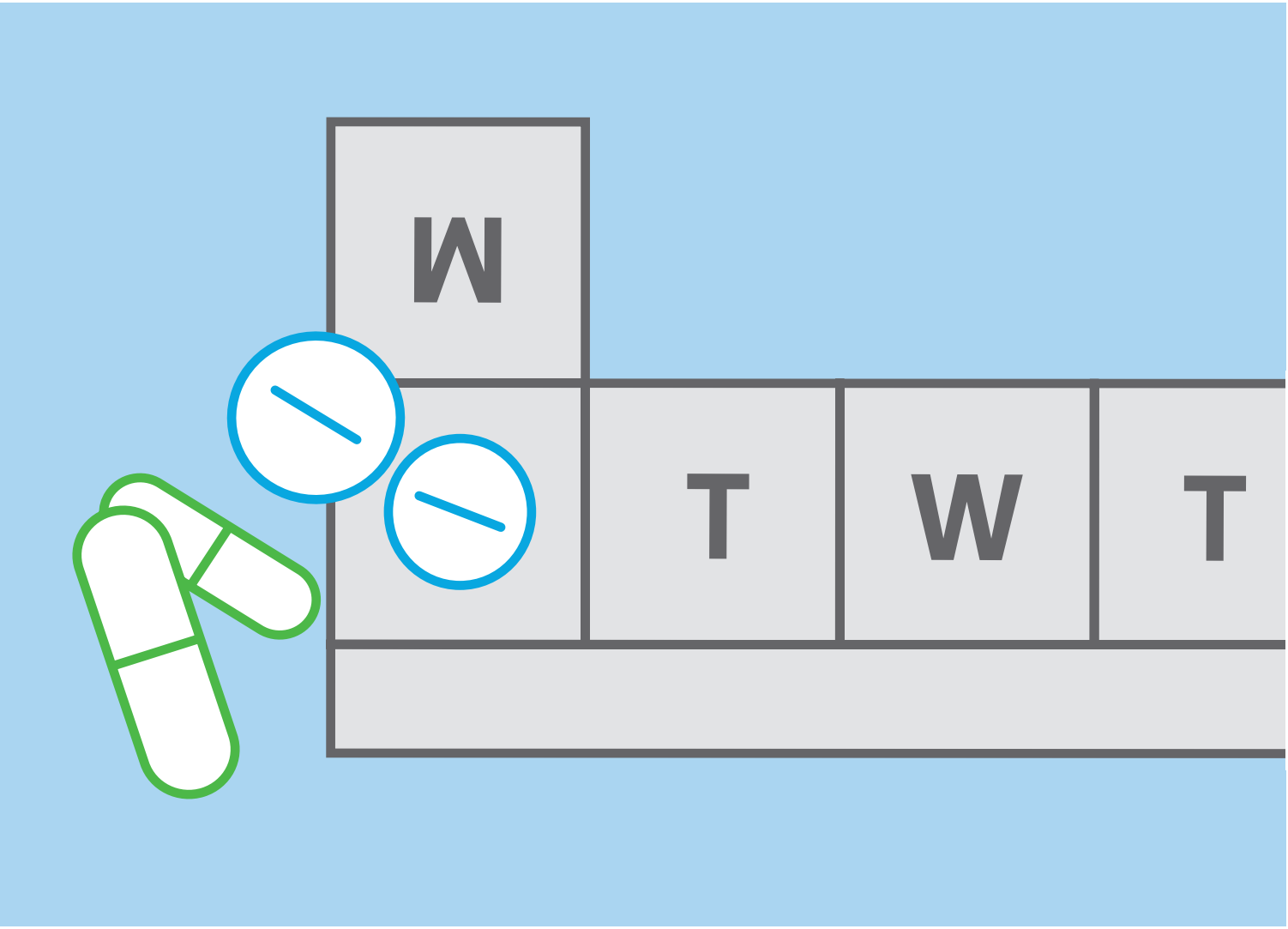
60-day dispensing policy

The detail is very devilish



HEALTH SERVICES
by RSM

RSM

CONTENTS

About the Authors

Peter Saccasan has been a partner at RSM Australia for 12 years. He commenced public practice in 1988. In 2006, after 10 years of building a pharmacy advisory practice, his practice became part of Guild Group, forming part of their multidisciplinary offer of insurance, legal and accounting services to pharmacy. Guild Group at the time was wholly owned by the Pharmacy Guild of Australia. In 2011, his practice was acquired by national professional services firm RSM Australia where Peter has been a partner since. In 2021, Peter was appointed National Leader, Health Services. Peter also held the role of National Director, Pharmacy, a role that Kian Ghahramani has recently been appointed to.

