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Office of the Minister of Health
Social Wellbeing Committee

Investment to Increase Access to Medicines

Proposal

- 1 This paper proposes an increase to the Combined Pharmaceutical Budget by \$66 million in the 2023/24 financial year only. s 9(2)(b)(ii)

Relation to government priorities

- 2 This proposal relates to the Government's aim for improving overall health outcomes and wellbeing for New Zealanders.

Executive Summary

- 3 To date the Pharmac model has been highly effective in delivering the best value medicines to improve health outcomes for New Zealanders, within a fixed Budget. However, there are ongoing concerns that the range of medicines available to New Zealanders is less than what the public expects.
- 4 There is an opportunity to increase the range of medicines available and improve health outcomes and wellbeing through funding unfunded medicines s 9(2)(b)(ii) s 9(2)(b)(ii). This would be achieved through an increase to the Combined Pharmaceutical Budget (CPB).
- 5 In line with advice from Pharmac, I propose an increase to the CPB by \$66 million in the 2023/24 financial year only to enable Pharmac to invest in a number of medicines s 9(2)(b)(ii). Based on Pharmac's current Options for Investment priority list, the treatments that would be funded from the additional \$66 million would benefit up to approximately 4,700 New Zealanders in the 2023/24 financial year, rising to approximately 15,000 in the following financial year.
- 6 The majority of the treatments would advance Pharmac and the health and disability system's ambitions to achieve equity of health outcomes for Māori, primarily because there is a higher prevalence of Māori living with the conditions and/or because Māori are at higher risk of poorer health outcomes from the conditions, compared with the general population. For most of these treatments there is evidence to suggest that the same is also likely to be true for other groups experiencing health disparities such as Pacific people and people living in low socioeconomic areas.
- 7 The \$66 million investment into the CPB in the 2023/24 financial year only would be primarily sourced from s 9(2)(f)(iv)

s 9(2)(f)(iv)

- 8 The CPB already has short term funding from Budget 22 which ceases at the end of the 2023/24 financial year. The agreement to the proposal in this paper will address the funding requirement in the short-term, but will increase the need to consider ongoing investment in the CPB beyond current levels as part of Budget 2024.

Background

- 9 The Pharmac model has been highly effective in delivering the best value medicines to improve health outcomes for New Zealanders, within a fixed Budget. However, there are ongoing concerns that the range of medicines available to New Zealanders is less than what the public expects.

- 10 The Government commissioned an independent review of Pharmac in February 2021 [SWC-21-MIN-0006 refers], and a report was received from the review panel and assessed by Cabinet in June 2022 [SWC-22-MIN-0093 refers]. The main outcome of the review was that Pharmac is doing an important job and performs well against its objectives but there are improvements to be made, including:

- 10.1 secure equitable outcomes for all New Zealanders, especially for Māori, Pacific peoples and disabled people;
- 10.2 engage with and promote participation and share in decision-making for Māori and honour Te Tiriti o Waitangi;
- 10.3 make its processes, decisions, and information it holds more open and accessible to the public, consumer groups and people needing accessible information;
- 10.4 include consumer advice and lived experience in many aspects of its work and decision-making including for people with rare disorders;
- 10.5 collaborate much more strongly with other health agencies to achieve more equitable health outcomes; and
- 10.6 explain the highly technical work it does and the impacts it has on people's health, and do this with equity of health outcomes clearly visible.

- 11 Pharmac have estimated that their purchasing power has increased threefold since their inception in 1993. Through their purchasing strategy they have increased the range and volume of effective medicines available to the population, while the CPB has been kept at a sustainable level.

- 12 The public have ongoing concerns that the health and disability system is not providing the range of medicines that the public expect. In particular there is a concern that New Zealand's medicines expenditure as a proportion of total health expenditure is in the lower quarter of OECD countries and is therefore inadequate.

- 13 In assessing these concerns, it is important to note that OECD reporting of pharmaceutical spending can lead to misleading comparisons between countries. For example, for some countries it does not include the costs of public hospital medicines

where many costly medicines are used. In addition, comparisons between other countries' pharmaceutical budgets is complex and nuanced, and expenditure on medicines isn't necessarily indicative of the number effective medicines available or the health benefits provided by those medicines.

