

21 November 2003

District Health Boards

Dear All

**Rebates on Community Pharmaceuticals – an update**

There have been a number of requests recently from DHBs for a forecast of rebates for 2003/04. This letter aims to satisfy those requests as well as provide an update on other aspects of community pharmaceutical rebates.

*Budget for 2003/04*

The notional community pharmaceutical budget for 2003/04 is currently set at \$566.6 million (net of rebates) ex manufacturer excluding GST – this was approved by the Minister of Health on 24 September 2003. The increase of \$27.6 million compared with the budget set at the start of the year (\$539 million) is for the “all-at-once” dispensing initiative. DHBs and PHARMAC have agreed, given the implementation of two major policy changes this year (all-at-once dispensing and further PHO establishment), this budget should be reviewed quarterly throughout the year. It will next be reviewed in December 03.

*Forecast Rebates for 2003/04*

PHARMAC’s July 2003 Forecast Update projected rebates for 2003/04 at \$65.13 million. Payments received since this forecast and since our final accrual for 2002/03 indicate that this should now be increased to \$67.98 million. Our official November 2003 Forecast Update will be available in December and, hence, we will provide an update on our forecast at that time.

*Agreed Deductions*

Deductions from rebates provide a simple way for DHBs to pay for additional services managed by PHARMAC. Before PHARMAC deducts any amounts from rebates, we gain approval via letter from all DHB CEOs. Current approved deductions for 2003/04 include the following:

Exceptional circumstances	\$2.5 million
Stat dispensing implementation costs	\$0.5 million
Funding shortfall for Demand Side	\$0.277 million
Total	\$3.277 million

Forecast rebates to distribute in 2003/04 (excluding interest) therefore currently total \$64.703.

PHARMAC will shortly be seeking approval to fund from rebates the top up required to fully subsidise diabetes test strips currently distributed by Diabetes NZ. This amount currently totals \$0.125263 million. If this is approved, total rebates to distribute will be around \$64.58.

#### *Rebate distributions for 2003/04*

PHARMAC will make four rebate distributions in 03/04. We will aim to make the first of these before Christmas this year. The second will be made around June next year. The third will be around September and a wash-up will be distributed after October. PHARMAC will use the distribution percentages below to distribute interim rebate payments. The wash-up will be used to ensure that all payments are finally distributed, again, in proportion to the use of each drug for which a rebate is received for the period over which the rebate is calculated.

#### *Rebates to distribute for 2002/03*

PHARMAC's final accrual for 2002/03 rebates was \$65,698,019 plus interest. Agreed deductions totalled \$2.5 million. Hence, the final amount for distribution totals \$63,198,019 plus interest. Interest for distribution in 02/03 totalled \$808,455. Hence, there is a total of \$64,006,474 to be distributed for 02/03 as follows (interest is being distributed in proportion with the distribution of rebates):

DHB	Distributed to date				Share of 02/03 total		Washup Distribution
	Jan-03	Jun-03	Oct-03	Total	Pct	\$	
Auckland	2,523,097.45	2,352,041.27	1,278,361.55	6,153,500.27	12.4%	7,911,819.48	1,758,319.21
Bay of Plenty	932,862.09	1,034,087.11	562,038.27	2,528,987.47	5.0%	3,215,938.64	686,951.17
Canterbury	2,374,903.48	2,412,869.93	1,311,422.63	6,099,196.04	12.1%	7,728,740.85	1,629,544.81
Capital Coast	1,204,551.04	1,297,677.94	705,302.93	3,207,531.91	6.1%	3,880,276.94	672,745.03
Counties Manukau	1,500,939.00	1,723,478.52	936,730.45	4,161,147.97	8.5%	5,446,899.72	1,285,751.75
Hawkes Bay	720,070.73	770,496.28	418,773.61	1,909,340.62	3.7%	2,388,682.81	479,342.19
Hutt	653,573.44	709,667.63	385,712.54	1,748,953.61	3.4%	2,170,349.83	421,396.22
Lakes	431,282.47	446,076.79	242,447.88	1,119,807.14	2.2%	1,438,847.60	319,040.46
Mid Central	786,568.03	851,601.15	462,855.04	2,101,024.22	3.9%	2,527,590.50	426,566.28
Nelson Marlborough	568,076.91	608,286.54	330,610.75	1,506,974.20	3.1%	2,001,707.10	494,732.90
Northland	657,373.28	729,943.84	396,732.90	1,784,050.02	3.5%	2,265,664.13	481,614.11
Otago	1,111,454.83	1,115,191.98	606,119.70	2,832,766.51	5.3%	3,400,284.55	567,518.04
South Canterbury	305,887.57	364,971.92	198,366.45	869,225.94	1.9%	1,195,934.88	326,708.94
Southland	473,080.77	486,629.23	264,488.60	1,224,198.60	2.3%	1,466,392.57	242,193.97
Tairāwhiti	170,993.05	182,485.96	99,183.22	452,662.23	0.8%	528,053.30	75,391.07
Taranaki	518,678.92	527,181.66	286,529.31	1,332,389.89	2.6%	1,647,518.60	315,128.71
Waikato	1,499,039.07	1,601,821.21	870,608.30	3,971,468.58	7.9%	5,033,742.81	1,062,274.23
Wairarapa	199,491.89	202,762.18	110,203.58	512,457.65	1.0%	653,675.89	141,218.24
Waitemata	1,899,922.78	2,331,765.05	1,267,341.19	5,499,029.02	11.7%	7,508,853.31	2,009,824.29
West Coast	153,893.75	182,485.96	99,183.22	435,562.93	0.9%	549,105.23	113,542.30
Whanganui	313,487.26	344,695.70	187,346.09	845,529.05	1.6%	1,046,395.55	200,866.50
			Totals	50,295,803.87		64,006,474.29	13,710,670.42

These distribution percentages are based on DHB spending on each drug for which a rebate has been received for the period over which the rebate was calculated.

We remind you that PHARMAC treats a rebate as relating to the 2002/2003 year when the last day of the calculation period of the rebate falls between 1 July 2002 and 30 June 2003. PHARMAC does not accrue for rebates until the last month of the calculation period. PHARMAC's view is that there is insufficient certainty regarding the quantum and recovery of the rebates to account for them before this time.

We note that this final accrual for rebates (excluding interest) is \$3.1 million below the figure last provided to DHBs in our Pharmaceutical Spending Overview Report in May 03. We also note,

however, that PHARMAC's final outturn for 2002/03 (which also excludes interest) is \$512.7 million - \$3.3 million below our budget.

The wash-up distribution will be direct credited to your accounts on Wednesday 26 November 2003.

We would appreciate it if you could ensure that the correct person within your DHBs receives this information. If you have any questions in relation to the distribution payments, please contact Jan Edwards, Finance Manager on telephone 04 916 7518. All other questions should be directed to Matthew Brougham, Manager, Analysis and Assessment on telephone 04 960 4990.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'W. McNee', is centered below the text 'Yours sincerely'.

Wayne McNee  
Chief Executive