

Addendum 1: Optional \$1 Discount

Introduction

On 13 March 2024, the Department of Health and Aged Care (Department) and the Pharmacy Guild of Australia (Guild) signed a Heads of Agreement for the Eighth Community Pharmacy Agreement (8CPA). The Heads of Agreement reflected an intended additional investment of up to \$3 billion for community pharmacy and cheaper medicines. Full details of the measures delivered by this additional investment were to be finalised by further negotiations between the parties.

This addendum to the 2024 Negotiation of a New Community Pharmacy Agreement (8CPA) Impact Analysis (8CPA IA), provides information on the additional investment announced by the Australian Government on 14 March 2024.¹ Two key policy proposals warrant separate consideration through addenda to the 8CPA IA; the future of the optional \$1 discount policy, and the provision of additional dispensing revenue. This addendum looks at the first.

Background

The optional \$1 discount on PBS patient co-payments was introduced in 2016 to drive value for consumers and provide immediate benefits to patients by reducing out-of-pocket costs for their PBS medicines. Pharmacists and dispensing medical practitioners can currently, at their discretion, offer patients a discount of up to \$1 on both general and concessional co-payments for each PBS medicine they supply, when the medicine's Commonwealth price is equal to or higher than the co-payment amount. The option to discount the co-payment amount does not apply for prescriptions that are an early supply of a specified medicine.

The discount is not mandatory, it is at the pharmacist or medical practitioner's discretion whether they would like to provide a discount, and absorb its cost. The discretionary nature of the discount provides for pricing difference and competition between pharmacies on medicines priced above the relevant co-payment amount.

The sector's response to the policy was mixed from introduction, with some stakeholders concerned about its impacts on community pharmacies, and its reliance upon market competition producing potentially inequitable results for patients living in rural and regional settings with minimal competition. Other stakeholders praised the policy's introduction, noting its ability to offer cheaper medicines to Australian patients with minimal impacts upon the taxpayer.

As outlined in Table 1, PBS uptake statistics² indicate that in 2022-23, 21% of prescriptions were discounted with concessional patients receiving the largest volume of discounted prescriptions.

¹ www.health.gov.au/ministers/the-hon-mark-butler-mp/media/securing-cheaper-medicines-and-improved-patient-outcomes-through-8th-community-pharmacy-agreement?language=en

² www.pbs.gov.au/statistics/expenditure-prescriptions/2022-2023/PBS-Expenditure-prescriptions-report-2022-23.pdf

Table 1: Discounted PBS/RPBS prescriptions dispensed by Community Pharmacies in 2022-23*

Prescription Type	Concessional		General		RPBS		Total	
	Prescriptions	%	Prescriptions	%	Prescriptions	%	Prescriptions	%
Discounted	40,815,928	21%	6,715,570	29%	910,935	13%	48,442,433	21%
Non-Discounted	155,401,252	79%	16,165,667	71%	6,055,431	87%	177,622,350	79%
Total	196,217,180	100%	22,881,237	100%	6,966,366	100%	226,064,783	100%

*Section 85 and Section 100, excluding Doctors' Bag and under co-payment prescriptions.

www.pbs.gov.au/info/statistics/expenditure-prescriptions/pbs-expenditure-and-prescriptions 2022-23.

Table 2 provides an overview of the application of the discount since 2019-20 and shows that the percentage of prescriptions to which the optional \$1 discount is applied has been slowly declining.

Table 2: Summary of \$1 Discount script volumes*

Year	Total Discounted prescriptions	Total prescriptions	% Discounted scripts
2019-20	56,202,391	212,552,533	26%
2020-21	54,761,220	217,130,548	25%
2021-22	53,663,407	218,236,308	25%
2022-23	48,442,433	226,064,783	21%

*All data has been sourced from the relevant reports available from www.pbs.gov.au/info/statistics/expenditure-prescriptions/pbs-expenditure-and-prescriptions.

The \$1 discount was introduced to enhance competition between pharmacies. However, some stakeholders have argued that it has not led to equitable outcomes for people, as it is more likely to be applied to some patients (those that hold a concession card) and in urban areas.

