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EDITORIAL

Pharmaceuticals, pharmacists and profits: the Pharmacy Guild perspective

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Community pharmacy in Australia is a public–private partnership. The delivery and dispensing of medicines is funded through the five-year Community Pharmacy Agreements between the Pharmacy Guild of Australia and the Federal Government.

The agreements also provide funding for innovative professional programs. Examples include incentives for the use of electronic-enabled prescriptions, quality care, and medication management. In addition there is funding for pharmacies to supply services for Aboriginal and Torres Strait Islander people and to support rural and regional pharmacies.[1]

The Pharmacy Guild estimates Australia's community pharmacies dispense over 270 million prescriptions every year, including over 200 million[2] subsidised by the Pharmaceutical Benefits Scheme (PBS). These pharmacies also serve as community healthcare hubs providing support, services and advice to patients.

Like any small business, pharmacies need to achieve a reasonable return on their investments, a significant proportion of which are financed through borrowings. The infrastructure cost of the nation's 5350 privately owned pharmacies is immense and includes around $5 billion of privately funded assets.

For 40 years, the Pharmacy Guild has been collecting data from its members to ensure it has a thorough understanding of the financial circumstances of the sector. Without adjusting for inflation, total business expenses for an average pharmacy increased by 97% in the 10 years to 2011–12, with rent and wages the main contributors. Earnings before interest, tax, depreciation and amortisation (EBITDA) averaged 6.45% of total sales in 2011–12.[3] This is well below the Australian Bureau of Statistics estimates of EBITDA averages for the same year for the private health care and social assistance category (17.8%), and also fell below the average for retail trade (6.6%).[4]

Community pharmacies accept that the Australian Government must always press for the best possible deal for taxpayers from the PBS. That is why the Pharmacy Guild has consistently supported the PBS price disclosure reforms which have reaped billions of dollars in savings for the government over the past five years.

Under price disclosure, the government monitors the prices being paid by pharmacists for post-patent medicines. It then reduces PBS prices in line with the average market price. This produces significant saving to taxpayers. The forward estimates for pharmaceutical benefits and services have been reduced by over $8 billion since the 2010–11 budget.*[5]

The budget outcome released in September 2013 found that government spending on medicines actually fell by 3.5% in 2012–13. This was confirmed in the Department of Health's annual report which revealed that PBS expenditure fell by over $350 million in 2012–13.[6]

At 2% a year, the forecast real rate of growth in PBS expenditure is lower than the growth in gross domestic product, despite Australia's ageing population. It is significantly below the overall health system and other major drivers of health expenditure such as the Medical Benefits Schedule and public hospitals.[7]

The Pharmacy Guild welcomes these trends, but it must also be recognised that, as PBS reimbursement prices fall, so does the income of pharmacies. This is because the pharmacists' fixed mark-up on medicines is directly linked to PBS reimbursement prices. Similarly, the ability of pharmacies to access trading terms (buying generic medicines for less than the PBS reimbursement price) is reduced as PBS prices fall.

The challenge is to get the right balance between ensuring the government gets maximum value from the price reductions that occur after medicines go off patent and maintaining a viable medicines sector, including a national network of community pharmacies. Until recently, this has been achieved by ensuring that each five-year Community Pharmacy Agreement takes into account the impact of PBS reforms on pharmacists' remuneration.

Pharmacies are enabling $1 billion in savings over the life of the current Agreement. This is even after allowing for additional funding for professional programs which is provided in recognition of the impact of the expanded and accelerated price disclosure policy.

A further acceleration of price disclosure was announced by the government two days before the

* includes $1.6 billion reduction in 2012–13 budget, $2.5 billion in 2013–14 budget, $2 billion in August 2013 economic statement and $2.7 billion in December 2013 mid-year economic forecasts

2013 Federal election was called. The Pharmacy Guild believes that this tips the balance too far, threatening the future viability of pharmacies. In 2014–15, at the very time that pharmacies are most impacted by the existing price disclosure policy, a further $30 000 will be stripped off their financial bottom lines. This means that, for the average pharmacy, the total reduction in dispensary related gross profits will be $90 000 next financial year.

A number of think tanks and academics assert that Australia still pays too much for off-patent medicines and that reform of the PBS should go further.

For example, the Grattan Institute has released a report concluding that if Australia benchmarked its medicine prices against New Zealand and the United Kingdom, taxpayers could save more than $1 billion.[8] It is important that such reports recognise that the different medicines systems overseas have real impacts on patient choice and the ready availability of medicines.

The Grattan Institute acknowledges the negative flow-on effect of reduced medicine prices on community pharmacies, stating that 'better prices would significantly reduce income for community pharmacies'. As a solution it advocates 'expanding the services that pharmacies can provide, giving them new sources of income' and raises the option of 'direct, transparent subsidies to community pharmacies in locations where viability may be an issue'.[8]

The Guild strongly supports an enhanced role for pharmacists and is putting significant work into developing new primary healthcare models for community pharmacies. However, these new models are only feasible if pharmacies continue to be properly remunerated for their core role of dispensing medicines safely and responsibly to patients.

Conflict of interest: none declared

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