Submission to the National Commission of Audit

November 2013

Recommendations

1. **CHF recommends that the Government further accelerates of price disclosure measures to hasten cost reductions.**

2. **CHF recommends that the Government provides no additional compensation to the Guild beyond the funds committed through the Fifth Community Pharmacy Agreement (5CPA). The 5CPA has provided generous funding to compensate pharmacy owners for the impacts of price disclosure, and there is a need to ensure that the Guild honours commitments to programs funded through the 5CPA.**

3. **CHF strongly objects any proposals to increase co-payments across the healthcare system. Consumers in Australia already bear the burden of significant out of pocket costs, and we question any approach that creates more disincentives in access to health care.**

4. **CHF recommends a reform of Medicare and move towards a more performance based healthcare funding framework.**

5. **CHF recommends strengthening engagement between the not-for-profit sector and the Government and a consistent approach to the implementation of the principles enlisted in the National Compact.**

Consumers Health Forum of Australia
Submission to the National Commission of Audit

Introduction

The Consumers Health Forum of Australia (CHF) welcomes the commencement of the National Commission of Audit (*the Audit*) and its review into the scope, efficiency and functions of government, and welcomes the opportunity to provide a submission to inform this significant process.

CHF is the national peak body representing the interests of Australian healthcare consumers. CHF works to achieve safe, quality, timely healthcare for all Australians, supported by accessible health information and systems. As such, CHF and its members have a strong interest in ensuring that our health system delivers and meets these principles.

CHF recognises the need of the Government to examine thorough review of the scope, efficiency and functions of the Commonwealth government. CHF supports the Government's view that there are opportunities to improve the current scale of activities. This review can help identify improvements which will ensure value-for-money, improved performance, and have a long term positive impact on the health outcomes of Australians, as well as overall effectiveness and efficiency of Governance.

CHF recognises that our universal health care system is facing increasing constraints in delivering on its core objectives. The growth in incidence of long-term chronic illness, the increasingly high cost of therapies and devices and an ageing population are all reasons why there has been a growing increase in inefficiencies in the management of health outcomes as well as a simultaneous increase in health expenditure. CHF argues that it is time to fundamentally rethink how we structure health management and distribute health funding.

CHF's submission will focus on the terms of reference relevant to the *Efficiency and effectiveness of government expenditure.* This submission addresses spending initiatives and opportunities for revenue savings. Our recommendations focus on:

- Reducing waste by further accelerating price disclosure and making savings from future community pharmacy agreements;
- Addressing out-of-pocket costs;
- Moving towards a performance based healthcare model; and
- Strengthening engagement with the not-for-profit sector.

In ensuring that tax-payers are receiving value-for-money and in eliminating wasteful spending, CHF calls for the review of current policy settings and existing agreements that lack the fundamental principles of transparency and accountability to government spending.

In improving the overall efficiency and effectiveness with which government services and policy advice are delivered across health, CHF calls for the re-alignment of health spending priorities. CHF supports innovative approaches to reorientate the health system away from acute, illness-based models towards a performance model. This would see providers rewarded for supporting people to stay healthy and ensure that consumers are placed at the centre of the care model.

Reducing Waste

CHF notes and supports the terms of reference of the current audit that seek to address *"options to manage expenditure growth, including through reviewing existing policy settings, programs and discretionary spending (such as grants)."*

CHF and its members are concerned about the significant wastage in the current healthcare system that stems from existing policy settings and agreements which lack the fundamental principles of transparency and accountability.

Accelerating Price Disclosure Measures

The Pharmaceutical Benefits Scheme (PBS) is critical to supporting the medicine needs of Australians. With the growing prevalence of chronic conditions and rising out-of-pocket costs, CHF believes that measures protecting the sustainability of the PBS will be critical to consumers. CHF supports price disclosure measures which ensure that the PBS pays the right price for drugs. These measures result in savings for the government, the tax payer and individual consumers.