Australian households are under pressure from rising cost-of-living pressures, including higher prices on essential goods and services such as medicines and healthcare. These costs disproportionately affect vulnerable Australians, forcing some to delay or forego necessary treatment because they cannot afford it.

From 1 January 2023, the PBS general patient co-payment amount was lowered from \$42.50 to \$30.00 per script. Subsequently on 1 January 2024, the PBS general patient co-payment amount increased from \$30.00 to \$31.60 per script in line with the Consumer Price Index. The estimated patient savings for the first quarter of 2024 that resulted from the co-payment reduction are approximately \$78.6 million. The reassessment of the optional \$1 discount should be understood in the context of the Government's ongoing commitment to deliver cheaper medicines for all Australians.

Policy options

The options considered for the optional \$1 discount are:

- Option 1: Maintain the current policy settings for the optional \$1 discount (*status quo*)
- Option 2: Immediate removal of the optional \$1 discount
- Option 3: A gradual phase-out of the optional \$1 discount while freezing indexation of the co-payment amounts

Option 1: maintain the current policy settings for the optional \$1 discount (status quo)

From 1 January 2024, the \$1 discount policy results in a reduction of the general co-payment from \$31.60 to a minimum of \$30.60, or the reduction of the \$7.70 concessional co-payment to a minimum of \$6.70. The \$1 Discount policy nominally supports competition and provides price discounts directly to consumers.

More than 95% of discounted prescriptions are discounted by the full allowable amount of \$1; however, pharmacies may choose to apply part thereof. An overview of the discount ranges applied in the 2022-23 financial year³ is provided in Table 3.

Table 3: PBS/RPBS prescriptions by Discount Range dispensed by Community Pharmacies in 2022-23*

Discount Range	Concessional		General		RPBS		Total	
	Prescriptions	%	Prescriptions	%	Prescriptions	%	Prescriptions	%
\$1.00	39,801,050	97.5%	6,568,623	97.8%	885,662	97.2%	47,255,335	97.5%
0.50 - < \$1.00	634,568	1.6%	73,554	1.1%	15,130	1.7%	723,252	1.5%
< 50c	171,791	0.4%	44,217	0.7%	5,193	0.6%	221,201	0.5%
Other	208,519	0.5%	29,176	0.4%	4,950	0.5%	242,645	0.5%
Total	40,815,928	100.0%	6,715,570	100.0%	910,935	100.0%	48,442,433	100.0%

* Section 85 and Section 100, excluding Drs Bag and under co-payment prescriptions.

www.pbs.gov.au/info/statistics/expenditure-prescriptions/pbs-expenditure-and-prescriptions 2022-23.

Financial analysis undertaken as part of the independent 2017 *Review of Pharmacy Remuneration and Regulation* (“The King Review”), found that consumers who hold a current concession, pension or Veteran’s healthcare card (and hence a considered as concessional patients) are most likely to benefit from the optional \$1 discount. In addition, the review found that the discount was substantially more likely to be offered in urban locations than either rural or remote settings, due to the greater influence for market competition in urban locales.⁴ The review reported that the policy had, in effect, inequitable access outcomes for consumers. Its 2016 financial analysis found, for example, that Concessional patients in Pharmacy Access/Remoteness Index of Australia (PhARIA) 1 areas were 15% more likely to be dispensed a PBS script with a \$1 discount as compared to an identical concessional payment in a PhARIA 5 area.⁵

In light of the issues identified, the King Review recommended that the optional \$1 discount be abolished (Recommendation 2-2).⁶

³ www.pbs.gov.au/statistics/expenditure-prescriptions/2022-2023/PBS-Expenditure-prescriptions-report-2022-23.pdf

⁴ Final Report, Independent Review of Pharmacy Remuneration and Regulation, page 36.

⁵ Interim Report, Independent Review of Pharmacy Remuneration and Regulation, page 32.

⁶ Final Report, Independent Review of Pharmacy Remuneration and Regulation, page 36.

Option 2: Immediate removal of the optional \$1 discount

Option 2 would see an immediate removal of the legislated ability to provide the optional \$1 discount following the passage of enabling legislation. This option could provide a level of equity to consumers and certainty to pharmacists and patients on the potential discount of medicines in that no one would be able to access a discount. Variations in pharmacy dispensing prices would continue to be possible for pharmaceutical benefits priced below the relevant maximum co-payment amount however including due to the application of allowable additional fees at the pharmacy discretion.

