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15 December 2016

Hon Dr Jonathan Coleman
Minister of Health
Parliament Buildings

Dear Minister

APPROVAL OF 2017/18 PHARMACEUTICAL BUDGET BID

This letter provides you with PHARMAC and DHBs' joint advice to inform your decision on the Combined Pharmaceutical Budget (CPB) for 2017/18. The recommended funding level – and funding path ahead – includes the Government's additional commitment to funding medicines as part of Budget 2016 (\$124 million over 4 years). This funding boost has been welcomed by many stakeholders.

Separate to this approval process, which has been mindful of DHB expenditure pressures, PHARMAC is also continuing to consider the strength of case for additional Government funding as part of Budget 2017. Further work as part of that process, managed by the Ministry of Health, is required to determine the value and priority of any additional funding.

Combined Pharmaceutical Budget (CPB) recommendation

PHARMAC and DHBs recommend a budget increase of 0.14% to \$850.8m for 2017/18. This level is consistent with the funding path approved last year, plus the Government's additional funding up to and including 2019/20.

	2016/17	2017/18	2018/19	2019/20	2020/2021
DHB expenditure (\$m)	810.6	821.8	835.3	848.8	887.3
New Government funding from Budget 2016	39	29	29	27	–
Total level of CPB (\$m)	849.6	850.8	864.3	875.8	887.3
% increase from previous year	6.2%	0.14%	1.59%	1.33%	1.31%

The recommended increase provides limited but sufficient scope for new investment in 2017/18, with minimal short-term impacts for DHBs in other service areas. It is estimated to be cost saving to DHBs in the longer term. Greater scope for new medicine funding is forecast to open up from 2018/19, with PHARMAC proposing out-year increases of around 1.5%, combined with a falling baseline expenditure forecast.

Future considerations

PHARMAC's decisions generate a future stream of impacts, both costs and savings, in service areas outside of pharmaceutical subsidy costs. We are committed to further engaging with DHBs on such matters, particularly with regard to wider implications of the CPB level on other DHB expenditure, as well as future considerations outside the immediate budget setting horizon.

The last year has seen some important positive developments in our work together. This continues a joint effort to further enhance the PHARMAC and DHB working interface, consistent with the New Zealand Health Strategy's expectation that health entities actively pursue a better-integrated and consumer-focussed system.

Recommendations

It is recommended that you:

agree to a Combined Pharmaceutical Budget increase of 0.14% to \$850.8m for 2017/18; YES/NO

agree the indicative out-year funding path as set out below; YES/NO

	2017/18	2018/19	2019/20	2020/2021
DHB expenditure (\$m)	821.8	835.3	848.8	887.3
New Govt. funding from Budget 2016 (\$m)	29	29	27	–
Total level of CPB (\$m)	850.8	864.3	875.8	887.3
% increase from previous year	0.14%	1.59%	1.33%	1.31%



Yours sincerely

Jenny Black
Chair, District Health Boards New Zealand

Stuart McLauchlan
Chair, PHARMAC

Copy to:
Ministry of Health – Director-General, CFO & Director P, R & A
DHB Chairs and CEs
PHARMAC Board and CE