

Category M webinar



Introductions

- CPE team:

- Zoe Long – Director of Communications, Corporate and Public Affairs
- Mike Dent – Director of Pharmacy Funding
- Jack Cresswell – Funding Strategy Manager
- David Broome – Committee Member and independent community pharmacy owner

- Guests:

- Susan Grieve – Head of Medicines Frameworks and Reimbursement, Medicines Directorate, DHSC
- Alison Hardaker – Economic Advisor, Medicines Directorate, DHSC

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The big picture

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- Retained margin is very important – it makes up around 30% of pharmacy funding.
- The margin survey was set up from 2005 to measure delivery of retained margin at Independent level.
- The level of market disruption we continue to see suggests that the supply chain is underfunded.
- The wider contract sum has not increased for many years – we are continuing to lobby for a funding increase for pharmacy.

What is Category M?

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- Category M was introduced into the Drug Tariff in April 2005 when the new community pharmacy contractual framework was launched.
- Category M is used to set the reimbursement prices of over 600 medicines.
- It broadly contains the most common / high usage generically available medicines.
- It is the principal price adjustment mechanism to ensure delivery of the retained margin guaranteed as part of the contractual framework.

What is Category M? (2)

- DHSC use their legislative powers to gather information from suppliers on volumes and prices of products sold, plus information from the Pricing Authority on dispensing volumes, to set prices each quarter.
- The margin survey of Independent pharmacies captures data on margins earned, including the actual impact of Category M reimbursement changes, and the outturns from the survey then inform the setting of the next Category M price list.
- It is closely monitored by Community Pharmacy England to ensure that the scheme operates correctly and to identify anomalies. Regular feedback meetings are held with the DHSC.



Drug Tariff adjustments

Drug Tariff adjustments

- There are two main types of adjustments that occur in quarterly Cat M price lists;
 - Systematic movements due to changes in underlying buying prices
 - Margin adjustments due to the outturns from the margin survey of Independent pharmacies
- These two types of adjustment are separate and occur independently of each other.

Drug Tariff adjustments (2)

- Even if no margin adjustment is being enacted within a quarter, prices will still be updated to reflect changes in the underlying market.
- If underlying market prices rose or fell in the reference period (3-6 month period before the Category M list being determined), then this will still be reflected in what happens to Category M prices.
- Changes due to margin adjustment and changes due to underlying price movements can be in the same direction (amplifying) or opposite directions (cancelling).



Systematic adjustments due to market movements

Systematic adjustments due to market movements

- These changes to the Drug Tariff happen in response to movements in the market. They are systematic and not negotiated.
- DHSC gather market information from the supply chain every quarter, using their legislative powers. This information tells them how much of every product has been sold by manufacturers and at what price.
- This information is used to calculate the average price change for every Category M product in the latest quarter, compared to the previous quarter.
- The price change for every product is multiplied by the latest pharmacy dispensing volume data for the product, to determine its impact for the setting of the next Drug Tariff.

Systematic adjustments due to market movements (2)

- We can imagine a theoretical Category M list containing only 1 drug.
- The DHSC gather data from the market which shows in the latest quarter, the average price of the drug increased by £2.00.
- The most recent dispensing data shows volume dispensed by pharmacies is 1,000,000 per quarter.
- Therefore, the systematic impact that the change in price would have on the next Category M list would be £2m (i.e. £2.00 * 1,000,000).
- In addition to this would be any required margin adjustment resulting from the latest Margin Survey outturn data.

Systematic adjustments due to market movements (3)

- A contemporary example of a drug experiencing a change in price which significantly effects Category M reimbursement is Apixaban.
- This entered Category M in July 2023 at a high price of around £50 per pack.
- Data subsequently gathered by the DHSC showed that the average market price reduced drastically following its initial introduction. This resulted in significant drops in the Category M list price to around £16 in October 2023, and further to around £5 in January 2024.
- The total impact on pharmacy reimbursement that these drops will have is very significant. With an estimated quarterly usage of around 2m packs, the total reimbursement impact would be in the region of -£90m per quarter (i.e. $(£50 - £5) * 2m = £90m$).
- But this wouldn't mean that DHSC are intending to reduce pharmacy margins by £90m per quarter. It is simply a reaction to the falling market price of the product.