Kian Ghahramani joined RSM in 2014 and was appointed a partner at RSM Australia in 2021. Kian is part of the Business Advisory division. He is a Chartered Accountant with over 15 years' experience and was recently appointed to the role of National Director, Pharmacy.

RSM Australia is a top 10 accounting firm, having just celebrated their 100th year of operation. The firm has won Best Accounting firm (revenue > $200m) in the AFR Client Choice awards for five consecutive years.

Peter and Kian speak regularly at pharmacy conferences and have written articles on pharmacy business and management for the industry publications. Neither the authors nor RSM Australia has any financial or formal ties with Guild Group or the Pharmacy Guild of Australia.

For further information please visit
www.rsm.com.au/health

HEALTH SERVICES
by **RSM**

INTRODUCTION

A more efficient and better funded healthcare system

The Government announced a number of initiatives in the Federal Budget. These included improvements to Medicare, changes to bulk billing, aged care and pharmacy amongst others. The public, including doctors, aged care facility owners and workers, and pharmacists would be the first to support changes that improve Australia's healthcare system that provide better access to patients and make healthcare more affordable.

The Department of Health and Aged Care (the Department) has made various comments outlined herein that indicate these measures will have a significant impact on pharmacy. The analysis of the impact provided to us by pharmacy owners supports that assessment.

The manner in which these changes are being implemented is troubling. Of concern also is the total lack of acknowledgement from Government that this measure will literally destroy some pharmacy businesses and take over $3.0bn (and not just $1.2bn which are the savings or "efficiencies" to Government) out of pharmacy profits over four years, removing over 50% of profit from pharmacies.

The severity of this measure, the lack of empathy and an absence of any sign of willingness to listen is a huge slap to a profession which has literally put its body on the line for Australia through the Covid pandemic.

Savings to many concession card holders is $NIL

The policy is promoted as being about a cost-of-living measure and providing "savings to over six million Australians". Here is the rub. Most of those Australians are concession card holders. The data we have is that this is the most impacted age bracket for the drugs on the list. The trouble is, many concession card holders will not save one cent. Not one. Consider th is:

- Once a concession card holder hits $262.80, they get free medicine. Today.
- This measure eliminates $43.80 of that spend and is the saving that is most quoted.
- However, the safety net has not been changed and won't be changed.[1] Thus, concession holders who take many medicines a year will still be spending that extra $43.80 before they are eligible for free medicine.

This does not take into account the increased cost to these Australians from pharmacies having to trade less hours, cut back or at least charge for things like delivery service and having to charge for small but relevant health services such as blood pressure testing.

Each pharmacy stands to lose around $200,000 in net profit

The speed and extent of these changes will cripple pharmacy businesses. The Department has noted "there will be little time for business (pharmacy) owners to transition to other income sources."[2]

We have outlined in this report that the likely loss of profit per pharmacy is north of 50% of net profit, and for most pharmacies a loss of over $200,000, when all impacts are considered. Refer to page seven for this discussion.

The cut back in hours and the charging for other services will mean most likely that the concession card holders will actually be worse off under this proposal.

The staff reductions could amount to as many as 10,000 people. This is based on a simple assessment that 5,000 out of the 6,000 pharmacies will need to cut two staff to go some way towards saving costs in their business. Many others will have to cut more. How else do you find over $200,000 in savings?

Most of the "efficiencies" being "returned" to pharmacy is existing funding

The Government says it has returned the efficiencies of $1.2bn from this measure back to Pharmacy. On our reckoning something less than $100m of this is new money. This would also seem to pale into something insignificant compared to the $3.0bn+ in profit that the Government is taking out of Pharmacy over the four years. The Government has moved some additional funding of pharmacists into Aged Care across to pharmacy ($350m) on top of this, with pharmacies gaining this funding but having to fund the cost of the service out of that funding. But the ongoing hubris around the return of the "efficiencies" to pharmacy is well short of the mark. Refer to page 7 for this discussion.

