs References Committee

ANSWERS TO QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Inquiry into the National Health Amendment (Pharmaceutical Benefits Scheme) Bill
9 November 2010

Question no: 4

OUTCOME 2 Access to Pharmaceutical Services

Topic: Expanded and Accelerated Price Disclosure

Written question on notice

Senator Moore asked:

The Pharmacy Guild of Australia has proposed that the 1 December 2010 start date for price disclosure be delayed until 1 February 2011; due to difficulties caused by the very busy pre Christmas period. What is your response to this?

Answer:

There is no impact on pharmacies of this measure over the Christmas period.

The 1 December 2010 date marks the commencement of the period in which pharmaceutical companies (not pharmacies) will begin collecting data about the prices at which they sell their drugs to pharmacies and wholesalers. The data is not required to be submitted to the Department until mid-May 2011. The data will be the same type and format that is collected under the existing program which commenced in 2007, and is sales data that pharmaceutical companies already collect in the operation of their businesses.

The collection of data from 1 December 2010 does not change trading terms or prices in the in the 2010 pre Christmas period because any price changes as a result of price disclosure will not take effect until 1 April 2012.