

Sensitive – Budget

Office of the Minister of Health

Chair, Cabinet

## Investment to increase access to medicines

### Proposal

1. This paper reports back on the final decisions on increasing the Combined Pharmaceuticals Budget (CPB) [CAB-19-MIN-0376 refers]. It proposes an increase to the CPB **§ 9(2)(b)(ii)**.

### Executive summary

2. The PHARMAC model has been highly effective in establishing good value for money in the purchasing of high-quality medicines and keeping prices low. There are ongoing concerns that the range of medicines available to New Zealanders is less than what the public expects.
3. There is an opportunity to increase the range of medicines available and improve population health through purchasing unfunded medicines **§ 9(2)(b)(ii)**. This would be achieved through an increase to the Combined Pharmaceuticals Budget.
4. In line with advice from PHARMAC, I propose an increase to the CPB by \$20 million in the 2019/20 financial year and \$40 million in 2020/21 **§ 9(2)(b)(ii)**. PHARMAC estimate that this would likely deliver improved health outcomes (for example, in terms of extension of life or improvement of quality of life) for approximately 30,000 New Zealanders in the first year.
5. Funding for this investment would be appropriated to DHBs, with funding allocated in line with the Population Based Funding Formula. **§ 9(2)(f)(iv)**, and \$30.0 million would be sourced from reprioritisation within Vote Health baselines in 2018/19 and 2019/20.
6. I propose a public announcement for 28 August 2019.

## Context

7. The PHARMAC model has been highly effective in establishing good value for money in the purchasing of high quality medicines, and keeping prices low. The model is highly regarded internationally.
8. 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.
9. 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 proportion of total health expenditure is in the lower quarter of OECD countries, and is therefore inadequate.
10. In assessing these concerns it is important to note that OECD reporting of pharmaceutical spending can lead to misleading comparisons between countries as it does not include medicines for secondary care 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.
11. There is an opportunity to increase access to medicines and improve population health through an increase of the CPB. s 9(2)(b)(ii)  
[REDACTED]  
[REDACTED]  
[REDACTED].

## Increased investment into the Combined Pharmaceuticals Budget

12. I have been invited to report back to Cabinet to seek final decisions on increasing the Combined Pharmaceuticals Budget (CPB), including the source of funding for the increase in 2019/20 and 2020/21, any necessary changes to DHB appropriations, and timing of a public announcement [CAB-19-MIN-0376 refers].
13. s 9(2)(b)(ii)  
[REDACTED]  
[REDACTED]
14. PHARMAC's current assessment of potential investments in new medicines indicates that if the CPB was increased by \$20 million in the 2019/20 financial year and \$40 million in 2020/21 s 9(2)(b)(ii)  
[REDACTED]. This investment would amount to \$60 million over two years.
15. s 9(2)(f)(iv)  
[REDACTED]  
[REDACTED] 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.

16. PHARMAC have been instrumental in establishing good value for money in purchasing 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.
17. This investment would likely significantly increase the range of new medicines available to a number of different patient groups and deliver improved health outcomes for approximately 30,000 New Zealanders in the first year.
18. In addition, an increase to the CPB in line with my proposal will:
  - 18.1 raise the level of New Zealand's investment in medicines closer to that of other similar jurisdictions;
  - 18.2 potentially provide access to some of the medicines which have been the subject of substantial public interest;
  - 18.3 demonstrate the government's commitment to provision of new medicines, whilst retaining the benefits of a capped budget and a focus on value for money and fiscal sustainability.
19. PHARMAC advise that if Ministers agree to increase the level of the CPB, they would ideally need time to manage commercial arrangements ahead of Ministerial announcements.
20. Funding for this investment in the CPB would be appropriated to DHBs, with funding allocated in line with the Population Based Funding Formula. s 9(2)(f) (iv)

## Risks

### *Risks associated with the source of funding*

21. Vote Health is already managing a significant level of forecast unfunded pressures within non-devolved Ministry of Health appropriations in 2019/20. To manage this risk, the Ministry of Health continues to consider its existing spending to identify areas where there is potential to reprioritise funding. However, reprioritisation can be challenging given its impact on clients, providers and programmes.
22. s 9(2)(f)(iv)

### *General risks*

23. 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.
24. 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. PHARMAC is also examining its decision-making processes to make sure funding decisions do not contribute to inequities for priority populations.
25. 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.
26. 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.
27. 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.
28. 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. As it is not yet understood precisely what will be purchased and in what quantities, we cannot know exactly where these costs will lie. While this risk has not yet been fully assessed, the Ministry of Health expects flow-on costs to be minor, but potentially distributed unevenly across DHBs.
29. 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.

### **Consultation**

30. The following agencies were consulted on this paper: The Treasury, and the Department of the Prime Minister and Cabinet.

## Financial Implications

31. I propose an increase to the CPB s 9(2)(b)(ii) [REDACTED]. This investment would amount to \$60 million over two years: \$20 million in the 2019/20 financial year; and \$40 million in 2020/21.

\$ million	2019/20	2020/21
Current CPB level	995	995
New Funding	20	40
Total level of CPB	1,015	1,035

32. Funding for this investment in the CPB would be appropriated to DHBs, with funding allocated in line with the Population Based Funding Formula.