Margin adjustments

Margin adjustments

- Margin adjustments within Category M are determined by the outturns from the margin survey of Independent pharmacies that is conducted in collaboration between CPE, DHSC and NHSBSA
- The margin survey was part of the agreement for the 2005 contract, that pharmacies would work with DHSC to develop information about purchase prices and margin
- The survey captures data from Independent pharmacies (i.e. those in groups of 5 or less pharmacies) about purchase of generic, brand, special, and concession price medicines

Margin adjustments (2)

- Overall retained margin levels are calculated for the Independent pharmacies within the survey
- Supplier invoices and statements are used to capture information such as actual prices paid for medicines, rebates and surcharges, to determine margin earned by the Independent pharmacies within the survey
- The results are then scaled up to estimate the level of margin retained by the sector as a whole (i.e. it treats the whole sector as Independent)

Margin adjustments (3)

- Every quarter the margin survey returns an estimate for the amount of margin that was earned by the community pharmacy sector.
- Broadly the target margin per quarter would be £200m (£800m yearly target / 4 quarters).
- If the margin survey shows that there was an over or under delivery of margin in a quarter, this means a margin adjustment to correct this will follow. This margin adjustment has to achieve 2 aims;
 - Correct the margin run rate
 - Recoup / Repay the quantum of margin that was over or under delivered

Margin adjustments (4)

- As an example, imagine that the margin survey showed that margin was over delivered in a quarter by £10m.
- This could mean that a -£20m adjustment could be applied in the following quarter (-£10m to correct the run rate and -£10m to recover the excess), followed by a +£10m the next quarter, once the £10m excess was recovered.
- However, changes resulting from a margin survey result are not applied all in one go. They are smoothed over 4 quarters.

Margin adjustments (5)

- So in the example where the results from a margin survey showed an over delivery of £10m, there would follow;
 - A downward adjustment of -£2.5m, left in place for 4 quarters, to recover the £10m
 - A downward adjustment of -£2.5m in the next quarter, which increases by £2.5m for the next 3 quarters, so that by the 4th quarter after the margin result, a run rate correction of -£10m has been applied.
- An implication of this smoothing process is that the actual margin adjustment intended to be made in a given quarter is highly complex; it is the net sum of 8 different adjustments, with 2 new adjustments being added in and 2 dropping out each quarter.



Other factors

Other factors affecting Category M adjustments

- Two other notable factors which can impact changes to Category M reimbursement are;
 - New entrants to Category M each quarter
 - Ad-hoc or negotiated adjustments
- Products entering Category M for the first time typically happens when products with reasonably high volumes become available as generics.
- This will typically result in a net downward impact on overall reimbursement, since the generics will be cheaper than what was previously available.
- An example of an ad-hoc adjustment would be the extra £100m of margin agreed as part of the 2022/23 and 2023/24 funding package for community pharmacy.
- This was enacted by increasing the quarterly margin target for 4 quarters.

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Practical example – October 2023

