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4 December 2018

Hon Dr David Clark
Minister of Health
Parliament Buildings

Dear Minister

APPROVAL OF 2019/20 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 2019/20 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 May this year, you set a revised level of the CPB for 2018/19 and out-years of \$985 million. This followed Cabinet's decision that, from 1 July 2018, PHARMAC would be responsible for budget management of all remaining hospital medicines within the CPB.

Due to volume changes, unanticipated pricing increases and revised assumptions about the timing of savings transactions in 2018/19, maintaining the budget at \$985m for 2019/20 would result in PHARMAC having minimal scope to make any investments in new medicines except where transactions delivered a saving or were cost-neutral to the CPB. Therefore, PHARMAC and DHBs are recommending a budget increase of 1% to \$995 million for 2019/20 and for future-out years. The following table summarises our recommendation:

	2019/20	2020/21	2021/22	2022/23
Budget (\$M)	995	995	995	995
Nominal change from current indicative funding path (\$m)	10	10	10	10
% increase each year	1%	0%	0%	0%

This recommended increase provides limited, but sufficient, scope for some good value for money investments to be made in 2019/20. Based on our current investment options the increase would enable investment in new medicines that would be likely to create some additional health outcomes for patients. These investments would potentially increase service demands in primary care (but would be unlikely to impact on secondary care services).

Our currently forecast savings, if realised, will enable PHARMAC to make significantly more good value for money investments in 2020/21 and beyond.

This recommended option is supported by nineteen (95%) DHBs. One DHB did not support this increase due to the earlier signals that the CPB level would not be increasing for 2019/20.

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.

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 2018, the Pharmaceutical Schedule includes over 90,000 devices from over 60 suppliers. These contracts cover approximately \$215 million of annual DHB hospital expenditure on medical devices. PHARMAC continues to target the end of 2019 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 consulting on this with DHBs in 2019.

Recommendations

It is recommended that you:

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

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Nominal change from current indicative funding path (\$m)	10	10	10	10
% increase each year	1%	0%	0%	0%

note PHARMAC’s progress with national contracts for hospital medical devices, and upcoming engagement with DHBs.

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
Chair, District Health Boards New Zealand



Steve Maharey
Chair, PHARMAC

Copy to:

Ministry of Health – Director-General, CFO, DDG System Strategy and Policy and DDG DHB
Performance, Support and Infrastructure
DHB Chairs and CEs
PHARMAC Board and CE