In 2007, the then Health Minister, now Prime Minister, the Hon Tony Abbott MP, introduced price disclosure measures to to address a widespread trend for suppliers to discount the price of medicines to pharmacists. This occurs when the patent protections afforded to the original developers expire, and cheaper products become available. The creation of a competitive market leads to the discounting of prices by manufacturers and wholesalers in order to maximise market share, and reduces the price paid by the pharmacist.

There has been bipartisan support for this policy, which aims to address this by bringing Government expenditure on PBS medications in line with the market prices paid by pharmacies. Price disclosure measures were continued and accelerated by the Rudd and Gillard governments, resulting in significant savings for the Government and taxpayers.

Recent legislation that has been introduced in the Australian Parliament, which streamlines price disclosure policy and brings forward the time lag in disclosure to 12 months, will result in savings of some $382 million.

However, there are still significant savings by further accelerating price disclosure. Under the current arrangements, there is still a lag time between medicines coming off-patent and price reductions. This lag time results in pharmacists paying less than the price agreed by the Government and the manufacturer at the time of listing on the PBS. The savings made through these discounting practices are not passed onto consumers, who are still required to pay the relevant PBS co-payment, or to the Government, which continues to pay the agreed PBS rebate.

Recent modelling suggests that a further acceleration of price disclosure could result in savings of up to $730 million per year.[1] In particular, speeding up the time between medicines coming off patent and price disclosure mechanisms being implemented would result in significant additional savings. CHF notes that the cycle of reductions under the English system is three months.

[1] http://ourhealth.org.au/drugged-reality-losing-2000-a-minute-and-counting

Recommendation

1. CHF recommends that the Government further accelerates of price disclosure measures to hasten cost reductions.

Ensuring Value in Future Community Pharmacy Agreements

The negotiation of the Fifth Community Pharmacy Agreement (5CPA) between the Government and the Guild has been the subject of significant analysis, with questions raised leading to the commencement of an audit by the Australian National Audit Office (ANAO). The findings of the Audit are due in mid-2014.

The current Audit also provides an important and timely opportunity to review and learn from the current $15 billion investment the Government makes on behalf of the community in pharmacy services.

CHF has raised several concerns regarding the 5CPA in submissions to the ANAO, focusing on the following areas:

- Accountability
- Participation
- Predictability
- Transparency.[2]

The concerns raised by CHF regarding the 5CPA are very relevant to the terms of reference of the Audit. It highlights major lapses in critical areas of transparency and accountability in determining large scale public expenditure. A key justification for the injection of some $15 billion over five years is due to community pharmacy's contribution to primary care and to create certainty around supply of medications. However, a number of examples highlighted by CHF in submissions to the ANAO suggest that this investment has not delivered results.

Key examples include uncertainty surrounding the future of the Home Medicines Review (HMR) program, and the contestability of funding arrangements for chemotherapy treatments under the 5CPA.

Calls for a Moratorium on the Home Medicine Review Program
In January 2013, the Guild called for a moratorium on the provision of HMRs. This call was based on a higher than projected uptake of the HMR Program in the latter months of 2012, which the Guild claims resulted in a projected overspend in the program for the 2012-13 financial year.

This call was irrational in light of the fact that the Guild had strategically been driving uptake of the program and commissioned Increasing Patient Demand for HMR: A Marketing Plan in 2010, outlining a number of detailed strategies to increase patient demand for HMRs. CHF also notes that $52.11 million had been allocated for the provision of the HMR Program, much of which had not been spent, and argued that the HMR Program should be considered

[2] Australasian Council of Auditors-General (2013) *Effective Public Sector Accountability*. Australasian Council of Auditors-General: Canberra.

within the broader context of the $15.4 billion provided to community pharmacists under the 5PCA. The Guilds call for a moratorium was met with strong opposition from groups such as PSA, APESMA, SHPA, AACP, PSA, and NPS MedicineWise (NPS). [3][4][5] Several groups have also noted that the HMR program had previously run below budget in the financial years preceding the Guild's call for a moratorium.