Let's build a better healthcare system, together

Pharmacy owners are ***not*** saying don't make changes. What they ***are*** saying is that the Government should be working with them to implement any proposed changes over a timeframe that overcomes the Department's own view that pharmacies "have little time to source other income" and in a manner that does not wipe out their businesses.

All healthcare professionals would urge the Government to improve the healthcare system. But all would say that the Government has a duty to ensure this is done in a way that the system remains sustainable. It strikes us that we here in Australia look at overseas models and give thanks that we don't have healthcare systems like that. Yet it seems that we are always making moves to implement changes to make ours more like theirs.

Building a better system is to be applauded. We all support a more efficient healthcare system that delivers better healthcare at an affordable cost to patients. We fail to see how the approach taken in implementing the change to Maximum Dispense Quantities is a fair and equitable sharing of the costs to deliver that outcome.

Make changes that bring efficiency but ensure you don't blow a huge hole in the healthcare system that we have and which the rest of the world wishes they had. The way this is being done is simply un-Australian.

Peter Saccasan
National Leader, Health Services

Kian Ghahramani
National Director, Pharmacy

[1] Radio interview with Minister Butler and Ray Hadley, 2GB The Ray Hadley Show – 28 April 2023 | Health Portfolio Ministers and Aged Care
[2] Impact Analysis_3.pdf (pmc.gov.au) pp 28,29

THE ANNOUNCEMENT AND BUDGET IN BRIEF

The Federal Government announced as part of its Federal Budget that it was amending the National Health Act to allow prescriptions to be issued for a defined list of drugs which enabled patients to obtain 60 days' supply, instead of the usual 30 days. Details of the amendments can be read here: Sixty day dispensing of Pharmaceutical Benefits Scheme medicines | Australian Government Department of Health and Aged Care

From 1 September patients can double the supply of an initial list of 100 PBS medicines, with two additional tranches being released on 1 March 2024 and 1 September 2024, increasing the list to 325 medicines.

The Budget Papers[3] state that through this measure "the Government will also achieve efficiencies... including $1.2bn over the five years from 2022–23 (and $438.7m ongoing, whereby "concession card holders may save up to $43.80 and general patients may save up to $180".

As part of the Government's statements that these "efficiencies" are being returned to Pharmacy, the Budget Papers state on the previous page[4] that the Government will provide $1.3bn over four years "from 1 July 2023 to reduce patient costs and improve access to medicines and related services delivered by community pharmacies." It then goes on to list six tranches of funding it says the (Federal) Government will be providing to community pharmacy.

SO, WHAT IS THE PROBLEM?

There has been a long and loud protest from the pharmacy industry, matched by repetitive pushback from Labor whose MPs continue to promote the savings to patients and that, they say, the efficiencies made, being the savings to Government, are going back into pharmacy. They have not specifically addressed or acknowledged outside of its own internal report the amount by which the operating profit is going to be reduced in thousands of pharmacy businesses.

What is lost in the emotion and the stonewalling by Labor on this issue is a clear sight for the public, including reporters and commentators and MPs themselves, of the alarming impacts.

Some members of the public are understandably cynical when business owners cry foul. However, our objective assessment is that this is harsh in this case and such opinions should be reconsidered.

In the following pages we have sought to unpack the policy and how it is being implemented so that these concerns being raised can be seen as genuine and indeed, well-placed and hopefully addressed.

SAVINGS TO PATIENTS

Statements/Assertions

The Health Minister, Mr Butler, stated in his media release of 26 April 2023[5] and his colleagues continue to state:

a. the Government
b. has cut the cost of healthcare
c. for "six million Australians"

Insights

Point 'a' is true. It is a Government change to policy and regulation. There may be a saving to the patient, and Government is claiming ownership. ***A pertinent question, discussed later, is — who is paying for this?*** We refer you to the next section in this report for the discussion on this point.

Point 'b'

There is certainly a saving on individual prescriptions ***but there is a claw back for many***.

Concession card holders, who generally take a lot of medicine, will save $43.80 per annum. And general patients — that is mostly everyone else — can save up to $180. The patient contribution on PBS medicines for concession card holders is $7.30 and for general patients it is $30.

The saving for concession card holders is the arithmetic of six less scripts x $7.30 = $43.80. Way too simplistic. These patients have a safety net threshold of $262.80[6] which will now require 42 scripts instead of 36 (@ $7.30). Once they have spent this amount their medicine is free. Their annual outlay on medicine will still be $262.80 if the amount of medicine they require means they reach the safety net.