This option would influence consumer affordability of prescriptions, particularly for concessional patients. It would increase patient costs in relation to the 30% of eligible prescriptions that are currently having the \$1 discount applied. Some pharmacy sector stakeholders have expressed a need for increased competition in the pharmacy sector, and built a business model that provides discounting as a point of difference.

Option 3: A gradual phase out of the optional \$1 discount while freezing indexation of the co-payment amounts

Option 3 would see a temporary pause applied to the indexation on both general and concessional co-payments while the optional \$1 discount was gradually reduced. This would eventually give all patients access to the benefits of what was the optional \$1 discount. The gradual removal of the discount would also ensure pharmacies currently applying the discount have an opportunity to transition to the new policy settings while continuing to be able to apply some discount in line with the amount specified for reduction each year. The estimated financial impacts of this option to Government are outlined in Table 4 below.

Table 4: Estimated financial impact of Option 3

Estimated Cost (\$millions)*	2024-25	2025-26	2026-27	2027-28	2028-29	5-year Total
PBS	\$24.2	\$62.3	\$98.3	\$128.2	\$163.7	\$476.8
RPBS	\$0.5	\$1.1	\$1.9	\$2.5	\$3.1	\$9.1
Total	\$24.7	\$63.5	\$100.2	\$130.7	\$166.9	\$485.9

* Figures are on an accrual basis

** Estimated implementation costs: \$1.050 (million)

Net benefits of each option

In line with the approach taken in the 8CPA IA, this addendum has endeavoured to interrogate how policy will work towards achieving the pillars of National Medicines Policy (NMP).

This policy primarily affects the equity, sustainability and access for consumers and business and analysis has therefore been focussed on these objectives. Table 5 below provides an overview of the net benefits of each of the options considered. Key assumptions made in developing the analysis is that existing discounting pharmacies will continue to provide the discount as it reduces and that the discount does have at least some impact on consumer choice of preferred pharmacy.

Table 5: overview of net benefits for each of the three policy options

Objective	Option 1	Option 2	Option 3
<p>Equity, sustainability and access for Consumers</p> <p>Consumers can access affordable PBS medicines in a timely manner irrespective of their geographical location.</p>	<p>The optional \$1 discount is currently more likely to be offered in urban locations than either rural or remote settings.</p>	<p>Potential price differentiation between pharmacies and across geographical locations would reduce.</p> <p>However, would increase the cost of approximately 30% of eligible prescription with a greater impact on concessional patients.</p>	<p>Potential price differentiation between pharmacies and across geographical locations would reduce.</p> <p>This would ensure that all patients benefit through the temporary freezing of co-payment amounts.</p>
<p>Equity, sustainability and access for Businesses</p> <p>Provides for timely supply of PBS medicines irrespective of geographical location and supports pharmacy viability, particularly in rural and remote areas.</p>	<p>This provides for market competition, particularly in urban areas, with 32.1% of eligible prescriptions discounted across 2020-2023.</p>	<p>This would reduce market competition.</p>	<p>This would provide pharmacies with the option to continue discounting to the amount specified for reduction each year as they transition to the new policy settings.</p>

Consultation

Some key stakeholders (primarily the Guild and the Pharmaceutical Society of Australia (PSA)) have not supported the optional \$1 discount policy since its inception. The main reason is the view that the policy does not provide an appropriate level of competition for pharmacies, is offered in an inequitable way, and therefore does not promote cheaper medicines for all patients. However, other stakeholders, such as Chemist Warehouse, have modelled their marketing strategy on providing the discount to all patients, which provides options for cheaper medicines consistently to their patients.

The discount is legislated under Part VII of the *National Health Act 1953*. As such, the discount does not require the agreement of signatories to any CPA, and does not feature in the current 7CPA. However, the Guild has consistently expressed its view since its introduction that the optional \$1 discount should be abolished or be Government subsidised and applied across all prescriptions to ensure it is equitably distributed.

