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7 December 2020

Hon Andrew Little  
Minister of Health  
Parliament Buildings  
WELLINGTON

Tēnā koe Minister

**APPROVAL OF 2021/22 COMBINED PHARMACEUTICAL BUDGET BID**

This letter provides you with PHARMAC and District Health Boards' (DHB) joint advice to inform your decision on the level of the Combined Pharmaceutical Budget (CPB). We seek your approval for the recommended level of the CPB in 2021/22 and outyears funding path. PHARMAC's progress in relation to hospital medical devices is also noted.

**Combined Pharmaceutical Budget recommendation**

The CPB for 2020/21 is \$1,119 million, which includes temporary funding of \$74 million for COVID-19 CPB related expenditure. There is also additional temporary funding of \$76 million in 2021/22 for COVID-19 CPB related expenditure.

PHARMAC and DHBs recommend a four-year funding pathway in order to provide certainty that new medicine investments can continue to be funded in out-years without disruptive processes that may negatively impact upon patients.

The Government indicated in election policy announcements that it intended to increase the level of the CPB by \$200 million over four years. Our recommendation is that the proposed increase of \$200 million to the CPB over four years is a year on year funding growth profile, rather than a flatlined annual increase. This is because all new pharmaceutical investments have a growth profile over time (due to uptake) which create some challenges to PHARMAC's obligations to manage within a fixed budget that does not have an appropriate outyear growth profile.

The following table summarises our recommendation:

| <b>\$ million</b>   | <b>2021/22</b> | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> |
|---|----------------|----------------|----------------|----------------|
| <b>Combined Pharmaceutical Budget</b>                               | 1085           | 1090           | 1100           | 1105           |
| <b>COVID-19 CPB costs</b>   | 76             | -              | -              | -              |
| <b>Nominal change from current baseline indicative funding path</b> | 40             | 45             | 55             | 60             |
| <b>% increase each year</b>   | 3.8%           | 0.5%           | 0.9%           | 0.5%           |

## COMMERCIAL IN CONFIDENCE

This recommendation is unanimously supported by all 20 DHBs. However, DHBs confirm that they would not be able to fund the recommended CPB uplift from within their baseline funding and so commensurate DHB Population Based Funding uplifts would be required to DHB appropriations to accommodate the recommended CPB adjustments.

### Hospital Medical Devices

Most of PHARMAC's current work in hospital medical devices is focused on negotiating national contracts with suppliers to set national prices on items that DHBs are already purchasing. Our aim is to build a catalogue and an understanding of medical devices used in or purchased by DHB hospitals so that we can develop our approach in order to deliver greater benefits over time. National contracts also offer some savings to DHBs.

Currently, DHBs can make choices about which devices and brands they purchase and use. When purchasing brands that are under PHARMAC contract, DHBs must use the PHARMAC national agreement pricing and contract conditions.

As of 1 December 2020, the Pharmaceutical Schedule includes over 129,000 contracted line items from over 100 suppliers. These contracts cover approximately \$329 million of annual DHB hospital expenditure on medical devices. PHARMAC aims to have \$400 million of annual DHB annual expenditure under national contract by June 2021. PHARMAC is targeting 2022 for completion of a national list of medical devices used in DHB hospital, informed by our national contracting activities.

We are continuing the development of our approach to the next stage of our hospital medical devices work and will be continuing to work collaboratively with DHBs on this in 2021.

### Recommendations

It is recommended that you:

**agree** to support the Combined Pharmaceutical Budget four-year pathway outlined in the table below: YES / NO

| \$ million  | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---------|---------|---------|---------|
| <b>Combined Pharmaceutical Budget</b>                               | 1085    | 1090    | 1100    | 1105    |
| <b>COVID-19 CPB costs</b>   | 76      | -       | -       | -       |
| <b>Nominal change from current baseline indicative funding path</b> | 40      | 45      | 55      | 60      |
| <b>% increase each year</b>   | 3.8%    | 0.5%    | 0.9%    | 0.5%    |

**note** that the Government has previously committed temporary funding of \$76 million for 2021/22 for COVID-19 Combined Pharmaceutical Budget expenditure.

COMMERCIAL IN CONFIDENCE

**note** DHBs advise they would not be able to fund the recommended 2021/22 CPB uplift from within their baseline funding and so commensurate DHB Population Based Funding uplifts would be required to DHB appropriations.

**note** PHARMAC's progress with national contracts for hospital medical devices, and engagement with DHBs to inform next steps for PHARMAC's work in hospital medical devices.

We would be pleased to discuss the budget recommendations with you or provide further information as required. DHBs and PHARMAC continue to work effectively together on a range of issues and are together focussed on improving the performance of the health and disability system and improving the wellbeing of New Zealanders.

Nā māua noa, nā



**Cassandra Crowley**

Chair, District Health Boards New Zealand



**Steve Maharey**

Chair, PHARMAC

Copy to:

- Ministry of Health – Director-General of Health, DDG System Strategy and Policy and Chief Financial Officer.
- DHB Chairs and Chief Executives.
- PHARMAC Board and Chief Executive.