

Terms of Reference for the Independent Review of Wage Cost Pressures in Community Pharmacy

August 2020

Purpose

This Terms of Reference sets out the matters that will be considered as part of an independent analysis of the extent and scope 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.

Context

There are just over 1,000 community pharmacy providers throughout Aotearoa, and each provider has entered into a contract (the Integrated Community Pharmacy Services Agreement, or ICPSA) with their local District Health Board for the provision of pharmacy services. Contract terms are discussed through the National Annual Agreement Review (NAAR) process and are 'ever green' in nature (i.e. contracts have no end date and expire only when terminated by one of the parties).

Amongst other things, the contract between providers and DHBs is designed with the goal of ensuring that community pharmacy services are provided in an integrated manner and in a way that is fit for all New Zealanders.

In the recent past, provider representatives have expressed (through the NAAR process) concerns around the extent to which the Contract 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.

Following the presentation of papers by provider representatives on 28 March 2019, DHBs prepared a response indicating that the arguments made in the provider representative papers were overly narrow in focus and relied on assumptions and analysis that were considered by DHBs to be flawed.

Provider representatives subsequently submitted a counter-response in the February 2020 NAAR meeting, which prompted DHBs to acknowledge sector concerns may be valid. Sector concerns include current staff recruitment and retention issues, and future workforce shortages.

It was therefore agreed at the February 2020 NAAR meeting, that independent analysis of wage cost pressures would be commissioned. At the June 2020 NAAR meeting it was agreed that this work would be undertaken as part of the review of the Integrated Community Pharmacy Services Agreement.

Process

After joint consideration and consensus agreement by NAAR participants, the reviewer will be appointed by District Health Boards and selected through the Government Electronic Tender Service (GETS).

The review is expected to begin in August 2020.

It is expected that findings from this first stage of the broader review will be presented to NAAR participants (or a smaller Steering Group nominated by NAAR) by December 2020.

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 cost 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.

For the avoidance of doubt, the review will only consider the second element above if the first element is made out. That is, if the existence of unmet wage cost pressures is not established or [are not material], for efficiency reasons no examination of ways to address such wage cost pressures would take place.

The scope of the evidence to be examined in the review is set out below.

Inclusions

1. Review provider representative (Pharmacy Guild/Green Cross Health) analysis submitted to NAAR to date on this issue, to assess validity and identify any information gaps.
2. Defining what is meant by unmet wage cost pressures and by pay parity (what is the problem?).
3. Identify comparable professional workforces for pay parity comparisons
4. Quantify the extent of wage cost pressures relative to comparable professional workforces and to general wage inflation.
5. Identifying the impact of any unmet wage cost pressures (what outcomes result from the problem?)
6. Consider if or how unmet wage cost pressures could be managed or mitigated by community pharmacies
7. What processes, tools or techniques are available and could be useful if [material] unmet wage cost pressures are established?

Exclusions

This aspect of the review is not expected to consider the following:

- Adequacy of contracts – while these ToR set out contractual requirements that will be relevant as part of the review, the review will not otherwise consider the adequacy or otherwise of current contracts (e.g. coverage, structure, nature).
- Development and population of models – to the extent that a problem is identified and consideration of appropriate process or tools is undertaken, the construction of a relevant model and model runs with data are not within the scope of the independent review.

Deliverables and timing

The output sought from the independent review is a report that:

- Considers the particular circumstances driving the funding arrangements currently in place as well as the wider context of funding arrangements across the health sector (i.e. not just community pharmacies)
- Sets out in a clear and comprehensive manner the nature and extent (quantum) of any unmet wage cost pressures faced by community pharmacies, and any wage parity issues with comparable workforces, and the sources of evidence in support of the finding
- Estimates the extent of ‘harms’ resulting from any such identified wage cost pressure problem and the range of options that are available to address any problem
- Identifies any factors unique to the community pharmacy sector that make it more or less susceptible to wage cost pressures and any associated ‘harms’
- Surveys available processes, approaches or tools that could be developed to address any problem, if one is identified
- Provides conclusions and recommendations, including responsibilities, on next steps, if any

Consultation

It is expected that the reviewer would seek input from selected individuals and organisations, including but not limited to:

- Staff at DHBs, TAS and the Ministry of Health
- Provider representatives
- Pharmacists, pharmacy technicians, pharmacy organisations, pharmacy owners
- Primary care providers and others in the health sector who might have insights into the operation of funding adjustment mechanisms