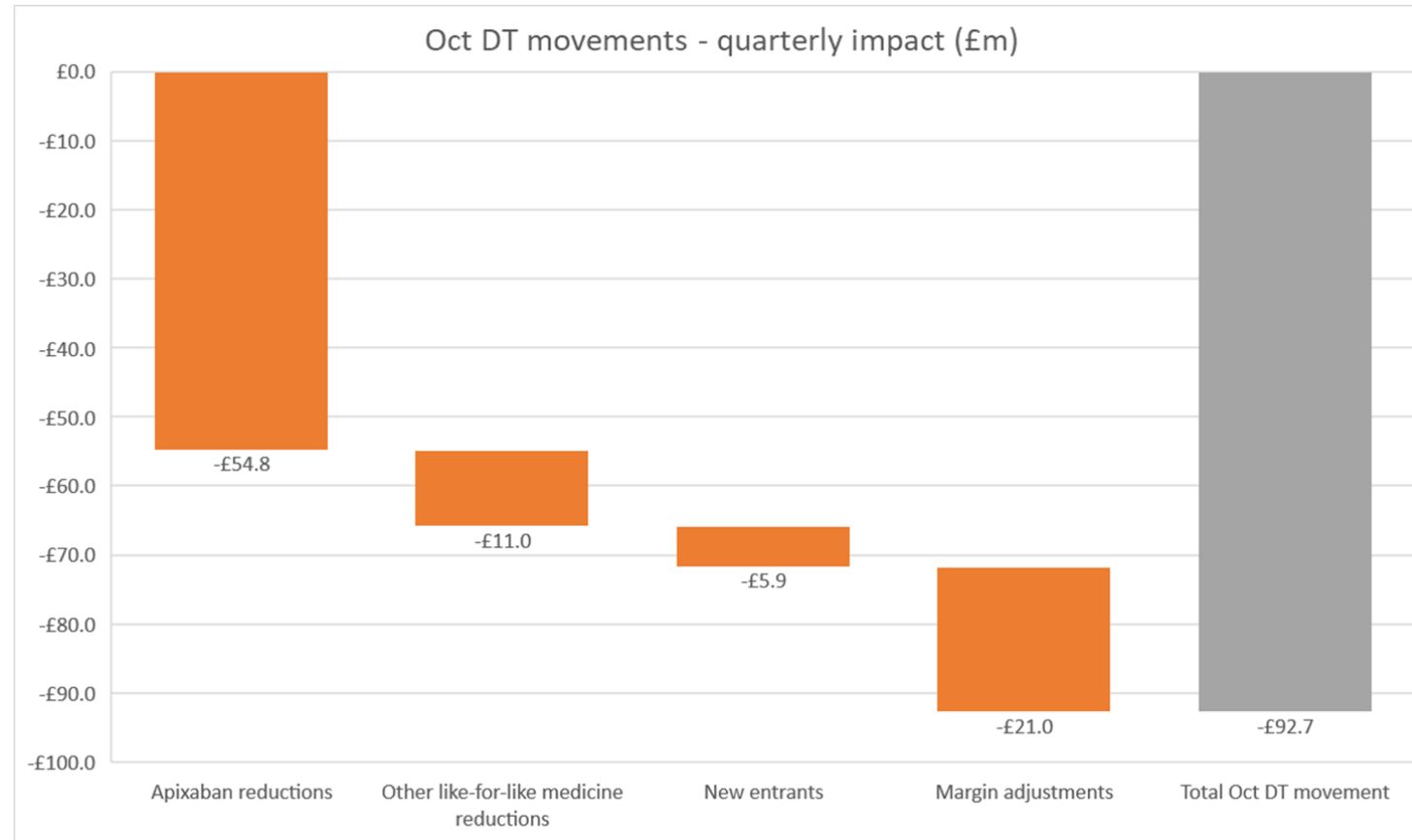
Practical example – October 2023

Drug Tariff

- In the October 2023 Drug Tariff, there was a significant reduction in overall Category M reimbursement levels. This was the aggregation of several components.
- The following figures are based on CPE estimates.
 - Adjustments for Apixaban market movements: c.–£55m
 - Adjustments for other medicines market movements: c.–£11m
 - Margin adjustment – –£21m
 - Of which, ad-hoc adjustment due to phasing out of the extra £100m that had previously been given in the Drug Tariff – –£16.7m
 - New entrants to category M – c.–£5.9m

Practical example – October 2023

Drug Tariff (2)



Practical example – October 2023 Drug Tariff (3)

- Although the overall reimbursement movement in the October 2023 Drug Tariff was very large, this was mainly due to components which are following the underlying market, or following routine procedures (e.g. new entrants).
- Only the margin survey outturn component is subject to negotiation, which was the smallest component of the Oct 2023 changes.

Component	Change
Apixaban market movements	c.-£55m
Other medicine market movements	c.-£11m
New entrants	c.-£5.9m
Margin adjustment due to phasing out of extra £100m	-£16.7m
Margin adjustment due to outturns from margin survey	-£4.3m

Practical example – October 2023

Drug Tariff (4)

- Taking into account all the factors explained, Community Pharmacy England's overall estimated impact of the October changes was approx. -£0.34p to national AIV.
- Due to the lag inherent in the pharmacy payment system, this impact would be felt by pharmacy owners on the October FP34c schedule of payments, received around 1st January 2024.
- Pharmacy owners should note that the advance payment for October will have been estimated based on the pharmacy's previous AIV, as such the advance will likely have been an overestimate.
- It is therefore likely that the advance payment for October could have been too high, and they could therefore expect the reconciliation payment (balance due) for October to be negative on their schedule.

Questions?