Submission to Senate Enquiry
by Christopher Shenton, Managing Partner, on behalf of Joondalup Hospital Pharmacy and Southwest Hospital Pharmacy, Bunbury, WA.

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Supply of chemotherapy drugs such as Docetaxel

The application of accelerated price disclosure arrangements to chemotherapy drugs on the PBS has resulted in large reductions in the price paid by the commonwealth for chemotherapy infusions. Since October 2010 there have been significant reductions in the price of many of the significant medicines used in cancer care. These reductions have created savings to the commonwealth of over $200 million. The method of price disclosure was designed for oral medicines typically dispensed in community pharmacy and does not suit the hospital chemotherapy market.

Chemotherapy agents such as docetaxel are extremely toxic in their own right. This requires significant vigilance of the clinical appropriateness of doses. This also means that the dose must be extremely accurately measured and health care workers must be protected from exposure. They are also sensitive to temperature and dilution meaning that prepared solutions have a short shelf life. This means that the preparation of infusions must be done in controlled environments with highly skilled staff. This is specialist work that requires significant capital investment and training.

Some pharmacists have invested in facilities and training on-site and others use third party providers to compound the chemotherapy infusions. The choice to use a third party provider is based on assessment of risk to staff and the significant investment required to install a compounding suite as well as the ongoing costs of monitoring and accreditation. Third party providers have flourished in Australia the best known are Baxter Pharmaceticals and Pharmatel Fresenius-Kabi (PFK).

In 2010-2011 there were some 350,000 outpatient chemotherapy admissions in Australia. On average each patient has at least 2 chemotherapy medications infused per visit. Thus over 700,000 infusions were prepared in that year by pharmacies or third party providers.

Table 8.11: Separations for the top 20 AR-DRGs version 6.0 with the highest number of same-day acute separations, public and private hospitals, 2010–11

AR-DRG		Public hospitals	Private free-standing day facilities	Other private hospitals	Total
L61Z	Haemodialysis	965,382	120,290	88,720	1,174,392
R63Z	Chemotherapy	143,492	57,831	151,073	352,396
G48C	Colonoscopy, sameday	62,672	82,271	111,264	256,207
C16Z	Lens procedures	58,943	74,315	59,637	192,895
G47C	Other gastroscopy, sameday	40,371	52,471	58,280	151,122
Z40Z	Endoscopy with diagnoses of other contacts with health services, sameday	40,774	35,479	70,350	146,603
G46C	Complex gastroscopy, sameday	29,165	48,571	64,092	141,828
D40Z	Dental extractions and restorations	23,015	28,569	67,353	118,937
Z64B	Other factors influencing health status, sameday	45,360	13,926	54,714	114,000
U60Z	Mental health treatment, sameday, W/O ECT	22,390	181	78,133	100,704
J11Z	Other skin, subcutaneous tissue and breast procedures	35,683	24,107	34,714	94,504
I18Z	Other knee procedures	14,712	4,592	52,782	72,086
O05Z	Abortion with OR procedure	21,459	38,118	9,288	68,865
N07Z	Other uterine and adnexa procedures for non-malignancy	14,788	19,207	31,391	65,386
Q61B	Red blood cell disorders W/O catastrophic or severe CC	40,781	7,436	15,394	63,611
L41Z	Cystourethroscopy, sameday	24,043	3,876	26,266	54,185
F74Z	Chest pain	47,686	880	3,141	51,707
O66Z	Antenatal and other obstetric admission	39,809	21	4,515	44,345
C03Z	Retinal procedures	4,053	31,274	6,896	42,223
I68C	Non-surgical spinal disorders, sameday	18,656	6,636	16,638	41,930
	Other	967,406	156,358	471,793	1,595,557
Total		**2,660,640**	**806,409**	**1,476,434**	**4,943,483**

Note: See boxes 7.1, 7.2 and 7.3 for notes on data limitations and methods. Additional information by state and territory is available in tables S8.9 and S8.10 at the end of this chapter.

Abbreviations: CC— complications and comorbidities; ECT—electroconvulsive therapy; OR—operating room; W/O—without.

Table reproduced from Australian hospital statistics 2010-11

The PBS price disclosure rules are very prescriptive to ensure that all volumes and prices of PBS medicines are included in price reduction calculations. The only exceptions are PBS medicines supplied to public hospitals. Presumably because the market power of public hospitals will force prices down further and faster than the private market would. Supplies of PBS medicines to third party compounders such as Baxter and PFK are not exempt from disclosure. Yet these companies exert considerable market power in the purchase of chemotherapy medicines.