- 14 There is an opportunity to increase access to medicines and improve population health through an increase of the CPB. Since last year's Budget process, a number of currently unfunded medicines have been assessed § 9(2)(b)(ii). [REDACTED] The funding of these medicines would provide improved health outcomes.

Increased investment into the Combined Pharmaceutical Budget

- 15 Pharmac's estimate of what is required to fund a number of medicines § 9(2)(b)(ii) [REDACTED] is shown in the table below:

\$ million	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
New Funding	11.0	66.0	§ 9(2)(f)(iv)				

- 16 § 9(2)(f)(iv) [REDACTED]

- 17 As noted in the table above, the estimated funding increase required in order to continue to fund these medicines into 2023/24 is forecast to be \$66 million. I propose that an additional investment of \$66 million in the 2023/24 financial year only [REDACTED] § 9(2)(b)(ii) [REDACTED] The ongoing funding requirement for these medicines from the 2024/25 financial year onwards § 9(2)(f)(iv) [REDACTED] will be considered through future Budget processes.

- 18 It is difficult to provide an independent assessment of the value for money (i.e., health gain per dollar spent) from Pharmac's recommended CPB increase as its medicines prioritisation list is confidential due to ongoing commercially sensitive negotiations. However, past Budget investments in Pharmac have been relatively cost-effective and Pharmac has a strong track record of delivering good health outcome gains from the budget it manages.

- 19 As noted above, Pharmac have been instrumental § 9(2)(b)(ii) [REDACTED] in funding of medicines in New Zealand, and keeping prices low. They have achieved this through rigorous cost benefit analysis and sophisticated contracting methods. I am confident that Pharmac will continue to competently undertake their statutory function, maximising measurable health gain from their available budget.

- 20 This investment would likely increase the range of new medicines available to a number of different patient groups. Based on Pharmac's current Options for Investment priority list, the treatments that would be funded from the additional \$66 million would benefit up to approximately 4,700 New Zealanders in the 2023/24 financial year, rising to approximately 15,000 in the following financial year.

- 21 The majority of the treatments would advance Pharmac and the health and disability system's ambitions to achieve equity of health outcomes for Māori, primarily because

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there is a higher prevalence of Māori living with the conditions and/or because Māori are at higher risk of poorer health outcomes from the conditions, compared with the general population. For most of these treatments there is evidence to suggest that the same is also likely to be true for other groups experiencing health disparities such as Pacific people and people living in low socioeconomic areas.

22 In addition, an increase to the CPB in 2023/24 in line with my proposal will:

- 22.1 increase access to more medicines for more New Zealanders;
- 22.2 raise the level of New Zealand’s investment in medicines closer to that of other similar jurisdictions; and
- 22.3 demonstrate the Government’s ongoing commitment to provision of new medicines, whilst retaining the benefits of a fixed budget and a focus on value for money and fiscal sustainability.

Risks

Risks associated with the one-off nature of the funding.

23 The CPB already has short term funding from Budget 22 which ceases at the end of the 2023/24 financial year. The agreement to the proposal in this paper will address the funding requirement in the short-term, but will increase the need to consider ongoing investment in the CPB beyond current levels as part of Budget 2024. The table below illustrates this:

\$ million	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Current CPB level	1,186.0	1,245.0	1,130.0	1,130.0	1,130.0	1,130.0	
New Funding proposed in this paper	-	66.0	-	-	-	-	
Total level of CPB	1,186.0	1,311.0	1,130.0	1,130.0	1,130.0	1,130.0	
Funding to be considered at Budget 24:							
On-going funding required from 2024/25 to maintain the access to medicines approved through Budget 22	-	-	s 9(2)(f)(iv)				
On-going funding required from 2024/25 to maintain access to the medicines proposed in this paper	-	-					
Potential future investment to be assessed for Budget 24	-	-					

24 Funding this on-going investment at Budget 24 will mean that there will be a reduced ability to progress other priority new initiatives in the Budget. Conversely, should this investment not be made, then Pharmac will need to go through a process of delisting

medicines to ensure that spend is contained with the available funding level of the CPB.

