

Setting and managing the Community Pharmaceutical Budget



Having a budget

Most people use a budget to manage their household spending. We take a similar approach to manage spending on medicines. Having a budget means you have to take a disciplined approach to spending to make sure you get the most from your money. In our case, we're making choices to try to get the best health outcomes for New Zealanders from the money available for pharmaceuticals.

What's special about medicines?

Medicines are the only part of the NZ health sector where a separate government agency manages a defined budget on behalf of District Health Boards. The emphasis on 'manages' is important: PHARMAC does not hold the money as it continues to be held and spent by DHBs.

What is the Community Pharmaceutical Budget for?

This budget is purely for subsidies for community pharmaceuticals – those medicines that are dispensed by your pharmacist. It does not include:

- Hospital medicines – funded by District Health Boards.
- Cancer medicines – funded by District Health Boards.
- PHARMAC's operating budget – this is a non-medicine budget, used to meet the day-to-day costs of running PHARMAC and set by the Minister of Health.
- Payments for distribution, such as the fees that your pharmacist receives.

3-year Funding Path

PHARMAC has an indicative 3-year 'funding path' for the Community Pharmaceutical Budget. This allows us to make medicine investments and be confident that we will still be able to afford those medicines in later years. Without this knowledge, it would be much more difficult to guarantee ongoing medicine subsidies for patients.

Monitoring Expenditure & Forecasting

To stay within budget, we constantly monitor our medicines spending, and must forecast future expenditure before deciding to subsidise new medicines. This involves making a range of assumptions, about factors such as demand trends for existing medicines and likely future use of newly funded medicines. When we're thinking about subsidising a new medicine, we need to weigh up future cost implications against budget projections to ensure we can continue to subsidise that medicine in the future.

Why does PHARMAC always underspend its budget?

PHARMAC is required by law to remain within budget. Our spending decisions directly affect District Health Boards, who hold the funding for medicines. If PHARMAC overspent the Community Pharmaceutical Budget, District Health Boards would have to reduce their spending in other areas in order to meet this overspend, which could impact other important health areas. If PHARMAC underspends, District Health Boards retain the funding for use on other health interventions.

Gross expenditure and net expenditure – what is the difference?

There are two expenditure figures – gross and net. Gross expenditure is the total amount spent on medicines before taking into account any "rebates" we may receive from pharmaceutical suppliers. Net expenditure is the amount spent on medicines after rebates have been deducted.

Rebates are amounts of money repaid to District Health Boards (via PHARMAC) by pharmaceutical suppliers based on supply agreements. They are used to reduce the cost of medicines where the pharmaceutical company is unable to notify a lower price (e.g. because of concern over price disclosure or re-export of low priced products). Rebates can also be used to manage risk of expenditure blow-outs by "capping" public expenditure at a certain level, with the company taking on the excess. This is known as a risk-sharing agreement.

Measuring expenditure growth

Medicine prices in New Zealand have fallen significantly over more than a decade. This means that PHARMAC's purchasing power has increased significantly, three-fold since 1993. Today we are able to subsidise a much higher volume of medicines with, say, a million dollars, then we would have been able to a few years ago.

To accurately measure medicines expenditure over time, we use a pharmaceutical price index, which tracks pharmaceutical price movements. The Consumer Price Index (CPI), by comparison, measures changes in the price of general goods and services and has little, if any, relevance to price movements in medicines.

How is the budget set?

Medicines New Zealand, the Government's medicines strategy, requires work to improve the budget setting process. The general process at this time is as follows.

Step 1: Discussion

We discuss the level of funding for community medicines for the coming year, as well as for two years into the future, with District Health Boards. We provide District Health Boards with a budget proposal based on an analysis of medicine usage trends and potential new medicines investments.

Step 2: Recommendation

After discussion, we make a budget recommendation to the Minister of Health, either a joint recommendation with DHBs or separate recommendations. This includes a recommendation for the coming financial year as well as a likely range for the budget for the following two out-years.

Step 3: Decision

The Minister makes a decision and advises PHARMAC and District Health Boards of the confirmed budget.

Step 4: Publication

The confirmed budget for the coming financial year is publicised.

PHARMAC is the Government agency that decides, on behalf of District Health Boards (DHBs), which medicines get subsidised so that they are more affordable for New Zealanders and available nationally. The subsidies PHARMAC sets are funded from a fixed budget that is part of DHB funding. PHARMAC also promotes the optimal use of medicines, carries out some procurement for DHBs, and manages special access programmes for some medicines.

Information Sheets on various PHARMAC topics are available from our website: www.pharmac.govt.nz/patients/infosheets

If you have specific areas of interest (such as consultations, committees or vacancies), visit our website and subscribe to news feeds in the area(s) of interest to you: <http://pharmac.govt.nz/feeds>

Contacting Us

Call us on 0800 66 00 50 (between 9am and 5pm, Monday to Friday), or on 04 460 4990 (between 8am and 5.30pm, Monday to Friday).

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