Previous evaluations of the pharmacy component of the HMR Program commissioned by the Guild have cited a lack of awareness of HMRs among consumers as a key barrier to participation.[6]

More recently, the Guild commissioned *Increasing Patient Demand for HMR: A Marketing Plan* in 2010, outlining a number of detailed strategies to increase patient demand for HMRs.[7] As recently as 2012, the Guild indicated that it hoped to see the number of HMRs delivered under the 5CPA grow substantially.[8] A number of organisations expressed disappointment at the Guild's the recent change of position, and many in the sector were concerned by the uncertainty that the call for a moratorium created.

Following the call for a moratorium, CHF prepared a paper on the sustainability of the HMR program. CHF's analysis concluded that the HMR Program was *not* unsustainable.[9] We also noted that no evidence had been provided to suggest that the program could not be cross-subsidised within the existing parameters of the 5PCA. This view was widely shared within the pharmacy sector, particularly among professional groups and consultant pharmacists.

Funding for Chemotherapy Drugs

In 2012, the Guild opposed price cuts for the chemotherapy drug Docetaxel. This price cut, of more than 70 percent, was part of the Government's Expanded and Accelerated Price Disclosure (EAPD) policy, which brings Government expenditure on Pharmaceutical Benefits Scheme (PBS) medicines in line with the market price paid by pharmacies.[10]

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[3] March, G. (2013) 'APESMA Calls on Minister Not to Stop HMRs.' *Pharmacy News*. 1 February 2013. Available at: http://www.pharmacynews.com.au/news/latest-news/apesma-calls-on-minister-not-to-stop-hmrs?utm_source=SilverpopMailing&utm_medium=email&utm_campaign=Pharmacy%20Newsletter%20Breaking%20-%20send%20-%3E%201/02/2013%204:05:50%20PM&utm_content=

[4] Pharmaceutical Society of Australia (2013) *Guild Has Already Initiated Moves to Improve HMR Program*. Media Statement. 31 January 2013. Available at: http://www.psa.org.au/archives/20137

[5] NPS MedicineWise (2013) *Don't Undo Good Work of Home Medicines Reviews*. Media Statement. 31 January 2013. Available at: http://www.nps.org.au/media-centre/media-releases/repository/Dont-undo-good-work-of-home-medicines-reviews-NPS-MedicineWise

[6] Urbis Keys Young (2005). *Evaluation of the Home Medicines Review Program (Pharmacy Component)*. Pharmacy Guild of Australia: Canberra. Available at: http://beta.guild.org.au/uploadedfiles/Medication_Management_Reviews/Overview/Urbispercent20Keyspercent20Youngpercent20evaluation.pdf

[7] White, L., and Clark, C. (2010) *Increasing Patient Demand for HMR: A Marketing Plan*. Pharmacy Guild of Australia: Canberra.

[8] Cousins, S. (2012) 'Hospitals May Initiate Home Medicine Reviews.' *Australian Doctor*. 14 February 2012. Available at: http://www.australiandoctor.com.au/hospitals-may-initiate-home-medicine-reviews

[9] CHF (2013) *Consumer Uptake of Home Medicines Reviews (HMR): An Analysis of the HMR Program and its Sustainability*. CHF: Canberra.

[10] Senate Community Affairs References Committee (2013) *Supply of chemotherapy drugs such as Docetaxel*. Commonwealth of Australia: Canberra.

Concerns about the price cut were based on the argument that there are elements of the delivery of chemotherapy drugs that were, until 1 December 2012, cross-subsidised by the substantial difference between the price paid by Government for chemotherapy drugs and the market price of these medications.[11] This became the subject of heated debate, as it was never the intention of pharmaceutical pricing that the price paid by Government should be used to fund anything other than the cost of the drug.[12]

According to the Department of Health, the application of EAPD to Docetaxel had been subject to negotiation with the Guild in 2010, and resulted in an additional $277 million injection to the 5CPA to compensate the pharmacy sector for its impacts.[13] A subsequent Senate inquiry concurred with the Department, and found that that funding for chemotherapy was provided for in the 5CPA.

