



1 July 2022

s 9(2)(a)

By email: s 9(2)(a)
Ref: H202206122

Tēnā koe s 9(2)(a)

Response to your request for official information

Thank you for your request under the Official Information Act 1982 (the Act) to the Ministry of Health (the Ministry) on 11 May 2022. On 10 May 2022 your request was transferred to the Ministry from the Office of the Minister of Health, Hon Andrew Little. You requested:

“... copies of any budget bids the Minister of Health, or any previous Minister of Health, has made annually over the last 5 years pertaining to the Combined Pharmaceutical Budget (CPB)”.

On 6 May 2022, the Office of the Minister of Health, Hon Andrew Little contacted you and asked to refine your request for information. They asked if you could clarify if you are requesting copies of the Combined Pharmaceutical Budget (CPB) as released in the Budget, or information about the Budget bids that the Ministry has prepared for The Treasury?

On 9 May 2022 you responded:

“For clarity I am referring to budget bids that the Ministry has prepared for Treasury.”

The Ministry has identified six documents within scope of your request. These are itemised in Appendix 1 of this letter, and a copy of the documents are enclosed. Where information is withheld, this is outlined in the Appendix and noted in the document itself. I have considered the countervailing public interest in release in making this decision and consider that it does not outweigh the need to withhold at this time.

Cabinet papers in scope are available online at the following links:

- www.health.govt.nz/system/files/documents/information-release/pharmac_cab_paper_mr_v2_redacted_updated_v2_7_nov_2019_redacted.pdf
- covid19.govt.nz/assets/Proactive-Releases/proactive-release-2020-october/HR33-CAB-Paper-COVID-19-Public-Health-Response-Additional... pdf.

Under section 28(3) of the Act, you have the right to ask the Ombudsman to review any decisions made under this request. The Ombudsman may be contacted by email at: info@ombudsman.parliament.nz or by calling 0800 802 602.

Please note that this response, with your personal details removed, may be published on the Ministry website at: www.health.govt.nz/about-ministry/information-releases/responses-official-information-act-requests.

Nāku noa, nā

A handwritten signature in blue ink, appearing to read 'Celia Wellington', is positioned above the printed name.

Celia Wellington
Deputy Director-General
Corporate Services

Appendix 1: Documents for release

#	Date	Title	Decision on release
1	2017	Summary of the Budget 2017 significant initiatives.	Released in full.
2	2018	Reprioritisation Template	
3	November 2019	New Spending Initiative Summary	Some information withheld under section 9(2)(a) of the Act to protect the privacy of natural persons.
4	July 2020	Combined Pharmaceutical Budget – continuity of supply of medicines and medical devices	Released in full.
5	2021	Budget 2021 Initiative Summary	Some information withheld under section 9(2)(a) of the Act.
6	April 2022	Combined Pharmaceutical Budget (CPB) since 2017/18	Released in full.

Template 2: Budget Initiative Summary

Template for Track 2 Initiatives

This template seeks a high-level summary of the Budget 2017 significant initiatives. Agencies are required to complete the blue fields – your Vote Analyst will complete their assessment in the grey fields. Supporting information must be provided to your Vote Analyst. Please use the descriptions provided as a guide for what information is expected in each of the boxes below. Contact your Vote Analyst in the first instance with any queries.

Vote	Health
Responsible Minister	Minister Coleman
Initiative title	Investment in Pharmaceuticals
Initiative description	<p>This funding will enable investment in several very cost-effective pharmaceutical treatments that are not currently affordable within the indicative future budget and PHARMAC's forecast of committed expenditure. Current high priority treatment investments include a vaccination programme targeting all individuals aged over 65 years; a curative treatment for people with hepatitis C patients earlier in their disease course (45% of people with Hepatitis C are infected with genotypes for which there are currently no effective treatment options); treatments for people with HIV; and treatments for young children especially in Māori and Pacific communities.</p> <p>All of the highly-ranked options for investment considered under this initiative would deliver significant health gains - caused by improved length of life, improved quality of life, eradication of disease and avoiding disease progression. Many of the health gains would have flow on benefits for the health sector, by reducing future health sector treatment costs (fewer hospital and GP visits), and by reducing need for disability support services including supported living payments. Some of the treatments are for people who do not currently have good treatment options.</p> <p>Note that PHARMAC cannot give certainty as to which proposals it would invest in with this additional funding as funding decisions are based on a number of moving variables, including the forecast for existing spend, the dynamic list of investment options currently available (PHARMAC continuously evaluates and ranks new options for investment), and the price negotiated. It is also important that PHARMAC retains flexibility in its funding options so that it can promote competition to maintain its negotiating leverage with pharmaceutical suppliers.</p>
Ranking	7
Workstream	BGA/Social Sector/Capital/Other
Responsible Vote Analyst	[Please provide your name and extension number]

Funding Sought (\$m)	2016/17	2017/18	2018/19	2019/20	2020/21	TOTAL
Operating	-	30	30	22	10	92
Capital	-	-	-	-	-	-

[If your proposal requires time limited funding until the year 2020/21 please delete the '& outyears' from the table. If your proposal requires time limited funding beyond 2020/21, please add new columns to the table to reflect the profile of funding sought.]

VA Recommendation	2016/17	2017/18	2018/19	2019/20	2020/21& outyears	TOTAL
Operating	-	-	-	-	-	-
Capital	-	-	-	-	-	-

Vote Analyst Recommendation	[Support in full/Do not support/Partial support and Scale/Defer] [Please provide a short explanation of your recommended funding option]
Degree of government commitment	[Pre-commitment/manifesto commitment/discretionary]

Supporting Information	
Please list the supporting documents provided to your Vote Analyst.	Cost Benefit Analysis Template
Has Cabinet considered this or other similar initiatives before?	Yes. In Budget 2016 there was a pharmaceutical investment initiative of \$124m over 4 years. In 2016/17 this initiative funded treatments for approximately 55% of Hepatitis C patients (those with genotype 1 and advanced disease) as well as the immunomodulatory cancer treatments (nivolumab, pembrolizumab) for melanoma.

Vote Analyst Comment
[Please provide a comment on the quality of the supporting information provided. Have the costs and benefits of this proposal been adequately assessed? Has your agency met the CBA, CBAX, Better Business Case or Regulatory Impact Analysis requirements where relevant? Do you have enough information to provide your assessment? If not, where possible, provide the agency's reason for not providing this information.]

Vote Analyst Comment – Agency Capability and Performance
[Please provide a comment on the capability of the agency to deliver and implement new and existing initiatives taking into consideration their performance on Four Year Plans (4YP), the Long-Term Investment Plan (LTIP) and Investor Confidence Rating (ICR), where relevant]

Strategic Alignment and Target Population	
How does this initiative fit with your agency's strategic intentions as outlined in your Four Year Plan and align with the Government's priorities?	<p>This initiative aligns with the statutory objective of PHARMAC "to secure for eligible people in need of pharmaceuticals the best health outcomes that are reasonably achievable and from within the amount of funding provided".</p> <p>Pharmaceutical investment decisions contribute to New Zealanders living longer and healthier lives. PHARMAC works closely with the Ministry of Health and DHBs to pursue a better-integrated and consumer-focussed system in alignment with the direction as established in the New Zealand Health Strategy.</p> <p>PHARMAC decisions lead to new medicines being funded and money being saved on older medicines. This aligns with the Government's priority to deliver better public services within tight fiscal constraints.</p>
What is intended to be achieved, for whom?	<p>PHARMAC funds the pharmaceuticals that make the best contribution to health within the funding available. This initiative would temporarily increase pharmaceutical budgets and hence allow funding of a further set of pharmaceuticals that are likely to exceed the forward budget pathway.</p> <p>We have assumed that the \$92m provided by this initiative over four years would enable us to fund a catchment of current high priority treatment investments that includes: a zoster vaccination programme targeting all individuals aged over 65 years, treating hepatitis C patients earlier in their disease course (patients with non-genotype 1 hepatitis C infection - about 45% of all Hepatitis C infections), as well as treatments for HIV patients and</p>