[3] Budget Paper No.2, pp 146
[4] Ibid, p145
[5] Cheaper medicines to ease cost of living | Health Portfolio Ministers and Aged Care
[6] PBS Safety Net thresholds for pharmacists - PBS Safety Net for pharmacists - Services Australia

By the Department's own estimates some 2.5m Australians would in 2023 reach the threshold. Of this number perhaps around 2m of these would be concession card holders. For these Australians, there is no saving. Listening to the rhetoric, you might be forgiven for thinking ALL pensioners are going to make a saving.

Their annual outlay on medicine will still be $262.80. We are not convinced there is a saving here.

The government has not reduced the safety net as part of this measure. In his interview with Ray Hadley from radio station 2GB, Mr Butler the Health Minister indicated that

> "We cut that safety net, which is the maximum amount pensioners will pay annually for their medicines. We cut that by 25% last year. So, we already did a big, big reduction in the maximum amount pensioners pay. So right now, the maximum amount a pensioner will pay across a year for all of their medicines, no matter how many scripts they're on, is $5.05 per week. Once you hit that safety net, everything is free after that. We're not proposing any other change. We've already made a huge cut to that safety net last year. And we're not proposing any other change to that this year."

This is giving with one hand –"last year" – and taking it back with the other – in this measure. There will be no saving come end of the year for the millions that will reach the safety net. It will still be costing these patients $5.05 per week, in Mr Butler's words, which is $262.80 per annum.

For general patients, the safety net is $1,563.50.[7] It's not as much a certainty that general patients will hit the threshold. Sounds like a saving.

Point 'c'

The Department produced an Impact analysis of proposed changes to the Maximum Dispense Quantity (MDQ).[8] This report indicated that it was believed that 9.6m Australians could possibly benefit from this proposed change, a number derived from PBS data. The analysis also says that the take up of such a measure might go something like 45% in year one, 58% in year two, 63% in year three and again in year four. It is stated that "the ceiling uptake rate of 63% is based on a study of a previous rollout of increased MDQ for some items".[9]

Some commentators will argue that the take up rate depends on the type of medicine. It also depends on the default setting on prescribing software used by doctors and to what extent the default setting will be varied by the doctors at their behest or at the request of their patients. At 63% take up, it is estimated by the Department to be six million and at a higher rate of say 90% it would be a lot more. Wherever it lands, the impact on pharmacy will grow in a linear fashion.

If the Government genuinely believes the impact will be limited to 63%, then why not provide a risk-sharing arrangement whereby the impact on Pharmacy is capped?

EFFICIENCIES/SAVINGS ACHIEVED AND COSTS

Statements/Assertions

The Federal Budget brought the announcement that "The Government will also achieve efficiencies of $1.3bn over four years from 2023-24 including $1.2bn over five years from 2022-23 (and $438.7m ongoing) by allowing two months' worth of certain PBS medicines to be dispenses by pharmacies from 1 September 2023."[10]

In his statement on 26 April, and repeated since, the Health Minister, Mr Butler indicates the change will be "saving patients more than $1.6bn over the next four years." The Pharmacy Guild of Australia (PGA) asserts that there is a cost to pharmacy over four years of $3.5bn.

Insights

How do these efficiencies and savings arise? Why are the efficiencies, savings and costs so different? Lots of different numbers. We have sought below to identify what the numbers represent and where they come from.

Set out in the following table is an example of the impact of the policy on the dispensing of a medicine, with the assumptions stated.

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[7] Ibid

[8] Impact Analysis_3.pdf (pmc.gov.au)

[9] Ibid. p26

[10] Budget Paper No. 2 p146 – from the author: We think the $1.2bn must be over four years since the policy starts in 2023-24 and not 2022-23 – a possible typo in the Paper?