The Guild claimed that there was no agreement with the Government on funding for chemotherapy. Despite the inquiry's finding that the Pharmacy Guild was incorrect to claim there was no agreement with the Government on funding for chemotherapy,[14] it continues to argue otherwise, in defiance of persuasive evidence.

In both cases, programs believed to be funded under the 5CPA were subject to calls for increased funding to enable programs, and the supply of life saving treatments, to continue.

Recommendation

2. **CHF recommends that the Government provides no additional compensation to the Guild beyond the funds committed through the 5CPA. The 5CPA has provided generous funding to compensate pharmacy owners for the impacts of price disclosure, and there is a need to ensure that the Guild honours commitments to programs funded through the 5CPA.**

Overarching burden of Out-of-Pocket Costs

Of particular relevance to health outcomes, CHF notes that the terms of reference of the Commission include a focus on *"savings and appropriate price signals – such as the use of co-payments, user-charging or incentive payments – where such signals will help to ensure optimal targeting of programs and expenditure (including to those most in need), while addressing the rising cost of social and other spending*".

As mentioned earlier, CHF recognises that our universal health care system is facing increasing constraints in delivering on its core objectives. However, in addressing these issues, CHF would not support measures that increase co-payments and charges given the considerable evidence surrounding the impact of growing out-of-pocket costs on Australians. CHF believes that a re-alignment of health funding would see sufficient revenue raised without undermining the principles of universality that underpin current arrangements.

[11] Ibid.
[12] CHF (2012) *Submission to the Senate Community Affairs References Committee inquiry into the supply of chemotherapy drugs such as Docetaxel*. CHF: Canberra.
[13] Senate Community Affairs References Committee. Op cit.
[14] Ibid.

The current structure of our healthcare system, which uses a fee for service mechanism and rewards throughput rather than performance and outcomes, is already resulting in significant out-of-pocket-costs for all Australians.

Paradoxically increasing co-payments, particularly in primary healthcare may in fact lead to higher health expenditure as treatment is delayed until consumers are able to access acute and hospital based services. Australia is already seeing an increasing trend towards co-payments and as a result individual consumers are bearing an increasing share of health system costs.

According to the Australian Institute of Health and Welfare, just over 18 percent of total health funding comes from individual consumers' out of pocket costs. This includes circumstances where individuals meet the full cost of goods or services, as well as where they share the cost, for example, with private health insurance funds or the Australian Government through Medicare. In 2009–10, out-of-pocket payments funded almost half (47 percent, or $7.7 billion) of spending on medications, and 61 percent, or $4.7 billion, of total spending on dental services.[15] It has also been reported that in 2010-11, every Australian paid, on average, more than $1075 out of their own pockets to access health care.[16]

Costs present a considerable barrier to access to health services for some consumers. The COAG Reform Council's recent report on Australia's healthcare performance in 2010-11 reported that more and more Australians are experiencing financial barriers to accessing healthcare services. For example:

- The proportion of people who delayed or did not see a GP due to cost has increased—from 6.4 percent in 2009–10 to 8.7 percent in 2010–11.
- 13.2 percent of people have experienced financial barriers in access to specialists.
- 26.4 percent have reported that they delayed or did not see a dental professional due to cost.
- Consumers are also facing financial barriers to accessing diagnostic testing, and to purchasing prescription medicines.[17]

These barriers are greater for consumers from lower socioeconomic groups,[18] those with chronic conditions,[19] and older Australians.[20]

Australia is also comparing increasingly poorly internationally. As a share of total health spending, Australia's out-of-pocket payments are high compared with most other OECD countries, and higher than the OECD median, which is just under 16 percent.[21] Research has indicated that Australian out-of-pocket costs for pharmaceuticals are now in the mid to upper range compared to other OECD countries, and further increases have the potential to