	<p>young children (especially in Pacific communities).</p> <p>All of the high priority treatments for investment considered under this initiative have significant health gains - caused by improved length of life, improved quality of life, eradication of disease and avoiding disease progression. These health gains have flow on benefits for the health sector, by avoiding the spread of diseases and therefore the need for future health sector treatment costs, and for disability support services including supported living payments. Outcomes for two of the pharmaceutical investment options are included as examples:</p> <ul style="list-style-type: none"> • The zoster vaccine would be targeted to those over 65 years old. The vaccinated population would experience fewer cases of chronic nerve and skin pain due to fewer cases of post herpetic neuralgia, resulting in better health and fewer hospitalisations and GP visits. The benefits of vaccinating are immediate, and DHBs can be expected to start saving resources immediately following vaccination, which continues over the lifetime of the treated patient. • In terms of treating hepatitis C patients earlier in their disease course – the treatment has a cure rate of over 90%. In the short-term, patients who are cured require fewer regular GP visits, and over the longer term are at lower risk of developing liver cirrhosis and liver failure. This saves DHBs a small amount of resources immediately following treatment, which grows year on year.
How does this initiative relate to current activity(s) undertaken by your agency and/or by others across the State Sector	Investment in pharmaceutical treatments represents business as usual for PHARMAC.
Please list all recent interventions by your vote/ sector that attempted to reach similar outcomes	In Budget 2016 there was a pharmaceutical investment initiative of \$124m over 4 years. In 2016/17 this initiative funded treatments for approximately 55% of Hepatitis C patients (those with genotype 1 and advanced disease) as well as the immunomodulatory cancer treatments (nivolumab, pembrolizumab) for melanoma.
Please list the agencies or non-government organisations that you have consulted in the process of developing this initiative.	PHARMAC

Vote Analyst Comment

[Please rate this initiative's alignment with Government priorities on a scale from 0-5. Please also provide a short comment on the answers provided by your agency – does this initiative align with the strategic intentions of the agency as outlined in their Four Year Plan? Is the strategic intent of this initiative clear? Has the agency clearly outlined who this initiative will target and what it is intended to achieve? Has your agency worked with other agencies where relevant in developing this initiative? Do they have a clear understanding of how this initiative will fit in with existing activity across the State Sector?

Impact Analysis

Provide a summary of the costs and benefits of this proposal.

Two of the options for investment are modelled below as examples of the costs and benefits of increasing the Combined Pharmaceutical Budget at this time. Both these examples have upfront costs, with significant long term gains that accrue to the health sector and to patients over many years. The CBAX analysis is provided for the vaccine programme because it is the lowest cost-effective treatment option of the investment opportunities sought by this funding. Treating Hepatitis C has better cost-effectiveness and is ranked higher than the vaccine programme, the impacts of this treatment are discussed below but not in the CBAX analysis template.

PHARMAC has assessed all its current options for investment against its decision making framework (Factors for Consideration), which includes savings and costs to the CPB, to other health sector budgets, and to patients and their families and whānau. Other Factors for Consideration include health need at the population and individual level, government priorities, and suitability for the health sector and to patients and their families and whānau.

Our usual approach is to measure benefits in Quality-Adjusted Life Years (QALYs) and savings and costs in dollar terms. Cost effectiveness is expressed as QALYs gained per million dollars invested. Incremental changes in QALYs and savings are estimated relative to the most likely counter-factual, projected over the patient lifetime and discounted at 3%. To complete the CBAX template we have converted our standard assessments into the CBAX format. We show benefits both in terms of QALYs and in their monetised equivalents as specified in the CBAX templates.

Vaccination programme for all people over 65 years

Offering a new vaccine to all people aged over 65 years would reduce cases of chronic nerve and skin pain due to fewer cases of shingles and a reduction in the number of people who experience chronic pain for months to years due to post herpetic neuralgia, resulting in better health and fewer hospitalisations and GP visits. The vaccine programme would save DHBs resources immediately following treatment, continuing over the lifetime of each person immunised.

PHARMAC's economic modelling indicates that the expected health gain of this vaccine is in the range of 15 to 40 QALYs per \$1m invested.

The proposal is for around 275,000 people aged over 65 years to be vaccinated each year in the first 2 years (ie. as a catch-up programme) and 50,000 people per year thereafter. The estimated cost for the vaccines is approximately \$21m each year to the CPB in the first 2 years and approximately \$4m each year thereafter. The CPB estimate is based on current treatment costs and prices, which could reduce in the future.

The CBAX template also captures subsidies for general practice for vaccination services.

The proposal would reduce DHB costs of treating the consequences of infection. We estimate cost offsets for DHBs approximately \$3m in the first year, increasing over time as more individuals are vaccinated.

For the vaccination programme we expect a similar benefit in each future year as each new cohort of people is vaccinated when they reach the age of 65 years. The bulk of the benefits of vaccination are private, realised by the treated individuals in the form of improved quality of life. The savings to the health sector from reduced future treatment costs are relatively small. As a result, the ROI is much greater from the societal perspective:

- ROI societal total 31.5 (6% discounting)
- ROI government 2.0 (6% discounting).

<p>What alternative options did you consider (including scaling)? Why did you choose your preferred option?</p>	<p>PHARMAC’s model is to seek savings through other procurement activities to invest in highly-ranked proposals such as these. However when the relevant populations for new potential investments are large, the budget impact is sometimes higher than is likely to be funded via the savings expected to be generated in the near future. In the absence of additional funding, these cost effective pharmaceutical treatments would be funded at a later date, and/or for fewer people, or some treatments may not be funded at all (because of the constraints noted above).</p>
<p>Outline any flow on costs and benefits</p>	<p>All of the high priority treatments for investment considered under this initiative have significant health gains - caused by improved length of life, improved quality of life, avoidance of disease transmission to others, eradication of disease and avoiding disease progression. These health gains have flow on benefits for the health sector, by avoiding the need for future health sector treatment costs, and for disability support services including supported living payments. Both the zoster vaccine for over 65s and the hepatitis C treatment are programmes which yield significant gains over the longer term. There would be small health sector savings immediately following implementation with the bulk of the benefit and savings realised in the future when complications as a result of disease progression are prevented:</p> <ul style="list-style-type: none"> • For the vaccination programme we expect a similar benefit year on year in the vaccinated cohort. • For the Hepatitis C treatment, benefits start small with increases year on year as complications associated with liver failure and its associated treatment costs are reduced. For each cohort of treated patients (2,600 patients), we expect ongoing savings of about \$2.9m to DHBs each year for the next 20-40 years.

Vote Analyst Comment

[Please rate this initiative on a scale from 0-5 to reflect Value for money. Please explain your rating and provide a short comment on the quality of the cost-benefit analysis and the reliability of the inputs. See section 3.2.2 of the guidance.]

Legislative and Regulatory Implications

<p>Please detail any legislative implications and whether the RIA requirements apply.</p>	<p>There are no legislative implications arising from this initiative.</p>
--	--

Vote Analyst Comment

[Please use this space to insert the QA statement if applicable. Contact the RIA team if you have any questions.]

Affordability	
Provide an option for scaling, phasing and/or deferring this initiative.	PHARMAC's model is to seek savings through other procurement activities to invest in highly-ranked proposals such as these. However when the relevant populations for new potential investments are large, the budget impact is sometimes higher than is likely to be funded via the savings expected to be generated in the near future. In addition, PHARMAC is required to spend all of the CPB within any one financial year with a provision to carry over a small proportion across years. Together these two constraints mean that unless the CPB is increased, PHARMAC will invest in products that are ranked lower on its priority list (i.e. products that are more affordable, but represent worse value for money). Investing in the lower-ranked proposals has out-year implications, in that they may block PHARMAC from funding the "very good" investments in future years as well. In the absence of additional funding, these cost effective pharmaceutical treatments would be funded at a later date, and/or for fewer people, or some treatments may not be funded at all (because of the constraints noted above).
Describe the implications on service delivery if this funding is not approved or deferred.	This funding bid seeks investment that would allow funding of good-value proposals that have a higher short term budget impact than typical PHARMAC options. In the absence of additional funding, these cost effective pharmaceutical treatments would be funded at a later date, and/or for fewer people, or some treatments may not be funded at all.
If this initiative is business-as-usual, identify the cost drivers	We have assumed a vaccine cost of \$75 in the base case and a one-off administration cost of \$22.90. In line with observed effectiveness from clinical trials the vaccine is assumed to be 60% effective. The hepatitis C treatment improves quality of life (by eradicating the disease) in over 90% of those treated and lengthens life by 8 years on average. It would reduce the number of patients currently on a disability allowance, as well as reducing number of cases of decompensated cirrhosis and premature death in treated patients.

Vote Analyst Comment

[Please provide a brief comment on the quality of the agency's Four Year Plan and discussion of strategic trade-offs. Do you agree with the agency's assessment of the impact of not approving this initiative?]

