

20 District Health Boards

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1 December 2015

Hon Dr Jonathan Coleman
Minister of Health
Parliament Buildings

Dear Minister

APPROVAL OF 2016/17 PHARMACEUTICAL BUDGET BID

This letter provides you with PHARMAC's and DHBs' joint advice to inform your decision on the Combined Pharmaceutical Budget (CPB) and hospital medicines expenditure for 2015/16.

The views of the 20 District Health Board Chief Executives, Chair of DHB Chairs and the PHARMAC Board are consistent with Government policy. Background to this process is attached as Appendix One.

Context for 2016/17 Budget recommendation

Over the past six years the CPB has increased within a range of 0% to 1.74%, with the exception of 2011/12 when Pharmaceutical Cancer Treatments were included in the CPB for the first time.

Table 1. Nominal value and growth in the Combined Pharmaceutical Budget 2010/11-2015/16

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
CPB (\$m)	706.1 ¹	777.4 ²	783.6 ³	795 ⁴	795	800
% growth on previous year	1.74	10.1	0.8	1.43	0	0.6

¹ In 2010/11 the CPB incorporated funding of nicotine replacement therapy

² In 2011/12 the CPB incorporated funding of Pharmaceutical Cancer Treatments

³ In 2012/13 the CPB incorporated funding of vaccines

⁴ In 2013/14 the CPB incorporated the funding of haemophilia treatments

Despite these modest increases, PHARMAC has typically been able to achieve savings that have enabled us to manage volume growth (more medicines to more people, plus growth of new medicines) as well as invest in at least \$10 million worth of additional new treatments each year. Usually PHARMAC is able to make all of the investments that represent very good value for money and some investments that represent good value for money on behalf of DHBs.⁵

DHBs have agreed that, without additional government investment, the recommended budget level is to retain the current indicative funding pathway. This option still enables PHARMAC and DHBs to secure additional health outcomes, and therefore is jointly recommended to you by DHBs and PHARMAC.

Recommended investment option

In accordance with Ministerial expectations, DHBs have included the current indicative CPB pathway in their plans. The current approved indicative pathway is outlined below.

Table 2. Recommended option: current indicative funding path Combined Pharmaceutical Budget 2016/17-2019/20

	2016/17	2017/18	2018/19	2019/20
Budget path (\$m)	810.6	821.8	835.3	848.8

For 2016/17, the indicative pathway of an additional \$10.6 million would enable PHARMAC to make very good value for money investments, however consideration could be given to further investment since this level would support [redacted] of such new investments. As a comparison, in previous years PHARMAC has been able to make 100% of very good value for money investments within the allocated budget.

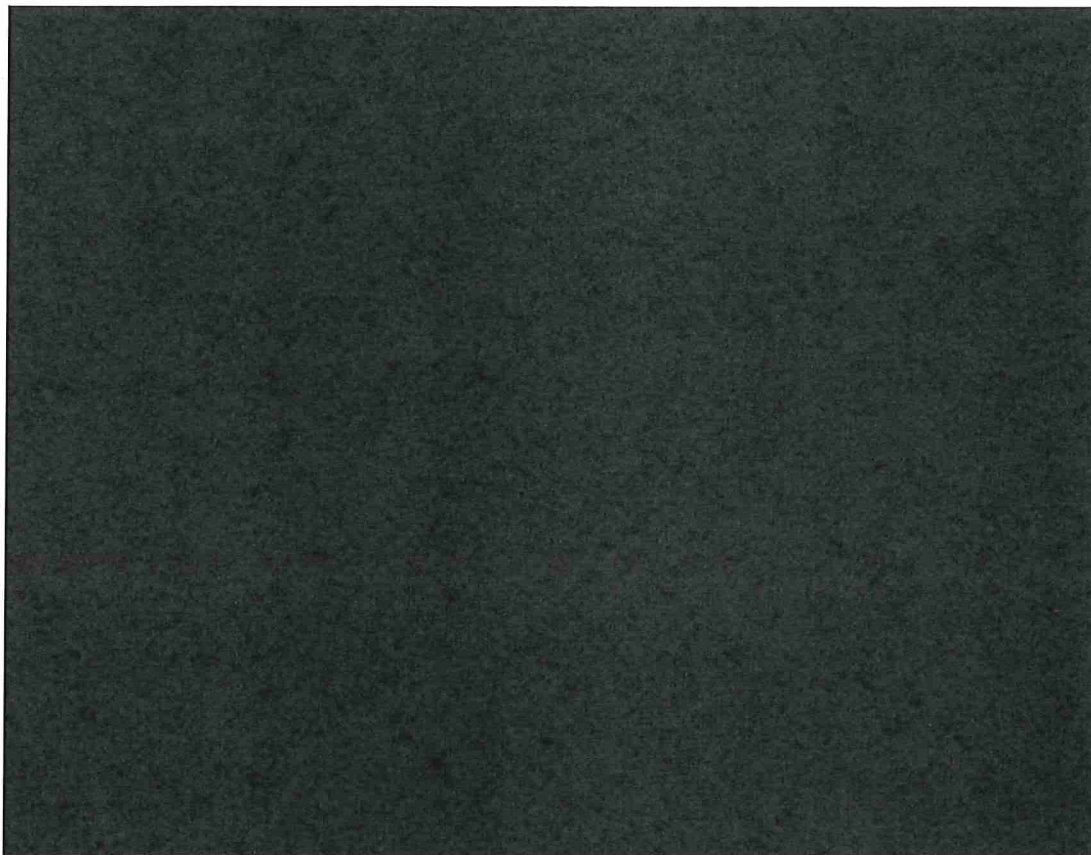
Options for additional funding

The two additional investment options proposed in Table 3 overleaf for the 2016/17 budget

[redacted] opportunities requiring two years' [redacted] Should additional funding be made available for pharmaceuticals, any level of investment would be able to be accommodated within these parameters, including options that smooth additional expenditure over multiple years. These options are not recommended by both DHBs and PHARMAC because they do not meet the principle of affordability for DHBs.