Unlike other PBS medicines the supply of chemotherapy is a mix of public and private supply. Even though 143,000 services were delivered in public hospitals many of these would be supplied by private pharmacies or compounded by 3rd party providers.

Our chemotherapy compounding service supplies two clinics and Joondalup Health Campus and St John of God Hospital in Bunbury. Approximately 70% of these infusions are delivered to public patients. All of the medicine purchases we make for these public patients are price disclosed.

Baxter and PFK provide supply to private and public facilities. All medicines they source are price disclosed whether they are supplied to private facilities or not. When a 3rd party compounder supplies a public facility the volume is disclosed by the manufacturer. Therefore the PBS reduction of chemotherapy drugs includes a significant amount of public hospital volumes that would otherwise not be included if a third party compounder was not involved.

The EADP price disclosure rules include

*Data relating to the sales of PBS items to **public** hospitals must be **excluded** from the data submitted.*

In cases where an extraction of such hospital data from the rest of the data is complex or where an estimate has to be made the responsible person will need to develop an explicit and clear methodology which will be maintained as part of the data records and which should be available upon request by the Department.

*All other sales of PBS items **must be included**. This includes sales of PBS items to **private** hospitals and **over the counter PBS items** (whether or not supplied under the PBS).*

As stated previously the market power of the third party compounders enables them to tender for lower prices than smaller providers such as ourselves. These products are then marked up by at least a 10% margin before being onsold to pharmacists and public facilities. The intent of the price disclosure rules is that the price to the pharmacist is disclosed. In effect it is the price to the 3rd party compounder that is disclosed and thus the reductions that are imposed by PBS are greater than they would otherwise be.

Calculations by assumption

There are numerous third party compounding sites in Australia. Baxter Healthcare have and PFK have sites in all major capital cities except Darwin and Canberra. Both of these providers have significant market share in both public and private chemotherapy.

If we assume that 35%* of the 700,000 infusions were compounded by the 3rd party compounders then over 100,000 public infusions and 146,000 private infusions would be compounded this way. If we further assume that compounders would, through their tender processes, be able to achieve a 25% margin on the generic price disclosed medicines then we can calculate the likely effect on the weighted average price. (see appendix)

We calculate that such a scenario would result in a 12% greater reduction in the WAP over that which the price disclosure rules intend. Over $200m has been

*35% market share equates to less than 300 infusions per site per week for the main compounders. This is a very conservative estimate and is likely to be larger.

saved from price reductions in chemotherapy due to price disclosure. If this calculation is applied $23m of these price disclosure reductions should not have occurred.

Conclusion

The private supply of health services to public patients is a proven model in Australia that provides effective health care. This method of supply should not be compromised by the inflexible application of the price disclosure rules. The effect of these rules in chemotherapy is that the PBS reimbursement price drops too far and too fast due to the supply of public patients by third party providers that are subject to price disclosure.

This is not a criticism of third party providers, rather a call for the price that is disclosed to be that which is supplied to the pharmacist rather than the compounding company. Furthermore flexibility in reporting arrangements should mean that the final patient supplier is the definition of the price discloser.

Proper application of the intent of the price disclosure rules will mean a more equitable application of price reductions. This will, in part, enable longevity in the funding arrangements of chemotherapy infusions under the pharmaceutical benefits scheme.

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References

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Australian Government Department of Health and Aging. (December 2010) Pharmaceutical Benefits Scheme Expanded and Accelerated Price Disclosure Arrangements accessed from: http://pbs.gov.au/industry/pricing/eapd/eapd-guidelines.pdf

Appendix 1. Calculation workings

Calculations of effect of 3rd Party compounders on price disclosure calculations in the PBS with regard to Chemotherapy infusions.

Total Infusions	*704600*				*Expected to be*	*Real disclosure*	*Weighted*
	Separations	*Infusions**	*Proportion*		*Disclosed*	*# of infusions*	*Price Calc*
Public	*143500*	*287000*	*41%*		*0*	*100450*	*75337.5*
				Compounder			
Private	*208800*	*417600*	*59%*	*Pharmacy*	*417600*	*271440*	*271440*
				3rd pty	*0*	*146160*	*109620*
	352300		*100%*				
Assumptions					*417600*	*518050*	*0.881*
% by 3rd pty Compounder	*35%*						
3rd pty compounder margin	*25%*						

WP%

if price disclosure of chemo realised $200million >* *$ 23,801,757 *should have been retained for pharmacy*