

Briefing

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Briefing:	Budget 2025 Update		
Security level:	Budget Sensitive		
To:	Hon David Seymour, Associate Minister of Health		
Copy to:	Pharmac Board Chair: <input checked="" type="checkbox"/> Ministry of Health: <input checked="" type="checkbox"/>		

Contact for further information

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Recommendations

We recommend that you:

- note** the contents of the Briefing, including potential investment options for Budget 2025 **Yes/No**
- note** that the Briefing should be considered alongside the invitation letter for Budget 2025, recently released by the Minister of Finance. **Yes/No**

Sarah Fitt

Sarah Fitt

Chief Executive

Date: 27 November 2024

Hon David Seymour

Associate Minister of Health

Date:

Budget 2025 Update

Purpose of report

1. On 13 November, you requested initial estimates to support upcoming discussions for Budget 2025.
2. This briefing complements the invitation letter for Budget 2025, recently released from the Minister of Finance.

Summary

3. This briefing provides you with high-level estimates and descriptions of proposed investment options and potential budget bids that Pharmac could progress in preparation for Budget 2025. This includes:
 - an uplift to the medicines budget (Combined Pharmaceutical Budget - CPB), including a pilot programme for societal impacts.
 - investment in future operating costs to support potential medicines budget uplifts and relieve ongoing cost pressures.

Background

4. This briefing has been prepared to provide you with advice and high-level estimates of potential investment options for Budget 2025.
5. This follows discussions held with the Pharmac Board Chair and Chief Executive on Wednesday 13 November – and associated request to provide estimates for an uplift to the medicines budget (CPB) and pilot programme for societal impacts.
6. We have consulted with the Ministry of Health on this briefing. We also understand that you have received a copy of the Minister of Finance's invitation letter for Budget 2025. We hope that this briefing will help support discussion on your thinking and direction of potential initiatives in response to this invitation.

Proposed Investment Options

7. You signalled in Pharmac's 2024/25 Letter of Expectation that you want Pharmac to put forward budget bid requests to you, as our responsible Minister, in a manner which maintains Pharmac's independence but supports additional investment.

8. While further work is required over coming months, we have been coordinating with the Ministry of Health on two potential budget bids for Budget 2025 as follows:
 - increase to the medicines budget (CPB), including a pilot programme for societal impacts.
 - investment in Pharmac's operating budget to support these initiatives and associated organisational transformation.

Investment in the Medicines Budget (Combined Pharmaceutical Budget)

Societal Impacts

Update of Progress

9. In line with your expectations, Pharmac has been exploring approaches to considering societal impacts when assessing funding applications.
10. We have engaged with local and international experts on Pharmac's economic (evaluation) perspective and options for broadening it. We have now received expert feedback which will help inform the updated Pharmac's health economic guidelines which we shall consider in early 2025.
11. Pharmac has a societal perspective assessment pilot underway with Erasmus University in the Netherlands. Researchers at Erasmus have been tasked with widening the lens from a health system perspective to a social perspective for four assessments on the options for the investment list. Their work, capturing the wider costs and benefits associated with the four assessments, will be completed by mid-December 2024. Pharmac staff will then incorporate their findings into the existing models to create four societal perspective assessments. We should be in a position to provide you with further information early in 2025 to align with Budget 2025 timelines and process.

Investment Option (Pilot Programme)

12. To support the pilot programme, additional medicines budget funding will be required. Investment in the pilot programme will include the funding of treatments for:
 - a cardiovascular disease
 - a chronic skin condition
 - a cancer
 - a rare disorder.
13. If no additional funding is provided, we would have to meet costs within existing baselines which would mean we would not be able to progress as many new investments as planned following the June 2024 medicines budget funding uplift.
14. The estimated cost of funding the treatments in the pilot assessment, assuming they were assessed to be better value than the top-ranking items on the OFI for the same amount of money, is as follows:

	2025/26	2026/27	2027/28	2028/29	Total
Total estimated additional cost (CPB)	\$8.07M	\$11.05M	\$13.70M	\$16.08M	\$48.90M
Impact	Number of patients year 1 = 2,300 Number of patients year 4 = 6,200				