Table 1				
Example dispense - PBS price $21.50 - Concession Card Holder	30 days' dispensing - 1 dispense	30 days' dispensing - 2 dispenses	60 days' dispensing - 1 dispense	Savings / costs
Manufacturer price to Wholesaler	$ 20.00	$ 40.00	$ 40.00	
Wholesaler Mark Up	$ 1.50	$ 3.01	$ 3.01	
Price to Pharmist and PBS Price	$ 21.50	$ 43.01	$ 43.01	
Dispensing Fee	$ 7.82	$ 15.64	$ 7.82	-$ 7.82 Lost service fee to Pharmacist
AHI Fee	$ 4.32	$ 8.64	$ 4.32	-$ 4.32 Lost service fee to Pharmacist
Total Price to Patient - Gross Dispense Price	$ 33.64	$ 67.29	$ 55.15	
Patient contribution	$ 7.30	$ 14.60	$ 7.30	$ 7.30 Patient saving
Cost to Government	$ 26.34	$ 52.69	$ 47.85	$ 4.84 Net Government saving**
	$ 33.64	$ 67.29	$ 55.15	$0.00
	**Net government saving = Less fees paid to pharmacy offset by higher contibution to medicine cost because of lower concession card holder payment.			

If the patient holds a safety net card, the example changes as follows:

Table 2				
Example dispense - PBS price $21.50 - Concession Card Holder - with safety net card	30 days' dispensing - 1 dispense	30 days' dispensing - 2	60 days' dispensing - 1	Savings / costs
Manufacturer price to Wholesaler	$ 20.00	$ 40.00	$ 40.00	
Wholesaler Mark Up	$ 1.50	$ 3.01	$ 3.01	
Price to Pharmist and PBS Price	$ 21.50	$ 43.01	$ 43.01	
Dispensing Fee	$ 7.82	$ 15.64	$ 7.82	-$ 7.82 Lost service fee to Pharmacist
AHI Fee	$ 4.32	$ 8.64	$ 4.32	-$ 4.32 Lost service fee to Pharmacist
Total Price to Patient - Gross Dispense Price	$ 33.64	$ 67.29	$ 55.15	
Patient contribution		$ -	$ -	$ - Patient saving
Cost to Government	$ 33.64	$ 67.29	$ 55.15	$ 12.14 Net Government saving**
	$ 33.64	$ 67.29	$ 55.15	$0.00
**All savings by way of less service fees to the Pharmacist go to the Government.				
Patients who normally reach the safety net are paying nothing after that point. If they still reach the safety net then no change in their position.				

ˆIt should be noted that there will some small saving in terms of the wholesaler mark-up — less than $0.50c — which has not been included above.

In summary

Table 1 shows that Pharmacy loses $12.14, and that $7.30 of this goes to the patient and $4.84 is the net saving to Government.

Table 2 shows that Pharmacy loses $12.14, and this saving goes entirely to Government.

The above tables attempt to set out just where savings and efficiencies are made and by who.

The Impact Analysis statement indicates that the patient saving (of the type identified in the above tables — reduced patient contributions of $7.30 in the example given) will be approximately $1.8bn between 2023-24 and 2026.27[11]. This is the "more than $1.6bn saving" to patients referred to by the Health Minister in his April announcement.

The $4.84 net saving to the government set out in Table 1, when assessed over the next four years, represents the "efficiencies", ie the "$1.2bn over five years (and $438.47m ongoing)" mentioned in Budget Paper No. 2. These are the net savings to Government.

[11] Op cit p25

The $12.14 lost per extra dispensing, taken over the four years, is the $3.5bn that is lost to Pharmacy which the PGA has highlighted. As highlighted by the table this loss is realised in every missing dispense.

Tables 1 and 2 show that the Government is delivering the saving by deriving more savings through less fees to pharmacists. Table 1 shows that the Government is actually picking up $4.84 into revenue. It says it is returning this to pharmacy, which is discussed later in this paper. It is not clear if all of the $12 saved on safety net scripts for Concession Card holders has been included.

Table 3 shows what would happen if the double dispensing was remunerated for what it is – two dispensings – and how it would look if the Government itself was delivering and paying for the savings to patients.

Table 3

Example dispense - PBS price $21.50 - Concession Card Holder - double dispensing paid	30 days' dispensing - 1 dispense	30 days' dispensing - 2 dispenses	60 days' dispensing - 1 dispense	Savings / costs	
Manufacturer price to Wholesaler	$ 20.00	$ 40.00	$ 40.00		
Wholesaler Mark Up	$ 1.50	$ 3.01	$ 3.01		
Price to Pharmist and PBS Price	$ 21.50	$ 43.01	$ 43.01		
Dispensing Fee	$ 7.82	$ 15.64	$ 15.64	$ -	Lost service fee to Pharmacist
AHI Fee	$ 4.32	$ 8.64	$ 8.64	$ -	Lost service fee to Pharmacist
Total Price to Patient - Gross Dispense Price	$ 33.64	$ 67.29	$ 67.29		
Patient contribution	$ 7.30	$ 14.60	$ 7.30	$ 7.30	Patient saving
Cost to Government	$ 26.34	$ 52.69	$ 59.99	-$ 7.30	Net Government cost**
	$ 33.64	$ 67.29	$ 67.29	$0.00	

**Net government saving = Less fees paid to pharmacy offset by higher contibution to medicine cost because of lower concession card holder payment.

