

# Darren Chester

Federal Member for Capricornia

002588

November 1, 2013

The Hon Joe Hockey MP  
Federal Treasurer  
Parliament House  
CANBERRA ACT 2600

Correspondence Received - Office of the Treasurer	
Office Circulation	
Treasurer	Contact Adviser - .....
Chief of Staff	Other Adviser - .....
Deputy Chief of Staff	DLGs - .....
06 NOV 2013	
Departmental Action	Briefing
Acknowledge	Speech
Substantive Response	Refer to .....
Appropriate Action	No Further Action
Information	URGENT
Constituent Response	
Signatory	

Dear Treasurer

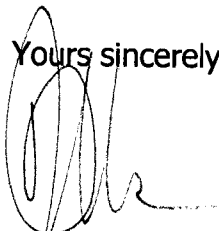
I wish to make representations on behalf of Mr Robert Ludlow, Mallacoota, in relation to your recent announcement for a National Commission of Audit.

Mr Ludlow has a suggestion as to how the government can save approximately \$500 million per year from the health portfolio and has asked that his enclosed proposal be submitted to Tony Shepherd, AO, Chair, National Commission of Audit for consideration.

Please find enclosed self explanatory correspondence received from Mr Ludlow confirming that he has no objection to his proposal being made public.

I would be grateful if you could forward Mr Ludlow's submission to the commission for consideration.

Yours sincerely



DARREN CHESTER  
The Nationals



**ROBERT LUDLOW**



23 October 2013

Darren Chester MP  
Federal Member for Gippsland  
PO Box 486  
SALE VIC 3850

Dear Darren

**NATIONAL COMMISSION OF AUDIT – SUGGESTED \$500 MILLION EFFICIENCY**

Earlier this year, I wrote to the then Minister for Health, Tanya Plibersek MP, with a suggestion on how to reduce the cost of the Medical and Pharmaceutical Benefits Schemes, by in the order of \$500 million per year.

This can be achieved through the simple expediency of repackaging tablets and capsules from packs of 30 (or 28) to packs of 60.

This probably sounds fanciful, but it isn't when properly analysed, which is evident from the details in the letter I sent to Ms Plebersek on 3 January. A copy is attached.

I have had no response, which is not surprising, as I suspect it was buried because some aspects may be contentious, even though it has no negative impact for ordinary taxpayers and citizens.

I was pleased to read the announcement by the Treasurer and Minister for Finance yesterday about the National Commission for Audit. It is well overdue, and I note the Terms of Reference seek "to improve the overall efficiency and effectiveness with which government services are delivered". This suggestion clearly fits within that objective.

My reason for contacting you about this Darren is that you would have a better idea as to how it needs to be progressed. I therefore hope you will agree to ensure it reaches the appropriate destination to enable it to be considered as a submission to the Commission.

I confirm that there is nothing confidential in the submission, and I have no objection to it being made public with the record of submissions.

Finally, congratulations to you on a fantastic result at the recent election. I think your appointment to the Parliamentary Secretary of Defence is also a great move, both for you and the Country.

Please phone me if we need to discuss the above.

Yours sincerely,


Bob Ludlow

2 January 2013

The Hon Tanya Plibersek MP  
Minister for Health  
PO Box 6022  
Parliament House  
CANBERRA ACT 2600

Dear Minister

**SUGGESTION TO REDUCE COSTS BY \$500 MILLION PER YEAR**

Purpose of Letter

1. I am writing to you to suggest a relatively simple action, which would reduce expenditure within your department, in the order of 500 million dollars per year. The letter is addressed to your office as the suggestion crosses several areas of your portfolio responsibilities, including Medicare Benefits, the Pharmaceutical Benefits Scheme, pharmacy issues, and health concessions such as the Safety Net.
2. Additionally, some of the consequences of the suggestion could be contentious to individual government agencies (such as PBAC), and members of the AMA, and the Pharmacy Guild. I leave it to you as to the most appropriate manner in which to progress the matter, assuming you choose to do so.

Personal Disclosure

3. I am now retired but have had considerable experience in business analysis, having been CEO of a number of businesses in Australia and Canada, and as the Deputy Chief Executive of Australia Post until 2000. I am not asking for anything, and I have no complaints. I have no expertise in anything relating to the Health or Pharmaceutical industries, other than as a user of their services. My analysis has been carried out simply as an interested citizen and taxpayer who is concerned at the rapid escalation in healthcare costs.

