

Administration of the Fifth Community Pharmacy Agreement

Audit Report No.25 2014–15

Statement by Auditor-General

JCPAA Private Briefing 28 May 2015

1. Good morning Mr Chairman and committee members.
2. The Fifth Community Pharmacy Agreement (5CPA) is the current agreement between the Australian Government and the Pharmacy Guild of Australia (Pharmacy Guild). The 5CPA provides that the Commonwealth will deliver some \$15.4 billion in funding, and result in \$1 billion in government savings.
3. The audit observed that overall, the Department of Health's (Health) administration of the 5CPA had been mixed, and there is a limited basis for assessing the extent to which the 5CPA has met its key objectives, including the achievement of \$1 billion in expected savings. Positively, the department developed and negotiated a complex agreement and related contracts with the Pharmacy Guild in a timely manner, enabling the 5CPA to be signed by the Health Minister and Pharmacy Guild on 3 May 2010, prior to the expiry of the 4CPA on 30 June 2010. However, a number of key government negotiating objectives for the 5CPA were only partially realised and there have been shortcomings in key aspects of Health's administration at the development, negotiation and implementation phases.
4. The 5CPA states that the initiatives covered by the agreement will result in \$1 billion in savings. The 2010–11 Budget Papers clarified that the \$1 billion in savings is a gross figure, and after taking into account approved additional expenditure of

\$0.4 billion, net savings were estimated to be \$0.6 billion. However, ANAO analysis indicates that the net savings were closer to \$0.4 billion, due to shortcomings in Health's estimation methodology. The principal issues relate to: an unexplained increase in the baseline cost of professional programs; official indexation factors released by Finance not being utilised in estimating 5CPA savings; and the estimated savings incorrectly including patient co-payments.

5. In addition to the shortfall in anticipated savings, a number of the Government's other strategic negotiating objectives were only partially realised. For instance, the structure of pharmacy remuneration remained essentially unchanged from the 4CPA to the 5CPA—based on defined mark-ups to the base price of pharmaceuticals and the addition of a variety of fees.
6. Limited departmental information, plus shortcomings in Health's performance reporting and 5CPA evaluation framework, mean that the department is not well positioned to assess whether the Commonwealth is receiving value for money from the agreement overall, or performance against the 5CPA's six principles and objectives. While some aspects of the 5CPA will be evaluated, the evaluation framework does not make provision for reviews of the 5CPA's two major financial components—pharmacy remuneration (\$13.8 billion) and Community Service Obligation (CSO) payments to pharmaceutical wholesalers (\$950 million). Pharmacy remuneration, which lies at the heart of the 5CPA and previous community pharmacy agreements—accounting for some 90 per cent of funding delivered under the current agreement—has not been fully reviewed since 1989.

7. The audit also identified scope for improvement in key aspects of Health's general administration. The key issues relate to: the clarity of the 5CPA and related public reporting; persistent shortcomings in Health's record-keeping; the department's consideration of financial framework requirements; risk management; and seeking Ministerial approvals for the re-allocation of money under the agreement.
8. A feature of the 5CPA is complexity in policy design and administrative arrangements, and a key lesson of this audit is the importance of identifying and treating program risks at the earliest opportunity. The successful implementation of complex programs requires active management and a disciplined and co-ordinated approach to managing risks and challenges through the program life cycle—including the development, costing, negotiation and implementation phases. Further, there is a need to ensure that there is appropriate authority for revised positions and outcomes when events do not unfold according to expectations.
9. The ANAO made eight recommendations aimed at improving the overall administration of the 5CPA and informing the development of the next agreement. Seven recommendations were directed to Health, and relate to: the development of costings; improving the clarity of the next agreement and related public reporting; record-keeping; and improving performance information. A further recommendation directed to the Departments of Health, Human Services and Veterans' Affairs focused on improving the accuracy of Health's calculation of pharmacy remuneration.
10. The departments agreed to the recommendations affecting them. Health indicated that it welcomed the report. The department also acknowledged that there is scope to

realise further improvement in its administration of pharmacy agreements, and welcomed the recommendations as a platform for the development of future agreements.

11. I am happy to take any questions you may have.