[15] Australian Institute of Health and Welfare (2012: A) *Australia's Health 2012*. Australian Institute of Health and Welfare: Canberra.
[16] Australian Institute of Health and Welfare (2012: B) *Health Expenditure Australia 2010-11 (Health and welfare expenditure series no. 47.Cat.no.HWE 56).* Australian Institute of Health and Welfare: Canberra. p84
[17] COAG Reform Council 2012 *Healthcare 2010-11: Comparing performance across Australia*. COAG Reform Council, Sydney.
[18] Ibid.
[19] Op cit Australian Institute of Health and Welfare (2012: A)
[20] Ibid.
[21] Ibid.

significantly affect access to care.[22] Australian consumers report rationing or not taking medications because of the cost.[23]

Delaying or reducing access to treatment will not only have implications for individual consumers. There could be major long-term budget implications, particularly if a person's health deteriorates and they need to access care in the acute system.

CHF suggests that the current structure of our healthcare system, which uses a fee for service mechanism and rewards throughput rather than performance and outcomes, is already resulting in significant out-of-pocket-costs for all Australians.

This approach is already resulting in the emergence of a two-tiered health system where people on low incomes struggle and often fail to get the care they need in a health system which can provide the very best care for those who can afford it. The erosion of our universal health system is resulting in widening disparity in access to health care, and the introduction of co-payments across healthcare will only serve to widen this gap.

Recommendation

3. **CHF strongly objects any proposals to increase co-payments across the healthcare system. Consumers in Australia already bear the burden of significant out of pocket costs, and we question any approach that creates more disincentives in access to health care.**

Reform of the Medicare Model of funding

As previously noted, rates of chronic illness are rising in Australia, and Governments spending more to address this growing issue. Increased rates of chronic disease are expected to require significant health expenditure in years to come.[24]

The current Medicare system is in need of urgent reform, with the unsustainable rise in the cost of healthcare under current funding arrangements putting consumer health at risk. The emergence of a two-tiered health system, where the people who can afford to pay get better access, is also adversely affecting the health of those sections of the population that need universal access most.

The nature of illness and disease has changed significantly since Medicare was introduced nearly 30 years ago. Medicare has essentially provided funding subsidy for on-off interactions with the health system such as a visit to the doctor or a short hospital stay. While this model works well for people who have a single or short-term health condition that can be treated effectively over a short period of time, it is less suited to the increasing numbers of people who may have one or more chronic, and often complex, illnesses that require ongoing interactions with a range of health care providers in both the hospital and the community.

[22] Kemp, A., Preen, D.B., Glover, J., Semmens, J. and Roughead, E.E. (2011) 'How much do we spend on prescription medicines? Out-of-pocket costs for patients in Australia and other OECD countries'. *Australian Health Review*. 35(3): 341-349.

[23] National Seniors Productive Ageing Centre (2012) *Senior Australians and Prescription Medicines: Usage, Sources of Information and Affordability*. National Seniors Productive Ageing Centre, Canberra.

[24] Australian Government (2010) *The 2010 Intergenerational Report – Australia to 2050: Future Challenges.* Commonwealth of Australia: Canberra.

We now see widening gaps in both health outcomes and ability to access health care that are being experienced by an increasing number of Australians. This includes people who find it hard to access necessary health services, as well as those whose circumstances and background make it more likely that they will disproportionately suffer from disease than those in society at large.

CHF has also called for a reconsideration of the current funding framework, which is focussed on throughput. Australia needs a new focus on health outcomes and delivering services that meet the needs of consumers. A fee-for-service model can work effectively for individual visits to health professionals to manage straightforward patients, however for consumers with multiple complex chronic conditions requiring multidisciplinary care arrangement with the consumer at the centre it is time to consider alternatives.

CHF argues that there are opportunities to structure funding in a way that focuses and rewards improved health outcomes and services that meet the needs of individual health consumers. If we genuinely want shared care arrangements, what we need to see is a funding model that is centred around the consumer. A fee-for-service model can work effectively for individual visits to health professionals to manage straightforward health problems. But for consumers with multiple, chronic complex conditions, requiring multidisciplinary care arrangements with the consumer at the centre, it is time to consider other models.

