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3 December 2019

Hon Dr David Clark  
Minister of Health  
Parliament Buildings  
WELLINGTON

Dear Minister

**APPROVAL OF 2020/21 COMBINED PHARMACEUTICAL BUDGET BID**

This letter provides you with PHARMAC and DHBs' 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 2020/21 and out-years funding path. PHARMAC's progress in relation to hospital medical devices is also noted.

**Combined Pharmaceutical Budget (CPB) Recommendation**

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

In September 2019 the Government announced an out of budget cycle uplift to the CPB of \$60 million over two years, which increased the level of the CPB from \$995 million to \$1015 million in 2019/20 and to \$1035 million in 2020/21. The funding pathway beyond 2020/21 was not confirmed at that time.

Maintaining this current budget path for 2020/21 would enable PHARMAC to make a number of good value for money investments, but not all that could be made.

As outyear funding from 2021/22 has not been confirmed, the CPB would otherwise *decline* from \$1,035 million to \$995 million from 2021/22 onwards. We consider that this would cause a significant fiscal and reputational risk for DHBs, PHARMAC and the health sector as a whole. A decline in funding in 2021/22 when compared to 2020/21 would mean disinvestment in existing funded medicines, a focus on savings transactions and no scope for new pharmaceutical investments.

The following table summarises our recommendation:

|   | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---------|---------|---------|---------|
| <b>Budget (\$ million)</b>  | 1035    | 1035    | 1035    | 1035    |
| <b>Nominal change from current indicative funding path (\$ million)</b> | 0       | 40      | 0       | 0       |
| <b>% increase each year</b>   | 0%      | 4%      | 0%      | 0%      |

This recommended option is unanimously supported by all 20 DHBs.

In providing the 2021/22 outyear recommendation, DHBs confirm that they will 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. PHARMAC’s aim is to build a catalogue and an understanding of medical devices so that we can develop our approach in order to deliver greater benefits over time. National contracts also offer some early savings on products to DHBs.

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

As of 1 November 2019, the Pharmaceutical Schedule includes over 110,000 contracted line items from over 80 suppliers. These contracts cover approximately \$274 million of annual DHB hospital expenditure on medical devices. PHARMAC is targeting the end of 2020 for completion of a national list of medical devices informed by national contracting.

We are also continuing the development of our approach to the next stage of our medical devices work and will be continuing to work on this with DHBs in 2020.

**Recommendations**

It is recommended that you:

**agree** to support the Combined Pharmaceutical Budget four-year funding pathway; YES/NO

|   | 2020/21 | 2021/22 | 2022/223 | 2023/24 |
|---|---------|---------|----------|---------|
| <b>Budget (\$ million)</b>  | 1035    | 1035    | 1035     | 1035    |
| <b>Nominal change from current indicative funding path (\$ million)</b> | 0       | 40      | 0        | 0       |
| <b>% increase each year</b>   | 0%      | 4%      | 0%       | 0%      |

**note** PHARMAC’s progress with national contracts for hospital medical devices, and upcoming engagement with DHBs; YES/NO

**note** DHBs advise that they will not be able to fund the recommended 2021/22 CPB uplift from within baseline funding and so commensurate DHB Population Based Funding uplifts would be required to DHB appropriations in order to accommodate the recommended CPB adjustments YES/NO

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 focused on improving the performance of the health system and the health outcomes of New Zealanders.

Yours sincerely



**Jenny Black, MNZM**

Chair, District Health Boards New Zealand



**Steve Maharey**

Chair, PHARMAC

Copy to:

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