

Provider representatives

To:	Sector stakeholders
From:	Pharmacy Guild of New Zealand, Green Cross Health and Totem Group (“Lead Provider representatives”)
Subject:	Lead Provider representatives’ views on Independent Review of Wage Cost Pressures Report
Date:	6 August 2021

Purpose

This paper, prepared by the Pharmacy Guild of New Zealand, presents the above Lead Provider representatives’ views on the Independent Review of Wage Cost Pressures Report (“the report”) completed by Grant Thornton and Strategic Pay in December 2020.

Specifically, it presents our views on the future use of the report, the report’s key findings, fit with the workforce policy and health system reforms and priority next steps.

It has been agreed with DHBs that this paper will be distributed alongside the report.

Context – concern about wage cost pressures led to commissioning of report

We have consistently provided evidence-based advice over the last few years that wage cost pressures represent the single largest unmet cost pressure facing community pharmacy and that this is driving materially concerning workforce sustainability issues. We have also consistently noted this exists in addition to other material unmet cost pressures and underfunded service lines, which have led to growing financial viability challenges.

We consider we have demonstrated that these unmet cost pressures have been driven by inadequate reasonable cost pressure recognition by DHBs through contract negotiation rounds over time, due to DHBs’ overall fiscal affordability constraints.

Through the National Annual Agreement Review (NAAR) in 2020 it was agreed that further consideration should be given to this issue. This led to the creation of this independent review and this report (refer Attachment A).

We see that the work this report is part of should logically accompany the joint work to develop and implement a sustainable funding and pricing model by 1 October 2022, as part of the review of the community pharmacy service and funding model.

Key findings

Report finds pressing workforce sustainability issues

Overall, we appreciate the considerable work that has been done to complete the report and the valuable insights it provides on many pressing workforce sustainability issues.

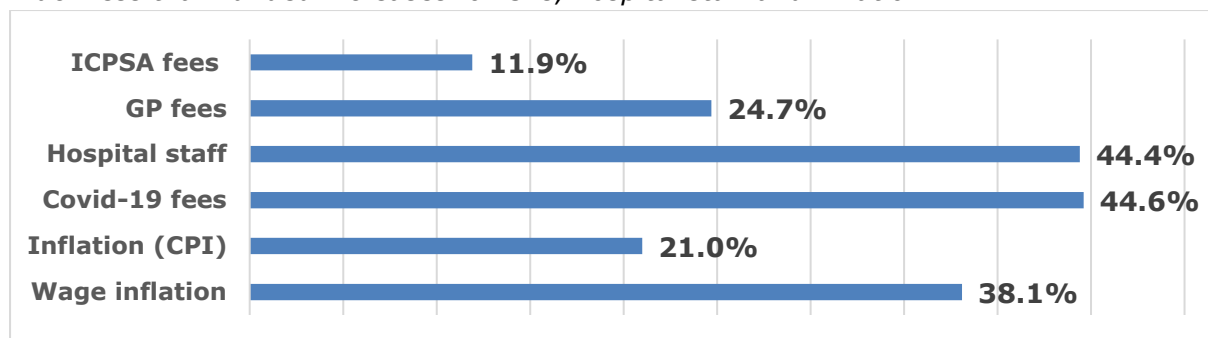
We recognise, and welcome, the objective analysis presented within the report that clearly highlights material unmet wage cost pressures. We see that this vindicates our earlier concerns of material unmet wage cost pressures in our reports for NAAR.

Concerns are more serious than report's conclusions

We have expressed our concerns that the report has not validated (nor updated), our analysis of "cost pressure recognition" to assess community pharmacies' capacity to afford to meet reasonable wage cost pressures.

Our own updated trend analysis, from 2008 to 2020 below, shows that DHBs' historical cost pressure recognition for community pharmacy services via the ICPSA is much less than economy-wide inflation (CPI) and wage inflation, general practice fee increases, DHBs' average hospital staff cost increases and the Ministry of Health/DHB pricing basis used to establish the Covid-19 Pfizer vaccine fee (ie, uplifting 2008 MeNZB pricing to a 2020 price).