A well-resourced integrated primary-care system offers a more comprehensive and effective response to many of today's chronic diseases, the GP leading the team of health professionals - such as practice nurses, physiotherapists, psychologists, dietitians and podiatrists - who may oversee much of the regular therapy chronically ill patients need.

This patient-centred strategy would replace the present approach that offers only limited avenues for the doctor and patient to harness the most appropriate care and support. A national trial for diabetes care may well show support for a performance-based payment system that provides incentives for doctors and patients who reach shared goals.

Recommendation

4. CHF recommends a reform of Medicare and move towards a more performance based healthcare funding framework.

Strengthening engagement between the Not-for profit sector and the Government

CHF is a not-for-profit (NFP) organisation, as are many of our members, and we therefore have a strong interest in ensuring that the NFP sector concerns are raised through this review. CHF is also a signatory to the National Compact between the Australian Government and the third sector.

CHF is a member of the Community Council for Australia (CCA). We have reviewed their submission and are supportive of the principles and recommendations it contains. CHF notes and supports CCA's belief that there is considerable scope to make real savings, while also

achieving increased community value from government expenditure by adopting a less bureaucratic government-centric approach in the achievement of improved outcomes and increased value from government expenditure.

As noted by CCA, CHF strongly supports the need for the Audit to push for real reform in the ongoing engagement between NFP organisations and Commonwealth agencies.
CHF's experience has also shown that the government's approach to contract management has varied between different departments, sections and divisions.

We would welcome a more consistent approach in engagement with the NFP sector that is based the principles enlisted in the National Compact, which is an agreement setting out how the Government and the not-for-profit sector want to work together to achieve their shared vision. The Compact's shared principles provide a foundation for action to improve working relationships, strengthen NFP sector viability and developing and delivering better policy and programs.

Recommendation

5. CHF recommends strengthening engagement between the not-for-profit sector and the Government and a consistent approach to the implementation of the principles enlisted in the National Compact.

Conclusion

Consumers want a health system that is people-centred, navigable, affordable, accessible, safe, and of high quality. Our submission addresses a range of imperatives that should be considered in assessing the current health system:

- Reducing waste;
- Addressing out-of-pocket costs;
- Investing in primary healthcare;
- Moving towards a performance based healthcare model; and
- Strengthening engagement with the not-for-profit sector.

CHF has drawn on extensive consultation with members over recent years in the preparation of this submission. Our recommendations have been developed with the current financial climate in mind, and our submission represents a commitment to contribute to the discussion about savings as well as expenditure initiatives.

CHF believes that the current financial environment provides an opportunity for a realignment of health expenditure to enable investment in early intervention and primary care initiatives, and to re-orientate the system from a throughput model to a focus on outcomes and results. It is vital that we do this so that our health system continues to remain sustainable. While this process will take time, commencing the process has never been more timely.

CHF looks appreciates the opportunity to provide and input to the Audit and await the outcomes of this significant process.

Consumers Health Forum of Australia

The Consumers Health Forum of Australia (CHF) is the national peak body representing the interests of Australian healthcare consumers. CHF works to achieve safe, quality, timely healthcare for all Australians, supported by accessible health information and systems.

CHF does this by:

1. advocating for appropriate and equitable healthcare
2. undertaking consumer-based research and developing a strong consumer knowledge base
3. identifying key issues in safety and quality of health services for consumers
4. raising the health literacy of consumers, health professionals and stakeholders
5. providing a strong national voice for health consumers and supporting consumer participation in health policy and program decision making

CHF values:

- our members' knowledge, experience and involvement
- development of an integrated healthcare system that values the consumer experience
- prevention and early intervention
- collaborative integrated healthcare
- working in partnership

CHF member organisations reach Australian health consumers across a wide range of health interests and health system experiences. CHF policy is developed through consultation with members, ensuring that CHF maintains a broad, representative, health consumer perspective.

CHF is committed to being an active advocate in the ongoing development of Australian health policy and practice.