The Suggestion

***Require all Australian pharmaceutical manufacturers and suppliers to package their tablets or capsules in quantities of 60, rather than 30 (or 28).***

4. The suggestion is simple and may have already been considered by your department. If so, I would be interested to know why the suggestion isn't implemented. If not, I hope the suggestion is useful.
5. By implementing the above suggestion, total expenditure of the Department of Health would be lowered through:
  - 5.1 reducing the number of MBS Group A1 attendances, with an estimated saving to Medicare of over \$400 million;

- 5.2 lowering the cost of Dispensing Fees paid under the PBS by about \$125 million;
- 5.3 reducing the PBS cost of pharmacy mark-ups in the order of \$40 million;
- 5.4 reducing the cost of Safety Net provisions; and
- 5.5 removing the expensive anomaly of packages of 28.

### Current Situation

6. Appendix 1 shows a simplified disaggregation chart of the current cost and volumes of Medicare attendees, prescriptions issued, and PBS costs. Figures used are for the year ending 30 June 2012, and are derived from the excellent statistical websites of the relevant Department of Health agencies, including Medicare Australia and the PBS.

7. The relevant Key Performance Indicators (KPI) in Appendix 1 show that:

- 7.1 government cost per attendance (through Medicare) to a Group 1 A1 practitioner (GP) is \$39.31 per attendance;
- 7.2 the number of prescriptions issued is 1.87 per attendance;
- 7.3 government cost (through PBS) is \$38.70 per script.

8. This results in a combined average government cost of \$112.25 per attendance.

9. Scripts prescribed by GPs comprise pharmaceuticals for both immediate temporary treatment (such as antibiotics, inoculation, analgesics etc), and continuing treatment of chronic conditions (such as cholesterol, hypertension, depression, contraception etc). For continuing chronic conditions, scripts are valid for a period of 12 months, but with the limit of five repeats of monthly packages, are effective for only six months. At least two GP attendances are therefore required per year.

10. I am not aware of the proportion of scripts within the two categories of temporary and continuing, but am sure the Department would know, and that data is most relevant. I have therefore had to make assumptions as described below.

### Effect of Proposal

11. By increasing the quantity per package from 30 (or 28) to 60, five repeats of a medicine would still retain the 12 months validity period for prescriptions. The difference is the reduced number of visits to a GP for scrip renewals, and a reduction in dispensing frequency from 12 times per year to 6 times per year. These changes contribute most of the savings to Medicare and the PBS.

12. Appendix 2 shows a further disaggregation of the current costs and volumes, but assumes:

- 12.1 a 10% reduction in attendance at GPs for scrip renewals;
- 12.2 a 10% reduction in the volume of items dispensed (current dispensing fee is \$6.42 per item);

- 12.3 a reduction in total pharmacy mark-up, as the quantity and cost of items dispensed at one time would double, thereby effectively reducing the currently agreed mark-up rate for many items from 15% to 10%; and
- 12.4 while the actual cost of medicines would be unchanged, lower total dispensing costs would also reduce Safety Net costs as fewer consumers would reach the limit.

#### Resulting Savings from Proposal

14. The assumptions above are conservative, but savings are estimated at over \$500 million per year. The attached models can be readily adjusted using the more complete and accurate data available to the Department.
15. The KPIs from the adjusted model in Appendix 2, based on the assumptions made (ie 10% reduction in attendances and the number dispensing fees) amount to savings of:
- 15.1 \$414.4 million in GP attendance fees;
- 15.2 \$124.9 million in dispensing fees; and
- 15.3 \$37.6 million in pharmacy mark-ups (assumes reduction from average rate of 12.5% to 12.0%).

#### Likely Objections

16. Consumers. While the cost of two-monthly packages will be higher, overall script costs will be lower through reduced frequency of visits to GPs and Pharmacists. Convenience will be enhanced. Some consumers may prefer 12 lower payments rather than six higher, even though the total cost is lower. The Safety Net could remain unchanged, even though fewer consumers would reach the qualifying level.
17. General Practitioners. There would be a negative impact on GPs, even though the proposal has no effect on attendances for other than script renewals. With about 25,000 GPs in Australia, and their average income of \$200,000 per year, the average reduced income is about \$16,560 (8% of total). A likely objection from GPs is that they may only see their patients every 12 months, rather than every six months. This is valid, but it is also the cause of higher expenditure than necessary.
18. Pharmacists. There would be some negative impact on dispensing pharmacies, but they have the advantage that unlike GPs, most of their business costs are variable and can therefore be reduced in line with lower volumes by reducing staff numbers and other savings. Dispensing of double packs of 30, or 100 packs, currently only attract a single fee of \$6.42, so there would be no need to change the amount of the fee.
19. Manufacturers and Suppliers. There would be minimal impact on manufacturers and suppliers, as the cost per dose would remain the same. There may be some savings in lower packaging costs, which would offset some of the upfront cost in changing from 30 packs to 60 packs.

Removal of 28 Packs

20 As an aside, it would appear to make sense to remove packs of 28 in any event, as it is an expensive anomaly. I have not tried to estimate the effect of simply changing quantities per pack from 28 to 30, but even that action would make considerable savings.

