



Dear Members of the Review Panel,

**RE: Review of Pharmacy Remuneration and Regulation – Discussion Paper - 2016**

Thank you for the opportunity to comment on the discussion paper on behalf of the Small Pharmacies Group.

**Who is the Small Pharmacies Group?**

The Small Pharmacies Group (SPG) represents a growing network of small pharmacies in Australia. Our objectives are to facilitate better communication and stronger advocacy for small pharmacies. Our group was established earlier this year and membership currently spans across 5 states and 1 territory of Australia, with pharmacies in both rural and urban locations. A small pharmacy is defined by the Small Pharmacies Group as one which is classified “low” annual turnover (reported as average 1,568,639 in the 2016 Guild Digest) and/or would be classified as “Stratum 1” (i.e. less than 35,000) scripts dispensed per annum. In general our members constitute independent, owner-operated pharmacies, with only one pharmacist, although there are some exceptions.

**The importance of small and independent pharmacies**

The existence of viable, small and independent, pharmacies is crucial in order to ensure choice for consumers. Small pharmacies often operate in locations that may not be attractive or viable to corporate chains. We consider that small pharmacies are in a particular and special position to optimize the health and wellbeing of the patients that we serve because of the personalized and tailored approach that we can offer. Small pharmacies are especially positioned to provide a high degree of continuity of care to their patients. Though we concede that further research is required to verify this in the Australian context, there is evidence from the US to suggest that patient satisfaction at independent pharmacies exceeds that of chain pharmacies.<sup>1</sup> We also advance that there are broader reasons to safeguard the viability of small pharmacies across Australia. Small pharmacies form a vital part of the fabric of the populations they serve, contributing to the physical, psychological, and economic wellbeing of towns and regions, as well as city communities, which in turn contributes to the health and economic prosperity of Australia as a whole.

**What we need to serve our communities effectively and to ensure business viability**

Small pharmacies are operating in a challenging environment which has been brought about by a combination of government policy, wholesaler practices, and discounting models that are compromising our ability to serve patients effectively. However, we advance that the situation is repairable with some adjustment to policy settings and funding arrangements. Our requirements are achievable and, if satisfied, will have demonstrable benefits for pharmacy patients/consumers. The challenges and

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<sup>1</sup> Briesacher B, Corey R. 1997, “Patient satisfaction with pharmaceutical services at independent and chain pharmacies”, *AM J Health Syst Pharm.* Mar 1;54(5):531-6.



opportunities for small pharmacies vary depending on the specific circumstances of each individual pharmacy. However, what follows is a list of core requirements that we believe need to be met in order to ensure business viability and to enable us to serve our communities effectively.

**Government policy that allows us to exist and thrive.** Price Disclosure is placing considerable strain on small pharmacies and detracting from the provision of healthcare. As one of our members comments:

...it is absurd that the value of our stock (even when minimized to almost unmanageable levels) plummets from the end of one month to the first day of the next month, twice a year. Cashflow for the following 2 months always seems strained following each 'hit'.

While price disclosure may be benefitting the consumer in terms of lowering the cost of medications, there are also disadvantages to patients as we are compelled to focus our energies on managing stock levels and cash flow and are faced with ever-diminishing financial resources and time to invest in providing medicine-related advice and developing and delivering professional services that would benefit patients. In this regard, it is also relevant to note that the cash flow implications of buying and dispensing high cost drugs are further exacerbating this already difficult situation.

The recently negotiated Administration, Handling & Infrastructure Fee (AHI) is helping to mitigate the financial effects of price disclosure. However, it is not enough. One possible solution to cashflow issues and stock management with price disclosure could be for wholesalers to sell at the lower price for a month or so in advance of the drop and the government continue to compensate pharmacies at the original price for that period of time until the price drop commences. Another possible way of minimising price disclosure shocks would be to instigate a sliding scale of price reductions. E.g. 10% reduction each month until the total reduction is achieved. This would help smaller pharmacies who have no real negotiation power with the wholesalers to cope with the drops.