Delivery and Risk Management	
What are the risks to delivering this initiative? How will these risks be mitigated?	PHARMAC works closely with the Ministry of Health and DHBs to determine impacts on the configuration of services to support pharmaceutical funding decisions.
What capability is required to deliver this initiative? Does this capability exist or will it need to be built?	Investing in pharmaceutical treatments represents business as usual for PHARMAC. No additional capability is required.

Vote Analyst Comment

[Please rate this initiative **red, amber or green** according to your assessment of risks associated with the delivery of this initiative. Consider the size of the proposal relative to the agency's activity, any cross agency impacts, and impacts to front-line service delivery.]

Implementation and Evaluation	
When will this initiative be implemented and how will this be managed? What changes will be required to ensure the successful delivery of this initiative?	Investing in pharmaceutical treatments represents business as usual for PHARMAC. No change to current approach, capability or capacity would be required to successfully deliver this initiative. As with all vaccines, PHARMAC would work closely with the Ministry of Health's Immunisation team to introduce zoster vaccine.
Outline the plan for how this initiative will be evaluated, at which points and the specific measures that will be used to assess performance	PHARMAC reviews all new investments in each therapeutic group, in the context of that group in its entirety. PHARMAC reviews are conducted within baseline operating costs. Review results for new investments are released publicly on an annual basis (the Year in Review publication).

Vote Analyst Comment

Please provide a brief comment on the agency's capability to deliver the initiative and ensure that the expected outcomes are achieved. Is there a clear and quality plan for how the success of the initiative will be measured and at which points or milestones?

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Template 2: Reprioritisation Template

Vote(s)	Health
Responsible Minister(s)	Hon Dr David Clark
Title of proposed reprioritisation initiative	Savings in the PHARMAC Combined Pharmaceutical Budget
Appropriation	TBC – attributed from across DHB appropriations
Description for CFISnet	PHARMAC has estimated that they can realise further savings in their combined pharmaceutical budget. One mechanism for achieving this seeks a policy change for giving PHARMAC budget holding responsibility for hospital medicines.
Responsible Vote Analyst	Ashleigh Brown

EXECUTIVE SUMMARY

Short description of initiative and potential saving (including identifying any transition costs)

The scope of the Combined Pharmaceutical Budget (CPB) managed by PHARMAC is increased through the transfer of budget management responsibility of all remaining hospital medicines from district health boards (DHBs) to the CPB. All cancer medicines administered in DHB hospitals have been managed within in the CPB since 2012.

The proposal releases funding to Vote Health of \$29.3 million in 2018/19, lifting to a total of \$194.7 million in savings delivered over four years.

The savings will be realised by applying the PHARMAC model to the full portfolio of hospital medicines (which would be under CPB management).

The benefits to Vote Health are better health outcomes, better management by PHARMAC of the prescribing interface between primary and secondary care and reduced future pharmaceutical expenditure through the ability to set a CPB budget lower than the increase in volumes and use of new, more expensive, medicines would suggest. The proposed CPB funding pathway enables PHARMAC to continue to make ongoing new investments in good value for money medicines at a level consistent with previous years.

A PHARMAC operational budget uplift of \$1.5 million per annum is required to implement and manage the proposal.

Total Potential Savings (\$m)	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears	TOTAL
Operating	-	29.3	34.8	65.3	65.3	194.7
Capital	-	-	-	-	-	-

REASONS FOR REPRIORITISATION

Why has this funding been put forward for reprioritisation?

The budget management of hospital medicines by PHARMAC aligns with current Government policy settings.

The proposal enables fuller realisation of the PHARMAC model to maximise benefits of pharmaceutical spending relative to spending on other health-related services. The proposal releases funding to Vote Health of \$29.3 million in 2018/19, lifting to a total of \$194.7 million in savings delivered over 4 years.

IMPLICATIONS OF REPRIORITISATION

Risks, implications and trade-offs associated with reprioritising the funding set out above

Limited purchasing information means there is unknown volatility in hospital medicines expenditure. PHARMAC anticipates this volatility can be managed within the total CPB budget (i.e. we manage this currently for community medicines).

PHARMAC and DHBs has previous experience of transferring hospital related expenditure from DHBs to the CPB. For example, hospital cancer treatments and haemophilia products.

There are some funding-related issues that would need to be resolved by PHARMAC, the Ministry of Health and DHBs. This includes the transfer of funding from DHBs, determining ownership of rebates that cross the 2017/18 and 2018/19 financial years, and putting in place the necessary internal controls.

Existing DHB relationship channels will be used to resolve those areas for DHB discretion and historical inconsistencies between the hospital and community segments.

Implementation considerations (e.g. whether regulation or legislation is needed).

No changes to statutory settings are required.

PHARMAC will communicate and work with DHBs on implementation following agreement to this proposal. This will be an important part of ensuring a smooth transition. Ministry officials will support PHARMAC and DHBs as required.

Officials will work together along with the Treasury to ensure that appropriate mechanisms are in place to ensure appropriate transparency, visibility and control for the Government over pharmaceutical spending is maintained and provides better adaptability to respond to future priorities or changing circumstances.

The process for determining the approach for allocating the changes between DHBs in centralising this approach and communicating this with the respective DHBs will be important. The changes may also require a review of the nature of the appropriations and accountability information that would support such a change in supporting and managing a broader combined pharmaceutical budget.

FURTHER CONTEXT

Any other comments to support ministerial decision-making

Background

PHARMAC currently make decisions on the funding of:

- medicines and some medical devices used in the community
- vaccines
- hospital medicines
- cancer medicines
- haemophilia treatments
- hospital medical devices.

PHARMAC's engine of value generation is in:

- its ability to lower prices; through, astute commercial negotiations and the creation of competition through various substitutes, and
- its ability to manage entry of new technologies, and resist the adoption of those that are ineffective and/or poor value for money.

PHARMAC reduces costs in the first case (price), and avoids costs in the second (mix). Price and mix are not the only two drivers of expenditure, the third and final component being volume. PHARMAC manages volume through using business rules to target pharmaceutical usage to the most efficacious clinical circumstances. It is possible to lose the value of these benefits if all three are not managed together.

PHARMAC's economic value generation is converted to real fiscal benefits for the health sector through the setting of the CPB at a level lower than the counterfactual position i.e. by not allowing price, volume and mix to erode the fiscal benefits in an unmanaged way. In addition to the economic and fiscal benefits delivered by PHARMAC, the CPB provides reliability of outcome over the financial management of this part of the health sector. PHARMAC has never overspent the notional national budget and has strong mechanisms in place to deliver "on, or under budget".

The CPB structure has demonstrated long term benefits, freeing up resources for other uses in Vote Health. This has been achieved by growing the scope of the product categories within the scope of the CPB, without commensurate uplifts in the value of the CPB.

The current 2017/18 CPB setting is approximately \$1.2 billion lower than the counterfactual position. The net result is a return to the health sector of the additional savings. Examples of savings returned to health sector as a result of expanded PHARMAC activity include:

- 2009: Nicotine Replacement Therapy – \$5 million returned to DHBs.
- 2011: Cancer Treatments – \$20 million returned to DHBs.
- 2012: Vaccines – \$50 million returned to Vote Health and \$5 million to DHBs.
- 2013: Haemophilia products – \$29 million returned to DHBs.

Context

PHARMAC's role in the public health sector has been expanding steadily since 2010 following a Cabinet decision that PHARMAC assume responsibility for managing the

prioritisation, assessment, standardisation and procurement of hospital medicines and medical devices on behalf of DHBs in order to control cost growth (SOC Min (10) 14/1).

In 2012 Cabinet sought accelerated progress (SOC Min (12) 17/2 refers) and since that time steady progress has been made as follows:

- **Hospital medicines** – from 2013/14, made \$115 million in savings to DHBs over 5 years.
- **Hospital medical devices** – from 2013/14 58,000 line items, 14 new categories under PHARMAC contracts (total \$116 Million) and \$44.94 million savings to Vote Health over 5 years.

DHB expenditure on hospital medicines and hospital medical devices is approximately \$150-160 million gross (\$130m after rebates) and \$650-700 million respectively per annum. This is from total DHB budgeted expenditure of \$12,683 million for 2017/18.

Whilst steady progress has been made by PHARMAC in making savings for DHBs, there are opportunities to make more substantive short-term and longer-term savings (e.g. PHARMAC having budget management responsibility for hospital medical devices) for the health sector and importantly contain cost growth.