The King review agreed that having varying levels of competition in community pharmacy in different parts of Australia creates issues of equity for consumers and recommended that the \$1 discount be abolished. Conversely both the Australian Medical Association (AMA) and Chemist Warehouse have proposed expansion of the discount to create more competition and lower costs for patients.

Preferred option

Based on the analysis of three options, the option that provides the most benefit to patients, and community pharmacies is Option 3; a gradual phase out of the optional \$1 discount while freezing indexation of the co-payment amounts.

This option protects the pharmacy sector from financial stress and provides certainty to consumers on the allowable discount and potential prescription costs during the estimated five-year transition period. This is

contrary to Option 2, which is likely to increase costs to consumers in both subsidised and unsubsidised prescription costs, as the discount would cease without any compensatory reduction in the co-payments. Option 3 also responds to the requests from many stakeholders for its complete removal, as well as the request from contrary stakeholders who also note the current policy (Option 1) is not sufficient to drive real competition. Further, Option 3 addresses the perceived inequities in the availability of optional medicine discounting introduced by Option 1. This ensures all Australians have access to cheaper medicines.

To implement Option 3, legislative changes to the *National Health Act 1953*, would be required to both reduce the \$1 dollar discount until its abolition and temporarily freeze the relevant co-payment amounts. These changes would be proposed and, provided Government passes supporting legislation, implemented as soon as possible after the signing of the 8CPA.

As a part of the 8CPA communication activities, the Department would communicate these changes to community pharmacies and consumers. Additional communications would be required annually as the discount amount was phased out. These communications would likely be consolidated with the communication of the annual indexation of other pharmacy fees.

Evaluation of preferred option

As noted above this policy primarily impacts the equity, sustainability and access for consumers and business. Consistent with the evaluation process outlined in the 8CPA IA success against these objectives will continue to be monitored and evaluated through analysis of PBS dispensing data.

To evaluate affordable access for the community, the total growth in PBS Government expense for the supply of medicines for future financial years will be monitored. The total cost to patients for medicines priced below the level of the patient co-payment (i.e. patient contributions through under co-payment prescriptions) and dispensing remuneration data will also continue to be monitored. Uptake of the remaining discount and consumer costs will continue to be monitored alongside the savings provided to patients through the co-payment freeze to assess the extent to which this policy achieves the intended policy outcomes and overall results in additional savings for patients over the life of the 8CPA.

Addendum 2: Provision of additional dispensing revenue

On 13 March 2024, the Department of Health and Aged Care (Department) and the Pharmacy Guild of Australia (Guild) signed a Heads of Agreement for the Eighth Community Pharmacy Agreement (8CPA). The Heads of Agreement reflected an intended additional investment of up to \$3 billion for community pharmacy and cheaper medicines. Full details of the measures delivered by this additional investment were to be finalised by further negotiations between the parties.

This addendum to the 2024 Negotiation of a New Community Pharmacy Agreement Impact Analysis (8CPA IA), provides information on the additional investment announced by the Australian Government on 14 March 2024.⁷ Two key policy proposals warrant separate consideration through addenda to the Impact Analysis (IA); the future of the optional \$1 discount policy, and the provision of additional dispensing revenue. This addendum looks at the second.

Background

Significant reinvestments into pharmacy programs were made alongside the introduction of the 60-day dispensing (60DD) policy as discussed in detail into the 8CPA IA. Despite this investment, some pharmacy stakeholders have argued that the community pharmacy model requires additional investment, with guaranteed growth in real terms to remain viable in the post 60DD environment.

Policy Options

The options considered for the provision of additional dispensing revenue payments are:

- Option 1: Continuation of the 7CPA until 30 June 2025 and no new Community Pharmacy Agreement following its expiry (*Status Quo*)
- Option 2: Provide additional dispensing revenue through the Commonwealth price
- Option 3: Create a new legislated payment mechanism to provide additional dispensing revenue.

Option 1: Continuation of the 7CPA until 30 June 2025 (*Status Quo*)

This option was explored in detail in the 8CPA IA and is therefore not re-analysed here.