⁵ Investment options that PHARMAC consider very good value are those that represent significant health gains, and / or those that provide savings or added benefit to the health system overall even if they result in a cost to the CPB.

Table 3. Additional investment options relative to the current indicative funding path



Hospital Medicines Expenditure – Recommended option

You have previously endorsed the DHB-PHARMAC agreement that additions to the Hospital Medicines List (HML) would be made up to the value of:

- savings made by PHARMAC in hospital medicines expenditure; plus
- any additional money for new investments as agreed by DHBs / the Minister of Health

We are confident that sufficient savings will be available to meet the cost of good value for money investments in hospital medicines and both PHARMAC and DHBs agree no additional provision is required.

Development of a Hospital Discretionary Pharmaceutical Fund (HDPF) for hospital pharmaceuticals

You noted in the 2015/16 Budget Bid that PHARMAC would progress with the development of the HDPF during 2015. Attached as Appendix Two is the final HDPF policy, that PHARMAC has developed in consultation with DHBs, for your consideration. The Ministry of Health, the Treasury and Audit NZ have also provided comment. DHBs supported the HDPF policy and the funding mechanisms proposed, and have authorised the use of hospital rebates as detailed in the policy. If implementation proceeds, we intend to advise other stakeholders of the policy in early 2016 when we commence our review of the CPB Discretionary Pharmaceutical Fund policy.


Recommendations

It is recommended that you:

- agree** to option A for 2015/16 (retain current indicative funding path): \$810.6 million (CPB), no change to hospital expenditure; YES/NO
- note** that good value for money investments could still be made with higher levels of funding of pharmaceuticals; and
- agree** to PHARMAC proceeding to implement the HDPF Policy YES/NO

Yours sincerely


Jenny Black
Chair, District Health Boards New Zealand


Stuart McLauchlan
Chair, PHARMAC

Copy to:
Ministry of Health
DHB Chairs and CEs
Chief Executive, TAS
PHARMAC Board and CE

Appendix One: Background to budget bid

Cabinet Minute CAB (00)19/12 agreed that, following a process of consultation with District Health Boards (DHBs) and forecasting by PHARMAC, the Ministry of Health would provide advice to you on the size of the Combined Pharmaceutical Budget (CPB).

Our advice is informed by an expectation that the Government may wish to maintain momentum in widening access and making new pharmaceutical investments, while acknowledging the tight fiscal constraints currently facing DHBs.

PHARMAC considers the future expenditure path for the CPB in relation to its ability to fund good value for money of investment opportunities.

It considers opportunities for new investment in terms of the relative value for money they represent. PHARMAC's preference is to invest in proposals that represent the best value for money. It considers whether proposals offer savings to the sector overall (even if they result in a net cost to the CPB) and whether such investments are likely to be comparable or better than other spending options available to the health system. Proposals with these characteristics typically have at least a medium or a high recommendation from the Pharmacology and Therapeutics Advisory Committee (PTAC).

Proposals that demonstrate uncertainties with respect to clinical or cost-effectiveness do not generally represent good value for money compared with other funding opportunities available to the health system. These proposals may also be unfavourable compared with pharmaceutical funding opportunities in the near future and may limit PHARMAC's ability to negotiate competitively. Therefore, PHARMAC considers a CPB set at a level that enables funding of good value for money proposals, while limiting investment in lesser value proposals, desirable.

PHARMAC's ability to forecast hospital investment opportunities is not yet sufficient to be able to estimate future hospital expenditure at this stage.

Pharmaceutical Budget Setting Parameters

The Combined Pharmaceutical Budget (CPB) includes pharmaceutical cancer treatments (whether accessed in hospital or in the community), haemophilia treatments, vaccines and community dispensed medicines and medical devices. It also includes provision for the Named Patient Pharmaceutical Assessment (NPPA) scheme, estimated at a maximum cost of up to \$8 million and commitments made under the contestable pilot for funding medicines for rare disorders.

The extension of PHARMAC's activity with respect to hospital medicines and medical devices is not anticipated to have any immediate impact on the value of the CPB.

An agreement with the 20 DHBs in 2013 and subsequently endorsed by the Minister of Health, enables PHARMAC to make investment decisions on new hospital medicines using hospital medicines savings secured by PHARMAC. PHARMAC is working towards full budget management of hospital medicines pending access to suitably robust usage data from DHBs. Advice on both timelines and options will be developed in conjunction with DHBs. However, the total value of new investment in medicines expenditure across both community and hospital settings can now be actively considered.

Relevance of Medicines New Zealand strategy

An action for PHARMAC and DHBs that arose from the establishment of the New Zealand medicines strategy *Medicines New Zealand* was the development of principles to inform the yearly budget setting process.

The principles on which we base our recommendations include:

1. Value for money, taking into account:
 - 1.1. forecasts of potential volume growth,
 - 1.2. the potential for new investments,
 - 1.3. government health priorities
 - 1.4. opportunities for dis-investment
 - 1.5. maximising the benefits of pharmaceutical spending relative to spending on other health-related services.

2. Affordability:
 - 2.1. ensuring that DHBs are able to remain within their overall funding parameters, and
 - 2.2. ensuring the budget is sustainable in terms of increased access to medicines, the effects of government priorities, and the fiscal impact on DHBs.

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