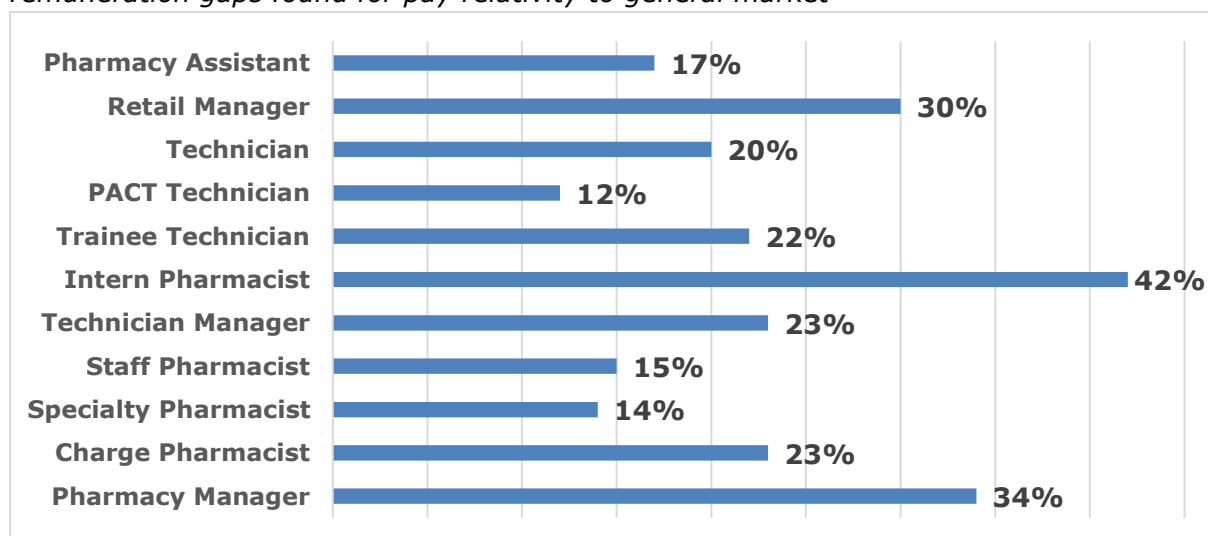
Graph A: DHBs' recognition of community pharmacy cost pressures (2008-2020) is much less than funded increases for GPs, hospital staff and inflation



Consequently, we see community pharmacies cannot afford to meet current unmet material wage cost pressures now found in the independent review report, as below.

Importantly, we expect these unmet pressures are significantly understated, as the analysis below does not include factors such as penal and overtime rates that are prevalent within DHB employment terms but not for community pharmacies.

Graph B: Community pharmacy cannot afford to meet the material median total remuneration gaps found for pay relativity to general market



Significant risk to sector that needs to be addressed

We note with concern the expected unintended consequences of a reduced professional workforce capacity. Service delivery will ultimately be impacted if community pharmacies are not able to recruit and retain sufficient staff through appropriate levels of pay.

We consider additional funding will be required.

We are concerned with the subjective dismissal of additional funding (and needed implementation mechanism) as the obvious solution to address the material unmet wage cost pressures.

There is no objective analysis that supports dismissing this logical option, nor for unsubstantiated assertions around issues of lack of productivity and innovation (noting the real productivity benefits for DHBs in service fees not keeping pace with inflation are to the detriment of professional workforce sustainability).

The report instead focuses on 23 predominantly “non-funding” based recommendations, which will make no monetary contribution to reduce the material pay relativity gap. Notwithstanding this, we do support doing further work on the report’s 23 “non-funding” based recommendations, following due prioritisation of their relative merits. This would provide further necessary means to help mitigate material workforce recruitment and retention concerns.

Fit with the government’s workforce policy

In May 2021, the government issued a Workforce Policy Statement that sets out its expectations for pay and employment relations in the public sector. It sets a clear directive that pay restraint will be exercised across the public service for the next three years and that those on lower wages will be the focus of any increases in wages.

This policy statement is not binding on the community pharmacy sector. We do acknowledge that any conversation about wage cost pressures within community pharmacy needs to take this Government direction into consideration.

We understand that there is a strong interest in ensuring any funding increase is passed on to pharmacy staff and we support this. We also support work to determine the mechanism to ensure that funding is paid directly to staff and ensure appropriate accountability and assurance mechanisms.

We see that Health New Zealand will have a role in influencing the system to help manage wage cost pressures and we welcome that.

Priority next steps

We see a clear priority for further joint work arising from the Independent Review of Wage Cost Pressures Report, to start immediately.

We consider that this work should culminate in a bid for Budget 2022 and review and identify a recommended funding implementation mechanism to effectively address material unmet wage cost pressures.

Establishing clarity on how best to progress this joint work is our current focus. There is no commitment from DHBs, the Ministry of Health or the government's Transition Unit to do this intended further joint work with us. We seek this commitment.

We need to resolve this role responsibility impasse promptly.

Attachment A – Summary of the independent review’s terms of reference

Grant Thornton and Strategic Pay were commissioned by DHBs to complete the Independent Review of Wage Cost Pressures, agreed by National Annual Agreement Review (NAAR) participants (ie, DHB, Ministry of Health and provider representatives) on 3 August 2020.

The purpose of the review is to analyse the scope and extent of any unmet wage cost pressures faced by the community pharmacy sector and any possible processes or methodologies that might be available to address problems, to the extent that problems are identified.

This followed our expression of concerns around the extent to which the ICPSA does not adequately address cost pressures relating to wages, and to what extent the community pharmacy workforce is losing pay parity over time relative to comparable professional workforces.

Scope

The independent review will gather evidence, determine the strength of that evidence and provide conclusions and recommendations based on the evidence. In broad terms, the evidence sought will relate to:

- understanding the extent (quantum) of unmet wage costs pressures in community pharmacy (in relation to pharmacists and pharmacy technicians), what variability exists across the workforce, and what comparisons to other workforces can be made; and
- suitability of available tools, processes or mechanisms that might address such pressures.