The proposal

The elements of the proposal are that:

- All remaining hospital medicines expenditure (\$130 million per year after rebates) are absorbed into the CPB from 2018/19;
- A new CPB pathway is set higher than at present, at \$985 million, but less than the counterfactual, releasing funding to be reallocated elsewhere in Vote Health, releasing \$29.3 million in 2018/19 lifting in outyears, with a total of \$194.7 million in savings delivered over 4 years (see table below);

(\$ million)	2018/19	2019/20	2020/21	2021/22
Current CPB pathway	\$884.3m	\$889.8m	\$920.3m	\$920.3m
Hospital medicines transfer	\$130m	\$130m	\$130m	\$130m
Uplifted CPB pathway	\$985.0m	\$985.0m	\$985.0m	\$985.0m
Counterfactual spend	\$1014.3m	\$1019.8m	\$1050.3m	\$1050.3m
Vote Health benefit	\$29.3m	\$34.8m	\$65.3m	\$65.3m

- A PHARMAC operational budget uplift of \$1.5 million per annum is required to implement and manage the proposal.

This revised pathway enables PHARMAC to:

- Maintain existing community and hospital pharmaceutical investments;

- Enable ongoing new investments (consistent with previous years) in good value for money medicines in the next and subsequent financial years; and
- Provides greater certainty and transparency for the Minister and DHBs on pharmaceutical expenditure growth (price, volume and mix).

Opportunity for savings within current CPB Budget

PHARMAC's CPB budget track has recently been agreed by the Minister of Health and signalled to DHBs. Savings could be generated by reducing the existing CPB, but PHARMAC are of the view that this is undesirable for the following reasons:

1. The level of CPB investment agreed is required to maintain existing pharmaceutical investment and growth, and importantly enable PHARMAC to make ongoing new investments in good value for money medicines. For example, in 2017 across both community and hospital settings PHARMAC funded 22 new medicines and widened access to a further 10 medicines. If the level of the CPB is reduced, then PHARMAC would be unable to maximise the investment opportunities across both community and hospital settings.
2. Any perceived reduction in the CPB may trigger public concern over not having access to new and innovative medicines, which many patients, clinicians and patient advocacy groups consider to be important.
3. The Government's long-standing direction is for PHARMAC to take budget management of hospital medicines, and this is a good opportunity to do so and make ongoing savings for Vote Health.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

New Spending Initiative Summary

27. Maintaining and increasing the Combined Pharmaceutical Budget

Overview

Agency to complete				
Initiative type	Priority	Commitment		Detail
		Priority A	Coalition agreement	
		Priority B	Confidence and Supply	
		Priority C	Speech from the Throne	
		Priority D	Other	
X	Priority E	Other		
Description	This initiative will provide funding for more medicines through an increase to the Combined Pharmaceutical Budget (the DHB's medicines budget managed by PHARMAC). This initiative extends the existing agreed 2020/21 funding level into the future and provides an uplift to increase the amount of publicly funded medicines available. This will improve patients access to well-evidenced medicinal treatments and improve health outcomes.			
New or existing initiative	X	Expansion or extension		New initiative
Cabinet consideration	Y	A cabinet paper asking the maintaining aspect of this initiative be precommitted is going to the Cabinet Social Wellbeing Committee on 11 December 2019.		
Lead Minister	Hon Dr David Clark, Minister of Health			
Lead agency	Ministry of Health			
Involved agencies or Ministers	PHARMAC have been involved in the development of this bid.			
Package initiatives	N/A			
Agency contact	Kimberly Gilmore, Manager Health System Stewardship, System Strategy and Policy, s 9(2)(a) Kimberly.gilmore@health.govt.nz			
Treasury contact	Michael Thomson, Vote Analyst, Vote Health, s 9(2)(a)			

Total Funding Sought

Agency to complete						
Operating funding sought (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears	Total
	-	10.000	50.000	50.000	50.000	160.000

Agency to complete											
Capital funding sought (\$m)	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	Total
	-	-	-	-	-	-	-	-	-	-	-

BUDGET SENSITIVE

Initiative Details

Proposal

Agency to complete				
<i>Each answer must not exceed 300 words. To the extent practical, answers should link to information in the bid's Wellbeing Analysis and Investment Logic Map sections.</i>				
Problem or opportunity	<p>Medicines prevent, treat, or manage many illnesses or conditions and are the most common intervention in health care. Innovations in medicines means that effective medicines continuously become available that have the potential to significantly improve people's health.</p> <p>The CPB is DHBs public medicines expenditure. It is managed by PHARMAC as a nominal budget with the objective of securing the best possible health outcomes from medicines funding. As PHARMAC must work within a fixed annual budget, it is not possible to fund every new medicine that may potentially benefit someone. The demand for medicines increases due to population growth and ageing and will always increase. It may also exceed PHARMAC's ability to fund new medicines or widen access to medicines already funded (from its savings). Allocating more money to the CPB allows PHARMAC to fund more medicines for more patients.</p> <p>The current CPB funding track falls from \$1,035m in 2020/21 to \$995m in 2021/22 as time-limited funding was agreed by Cabinet in August 2019. PHARMAC often agrees multi-year contracts with suppliers to negotiate the best possible prices, so the reduction in CPB funding in 2021/22 hinders their negotiating position and ability to achieve the best prices for medicines.</p>			
Proposed initiative	<p>The proposed initiative is to both: increase the funding track for the CPB, and to maintain and extend the funding announced as part of the Cancer Action Plan. This will allow PHARMAC to maintain its negotiating position, agree contracts for more proven medicines and increase access to the treatments available, and ensure access to medicines does not have to be restricted in 2021/22.</p>			
Expected outcomes	<p>Improved health outcomes for all New Zealanders. As the exact medicines to be purchased will be decided by commercial negotiations independent of the Minister, it is impossible to exactly predict the outcomes of this initiative. However, all medicines PHARMAC considers for investment have rigorous evidence behind them and have a proven ability to benefit people's health and wellbeing.</p> <p>If the initiative is not funded PHARMAC are unlikely to negotiate enough savings on the existing medicines spend to increase publicly funded medicines and in 2021/22 may have to restrict existing access to medicines due to the drop in CPB funding. PHARMAC faces increasing amounts of public pressure to fund more medicines and restricting access may lead to significant public dissatisfaction with the PHARMAC model.</p>			
Regulatory or legislative change required	N			
If capital or ICT initiative	Type	ICT/data/digital	Physical Infrastructure	Other please specify
	Start and end dates			

Funding Sought by Component

Agency to complete												
<i>Provide a component-by-component breakdown of what the requested funding will purchase. Briefly explain the formula used, or key assumptions made, to calculate the cost of each output. Add additional rows to the table as needed to capture each output separately.</i>												
Input – Operating	Funding profile (\$m)										Total	Vote
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears							
Maintain the existing 2020/21 CPB funding level	-	-	40.000	40.000	40.000					120.000	Vote Health	
Increase the CPB level in line with DHB pressures	-	10.000	10.000	10.000	10.000					40.000	Vote Health	
Total	-	10.000	50.000	50.000	50.000					160.000	Vote Health	
Input – Capital	Funding profile (\$m)										Total	Vote
	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29		
Total												N/A
Formula and Assumptions	The \$40m from 2021/22 onwards is the amount required to maintain the 2020/21 funding level agreed as part of the Cancer Action Plan in future years.											

BUDGET SENSITIVE

The \$10m additional increase to the CPB is based on an approximately 1% increase that PHARMAC estimate would allow them to make good new investments and has been proposed to DHBs.

Fit with Existing Activity

Agency to Complete											
<i>The answer must not exceed 300 words.</i>											
Existing services		Currently all publicly funded medicines in New Zealand are funded by DHBs through the CPB which is managed by PHARMAC (it's funding track can be seen in the "Existing funding for this/similar initiatives" row below). PHARMAC is responsible for making choices about which medicines will provide the best overall health outcomes for the New Zealand public from available funding.									
Agency to complete											
<i>Provide an overview of existing funding levels for this initiative, and/or initiatives with similar objectives, in the two tables below.</i>											
	Operating Funding profile (\$m)										Total (4 years)
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears						
Existing funding for this/similar initiatives	1015.000	1035.000	995.000	995.000	995.000					4020.000	
Total funding sought for this initiative	-	10.000	50.000	50.000	50.000					160.000	
% change between existing funding and funding sought	0.00	0.97%	5.03%	5.03%	5.03%					3.98%	
Comments (optional)	Existing funding details the current CPB funding track.										
	Capital Funding profile (\$m)										Total
	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	
Existing funding for this/similar initiatives											
Total funding sought for this initiative											
% change between existing funding and funding sought											
Comments (optional)	<i>Provide explanatory comments to help interpretation of the above baseline figures.</i>										

Options analysis

Agency to Complete	
<i>The answer must not exceed 300 words.</i>	
Options analysis	<p>Maintain the 2020/21 CPB funding level – This option would allow PHARMAC to negotiate contracts within a steady funding profile to ensure they have the flexibility to negotiate the best possible prices for medicines with certainty of funding. However, this option would not additionally increase the medicines budget in line with other financial pressures DHBs face and would limit the ability of New Zealanders to access new medicines.</p> <p>Fund increases to the CPB from DHB baselines – The CPB is a nominal budget made up of DHB funding allocations. It is possible to require DHBs to account for the uplift in the CPB from their baselines. However, DHBs financial positions are currently under considerable pressure and DHBs have few options to reduce expenditure without restricting patients access to services. If DHBs are required to fund a CPB increase from baselines it is recommended this is additional money for Vote Health, or it is likely other services will need to be reduced or DHB deficits will increase.</p>













Intervention Logic Map

Agency to attach





BUDGET SENSITIVE

Intervention logic maps are compulsory and must not exceed one A4 page. Maps must capture the specific problem of opportunity the initiative aims to address; the initiative's outputs; its outcomes (over the short, medium and long term where applicable) and the future state the initiative contributes to. Corresponding Wellbeing Domain icon(s) (below) should be provided alongside each outcome to indicate impacted domains. Quantification and monetisation of each impact should also be included where possible.

