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7 December 2017

Hon Dr David Clark
Minister of Health
Parliament Buildings

Dear Minister

APPROVAL OF 2018/19 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 2018/19 and out-years funding path, as well as recommendations relating to hospital medicines and medical devices.

In November each year, PHARMAC and DHBs jointly agree a recommended level of the CPB for the next financial year, as well as the out-years' funding path. We consider and discuss what scope would be provided for new medicines investments, and the improved health outcomes we can achieve for New Zealanders. We seek your approval of our joint CPB recommendation in December each year, as it helps to inform DHBs' Annual Plans and Regional Service Plans and provides certainty of ongoing funding availability for PHARMAC's funding decisions. Cabinet agreed this notional pharmaceutical budget setting process in 2000 [CAB(00)M 19/12].

This regular process is not part of the Government's Budget process, as it relates solely to use of the existing DHB appropriation. Once completed, it does provide a foundation for any Government Budget processes, however we are not seeking to participate in the Budget process for additional funding at this time.

Due to the unique nature of the PHARMAC model and its ability to forecast the cost of growth, the value of potential future investments and the likely value of its many savings transactions, in some years the amount of DHB funding required for good and reasonable investments can be smaller than in the current year. In recent years we have sought increases due to the unusual nature of significant new medicines opportunities such as treatments for viral infection, vaccines and cancer medicines.

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. This is shown in the table overleaf and is consistent with the previously-agreed pathway. The former Minister of Health had noted that the increased

funding path would not require further advice, unless there was a material change to PHARMAC's ability to secure good investments.

Budget 2016 and Budget 2017 provided pharmaceutical funding increases to DHBs. These increases have baseline funding adjustments of \$27m in 2019/20 and a further \$6m in 2020/21.

The recommended CPB level for 2018/19 provides PHARMAC with sufficient scope to invest in all the very good, and good value options currently available. The four-year funding path, combined with a falling baseline expenditure forecast, means continued scope for good value new investments in out-years. We seek your support for our recommended four-year funding pathway for the CPB to provide some level of certainty to inform our planning.

Out-years' forecasting takes into account the uptake and usage of medicines, as well as expected savings transactions, including when patent terms for medicines will be ending. [REDACTED]

The increase in the funding path combined with savings transactions provides the headroom to continue to invest in new, good value medicines that will improve the health of more New Zealanders. This is managed within existing appropriations and does not require additional funding injections into Vote Health.

Hospital pharmaceuticals recommendation

PHARMAC and DHBs continue to work together to ensure hospital medicines that can be delivered in a community-setting are in turn funded from the CPB. As well as savings in hospital medicines, this can relieve service costs for hospitals. Some highly-priced hospital medicines are also best managed through the rigour and certainty of the CPB, as is the case with hospital cancer medicines. Over time we are working towards inclusion of further hospital medicines within the CPB, where appropriate in order to manage the cost of growth.

Hospital medical devices is also an area where PHARMAC and DHBs work closely together. As with medicines, the aim is national consistency, better pricing and, ultimately, management of the introduction of new technologies and the cost of growth through a fixed budget. PHARMAC continues to advance with national contracting which provide opt-in access to contracts for DHBs, with all categories expected to be under contract by 2020. In addition, PHARMAC is undertaking market share procurement for selected categories of hospital medical devices which reduce the choice for DHBs in return for larger savings. These market share arrangements will continue to be progressed.

Recommendations

It is recommended that you:

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

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/2022 |
|---|---------|--------------|--------------|--------------|--------------|
| DHB expenditure (\$m) | 821.8 | 835.3 | 848.8 | 887.3 | 887.3 |
| New Government funding from Budget 2016 (\$m) | 29 | 29 | 27* | 27 | 27 |
| New Government funding from Budget 2017 (\$m) | 20 | 20 | 14 | 6* | 6 |
| Total level of CPB (\$m) | 870.8 | 884.3 | 889.8 | 920.3 | 920.3 |
| % increase from previous year | | 1.55% | 0.62% | 3.43% | 0% |

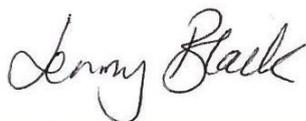
*baseline funding adjustment

note that in the current and/or future financial years, and following consultation with DHBs, PHARMAC will continue to initiate or move funding of hospital medicines to the CPB; and YES/NO

note PHARMAC's progression of market share procurement agreements for hospital medical devices. 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 improving health outcomes for New Zealanders.

Yours sincerely



Jenny Black
Chair, District Health Boards New Zealand



Stuart McLauchlan
Chair, PHARMAC

Copy to:

Ministry of Health – Director-General, CFO & Director P, R & A
DHB Chairs and CEs
PHARMAC Board and CE