HOW IS THE SAVING BEING DELIVERED AND EFFICIENCIES ACHIEVED?

Statements/Assertions

We refer to page 1 in relation to the Government's statement that it is "cutting the cost of healthcare for more than six million Australians".

Insights

The above tables 1, 2 and 3, would indicate that the savings to "more than six million Australians" are being funded directly by pharmacies through the cuts to their dispensing and related fees.

It is also suggested that for around two million Australians who will hit the Safety Net there is NO saving. They are already saving their patient contribution once they hit the safety net.

RETURNING SAVINGS TO PHARMACY

Statements/Assertions

The Government outlined in Budget Paper no. 2 that it "will provide $1.3bn over five years from 2022–23 and deliver savings of $1.3 billion over four years from 1 July 2023 to reduce patient costs and improve access to medicines and related services delivered by community pharmacies".[12]

Insights

Budget Paper No. 2 outlines six programs by which the Government says it is returning its savings back to pharmacy.[13] The programs, and a comment on each, is set out below.

[12] Op cit p145
[13] Ibid

Budget announcement – Return of efficiencies	Background/notes/assessment
$654 million over four years from 2023–24 (and $168.4 million ongoing) for community pharmacy programs under 7th Community Pharmacy Agreement (7CPA)	Existing 7CPA programs have been overspending. Part of this is simply to maintain the current level of service (i.e. it is not an increase to the current "run rate" of service funding being received by pharmacies). ***Assessment:*** Pharmacies currently provide various professional services under the 7th Community Pharmacy Agreement. This announcement reflects the situation that the services were underfunded, and this money is to enable these services to continue. This is not additional money for pharmacies but a measure to allow the level of care and services to continue.
$377.3 million over four years from 2023–24 (and $98.4 million ongoing) for a national PBS Opioid Dependence Therapy (ODT) program	Currently ODT programs are run in pharmacies with policies and funding arrangements determined through states and territories. Pharmacies receive funding from those governments and/or from patients. This would create a nationally consistent arrangement. In other words, it simply moves the funding from one source (State and Territory government) to another (Federal), with little or no net financial change at a pharmacy level. ***Assessment:*** None of this is additional income
$111.8 million over four years from 2023–24 (and $24.2 million ongoing) for e-script infrastructure, including mandating use of e-prescribing for high risk and high-cost PBS medicines	Currently, there is funding in the 7CPA for an Electronic Prescription Fee: www.servicesaustralia.gov.au/electronic-prescription-fee?context=22861 This money is paid to pharmacies but is then paid straight through to the IT system providers (called Prescription Exchange Services (PES)). This money will change the funding arrangement to pay the PES directly (pharmacies will no longer receive the fee). Pharmacy had a nil benefit before the announcement and same after it. ***Assessment:*** No new money here for pharmacy
$114.1 million over five years from 2022–23 (and $31.0 million ongoing) to subsidise National Immunisation Program (NIP) vaccinations in community pharmacy.	Currently, pharmacies have access to NIP vaccines, however the patient must pay for the vaccination service (compared with at a general practice where they can get it for free). Currently, pharmacies typically charge patients $15 to $25 (mostly $15 to $20). It has been announced that the new arrangement will pay pharmacies $19 per vaccine administered, and the patient will no longer pay. This will only be a net benefit to pharmacies (compared with existing payments received for the same service from pharmacies) if a pharmacy can increase their current volume of vaccinations. Some pharmacies are already at their capacity in terms of delivering vaccines. It is also unknown at this stage whether the funding will be capped or not (if it is capped, it further constrains any upside). ***Assessment:*** Government is paying the pharmacy instead of the patient paying. This is not extra income to pharmacy but is a patient saving. But no benefit to pharmacy.
$79.5 million over 4 years from 2023–24 (and $19.9 million ongoing) for doubling of the Regional Pharmacy Maintenance Allowance (RPMA)[14]	This is the only component that could be considered new money with a net benefit. ***Assessment:*** The RPMA is paid only to pharmacies in Modified Monash Model (MMM) categories 3 to 7. Currently approximately 1,200 pharmacies are eligible for these payments. The $19.9 million annual increase is an average of about $16,500 per pharmacy per year.
Budget announcement – Additional funding	**Background/notes/assessment**
$350 million to provide pharmacists to Aged Care facilities	The aged care component Is new money. It will be for pharmacies to put pharmacists into the aged care facility(ies) they service to ensure quality use of medicine and safety (i.e. this comes with extra costs to the pharmacy, mostly in the form of wages). A minority of pharmacies provide services to aged care – so this is not globally applied, while 60-day dispensing will be. ***Assessment:*** The net to Pharmacy will be LESS the cost of providing the service, so it is hard to determine how much of this will be replacement income on a net basis.