I personally take a number of medicines on a continuing basis, and these include Atorvastatin (Lipitor) and Perindopril (Coversyl), which come in packs of 30, and Clopidogrel (Plavix) and Fluoxetine (Lovan) which come in packs of 28.

21. As a consequence I require 12 scripts per year for the former and 13 scripts per year for the latter, and am therefore unable to have all scripts renewed at a single attendance at my GP. It would be worthwhile evaluating the savings from this simple change in policy, which could be implemented immediately.

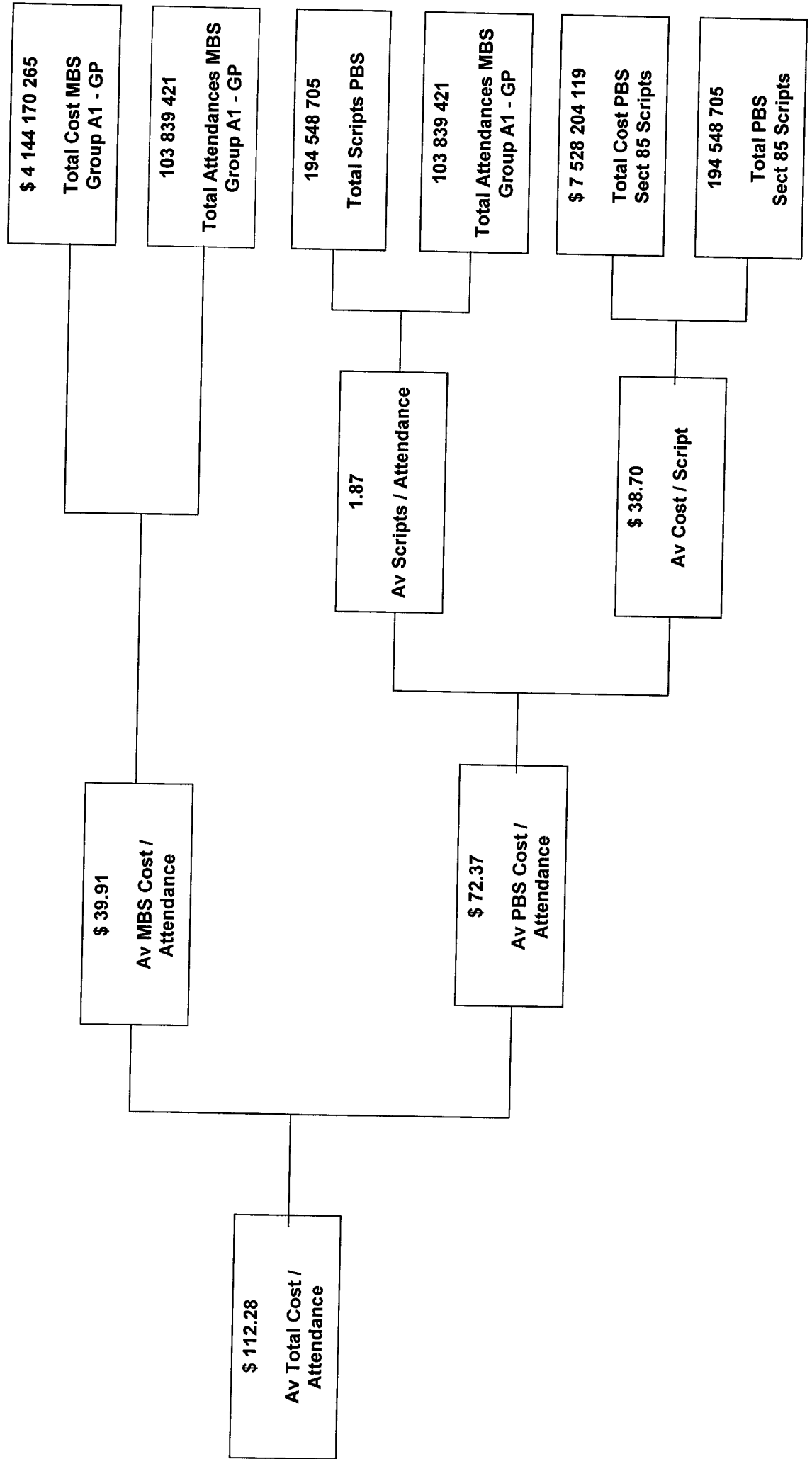
Conclusion

22. I hope you will consider the suggestion above, as I believe it could provide a substantial saving to the public purse. I have not provided a copy of this to any other party, and agree to your distribution as you see fit. I am quite happy to discuss any of the detail with your officers.

Yours faithfully,

Robert Ludlow

TOTAL COSTS AND VOLUMES – YEAR ENDING 30 JUNE 2012



TOTAL COST REDUCTION PER YEAR