33. s 9(2)(f)(iv) [REDACTED]

34. s 9(2)(f)(iv) [REDACTED]

- 34.1 s 9(2)(f)(iv) [REDACTED]

- 34.2 \$14.8 million in In Principle Expense Transfers (IPETs) which have previously been approved by Joint Ministers. This paper seeks early confirmation of this IPET to transfer the 2018/19 underspends into the 2019/20 financial year. These underspends will then be reprioritised to purchase new medicines.

- 34.3 \$8.5 million of general Vote Health underspends from various sources

## Legislative Implications

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

## Human Rights

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

## Gender Implications

37. There are no gender implications arising from the recommendations in this paper.

## Disability Perspective

38. There are no implications for disabled people arising from the recommendations in this paper.

## Publicity

39. I propose a public announcement for 28 August 2019.

## Proactive Release

40. 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 Cabinet:

- Note** that this paper reports back to Cabinet to seek final decisions on increasing the Combined Pharmaceuticals Budget (CPB), including the source of funding for the increase in 2019/20 and 2020/21, any necessary changes to DHB appropriations, and timing of a public announcement.
- Note** that an additional \$60 million increase in the level of the Combined Pharmaceutical Budget over two years would give PHARMAC additional scope to invest in more new s 9(2)(b)(ii) medicines.
- Note** [REDACTED]  
s 9(2)(b)(ii)  
[REDACTED]
- Agree** to increase the level of the Combined Pharmaceutical Budget by \$60 million over two years with an increase of \$20 million in the 2019/20 financial year, and \$40 million in the 2020/21 financial year; from the following funding sources:

\$ million	Total
2018/19 Vote Health underspends (usually reflected in year-end financial results)	8.500
Existing IPETs in Vote Health (unaudited)	14.800
<u>s 9(2)(f)(iv)</u> [REDACTED]	[REDACTED]
<u>s 9(2)(f)(iv)</u> [REDACTED]	<u>s 9(2)(f)(iv)</u>
<b>Total</b>	<b>60.000</b>

5. **Note** if Cabinet agrees an increase in the level of Combined Pharmaceutical Budget, PHARMAC need time to negotiate and put in place necessary commercial arrangements before any Ministerial announcements can be made.
6. **Note** that in the 2019/20 and 2020/21 financial years, funding to increase the level of the Combined Pharmaceutical Budget will be appropriated to DHBs, and funding will be allocated across DHBs in line with the population based funding formula.
7. **Note** that \$14.800 million of the \$60 million required for PHARMAC will come from existing in-principle expense transfers that have already been approved by Joint Ministers.
8. **Approve** early confirmation of the in principle expense transfers detailed in recommendation 7 to allow funding to be reprioritised to PHARMAC in 2019/20.
9. **Note** that the amount sought for early confirmation in recommendation 8 above is based on unaudited year-end financial results however there is sufficient certainty for these to be reprioritised.
10. **Approve** the following changes to appropriations to give effect to the decision in recommendation 4 above, with a corresponding impact on the operating balance and net core Crown debt:

<b>Vote Health Minister of Health</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22 and outyears</b>
<b>Non-Departmental Output Expense:</b>			
Health and Disability Support Services - Auckland DHB	1.902	3.804	-
Health and Disability Support Services - Bay of Plenty DHB	1.122	2.244	-
Health and Disability Support Services - Canterbury DHB	2.168	4.336	-
Health and Disability Support Services - Capital & Coast DHB	1.140	2.280	-
Health and Disability Support Services - Counties-Manukau DHB	2.200	4.400	-
Health and Disability Support Services – Hawke’s Bay DHB	0.768	1.536	-
Health and Disability Support Services - Hutt DHB	0.594	1.188	-

Health and Disability Support Services - Lakes DHB	0.500	1.000	-
Health and Disability Support Services - MidCentral DHB	0.800	1.600	-
Health and Disability Support Services - Nelson-Marlborough DHB	0.680	1.360	-
Health and Disability Support Services - Northland DHB	0.928	1.856	-
Health and Disability Support Services - South Canterbury DHB	0.280	0.560	-
Health and Disability Support Services - Southern DHB	1.350	2.700	-
Health and Disability Support Services –Tairāwhiti DHB	0.254	0.508	-
Health and Disability Support Services - Taranaki DHB	0.522	1.044	-
Health and Disability Support Services - Waikato DHB	1.796	3.592	-
Health and Disability Support Services - Wairarapa DHB	0.220	0.440	-
Health and Disability Support Services - Waitemata DHB	2.278	4.556	-
Health and Disability Support Services - West Coast DHB	0.172	0.344	-
Health and Disability Support Services - Whanganui DHB	0.326	0.652	-
§ 9(2)(j)			
Public Health Service Purchasing	(6.700)		
<b>Total operating</b>	<b>(1.500)</b>	<b>40.000</b>	<b>-</b>

11. **Agree** that the changes to the appropriations for 2019/20 in recommendations 8 and 10 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

12. § 9(2)(f)(iv)



13. **Note** that s 9(2)(f)(iv) [REDACTED]  
[REDACTED]  
[REDACTED] \$8.5 million will be sourced from underspends in 2018/19.
14. **Note** that the contribution towards this initiative from Vote Health reprioritisation will reduce the ability to respond to fiscal risks within Vote Health and will result in these risks being returned to the Centre.
15. **Note** that ongoing funding requirements from 2021/22, s 9(2)(f)(iv) [REDACTED]  
[REDACTED], will be considered through future Budget processes.

Authorised for lodgement

Hon Dr David Clark

Minister of Health