End result: Something less than $100m, and not $1.3bn of the "efficiencies", is effectively being returned to Pharmacy. Outside of this, the additional funding of $350m for the provision of pharmacists into Aged Care has been moved to pharmacy, with the cost of providing this service to come out of this funding.

If you tally the real money that is new income to pharmacy in the above tables, there would appear to be something less than $450m of NEW money going to Pharmacy. This is certainly less than the $1.3bn which the Government keeps telling everyone it has returned to pharmacy from the new savings it has made. And it is significantly less than the $3.0bn+ that this announcement will cost pharmacy owners, a number that the Government MPs can't bring themselves to say.

As noted in the previous commentary on the impact of the safety net and who pockets the savings from the double dispensing of those scripts, the Government's continued statement that they are returning efficiencies to Pharmacy and that this should overcome ALL problems is mischief-making at best and is contributing to the anti-pharmacy sentiment that prevails in some quarters on this issue.

WHAT IS THE COST TO PHARMACY?

Statements/Assertions

The Impact Analysis[15] states:

The impact on specific pharmacies will vary depending on the location of the pharmacy and its operating model. For the two-month option, the estimated average impact per pharmacy in the fourth year following implementation may be up to $158,000 reduction in remuneration.

It also makes the following observations[16]:

- The community pharmacy sector will be significantly impacted by this proposal.
- There will be little time for business owners to transition to other income sources.
- Pharmacies may experience the loss of other sales revenue, as a result of reduced foot traffic through the pharmacy. The volume of medicines distributed by pharmaceutical wholesalers may also change.
- Smaller pharmacies and those in isolated/remote areas may be impacted more than larger pharmacies and those in metropolitan areas, as in addition to reduced dispensing related remuneration, there may be less foot traffic and therefore less opportunity for over-the-counter sales due to the smaller populations of serviced regions.

Insights

» What is the loss?

We refer to comments made in Section 1 on expected % take up. This loss is based on the Department's expectations of a take up of up to 63%. As noted earlier, some commentators put the potential take-up at something around 90% based on likely prescribing default settings and behaviour. If one takes a mid-line of say 75%, the Department's $158,000 becomes almost $190,000 per pharmacy. Given the plethora of pharmacy models in operation, the impact will also vary from pharmacy to pharmacy.

At RSM Australia, we act for a number of retail pharmacies. Many of our clients have provided to us their analysis of the likely impact of the change in policy, just in terms of lost fees. The impact will be influenced by a number of factors, of which the following were noted in the Impact Analysis report[17]:

[14] Regional Pharmacy Maintenance Allowance - Pharmacy Programs Administrator (ppaonline.com.au)
[15] Op cit p29
[16,17] Op cit pp28, 29

The impact by individual pharmacy will vary considerably according to its operating model and factors such as:

- Dispensing volumes for impacted PBS items
- The types of medicines dispensed within this overall volume
- Take-up of increased quantity prescribing by doctors
- Other demographic and regional variations.

The data provided to RSM also included an estimate of lost scripts and a decline in foot traffic.

- This can be translated into lost retail sales and lost gross profit on those sales.
- Further, the reduction in visits will reduce the level of professional services (which generate income) that can be provided. This can be reasonably estimated.

Our data[18] shows that the average number of lost visits is 24% and script volume is reduced by 22%. The lost visits on average, on our assessment, result in a loss of gross profit from sales of general medicines and other retail categories of approximately (and at least) $27,000 per pharmacy. We estimate lost professional services income due to less interaction with patients at approximately $12,000 per pharmacy.