There is also concern amongst pharmacists in our group that price disclosure is making it unviable for companies to market their drugs in Australia. The growing number of 'out of stock' medications are causing numerous problems at the community pharmacy level and are frustrating both for pharmacists and patients. It can be confusing to patients when an unfamiliar generic alternative must be substituted when their usual medication is not available. In cases where the brand is the only option in stock the customer sometimes incurs additional costs due to brand price premiums. Sometimes we have to call doctors to make changes to strength and/or ration supplies between patients so no-one misses out. All of this takes up time that could be better spent. Smaller pharmacies also have less clout in obtaining stock and are concerned that we are being perceived as poor operators by our patients. It can be very difficult and time consuming to explain the broader forces at play to patients who don't understand why their usual medicine is not available.



Another current policy that is adversely affecting small pharmacies is the \$1 co-payment discount. This policy favours larger pharmacy models to the detriment of smaller service-oriented pharmacies. While the policy might be saving some money for some customers, this is not ultimately in the interest of patients/consumers if it means that small pharmacies are cutting their staff levels and/or services. Another problem with this policy is that it is undermining a central tenet of the PBS – namely, equitable access to medications for all Australians. Many small pharmacies are not in a financial position to offer this discount to everyone (indeed many are not in a position to offer it at all). We believe that we should not, as health practitioners, have to decide who receives this discount and who misses out; this would be very unfair to patients and puts us at risk of being perceived as discriminatory. In terms of equity of access to the PBS, we also believe that this policy is creating inequality between rural and urban patients, putting country patients (especially those who are less mobile) into a position where they have to pay more for their medicines. This is because small, rural pharmacies cannot afford to offer this discount without severely compromising the ability to continue to provide a high level of service.

**Better and stable remuneration for core pharmacy services** (dispensing and consultation) so we can concentrate on what we do best in terms of the provision of medicine advice. Decreasing profitability brought about by government policy and falling remuneration is forcing pharmacies to move into areas that have not traditionally been our territory, compete with other existing medical services, and offer services that are lacking in evidence (such as diagnosing genetic variations that may or may not have an impact on medication metabolism, interactions or efficacy) and that do not have well demonstrated overall health benefits to patients or society as a whole (e.g. cholesterol testing in pharmacies). The selling of a range of complementary medicines with minimal or no scientific evidence is another symptom of this pressure (however, this is also the result of consumer demand and it can, and has been argued, that it is beneficial for patients to be purchasing such products in a pharmacy where professional advice is available). While there are certainly strong arguments for the legitimate expansion of the scope of pharmacy practice, the development and delivery of professional services should not be driven by a desperate need to find alternative sources of remuneration to compensate for falling dispensary income.

Inadequate funding for the provision of medicine related advice is not only undermining our businesses but is bound to have detrimental impacts on patient health outcomes. The increase in remuneration for Dose Administration Aids (DAAs) is welcome and necessary but higher remuneration is needed as current charges do not cover our costs for this service.<sup>2</sup> Pharmacists are also available for advice to patients in between dispensing.

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<sup>2</sup> One of our members has suggested that DAAs could be better reimbursed through a script as is available to our Department of Veteran Affairs (DVA) patients. The DVA DAA script currently pays us \$10 per pack from the DVA at no charge to the DVA patient. However, instead it could cost \$6.20 to the concession card holder and count towards their safety net. The DAA 6 month review scripts should also be available for DAA users as it is for our DVA patients.



This service is often accessed by patients and has the capacity to avoid serious complications for patients when deciding to undertake self treatments that may benefit them but can also harm them. The dispensing fee currently serves as an average of all these interactions and as such also captures these consultations that can take considerable time. Pharmacists have always provided this support, without the need for an appointment, and it is well utilised and regarded as shown by pharmacists achieving continuing high accolades as one of the most trusted professions by Australians. As such it is important to continue funding and ensure that it is adequately remunerated. The increase in dispensing fee with CPI, as agreed in the 6<sup>th</sup> Pharmacy Agreement, is a step forward but discussion about the importance of the dispensing fee in light of the above needs to be taken even further in terms of remuneration as the provision of this service is central to community pharmacy and does and will continue to have positive patient outcomes.