Wellbeing domains

	Civic engagement and governance		Cultural identity		Environment		Subjective wellbeing
	Health		Housing		Income and consumption		Safety
	Jobs and earnings		Knowledge and skills		Social connections		Time-use

Wellbeing Analysis & Risks

Agency to complete					
Provide a brief overview of the initiative's key impacts – both positive and negative. Use a new row for each impact.					
Impact Description	Affected Group	Timeframe Realised	Domain Impacted	Supporting Evidence	Magnitude of impact
Improved health outcomes for patients who access medicines.	Exact numbers will depend on the medicines funded, however likely to be significant numbers across all of society.	Immediately	 Health	<p>This initiative is likely to improve health outcomes. These medicines will have MedSafe approval and rigorous evidence to support them.</p> <p>PHARMAC has a proven ability to select the best possible medicines from within a fixed budget.</p>	Commercially sensitive but likely to be notable and well-evidenced. Medicines funded all have rigorous evidence and PHARMAC have a proven ability to select the most beneficial medicines available to achieve the maximum health gain.
Increased labour force participation from disease prevention, slower progression or cure	Patients who, without new medicinal interventions, would face health complications and be unable to work.	Immediately	 Jobs and earnings	Illness prevents people from working. Medicines can prevent, slow progression or cure diseases. Although it is impossible to say exactly what medicines will be funded from this increase, it is likely to be a diverse enough range that it will allow some people to move back into work as a result.	Direct impact on labour force participation is likely small. Although this initiative is likely to fund specific medicines that allow people to return to work.
Increased income and reduced consumption for patients who do not need to pay for their own treatments.	Patients currently paying for their own medicinal treatments whose treatments would become publicly available with a CPB increase.	Immediately	 Income and consumption	Some people fund medicinal treatments privately. Difficult to establish the quantum and if these treatments will be funded with a CPB increase.	Likely small. Requires PHARMAC to agree funding for the medicines that are currently being privately purchased
Increased public confidence in the PHARMAC model.	Interested members of the public and PHARMAC.	Immediately	 Civic engagement and governance	The PHARMAC model has recently come under increased scrutiny for funding fewer medicines than comparable countries. Without this initiative the CPB would drop in 2021/22 and may result in PHARMAC having to restrict access to medicines potentially causing significant public dissatisfaction.	Difficult to accurately quantify, depends on the differences in medicines accessibility associated with the counterfactual which depends on PHARMAC's ability to generate savings on existing medicines spend.
Agency to complete					

BUDGET SENSITIVE

Dependencies, assumptions and risks	The success of this initiative depends on PHARMAC's ability to negotiate commercial deals with suppliers for effective medicines and DHBs ability to deliver these medicines. PHARMAC have been doing their role successfully for 26 years and, although current DHB financial positions are under strain, DHBs also have the proven ability over decades to deliver medicinal interventions so any risk is minimal.
--	--

Child Poverty Implications

Agency to complete	
The following reporting requirements are now required:	
Child Poverty	<i>This initiative has an indirect positive impact on child poverty:</i>
	Y This initiative may have an indirect positive impact on child poverty. Some patients benefiting from medicines may be the caregivers of children as their improved health will allow them to better care for the children. Additionally, some children will receive medicines funded through this initiative that will improve their wellbeing and their ability to learn and participate in society.

Monitoring and Reporting

Agency to complete	
The answer must not exceed 300 words.	
This initiative is an expansion of the existing CPB managed by PHARMAC and will utilise the existing monitoring and reporting framework. This includes the Crown Entity's Letter of Expectation, Statement of Strategic Intent, Annual Report and other regular reports.	

Alternative Option

Agency to complete																									
The answer must not exceed 500 words.																									
Scaled initiative	<p>Maintain the 2020/21 CPB funding level – This option would allow PHARMAC to negotiate contracts within a steady funding profile to ensure they have the flexibility to negotiate the best possible prices for medicines. However, this option would not increase the medicines budget in line with other financial pressures DHBs face and would limit the ability of New Zealanders to access ongoing innovations in medicines.</p> <p>Note: the CPB comes from DHB appropriations and DHBs have given an early signal (before receiving any indications of their uplift) that this is their preferred option.</p>																								
Input – Operating	Funding profile (\$m)																								
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 15%;">2019/20</th> <th style="width: 15%;">2020/21</th> <th style="width: 15%;">2021/22</th> <th style="width: 15%;">2022/23</th> <th style="width: 15%;">2023/24 & outyears</th> <th style="width: 15%;">Total</th> </tr> </thead> <tbody> <tr> <td>Maintain the existing 2020/21 CPB funding level</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">40.000</td> <td style="text-align: center;">40.000</td> <td style="text-align: center;">40.000</td> <td style="text-align: center;">120.000</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">40.000</td> <td style="text-align: center;">40.000</td> <td style="text-align: center;">40.000</td> <td style="text-align: center;">120.000</td> </tr> </tbody> </table>		2019/20	2020/21	2021/22	2022/23	2023/24 & outyears	Total	Maintain the existing 2020/21 CPB funding level	-	-	40.000	40.000	40.000	120.000	Total	-	-	40.000	40.000	40.000	120.000			
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears	Total																			
Maintain the existing 2020/21 CPB funding level	-	-	40.000	40.000	40.000	120.000																			
Total	-	-	40.000	40.000	40.000	120.000																			
Input Capital	Funding profile (\$m)																								
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;"></th> <th style="width: 10%;">19/20</th> <th style="width: 10%;">20/21</th> <th style="width: 10%;">21/22</th> <th style="width: 10%;">22/23</th> <th style="width: 10%;">23/24</th> <th style="width: 10%;">24/25</th> <th style="width: 10%;">25/26</th> <th style="width: 10%;">26/27</th> <th style="width: 10%;">27/28</th> <th style="width: 10%;">28/29</th> <th style="width: 10%;">Total</th> </tr> </thead> <tbody> <tr> <td>Total</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	Total	Total											
	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	Total														
Total																									
Formula and Assumptions if different																									

Minimum Viable Option

Agency to complete	
The answer must not exceed 500 words.	
Scaled initiative	<p>Fund increases to the CPB from DHB baselines – The CPB makes up part of DHB funding allocations and it is possible to require DHBs to account for the uplift in the CPB from their baselines. However, DHBs financial positions are currently under considerable pressure and DHBs have few options to reduce expenditure without restricting patients access to services. If DHBs are required to fund the CPB increase from baselines it is likely other services will need to be reduced or DHB deficits will increase.</p>

BUDGET SENSITIVE

Input – Operating	Funding profile (\$m)						Total
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears		
	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

Input – Capital	Funding profile (\$m)										Total
	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	
Total											
Formula and Assumptions if different											

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

IN-CONFIDENCE

Combined Pharmaceutical Budget – continuity of supply of medicines and medical devices

Operating funding Sought (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears	Total
Vote Health		74.000	76.000	68.000	66.000	284.000
Total		74.000	76.000	68.000	66.000	284.000
Capital funding Sought (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Vote Health		-	-	-	-	-
Total		-	-	-	-	-
	2025/26	2026/27	2027/28	2028/29	Total	
Vote Health	-	-	-	-	-	
Total	-	-	-	-	-	