> In summary, it may well be that the average loss per pharmacy is $190,000 (75% take up of 60-day dispensing based on the Department's estimate) plus $27,000 plus $12,000, or $229,000. Using the Department's baseline estimate of $158,000 in lost dispensary profit, the total loss would be $197,000 ($158k+$27k+12k). Split the difference again and you are still over $200,000.

» What is the impact of this loss?

The Government has estimated the "efficiencies" generated from this measure over five years at $1.2bn, which we have taken to be four years (refer footnote 10). **What is not stated, and which is nowhere recognised by Government, is — what is the cost to Pharmacy over four years.**

Tables 1, 2 and 3 show that at a simple level, the cost to Pharmacy is $12.14, compared to the Government's savings of $4.84 — some 2.5 times the Government "savings" which are grossed up to $1.2bn as per the Budget Papers commentary on this measure.

The Impact Analysis report[19] puts the saving to patients over four years (2024-27) at $1.8bn.

Putting the two together, $1.2bn + $1.8bn, and you have what is the cost to Pharmacy of $3.0bn. The PGA is on record as putting the cost over four years at $3.5bn because they assert that the uptake will be much stronger than the 63% which the Department has assessed.based on similar assumptions (eg 63% take up rate) (We would suggest that if the uptake goes anywhere near the 75%+ range, the $3.5bn will be much closer to $4bn. If the take-up rate is higher, the cost to Pharmacy would be likewise higher.)

This is real money coming out of real businesses owned by real families who have put their lives (through Covid) and most likely their homes (to buy the business — just like any other business owner) on the line.

There are approximately 6,000 pharmacies in Australia. At $3.5bn over four years, this is a cost of $583,000 per pharmacy over that period.

This does not yet include, as set out in the RSM assessment above and referred to by the Department:

a. Lost gross profit on retail sales lost from the decline in foot traffic.
b. Lost professional services income due to the decline in store visits.

There have been some attempts by Mr Butler, his colleagues, the press and the public to categorise the nature of this loss and its impact on pharmacy. There has been recorded different allusions to the terms "revenue", "gross profit", "turnover", "remuneration" etc. In his interview with Ray Hadley from Radio Station 2GB on 28 April[20], the Minister stated that pharmacies "earn" about $25bn every year. These earnings represent the total revenue of retail pharmacy. Some people may mistake "earnings" to be profit. He then references the $1.6bn patient saving to four years of earnings.

What should be referenced is the total loss of profit to pharmacy and it should be referenced to the profit made by pharmacy owners, not the sales of the business.

[18] All numbers from RSM are based on a 75% uptake
[19] Op cit p25
[20] Radio interview with Minister Butler and Ray Hadley, 2GB The Ray Hadley Show – 28 April 2023 | Health Portfolio Ministers and Aged Care

As noted above, our assessment, is that the impact is north of $160,000 and rises to over $200,000 once all lost revenue is taken into account. For pharmacy owners, this loss comes out of revenue, it comes out of gross profit and comes off out of the bottom line, out of net profit.

Pharmacy owners make a net profit of between 6% and 11% of turnover depending basically on how much rent they are paying. This is similar to most other small businesses.

> At say 8% of average turnover of around $3m, this is a net profit of $240,000. This is profit before paying back the bank and paying taxes. If you take out over $200,000 in lost revenue, the loss is palpable. If you take out just the Department's $158,000 lost from the dispensary (before considering other areas), this is still about 65% of the pharmacy net profit.

In the interview mentioned above, Ray Hadley, who to be fair would not be expected to be across this detail, puts this "couple of hundred thousand" dollar loss down as a "bit of a juggling act". We can understand this view if the detail laid out here has not been made clear. However, taking around 65% of net profit out of a business is far more than a bit of a juggling act.

Let's be more conservative in our estimate of the loss of profit and reduce it by one-third. This would bring the loss down to $133,000 (two thirds x $200,000). This measure is still taking out over 50% of the net profit of a pharmacy. This will have a significant impact on the viability of the network and the health system. This change is taking revenue away from pharmacy that comes straight off the bottom line. And that is why this measure is taking over 50% (to be conservative) of PROFIT out of Pharmacy and not just some tinkering being done with revenue. We know Ray, like us, supports any recommendations that does deliver savings. We are sure that with the facts laid out, we might have a supporter in saying that we do not support changes that have these kinds of impacts without something being done to address them properly and fairly."

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