

# Purchasing Medicines



## PHARMAC and medicines purchasing

Many countries have a national agency to manage Government-funding for medicines. In New Zealand the list of funded (subsidised) medicines, and the rules applying to funding, are contained in the 'Pharmaceutical Schedule'. PHARMAC determines what medicines to include in the Schedule, and under what rules.

Although we might talk about PHARMAC as a national medicine-buyer and refer to purchasing strategies, PHARMAC does not actually purchase medicines, nor does it stock them, nor distribute them. These functions are undertaken by other organisations. PHARMAC's role is to *manage* the funding that District Health Boards set aside for spending on community pharmaceuticals. However, our activity has many of the same features and consequences of purchasing

New Zealand has decided to operate within a fixed medicines budget. Because of that, we need to make decisions between competing priorities to achieve the best health outcomes for New Zealanders. To get the best value from our budget, we use a range of purchasing strategies.

Since we began, we have consistently managed to stay within our budget, while growing the range of medicines available to all New Zealanders.

## Our purchasing methods

Most of us making a major purchase get a range of quotes before deciding on what to buy, or which service to choose. Where there is competition between suppliers of a product or service, we all expect lower prices and improved products. Funding medicines is no exception.

Making the most of competition between pharmaceutical companies is the main way PHARMAC improves the amount of medicines New Zealand can subsidise. It can be difficult to talk about economic concepts alongside peoples' health, which of course can't just be measured in monetary terms. Economic concepts, however, are vital to making the best possible decisions.

We encourage competition among pharmaceutical suppliers by using a range of purchasing methods, further explained below.

**Negotiation** - We negotiate with funding applicants, normally for supply of patented medicines. As funding applicants are competing for funding from a fixed budget, and our focus is on prioritising investments, such negotiating increases the degree of competition between suppliers.

Patented medicines are those where companies have a legal protection to be the only supplier (accepting the wider benefits of rewarding and protecting innovation). Like any monopoly, however, this confers significant market power to the supplier. PHARMAC seeks to balance out this power by negotiating with the supplier. Negotiating can also involve more than one product at one time (see 'multi-product agreements' below)

**Tendering** - When medicines are no longer under patent, other suppliers are able to sell 'generic' versions. This allows for competition, often between a number of suppliers. Tendering for medicines has been a very successful strategy.

The company gets sole subsidised supply of the medicine for a fixed term (usually three years), and this security gives them a major incentive to offer us the best price. As well as saving public money through lower prices, tenders also secure the supply of medicines through a contract.

We have run a tender every year since 1997, when one product was tendered. Now nearly half of all subsidised medicines (by volume) are purchased through the tender, and it has generated savings of more than \$300 million. These savings are used to make other medicines available.

We think carefully about which medicines to tender for, and take advice from a committee of doctors and pharmacists to assess bids before finalising tenders.

**Alternative Commercial Proposals (ACPs)** - When we consult with pharmaceutical suppliers on proposed tender product lists, we invite them to submit ACPs to protect their products from tendering. PHARMAC's job is then to decide whether the ACP provides a better outcome than the likely outcome from tendering. There are a number of reasons why a pharmaceutical company might be able to offer a better option through the ACP process than the tender (e.g. see rebates, below).

## Rebates

Contracts with pharmaceutical companies may also include a rebate on the cost of the medicine. Rebates are paid by the pharmaceutical company back to District Health Boards (via PHARMAC) on medicines that are subsidised. This is an effective way to obtain lower prices where that lower price couldn't otherwise be provided. Low pricing in New Zealand could encourage re-export of our medicines to other countries paying higher prices, and rebates can help reduce that.

## Expenditure caps

Expenditure caps are an effective way of sharing risk and are particularly useful when we know there is uncertainty and potential risk around the likely uptake of the medicine. If annual spending exceeds the agreed cap, the balance (or a portion of it) is refunded. This can help manage spending within budget, by reducing or taking away uncertainty over what the budget impact may be, or of getting volume-related discounts.

## Multi-product agreements

These agreements are also known as 'bundling'. Many pharmaceutical companies have portfolios of products and can offer price reductions on older medicines in return for a new medicine being subsidised. Bundling products together in this way allows us to make available new medicines that wouldn't otherwise be affordable.

## Reference pricing

Reference pricing is where we pay the same subsidy for medicines that have the same or similar therapeutic effect. For example, oral contraceptives are reference priced.

A supplier can set its price higher than the 'reference price' subsidy. However, if it does the medicine becomes partly-subsidised. Usually when this happens, people choose to move to the fully subsidised option because it is cheaper for them. We aim to have at least one fully subsidised medicine in each therapeutic subgroup.

We think carefully about which medicines can be reference priced, because we know it can be difficult for people to change their medicine. We ask our committees of expert doctors for advice when we're thinking about reference pricing.

## Requests for Proposals (RFPs)

An RFP is an invitation for suppliers to submit a proposal for supply of a specific medicine or medicines. RFPs are often used to generate competition between suppliers for subsidy of certain medicines, when tendering is not appropriate – for example, offering preferable access criteria to a medicine for a period of time.

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](http://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).

Write to us at: **PHARMAC, PO Box 10 254, Wellington**  
– we respond to all letters

Email us at [enquiries@pharmac.govt.nz](mailto:enquiries@pharmac.govt.nz) – we respond to all emails