General risks

- 25 Increasing funding for medicines does not address wider access barriers for certain patient groups, including Māori, experiencing health inequity related to system access (such as access to specialist health services and medical tests) and socioeconomic factors. In a worst case, investing in the CPB may increase inequity as the people who access new medicines may tend to be those with the best system access rather than those with the highest health needs.
- 26 This risk is mitigated by Pharmac’s strong organisational focus on achieving equitable outcomes. They are currently focusing on understanding why people do not access funded medicines, starting with population groups that we know face health inequities. This is work that requires close collaboration and working with other health sector agencies. Pharmac is also examining its decision-making processes to make sure funding decisions do not contribute to inequities for priority populations.
- 27 Due to the high demand for new medicines, investing in the CPB will not alleviate all concerns about access to medicines. This risk may partly be addressed by Pharmac’s work to increase transparency around its medicines assessment and decision-making process.
- 28 Because Pharmac’s processes are confidential and independent, the Government cannot know with certainty which medicines will be likely funded from any new investment in the CPB.
- 29 Even with a substantial increase in funding, we will always be exposed to the risk that any newly funded medicines do not meet the expectations of particular groups.
- 30 Increased investment in medicines can create flow-on costs within the health sector, sometimes requiring additional resources to administer medicines in terms of staff, equipment and facilities. This is an existing risk for the medicines already funded by the CPB, which will be increased through this additional investment. As it is not yet understood precisely what will be funded, we cannot know exactly where these costs will lie. This risk has not yet been fully assessed, and the Ministry of Health will work closely with Te Whatu Ora to determine what the full impact of the increased investment will be on the wider health sector.
- 31 Assessing and addressing flow-on costs and capacity constraints is part of Pharmac’s decision making process on the listing of new medicines which includes public consultation, so risks concerning flow-on costs will ultimately be assessed on a case-by-case basis.

Financial Implications

32 I propose an increase to the CPB by \$66 million in 2023/24 only to fund medicines s 9(2)(b)(ii) as follows:

\$ million	2022/23	2023/24

Current CPB level	1,186.0	1,245.0
New Funding		66.0
Total level of CPB	1,186.0	1,311.0

33 Funding for this investment in the CPB would be appropriated to the National Purchasing of Pharmaceuticals appropriation in Vote Health. The \$66 million of new investment into the CPB would be sourced s 9(2)(f)(iv)

[REDACTED]

Legislative Implications

34 There are no legislative implications arising from the recommendations in this paper.

Population Implications

35 This proposal will benefit all New Zealanders, with each new medicine targeted at specific populations who would be able to access the new or widened access to medicines.

Human Rights

36 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

37 This proposal has been reviewed by Pharmac and the Treasury.

Communications

38 I propose a public announcement be included as part of the communications for Budget 23.

Proactive Release

39 This Cabinet paper will be proactively released following the public announcement of an increase to the CPB. The release is subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

The Minister of Health recommends that the Committee:

1. **Note** that an additional \$66 million increase in the level of the Combined Pharmaceutical Budget (CPB) for the 2023/24 financial year only would give Pharmac additional scope to invest in more new medicines.

2. **Note** that by Pharmac’s assessment, this investment would enable Pharmac to invest in a number of medicines § 9(2)(b)(ii)

3. **Agree** to increase the level of the Combined Pharmaceutical Budget by \$66 million for the 2023/24 financial year only, from the following funding sources:

	\$ millions
§ 9(2)(f)(iv)	
Total	66.000

4. § 9(2)(f)(iv)

5. **Approve** the following changes to appropriations to give effect to the decision in recommendations 3 and 4 above, with a corresponding impact on the operating balance and net core Crown debt:

	\$ millions – increase / (decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & outyears
Vote Health Minister of Health Non-Departmental Output Expense: National Purchasing of Pharmaceuticals	-	66.000	-	-	-
Vote Health Minister for COVID-19 Response Multi-Category Expenses and Capital Expenditure: National response to COVID-19 across the health sector MCA Non-Departmental Output Expense: COVID-19 Public Health Response	(41.563)	-	-	-	-
Total Operating	(41.563)	66.000	-	-	-

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6. **Agree** that the changes to the appropriations for 2022/23 in recommendation 5 above be included in the 2022/23 Supplementary Estimates.
7. **s 9(2)(f)(iv)**
[REDACTED]
8. **Note** that ongoing funding requirements from 2024/25 will be considered through the Budget 2024 process.

Authorised for lodgement

Hon Andrew Little

Minister of Health

PROACTIVELY RELEASED