Option 2: Provide additional dispensing revenue through the Commonwealth price

As discussed in earlier parts of the 8CPA IA, the Commonwealth price currently provides dispensing revenue. This option would see the individual components of the Commonwealth price including the Administration, Handling and Infrastructure (AHI) fee and dispensing fee, increase considerably. This option would provide a level of comfort to pharmacy owners and be administratively simple to implement as it aligns with the current arrangements, however it would also result in additional costs to patients, through the application of these higher fees to unsubsidised prescriptions.

⁷ www.health.gov.au/ministers/the-hon-mark-butler-mp/media/securing-cheaper-medicines-and-improved-patient-outcomes-through-8th-community-pharmacy-agreement?language=en

Option 3: Create a new legislated mechanism to provide additional payments

Option 3 would see the development of a new legislated payment mechanism to deliver additional revenue to community pharmacy outside of the Commonwealth price. This option would provide additional flexibility in the types of supplies to which a payment could be applied. For example, additional payments could be made specifically in relation to medicines dispensed with an increased maximum quantity. This option, while administratively more burdensome for Government, would also ensure that the payments could be delivered in a way that does not impact patient costs.

The cost of this measure is forecast to be \$2.111 billion over the term of an 8CPA. To allow for ready comparison of the options presented these costs have been included in Option 3 of the comparative dispensing remuneration funding table (Table 14) and subsequent discussion of the 8CPA IA. Actual costs of the additional payment would be tracked and measured separately, and any necessary adjustment made on a six monthly basis to ensure that the total additional funding provided does not exceed the \$3 billion envelope.

Net benefits of each option

In line with the approach taken in the 8CPA IA, this addendum has endeavoured to interrogate how policy will work towards achieving the pillars of National Medicines Policy (NMP).

This policy primarily affects the equity, sustainability and access for consumers and business and analysis has therefore been focussed on these objectives. Table 6 provides an overview of the net benefits of each of the options considered.

Table 1: overview of net benefits for each of the two policy options

Objective	Option 2	Option 3
Equity, sustainability and access for Consumers	Increasing the Commonwealth price would raise the prices for patients accessing medicines under the relevant co-payment amount. This option therefore does not align with the pillars of the NMP in relation to affordability.	This option ensures that patients would not pay more because of the increased dispensing revenue provided to the pharmacy sector.
Equity, sustainability and access for Businesses	Provides significant additional investment directly into the pharmacy sector through existing mechanisms.	Provides significant additional investment directly into the pharmacy sector through new mechanisms that can be applied to specific items such as medicines dispensed with an increased maximum quantity.

Consultation

Since the beginning of 8CPA negotiations, the Government's reinvestment to pharmacy programs from the savings of the 60DD policy has been claimed by stakeholders to be inadequate in light of the policy's potential implications to the community pharmacy business model.

The Guild’s commissioning and publication of ‘60-day dispensing: an analysis of likely impacts and key policy issues’ (‘the Ergas report’)⁸ in 15 June 2023, distilled these concerns. The report estimated that 60DD would result in closure of at least 200 community pharmacies, and a loss of 4,938 FTE jobs, with major impacts predicted to occur within the first two years of the policy implementation. To date, these impacts have not occurred, with the Government receiving 87 new pharmacy registrations between May 2023 and January 2024, a 50% increase above the same period in the previous year. However, the risk of financial strain on already unviable pharmacies has continued to be claimed as a real concern. While the Impact Analysis for 60DD indicated that the policy would have an impact on community pharmacies, the transition to more service-focused formats would allow progress towards a more stable and flexible business model that would better meet the health needs of Australia’s growing and ageing population. The Government therefore committed additional investment into pharmacy services at the time the 60DD policy was introduced.