Key Question	Answer
Title of initiative	Combined Pharmaceutical Budget – continuity of supply of medicines and medical devices
Description	This initiative provides funding to PHARMAC to ensure the continuity of supply of medicines and medical devices in response to global supply issues caused by COVID-19.
Lead Minister	Hon Dr David Clark, Minister of Health
Other Ministers involved	N/A
Impacted Votes	Vote Health
Cost or revenue pressure driver (Select one)	Price
What will this initiative do?	<p>PHARMAC manages a fixed budget held by District Health Boards (DHBs), known as the Combined Pharmaceutical Budget. This budget (\$1,055 million in 2020/21, including a \$10 million in-principle transfer from 2019/20 proposed for COVID related costs) is for subsidies for community medicines, vaccines, haemophilia treatments and related products, and spending on all medicines that are given in public hospitals. PHARMAC's role is to ensure that spending on medicines and other products does not exceed the budget while ensuring that the available funding is spent on the medicines that provide the biggest health gain.</p> <p>The cost of medicines funded through the Combined Pharmaceutical Budget have increased due to supply issues caused by the international COVID-19 response. This will increase medicines expenditure and also hinder PHARMAC's ability to negotiate planned savings through its usual processes (e.g. competitive tendering for medicines).</p> <p>A total of \$74 million is sought in 2020/21 to support additional costs and impact of reduced savings. This funding will not provide for new medicines. It will be used to meet the costs of medicines that are already</p>

IN-CONFIDENCE

IN-CONFIDENCE

	<p>publicly funded. PHARMAC does not envisage medicine suppliers would decrease medicine prices in outyears, so outyear funding is also sought for additional medicine costs and savings transactions impacts.</p> <p>The increase in the Combined Pharmaceutical Budget would be funded through DHB baselines.</p> <p>The funding required in 2020/21 also includes additional funding of \$10 million to fund additional freight costs for DHB hospital medical devices that it is responsible for. PHARMAC proposes to manage this funding centrally, on behalf of all 20 DHBs, through its operating budget (Non-Departmental Output Expense: National Management of Pharmaceuticals).</p>
<p>Why does this initiative meet the definition of an Unavoidable Cost or Revenue Pressure?</p>	<p>Medicines</p> <p>PHARMAC requires additional funding for the Combined Pharmaceutical Budget to ensure continuity of supply of medicines that it has responsibility for.</p> <ul style="list-style-type: none">• COVID-19 has slowed or halted activities in manufacturing plants and impacted the importation of medicines globally. As a result, the prices of medicines are increasing, caused by factors such as cost of freight, exchange rate movements, and significant disruption to supply (meaning that alternative replacement medicines are secured at market spot prices). Two examples are provided below:<ul style="list-style-type: none">○ A commonly used painkiller has increased in price from \$7.12 a pack to \$24.94 a pack as a result of COVID related closures of the API (Active Pharmaceutical Ingredient) refineries in China. However, these have since re-opened and API has advised that the issue is now with the manufacturers in India as a result of its COVID-related lockdowns. PHARMAC recently received a supplier proposing to supply the market for a three-year period at a new price of \$24.94 per pack. This will be an extra cost of \$4-5 million a year. PHARMAC is looking for alternatives but these are very limited as there is only one source of the API.○ A sedative agent used widely in hospital ICUs and operating theatres that would normally cost \$300,000 for 6 months' supply was recently quoted at \$10 million for the same quantity with an additional \$1 million for freight costs.• PHARMAC had also planned to undertake several major savings transactions over the next 3 years, with these savings then being used to support the cost of recent and future medicine funding decisions. However planned savings transactions have had to be delayed or withdrawn due to COVID related disruptions, including diversion of internal resource to manage supply chain and pricing impacts and suppliers being unable to secure alternate competitive products for supply to New Zealand. Two examples are provided below:<ul style="list-style-type: none">○ One product that PHARMAC had recently contracted for withdrew the tender offer due to supply issues with COVID-19

IN-CONFIDENCE

and as a result, \$6 million of savings that would have occurred in 2020/21 will not now be realised and it is possible that some or all of the anticipated \$12 million savings in 2021/22 will be foregone as well.

- There are also another two significant planned savings transactions for 2021/22 that are like to have some delay due to the difficulty of bring sufficient quantity of product to the New Zealand market. They are a cancer medicine with planned savings of up to \$10 million per annum and a rheumatology medicine with planned savings of up to \$20 million per annum.

Medical devices

This additional funding of \$10m requested in 2020/21 will not provide for new hospital medical devices. It will be used to centrally fund the increased costs of freight for medical devices (for example PHARMAC have experienced a four-fold increase in freight costs for some products) that are already under national contract to avoid these costs being passed on to DHB hospitals.

This approach will enable the costs to be managed centrally, rather than increased costs being incurred solely by the relevant purchasing DHB, and it will ensure that the actual reasonable costs incurred by suppliers are funded (and no more). It will also reduce the need for DHBs to do multiple price changes in their systems and that increased pricing is not continued when freight costs have reduced.

Provide a breakdown of the costs of this initiative

A summary of the costings is detailed below:

Cost	Additional Costs (\$ million)			
	2020/21	2021/22	2022/23	2023/24 & outyears
Medicine price increases (1)	52.000	52.000	52.000	52.000
Impact on planned savings transactions	12.000 (2)	24.000	16.000	14.000
Increase in medical device costs	10.000	-	-	-
Total	74.000	76.000	68.000	66.000

Notes:

1 - Assumes 5% average increase for the Combined Pharmaceutical Budget which includes increased costs of medicines, increased freight costs and exchange rate impacts.

2 - This funding request assumes PHARMAC's proposed in-principle transfer of \$10 million is approved by joint Ministers and PHARMAC's year-end result means it can transfer \$10 million into 2020/21 to off-set COVID-related costs in 2020/21. This figure would have previously been \$22 million.

Has funding been previously sought for this initiative?

Yes.

The level of the Combined Pharmaceutical Budget was increased by \$35 million for 2019/20 due to increased costs of medicines due to COVID 19 (funded through DHB baselines) [CAB-20-MIN-0130]. \$25 million of expenditure is expected to be incurred in 2019/20 and \$10 million is proposed for an In-Principle Expense Transfer to 2020/21.

IN-CONFIDENCE

	<p>In the last round of COVID-19 funding request, PHARMAC originally proposed COVID-related cost pressures of \$130 million in 2020/21 (\$115 million for medicines and \$15 million for medical devices) but following more in-depth analysis and a better understanding of COVID-related supply impacts, the funding sought for 2020/21 has reduced to a total of \$74 million including the proposed in-principle transfer of \$10 million from 2019/20.</p>
<p>What are the risks if it is not funded?</p>	<p>Medicines prevent, treat or manage many illnesses or conditions and are the most common intervention in health care.</p> <p>If the Combined Pharmaceutical Budget is not increased this causes a significant fiscal risk for DHBs and PHARMAC. This would mean significant disinvestment in medicines that are already publicly funded. PHARMAC are not able to achieve savings via its usual Combined Pharmaceutical Budget management activity to fund these cost pressures as there is already fiscal pressure on the Combined Pharmaceutical Budget from medicines which are currently funded.</p> <p>If the additional medical devices costs are not funded these costs will have to be met from existing DHB baseline budgets which are already under significant fiscal pressure.</p> <p>The direct funding mechanism proposed would see PHARMAC centrally administering the \$10 million funding for additional medical device costs. If this mechanism is not approved, the price increases would have to be built into the pricing of tens of thousands of products. This would be a considerable administrative burden on DHBs and suppliers. It is also more likely to lead to permanent pricing changes, rather than temporary payments administered by PHARMAC, and potentially result in significantly more income to suppliers than would cover the actual cost incurred.</p>
<p>Are there any other options to fund this initiative?</p>	<p>As above.</p>
<p>What scaling options are there?</p>	<p>Due to the uncertainty of the global medicines and medical devices market and disruption to supply chain arrangements, the additional costs may not be as high as expected. PHARMAC regularly monitor medicines expenditure and adjustments can be made to the Combined Pharmaceutical Budget to reflect potential lower than expected costs.</p>
<p>How will this initiative be implemented?</p>	<p>Existing systems and processes by PHARMAC and DHBs would be used for managing the Combined Pharmaceutical Budget.</p>
<p>Does the initiative result in new/avoiding a reduction in FTEs or contractors?</p>	<p>No</p>
<p>Does this initiative have implications for other departments? Have those departments been consulted?</p>	<p>No</p>
<p>Does this initiative impact child wellbeing?</p>	<p>Yes</p>