**Thoughts on splitting supply/advice and tiered rates of remuneration.** Some members of the SPG consider that the idea of splitting supply and advice remuneration and introducing tiered rates of remuneration depending on the length and complexity of the consultation has merit as long as advice is fully remunerated by the PBS and not based on a user-pays model. Given that pharmacists spend different amounts of time with different patients some believe that we should be able to claim different consultation fees depending on the length and/or complexity of the consultation. Furthermore, given that there is currently a ‘spectrum of advice’ being provided by different types of pharmacies there is a feeling both within and beyond our group that the fairest system would be one where the level of remuneration received reflects the level of advice being given. Such a system would reward pharmacies following best practice i.e. the pharmacies providing appropriate advice would receive a higher level of remuneration and the ones providing the basic minimum would get a minimum dispensing/consultation fee.

On the other hand, however, concern has been raised about this ‘spectrum of advice’ and whether it is wise or in the best interests of the patient to tolerate the varying standards and to build a system of remuneration around it.

Shouldn't the pharmacist be satisfied every time that when the patient leaves the pharmacy that they can use their medication(s) effectively and safely however that is achieved? Could a remuneration system that separates supply and advice lead to a situation where advice is deemed ‘optional’? This certainly does not seem advisable.

Perhaps an alternative approach to tiered remuneration (that may also serve to better protect the consumer) would be to continue with a flat dispensing fee (that is an average of both brief and simple consultations as well as longer and complex ones) and require and enforce that all pharmacies are giving the appropriate advice - if that means that certain pharmacies need to adapt their model (e.g. hire more trained staff, increase their prices) to achieve this then so be it.

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Questions are also being asked as to how exactly a split supply/advice system would be remunerated. One member comments:

I feel this is a scary prospect... They wouldn't keep our current dispensing fee and then add payments; they would cut the fee and then say we need to counsel to make it up.

For one-pharmacist pharmacies particularly, there is concern that a split and/or tiered remuneration system would lead to more onerous reporting requirements. Even supporters of the tiered approach believe that it would need to be an averaged fee, as it would be too difficult to unravel and identify all the potential consultation scenarios. Tiers could perhaps be based upon whether a pharmacy is patient-focused (higher fee) or discount-focused (lower fee)? The question has also been raised as to how to ensure the integrity of the system – (i.e. how to ensure that the system is not abused and verify that a pharmacy is actually delivering the services).

It must also be noted that we are not in favour of different levels of remuneration for initial vs. repeat prescriptions. Numerous examples can be given when dispensing a repeat can take the same amount of time if not longer than an initial prescription. Varied levels of remuneration will skew in favour of medical centre pharmacies because of the tendency for patients to fill initial scripts in these locations.

**Funding and support for professional services that are evidence-based, relevant, and implementable in our pharmacies/communities.** Services that can feasibly be carried out in a pharmacy with only one pharmacist or adequately funded to support a second pharmacist as needed. Services that genuinely meet the needs of our communities and do not compete with other medical services in the local area.

It is important to note that the introduction of professional services is not adequately compensating for falling dispensary remuneration and there are numerous barriers especially in small country pharmacies to setting up such services. The challenges of successfully implementing professional services is disadvantaging small pharmacies in relation to larger pharmacies in terms of remuneration, competitiveness, and addressing community needs. Many of the professional services that are being offered in larger pharmacies cannot be practically implemented in pharmacies with only one pharmacist. Usually there is insufficient remuneration involved to justify the increased wages expense of additional staff required to offer such services. Also the erratic nature of the demand for such services, especially in small rural communities, makes it difficult to manage and coordinate services. It is not practical to expect city locums to travel long distances on short notice for just a few hours of work. Furthermore, some of us are servicing lower-income communities where many patients are not in a position to pay for health services but whose need for quality services is high. Often, while there may be numerous health issues in our communities, there may not be enough patients with a particular problem to ensure the viability of a specialised program. Another important issue is the need to ensure that any services offered are developed in consultation with, and do not compete with, other medical services available in the community. Country pharmacies cannot



undermine the viability of their local medical centre as their own survival depends on the existence of this service.