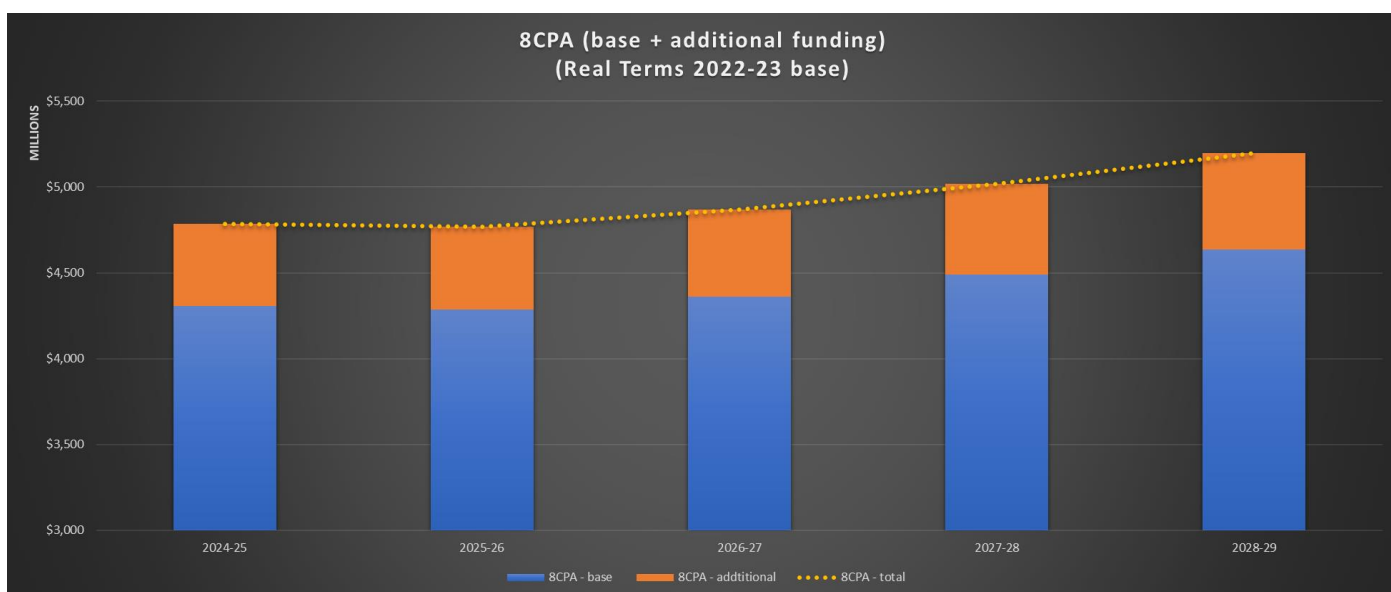
In the 2024-25 Budget, the Government committed to providing a further total financial envelope of up to \$3.0 billion in investment in community pharmacy.

The Government’s position has been that any additional funding should not increase the cost of medicines to patients. As such, the Department’s 8CPA Negotiation Team and the Guild have worked to consider alternative payment mechanisms.

Preferred option

Based on the net benefits comparison and negotiations, Option 3 is the most likely to provide a timely outcome for the 8CPA, continue to support the Government’s commitment to cheaper medicines, and provide additional revenue for investment into community pharmacy. Due to the unique nature of the 60DD policy, the provision of a variable additional payment for this aspect would provide additional business certainty across the sector. The additional dispensing revenue will help to support pharmacies to continue to grow in real terms despite the anticipated reduction in dispensing volumes (see Figure 1 below).

Figure 1: The total 8CPA broken down into Baseline funding and \$3 billion of additional investment



*Data points adjusted for CPI, to give a ‘real terms’ comparison across time (2022-23 financial year is the reference point)

⁸ [www.guild.org.au/ data/assets/pdf file/0011/132410/ergas-review.pdf](http://www.guild.org.au/data/assets/pdf_file/0011/132410/ergas-review.pdf)

To implement this option, the Department and the Guild would need to reach agreement on a new section for insertion in Part VII of the *National Health Act 1953* providing for an additional payment (outside the Commonwealth price). After the signing of the 8CPA, the required Bill would be introduced to Parliament, noting if the Bill does not pass, further consultation would be undertaken with the Guild to consider potential alternate arrangements.

Consultations with Services Australia have indicated the need for temporary manual payments to be made while automated payment is established.

Evaluation of preferred option

As noted above this policy primarily impacts the equity, sustainability and access for consumers and business. Consistent with the evaluation process outlined in the 8CPA IA success against these objectives will continue to be monitored and evaluated through analysis of PBS dispensing data.

This will include continued monitoring of the volume and uptake of 60 day dispensing prescriptions, and patient costs. Monitoring will occur through existing mechanisms for reviewing PBS statistics including through the volume of 60DD prescriptions dispensed and the savings delivered to patients.