
The Parliament of the Commonwealth of Australia

Report 451

Community Pharmacy

Agreements

Review of Auditor-General Report No. 25 (2014-15)

Joint Committee of Public Accounts and Audit

November 2015
Canberra

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Foreword

On 4 June 2015, the Committee selected the ANAO Audit Report No. 25 (2014-15) *Administration of the Fifth Community Pharmacy Agreement* for further review and scrutiny at public hearings.

The Australian Government provides subsidised medicines to Australians and eligible overseas visitors through the Pharmaceutical Benefits Scheme (PBS). In 2013-14, the PBS subsidised over 210 million prescriptions at a reported cost to government of some \$9.15 billion. The Government also subsidised an additional 12.4 million prescriptions in 2013-14 to the veteran community through the Repatriation Pharmaceutical Benefits Scheme (RPBS), at a cost of \$397.9 million.

Since 1990, the Australian Government has entered into and funded successive five year community pharmacy agreements, at a cost of over \$45 billion, to help maintain a national network of approximately 5,460 retail pharmacies as the primary means of dispensing PBS medicines to the public. The Government has also used the agreements to fund professional programs, and to establish a funding pool to be drawn on by pharmaceutical wholesalers that can meet specified service standards for supplying PBS medicines to retail pharmacies.

The Fifth Community Pharmacy Agreement (5CPA) was the agreement for the period July 2010 to June 2015 between the Minister for Health, representing the Commonwealth, and the Pharmacy Guild of Australia (Pharmacy Guild), representing the majority of retail pharmacies currently approved to supply PBS medicines.

The 5CPA was a complex multi-part agreement underpinned by a number of further agreements between the Department of Health and the other entities involved in its administration, including: the Department of Human Services; the Pharmacy Guild of Australia; and Australian Healthcare Associates (AHA). The Pharmacy Guild and AHA are non-government entities.

To support community access to pharmaceutical services, the 5CPA provided that the Australian Government would deliver \$15.4 billion in funding from 1 July 2010 to 30 June 2015 as follows:

- \$13.8 billion in 'pharmacy remuneration' including various fees for approved pharmacists – the owners of retail pharmacies that dispense PBS and RPBS subsidised medicines to the public;
- \$663 million for several categories of government funded professional programs; and
- \$950 million to be shared among eligible pharmaceutical wholesalers from a Community Service Obligation (CSO) funding pool, an arrangement which generally requires participating wholesalers to be able to supply the full range of PBS items to any retail pharmacy in Australia within 24 hours at an agreed price.

One of the key objectives of the 5CPA negotiations was to achieve savings to contribute to the structural repair of the Commonwealth Budget as there had been high cost growth under the 4CPA (an average growth of 9.4 per cent per year) that was due, in part, to a \$1.1 billion transitional structural adjustment package (financial assistance) to assist pharmacies adjust to the introduction of Price Disclosure in 2007.

The ANAO report uncovered a number of failings within the 5CPA implementation and administration. There were shortcomings in key aspects of Health's administration at the development, negotiation and implementation phases of the 5CPA. The ANAO identified key issues relating to: the clarity of the 5CPA and related public reporting; record-keeping; the application of financial framework requirements; risk management; and seeking Ministerial approvals.

The 5CPA stated that the initiatives covered by the agreement would result in \$1 billion in gross savings over the term of the agreement (net savings were estimated to be \$600 million). However, ANAO analysis indicated that the net savings estimated before the agreement was signed were closer to \$400 million due to shortcomings in Health's 5CPA estimation methodology. The principle issues related to: unexplained increases in the baseline cost of professional programs; the application of inappropriate indexation factors; and the treatment of patient co-payments.

Given the the importance of health care to Australian community, the size of the 5CPA, and the experience the Department of Health has had with the previous four Community Pharmacy Agreements, the failures of process observed in this agreement are very disappointing.

The failure to provide suitable records for public accountability and the breach of the *Financial Management and Accountability Act* governing public expenditure were particularly egregious given the size of the \$15 billion agreement.

The ANAO report's eight recommendations have been agreed to by all parties, and Health has given assurances that the Sixth Community Pharmacy Agreement

(6CPA) has incorporated the advice proffered by ANAO. Given the size of the expenditure for the 6CPA – some \$18.9 billion over the next five years – the Committee is of the view that the implementation of the 6CPA should be closely scrutinised to ensure that the lessons learnt from the 5CPA and this ANAO report are not lost.

In addition to the ANAO's advice, the Committee made three further recommendations directed at:

- ensuring that Health report back within 6 months of tabling this report on the independent two year review of remuneration and regulation that will be conducted into the 6CPA – particularly with regard to 'value-for-money' spending;
- ensuring that Health report back on the KPIs for the 6CPA's components and how outcomes are to be achieved, monitored and measured; and
- the ANAO conducting a follow-up audit on the implementation of the 6CPA to be completed no later than 30 months into the agreement's term.

I thank Committee members for their deliberation on these matters. I also thank agency representatives who appeared at public hearings for assisting the JCPAA in its important role of holding Commonwealth agencies to account for the efficiency and effectiveness with which they use public monies.

Hon Ian Macfarlane MP
Chair



Membership of the Committee

Chair Dr Andrew Southcott MP (to 15 Oct 2015)

Chair Hon Ian Macfarlane MP (from 15 Oct 2015)

Deputy Mr Pat Conroy MP
Chair

Members Hon Anthony Albanese MP

Ms Gai Brodtmann MP

Mr Andrew Giles MP

Dr David Gillespie MP (from 19 Oct 2015)

Dr Peter Hendy MP (to 12 Oct 2015)

Mr Craig Laundry MP

Mrs Jane Prentice MP

Mr Angus Taylor MP

Mr Ken Wyatt MP (to 12 Oct 2015)

Senator Cory Bernardi

Senator Katy Gallagher

Senator Chris Ketter

Senator Bridget McKenzie

Senator Dean Smith

Committee Secretariat

Secretary	Ms Susan Cardell (to 29/9/15) Mr David Brunoro (from 29/9/15)
Research Officer	Dr Andrew Gaczol
Administrative Officer	Ms Tamara Palmer



Terms of reference

On 4 June 2015, the Committee resolved to review the following audit report in detail:

- Audit Report No. 25 (2014-15) *Administration of the Fifth Community Pharmacy Agreement*

List of recommendations

Recommendation 1

The Joint Committee of Public Accounts and Audit (JCPAA) recommends that the Department of Health report back to the JCPAA:

- within 6 months of tabling this report with an update on progress of the two year review of remuneration and regulation of the 6th Community Pharmacy Agreement, including considerations of 'value-for-money' spending; and
- a further report upon the completion of the two year review.

Recommendation 2

The Joint Committee of Public Accounts and Audit (JCPAA) recommends that the Department of Health reports back to the JCPAA on the final Key Performance Indicators (KPIs) for components of the 6th Community Pharmacy Agreement. That report should include:

- the KPIs;
- how the KPIs will be achieved; and
- how outcomes to the KPIs will be monitored and measured and reported.

Recommendation 3

The Joint Committee of Public Accounts and Audit recommends that the Australian National Audit Office (ANAO) consider conducting a follow-up audit on the implementation of the Sixth Community Pharmacy Agreement to be completed no later than 30 months into the agreement's term.