There is support amongst our members for pharmacists to be entitled to Medicare provider numbers to claim for services under Medicare (like other allied health workers). In terms of the services we could be offering, it has been suggested that a system like the UK system<sup>3</sup> could be applied in Australia for minor ailments to be treated in the pharmacy.

**Retention and long-term security of location and ownership rules so that we can invest in our businesses with confidence.** This is important for small pharmacies in both the city and country. While many rural pharmacies operate in remote and seemingly 'protected' locations, even a change in the market in nearby regional centres could be enough to adversely affect the viability of small pharmacies. We may be isolated geographically but we are certainly not isolated in a competitive sense. The loss of a small country pharmacy or even a reduction in staff/services/opening hours would be particularly problematic for our less mobile patients but also our communities as a whole in terms of easy access to medications and advice.

Pharmacies require a certain level of protection to ensure stability and accessibility of medicine supply and advice. This enables owners to focus on the provision of healthcare and not be constantly distracted by the worry of keeping their business afloat. Also, as pharmacies do not control the purchase price of PBS medicines, but we have restrictions on what PBS pays us, and what we can charge, this affects our ability to run a business on equal terms to other business and it is fair that we be afforded a degree of protection. The location rules help to ensure that we can maintain adequate stock levels, which has been shown in overseas contexts to be an important aspect of patient satisfaction with community pharmacy.<sup>4</sup> Location rules also help to encourage the establishment of pharmacies in new locations that might otherwise be considered too risky/costly for pharmacy chains and discounters despite patient need, by providing some investment security. It might also be noted that many small pharmacies are serving small communities and are not in a position to grow their market or rely on retail sales in the same way as larger pharmacies to offset any reductions in remuneration as a result of changes to government policy. Location rules provide a safeguard against this limitation as well.

Location rules help to provide stability to ensure timely access to medications but do not unduly restrict competition. Even with the location rules in place our businesses are by no means immune to strong competitive forces from other pharmacies, supermarkets, health

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<sup>3</sup> <http://www.nottinghamcity.nhs.uk/-your-services-/your-pharmacy-services/10-pharmacy-first.html>

<sup>4</sup> Kamei M, Teshima K, Fukushima N, Nakamura T. 2001, "Investigation of patients' demand for community pharmacies: relationship between pharmacy services and patient satisfaction", *Yakugaku Zasshi*. 2001 Mar;121(3):215-20.



food stores etc. Those of us that operate in more geographically isolated locations still have to contend with the aggressive advertising of large discounters offering online shopping (including prescriptions); not to mention that many of our patients are still highly mobile and do have choice as to where they shop for their pharmaceuticals and front-of-shop products.

**Retention of the Rural Pharmacy Maintenance Allowance (RPMA).** Government incentives and support to run pharmacies in rural areas must continue as operating costs are higher, we have a limited market, and medication supply and advice with the presence of a pharmacist is vital for our patients.

**Wholesaler controls so that we can offer competitive prices, minimize wastage, and retain our independence.** Small pharmacies cannot afford, nor do we consider it good value, to participate in buying/marketing groups that extract considerable fees, that force us into buys that do not match local demand, and that are not generally suited to the needs of small pharmacies. Furthermore, small pharmacies receive significantly lower discounts from wholesalers than the larger pharmacies and/or discounters, making it difficult to stay competitive as we may be isolated geographically but not competitively. Discounts are expected to deteriorate further as a result of price disclosure. This situation would be greatly exacerbated if wholesalers decided to discount the PBS wholesale price only when purchasing a certain amount of each of the top 1000 items. Smaller pharmacies do not have the financial capacity, or storage ability, to purchase and keep significant larger amounts of stock to keep adequate discounts that larger chain and discount pharmacies are able to.