IN-CONFIDENCE

Does this initiative require change to legislation or regulation?	No
Is this initiative targeted directly to Māori and/or Pacific peoples?	No. However, when a medicine is publicly funded it is available to all New Zealanders who meet the criteria for its use, and in whom the medicine is indicated and appropriate. PHARMAC already has a strategic focus on improving equitable access to medicines and it will be working with health sector partners over the coming year to achieve this, with a particular focus on Māori and/ Pacific peoples
How will implementation be monitored and reported?	PHARMAC provides regular monthly and quarterly reporting on the Combined Pharmaceutical Budget to the Minister of Health, the Ministry of Health and DHBs.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Budget 2021 Initiative Summary

Increase in the Combined Pharmaceutical Budget

Section 1: Overview

Department to complete			
Lead Minister	Hon Andrew Little, Minister of Health		
Department	Health		
What type of initiative is this?	Critical cost pressure	X	Manifesto commitment
Initiative description	Increase the level of the Combined Pharmaceutical Budget by \$200 million over 4 years to ensure more medicines are available for more New Zealanders.		
Is this a Cross-Vote initiative?	No		
Department contact	Peter Jane, Phs 9(2)(a) peter.jane@health.govt.nz		
Treasury contact	Henry Neas, Vote Analyst, Vote Health		

Total Funding Sought

Department to complete						
Operating funding sought (\$m)	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears	Total
	-	40.000	45.000	55.000	60.000	200.000

Department to complete											
Capital funding sought (\$m)	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	Total
	-	-	-	-	-	-	-	-	-	-	-

Section 2: Proposal

For cost pressure initiatives, or manifesto commitments to fund a cost pressure, complete **section 2A** only.

For any other manifesto commitments, complete **section 2B** only.

Section 2A: Critical cost pressure initiative

N/A

Section 2B: Manifesto commitment initiative

Department to complete (as relevant)	
<i>Each answer must not exceed 300 words. To the extent practical, answers should link to information in the bid's Wellbeing Analysis and any other supporting information.</i>	
Source of commitment	X Labour Party Manifesto Speech from the Throne
Problem or opportunity	The objective of PHARMAC is to secure the best possible health outcomes from within the funding provided. As PHARMAC must work within a fixed annual budget, it is not possible to fund every new medicine that may potentially benefit someone. The demand for medicines will always exceed PHARMAC's ability to fund new medicines or widen access to medicines already funded.
Proposed initiative	Increase the level of the Combined Pharmaceutical Budget which will support more medicines being available for more New Zealanders.
Expected outcomes	If the level of the Combined Pharmaceutical Budget is not increased PHARMAC will not be able to fund from the current fixed annual budget an increase in access to new medicines or existing funded medicines for expanded use to meet increasing public expectations. The only way to fund new medicines from within the existing fixed budget over and above the existing commercial activities underway which PHARMAC routinely undertakes would be disinvest in medicines already funded. This would be disadvantageous to patient's health and wellbeing and would likely be unsatisfactory to patients, health professionals, consumer advocacy groups and the wider public.

BUDGET SENSITIVE

	<p>In 2021/22 we estimate that with the proposed increase of \$40 million to the Combined Pharmaceutical Budget approximately 370,000 patients would benefit across a range of therapeutic group areas.</p> <p>There will always be more medicines than PHARMAC can fund from within the fixed annual budget. PHARMAC makes careful and considered choices in the interests of all New Zealanders in managing cost pressures by:</p> <ul style="list-style-type: none"> making sure the medicines and related products already funded stay available; deciding which other medicines have the highest priority for new funding; and working to reduce the price paid for medicines that are already available. <p>PHARMAC achieve savings through a range of commercial, procurement and contracting activities and savings that are achieved are used to ensure more medicines are available.</p> <p>An increase in the Combined Pharmaceutical Budget will allow PHARMAC to invest in more new medicines or widen access to existing funded medicines.</p>	
Is the initiative related to the COVID-19 response or recovery?	N	The Government provided in July 2020 temporary funding of \$150 million over 2020/21 and 2021/22 (\$74 million and \$76 million respectively) for COVID-19 Combined Pharmaceutical Budget related expenditure.
Regulatory or legislative change required	N	

Section 3: Additional information requirements

Department to complete							
Does the initiative require new FTE or contractors?	No						
Does the initiative directly impact on Māori or Pacific peoples?	Yes Not all New Zealanders are achieving 'best health outcomes' from medicines funded by PHARMAC and some are missing out on the opportunity to improve their health and wellbeing through use of medicines. We know that there are differences in the use of medicines by some population groups, particularly when looked at by ethnicity. Research shows significant differences in the way Māori receive medicines in comparison to other New Zealanders. When the burden of disease is considered, there is a significant amount of medicines that Māori are not getting. This is also likely for Pacific peoples and other population groups experiencing inequities.						
Does the initiative have an impact on child poverty?	Yes Equitable medicines access for populations experiencing health disparities may reduce downstream financial costs and loss of income from ill health, which in turn may contribute to a reduction in child poverty.						
Are there any other relevant population impacts?	Yes When a medicine is funded, it is available to all New Zealanders who meet the criteria for its use, and in whom the medicine is indicated and appropriate.						
If capital or ICT initiative	Type	-	ICT/data/digital	-	Physical Infrastructure	-	Other please specify
	Start and end dates	N/A					
	<u>See Annex A for further questions – mandatory to complete for all capital initiatives</u>						

Section 4: Monitoring and reporting

Department to complete
<p>PHARMAC provides monthly and quarterly reports to the Minister of Health and the Ministry of Health on its performance which includes detailed information on new medicines investments and instances in which access to existing funded medicines is widened to new patient groups.</p> <p>PHARMAC also produces an annual report to Parliament and this report provides information on PHARMAC's overall performance for the previous financial year, including the uses of new funding.</p>

BUDGET SENSITIVE

Section 5: Further breakdown of funding sought

Funding sought by component

Department to complete												
Provide a component-by-component breakdown of what the requested funding will purchase. Briefly explain the formula used, or key assumptions made, to calculate the cost of each output. Add additional rows to the table as needed to capture each output separately. Please include which Vote(s) will be impacted by each component.												
Input – Operating	Funding profile (\$m)										Total	Vote
	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears							
New Medicines or widened access to currently funded medicines	-	40.000	45.000	55.000	60.000					200.000	Health	
Total	-	40.000	45.000	55.000	60.000					200.000	N/A	
Input – Capital	Funding profile (\$m)										Total	Vote
	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30		
	-	-	-	-	-	-	-	-	-	-	-	
Total	-	-	-	-	-	-	-	-	-	-	-	N/A
Formula and Assumptions	<p>Due to commercially sensitive nature of PHARMAC's Options for List we cannot disclose the number or cost of individual new medicines.</p> <p>PHARMAC's decisions are made independently to ensure they are based on clinical evidence and expert decision making. The appraisal process is rigorous. PHARMAC staff consider the clinical advice, undertake cost utility and budget impact assessments and seek additional information as required to ensure that a comprehensive assessment occurs using our decision-making framework – the Factors for Consideration.</p> <p>PHARMAC uses a prioritisation process to compare and rank potential investment options against other unfunded medicines that have completed assessment. The output of the prioritisation process is a list of potential medicine investments – the Options for Investment. As possible opportunities for new medicines investment will always exceed the budget PHARMAC has available, prioritisation is an intrinsic part of PHARMAC's decision-making process.</p>											
Appropriations	<p>PHARMAC does not hold Combined Pharmaceutical Budget funding, it manages pharmaceutical expenditure at a national level. The funding held by District Health Boards. The Ministry of Health has historically used the population-based funding formula to allocate these funds to individual District Health Board appropriations. Any increase to the Combined Pharmaceutical Budget would mean an increase to existing individual District Health Board appropriations.</p>											

Fit with existing activity

Department to Complete	
The answer must not exceed 300 words.	
Existing services	The existing level of the Combined Pharmaceutical Budget for 2020/21 is \$1045 million (excluding the temporary funding provided for COVID-19 Combined Pharmaceutical Budget related expenditure). The initiative will increase the level of the Combined Pharmaceutical Budget to support an increase in more medicines being available for more New Zealanders.

BUDGET SENSITIVE

Provide an overview of existing funding levels for this initiative, and/or initiatives with similar objectives, in the two tables below.

