

# Making funding decisions

## The medicine funding environment

None of us can have everything we want; our personal resources only stretch so far. The same is true of healthcare and medicines. There will always be a greater demand for funded medicines than the available resources allow.

Rapid sharing of information leads to heightened public desire for new medicines to be funded. Further, when a new medicine becomes available, it is often presented as doing the job better than older medicines. But newer isn't necessarily better and part of our job is to assess all medicines and fund those that make the most improvement in the health of New Zealanders.

All New Zealanders are, in some way and at some time, affected by the decisions we make. To ensure that the funding of medicines is as fair and robust as possible, we use nine decision criteria and an established process that includes expert clinical advice, and internal analysis by PHARMAC of clinical, economic and commercial issues. We also seek the views of the wider community through consultation where appropriate. These processes are outlined in our Operating Policies and Procedures.

The job of assessing the potential health outcomes and allocating a subsidy to a medicine is challenging and complex. The decision making process is shown in the diagram below.

## The Decision Criteria

The Decision Criteria are not weighted or applied rigidly as the situation for one assessment may require quite different considerations compared with another. Decisions are made relative to other options, and the context within which decisions are made is constantly changing. The criteria are:

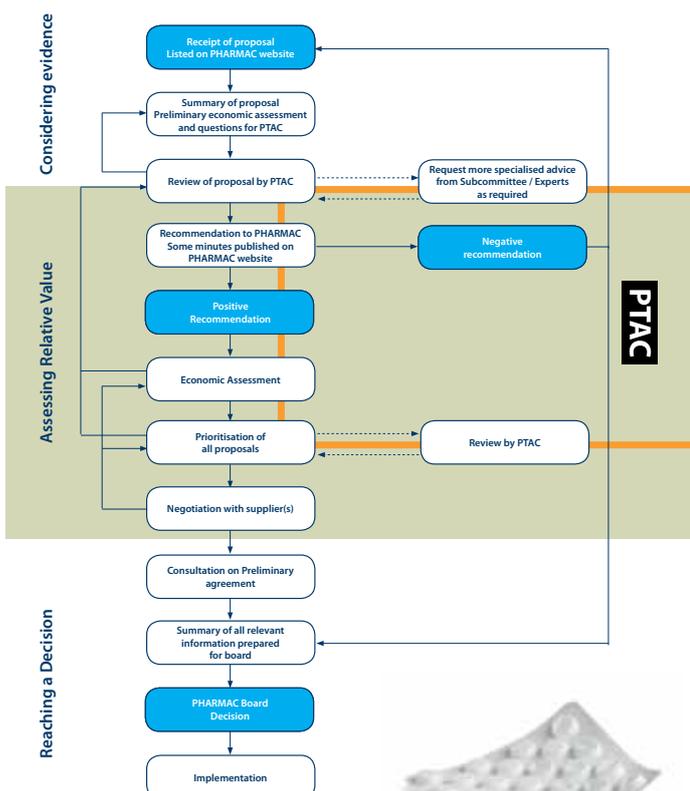
- the health needs of all eligible people within New Zealand;
- the particular health needs of Māori and Pacific peoples;
- the availability and suitability of existing medicines, therapeutic medical devices and related products and related things;
- the clinical benefits and risks of pharmaceuticals;
- the cost-effectiveness of meeting health needs by funding pharmaceuticals rather than using other publicly funded health and disability support services;
- the budgetary impact (in terms of the pharmaceutical budget and the Government's overall health budget) of any changes to the Pharmaceutical Schedule;
- the direct cost to health service users;
- the Government's priorities for health funding, as set out in any objectives notified by the Crown to PHARMAC, or in PHARMAC's Funding Agreement, or elsewhere; and
- such other criteria as PHARMAC thinks fit. PHARMAC will carry out appropriate consultation when it intends to take any such 'other criteria' into account.

## How does PHARMAC decide which medicines should be funded?

We undertake a range of work for each funding application, which falls into three broad assessment areas: clinical, economic and commercial. These areas are interrelated in practice but are described separately below to help clarify the considerations within each area.

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## Schedule decision making process



## Clinical assessment

- What are the existing treatments/alternatives in the area?
- Is this medicine any better than what is available already?
- How do we know it is better?
- How reliable is the clinical trial data? What time period does it cover?
- Is something 'proven' or is evidence still emerging?
- Has all available evidence been provided?
- Are there any side effects that need to be considered?
- How big a population will it treat?
- Does access need to be targeted for the medicine to work well?

Our main clinical advice comes from an expert committee of clinicians - the Pharmacology and Therapeutics Advisory Committee (PTAC). In addition, there is a network of subcommittees providing specialised advice on a range of medical areas. Overall, these committees provide us with a resource of over 50 practising clinicians to call upon for advice. Committees also consider the nine decision criteria when making recommendations.

We also employ people within PHARMAC with clinical expertise – in medical practice, pharmacy, public health or the science of pharmacology – and with links to other health professionals. This expertise is crucial in helping us manage the funding process.

## Economic assessment

Economic assessment looks at the costs and benefits of a proposed course of action. It's based on three fundamental concepts that summarise the issues PHARMAC faces daily:

- scarcity - resources will always be insufficient to support all possible activities
- choices - due to scarce resources, decisions must be made regarding how best to use them
- opportunity cost - by choosing to use resources one way, we forgo other opportunities to use the same resources.

The way PHARMAC assesses pharmaceuticals is described in the Prescription for Pharmacoeconomic Analysis (PFPA), a document that is published on the PHARMAC website. Most funding decisions involve spending more for the additional health gains. Cost utility analysis enables us to compare these potential funding options on a more-or-less equal basis, and rank them in order of priority. Cost-utility analysis includes consideration of:

- effects on quality of life (e.g. ability to work/perform usual activities, pain/anxiety, mobility) as well as effects on the duration of life
- short and long-term effects
- changes to the cost of pharmaceuticals

- changes to other health sector costs (e.g hospitalisations, doctor visits)
- the risk and uncertainties of the evidence available.

Assuming that the impact on the other decision criteria is identical, the more cost-effective an intervention is the more likely it is to be funded.

## Commercial Assessment

We all like to get the best deal we can when making a purchase, and as a medicine funder PHARMAC is no different.

We encourage price competition through the use of competitive processes such as tendering for supply (asking for quotes), and reference pricing (applying the same subsidy to all medicines with same or similar effects). PHARMAC does not 'regulate' prices by requiring that pharmaceutical companies supply at a particular price, rather we negotiate subsidies on a 'willing buyer-willing seller' basis.

Commercial assessment means establishing whether funding proposals from pharmaceutical companies represent a good deal. There are many aspects to this, such as using economic assessment, comparing prices for existing subsidised medicines in the same therapeutic group and with those that other countries are paying (see our Purchasing Medicines information sheet for further information).

When we think we have reached a good agreement, the next step is to consult with our stakeholders.

## Consultation

Before we make a medicine funding decision or make a change to our policies, we want to be sure that we have considered all the possible reasons for and against a decision, and any likely implications. One way we do this is to consult where appropriate with people who are interested in the decision or who may be affected by the decision, to get feedback on our proposed approach and hear their views. We welcome all the views we receive, whether from health professionals, the pharmaceutical industry, consumer and patient groups, Government agencies or the general public.

See the Getting Involved in PHARMAC Decision-Making Information Sheet to find out how you can let us know your views.

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## Contacting Us

Call us on **0800 66 00 50** (between 9am and 5pm, Monday to Friday),  
Write to us at: **PHARMAC, PO Box 10 254, Wellington** – we respond to all letters  
Email us at **enquiry@pharmac.govt.nz** – we respond to all emails

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**

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