	Operating Funding profile (\$m)					Total					
	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears						
Existing funding for this/similar initiatives	1045.000	1045.000	1045.000	1045.000	1045.000	1045.000					
Total funding sought for this initiative	-	40.000	45.000	55.000	60.000	200.00					
% change between existing funding and funding sought	-	3.83%	4.31%	5.26%	5.74%	4.79%					
Comments (optional)	Provide explanatory comments to help interpretation of the above baseline figures.										
	Capital Funding profile (\$m)										Total
	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	
Existing funding for this/similar initiatives	-	-	-	-	-	-	-	-	-	-	-
Total funding sought for this initiative	-	-	-	-	-	-	-	-	-	-	-
% change between existing funding and funding sought	-	-	-	-	-	-	-	-	-	-	-
Comments (optional)	Provide explanatory comments to help interpretation of the above baseline figures.										

Options analysis

Department to Complete

The answer must not exceed 300 words.

Options analysis

Two options were considered to meet the manifesto commitment of a Combined Pharmaceutical Budget funding uplift of \$200 million over 4 years, with one option being a consistent flatline annual increase and a second option proposing a growth based annual increase (note both options excluded the temporary COVID-19 funding of \$76 million for 2021/22). The options were:

- Option 1 – This option contains a one-time increase in the CPB of \$50 million, and the CPB is maintained at that level going forward. This would result in total CPB expenditure of \$1095 million in 2021/22 and flat thereafter, representing a 4.8% increase to the currently approved CPB level in 2021/22 and none thereafter. This option would provide scope for new investments in some, but not all, good value medicines.
- Option 2 – This option is lower in 2021/22 than Option A by \$10 million and higher in 2024/25 by \$10 million. This would result in total CPB expenditure of \$1085 million in 2021/22 and a small increase in subsequent years and would represent a 3.8% increase to the currently approved CPB level for 2021/22. This option would provide scope for new investments in some, but not all, good value medicines. This option has the same total expenditure over the four-year period as Option A but includes incremental increases in outyears.

A large increase in expenditure in one year followed by no increase in following years, as would occur in Option 1, does not reflect PHARMAC's experience of expenditure driven by the uptake of new pharmaceuticals, which provides for a lagged uptake period of new medicines after a funding decision is taken. For this reason, PHARMAC propose Option 2 as this provides for growth in pharmaceutical expenditure with a pattern that reflects a more realistic growth path and would still leave some room for additional investments in outyears.









BUDGET SENSITIVE

Alternative scaled option

Department to complete											
<i>The answer must not exceed 300 words.</i>											
Option overview	No scaled option has been considered as the Government signalled the initiative as a manifesto commitment.										
Department to complete											
<i>Provide a component-by-component breakdown of what the scaled funding would purchase. If the formula used or key assumptions made differ from those used for the primary option, briefly explain these. Add additional rows to the table as needed to capture each output separately.</i>											
Input – Operating	Operating Funding profile (\$m)										Total
	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears						
	-	-	-	-	-					-	
Total											
Input – Capital	Capital Funding profile (\$m)										Total
	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	
	-	-	-	-	-	-	-	-	-	-	-
Total											
Formula and assumptions	Explain if different from primary option										

Section 6: Wellbeing impacts and additional information

Section 6A: Wellbeing analysis

Department to attach										
<i>Each initiative must be accompanied by the following supporting information:</i>										
<ul style="list-style-type: none"> ○ <u>Cost benefit analysis</u>, or CBAX; ○ An <u>intervention logic map</u>, capturing the initiatives' aims, outputs, outcomes (over the short, medium and long term), and the future state the initiative contributes to; and ○ Analysis of <u>wellbeing impacts & risks</u> in the table at Section 6B below, containing analysis of the groups likely to be impacted by the initiative, the magnitude of impact, and the efficacy of the initiative in responding to the problem or opportunity. 										
<i>This analysis may be presented in the prescribed formats outlined above; <u>OR</u> any other suitable format, containing analysis that fulfils these information requirements. Analysis in either format must make reference to the Wellbeing Domains impacted, and quantify and monetise each impact where possible.</i>										
<i>For capital initiatives, it is mandatory to attach a <u>business case</u> in compliance with CO(19)6.</i>										
Additional attachments	An intervention logic map is attached.									
Wellbeing domains										
	Civic engagement and governance People's engagement in their country's governance, how "good" NZ's governance is perceived to be and the procedural fairness of our society.		Cultural identity Having a strong sense of identity, belonging and ability to be oneself and the existence value of cultural taonga		Environment The natural and physical environment and how it impacts people today		Subjective wellbeing Overall life satisfaction and sense of meaning and self			
	Health Our mental and physical health		Housing The quality, suitability, and affordability of the homes we live in		Income and consumption People's disposable income from all sources, how much people spend and the material possessions they have		Safety People's safety and security (both real and perceived) and their freedom from risk of harm, and lack of fear.			

BUDGET SENSITIVE

	Jobs and earnings The quality of people's jobs (including monetary compensation) and work environment, people's ease and inclusiveness of finding suitable employment, and their job stability and freedom from unemployment.		Knowledge and skills People's knowledge and skills		Social connections Having positive social contacts and a support network		Time-use The quality and quantity of people's leisure and recreation time (that is, people's free time where they are not working or doing chores).
--	---	--	--	--	--	--	---

Section 6B: Wellbeing impacts & risks

Department to complete

This section is mandatory, unless this analysis has been included in a separate attachment.

Outline the key wellbeing impacts of the initiative, using a new row for each impact. These should highlight:

- For cost pressures, the wellbeing impacts if funding is not provided
- For manifesto commitments, the key impacts of the intervention, both positive and negative

There should be at least three key impacts identified.

Impact Description	Affected Group	Timeframe Realised	Domain Impacted	Supporting Evidence	Magnitude of impact
More medicines are available for more New Zealanders which will lead to improved health outcomes	All New Zealanders, with each new medicine targeted at specific populations who would be able to access the new or widened access to medicines.	Outcome impacts are likely to accrue at a population level over the medium to long term.	+ Health	PHARMAC can clearly demonstrate over time that more New Zealanders are getting more medicines. In PHARMAC's 2020 Year in Review ¹ PHARMAC can show that over the last 10 years the number of medicines (volume index) and the variety of medicines (mix index) have increased, meaning we are seeing more, and varied, medicines for the treatment of a wider range of conditions in New Zealand. At the same time, the cost of medicines (the cost index) has increased but the actual price paid (the subsidy index) has decreased. This demonstrates that PHARMAC is getting more medicines for less money.	Difficult to estimate impact going forward but historical performance as previously outlined clearly demonstrates that if funding levels for the Combined Pharmaceutical Budget are increased that more and varied medicines are made available.

Department to complete

Dependencies, assumptions and risks

None.

¹ Chart on page 16 - <https://pharmac.govt.nz/assets/Year-in-Review-2020.pdf>

Document 6

Combined Pharmaceutical Budget (CPB) since 2017/18

Item	Year	Reference	Comment	Ongoing/One-Off	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears	
1	2017/18 increase	CAB-17-MIN-0185.12		Ongoing	20.0	20.0	14.0	6.0	6.0	6.0	6.0	6.0	
2	2018/19 increase	CAB-18-MIN-0158.14		Ongoing		130.0	130.0	130.0	130.0	130.0	130.0	130.0	
	2018/19 savings release back to Vote Health			Ongoing		(29.3)	(34.8)	(65.3)	(65.3)	(65.3)	(65.3)	(65.3)	
N/A	2019/20 increase	CAB-19-MIN-0174.19	No initiative template supplied	Ongoing			10.0	10.0	10.0	10.0	10.0	10.0	
3	Investment to Increase Access to Pharmaceuticals	CAB-19-MIN-0431		Ongoing			20.0	40.0	0.0	0.0	0.0	0.0	
4	2020/21 increase	CAB-20-MIN-0155.17		Ongoing				10.0	50.0	50.0	50.0	50.0	
5	COVID-19 Public Health Response: Additional Funding	CMG-20-MIN-0073		One off			35.0						
6	COVID-19 Rspose and Recovery Fund (CRRF) July Package: Vote Health	CAB-20-MIN-0328.25		One off				74.0	76.0	0.0	0.0	0.0	
N/A	Budget 2021 - Savings initiative (CRRF)	CAB-20-MIN-0328.25	No initiative template supplied	One off				(29.0)					
7	Budget 2021 - Manifesto initiative	CAB-21-MIN 0116.14		Ongoing					40.0	45.0	55.0	60.0	
Total ongoing baseline funding						870.8	985.0	1,015.0	1,045.0	1,085.0	1,115.0	1,125.0	1,130.0
Baseline + One-off Funding						870.8	985.0	1,050.0	1,090.0	1,161.0	1,186.0	1,245.0	1,130.0

RELEASED UNDER THE OFFICIAL INFORMATION ACT