Increase to the Medicines Budget (Combined Pharmaceutical Budget)

15. While the recent medicines budget (CPB) funding uplift of \$604 million over four years allows Pharmac to progress a significant number of new investments, there are always more medicines to fund than available budget. There are also future new innovative medicines coming down the pipeline that we are either currently assessing or are yet to receive a funding application.
16. Pharmac has undertaken an initial assessment of the positive impact that would result from additional investment in medicines currently on the Options for Investment List (OFI).
17. These have been based on options of approximately \$50 million, \$100 million per year and total funding of the OFI (as it currently stands) – and outline the extent that medicines could be funded under each option.
18. Our analysis excludes proposals for new/widened access medicines that are on the OFI that are being progressed from the June 2024 budget uplift. All three options presented below also exclude vaccines currently on the OFI, the costs of which are highlighted separately, due to the significant sector-wide implementation costs.
19. For each option we have outlined the costs to the health sector of supporting the implementation of the proposed increase in medicines. These costs will include for example primary care, diagnostic and laboratory tests and hospital-related activity eg intra-venous infusion costs.

Option One (\$210 million over 4 years)

With an average of \$52.5 million per year for 4 years, we could fund 15 new or widened access medicines. This includes 2 cancer indications.

Total number of new or widened access medicines	15
Number of cancer new/widened access medicines	2

	2025/26	2026/27	2027/28	2028/29	Total
Total estimated additional cost (CPB)	\$46.00M	\$60.40M	\$52.38M	\$51.62M	\$210.41M
Estimated Health sector cost	\$1.99M	\$0.27M	\$0.76M	\$2.55M	\$5.57M
Patients	35,200	30,800	14,300	17,200	97,400

Option Two (\$420 million over 4 years)

With an average of \$105 million per year for 4 years, we could fund 31 new or widened/access medicines. This includes 10 cancer indications.

Total number of new/widened access medicines 31

Number of cancer new/widened access medicines 10

	2025/26	2026/27	2027/28	2028/29	Total
Total estimated additional cost (CPB)	\$91.23M	\$109.24M	\$107.41M	\$112.61M	\$420.49M
Estimated Health sector cost	\$5.02M	\$2.20M	\$3.1M	\$4.99M	\$15.37M
Patients	37,500	32,800	17,100	20,300	107,700

Option Three (Fund total OFI excluding vaccines)

With an average of \$239 million per year for 4 years, we could fund all 50 medicines on the OFI. This includes 14 cancer indications.

Total number of new/widened access medicines 50

Number of cancer new/widened access medicines 14

	2025/26	2026/27	2027/28	2028/29	Total
Total estimated additional cost (CPB)	\$262.08M	\$267.48M	\$204.19M	\$222.89M	\$956.64M
Estimated Health sector cost	\$5.97M	\$0.73M	\$0.75M	\$2.86M	\$8.86M
Patients	84,900	71,500	48,000	53,800	258,200

Vaccines

- Vaccination programmes involve health sector-wide implementation and costs. For example, payments to providers for the administration of the vaccine.

21. Additional funding for vaccines, due to the high implementation costs across the system, would need to be coordinated with the Ministry of Health and Health NZ as part of a joint budget bid.
22. We have estimated the following (below) individual costs associated with vaccines currently on the OFI. However, to ensure the integrity of the Pharmac model, any potential budget bid would need to consider where these vaccines are ranked on the OFI list. For example, if we get separate funding for all vaccines at once, and which does not include funding for other medicines that rank higher on the list, the vaccines will have been effectively queue jumped, which would impact the integrity of Pharmac's funding model.
23. To protect the integrity of the Pharmac model, funding for all vaccines would need to be considered alongside option 3 – to clear all items on the OFI. Funding for a reduced number of vaccine treatments would need to be separately modelled, to support options 1 and 2, depending on where they are ranked on the OFI in relation to the proposals covered by options 1 and 2.

Funding all vaccines on the OFI

Funding all vaccines on the OFI would cost \$157 million in the first year and \$358 million over four years, with an estimated cost to the wider health sector of \$216 million over four years.

Total number of new/widened access vaccines 7

Number of new/widened access cancer-related vaccines 0

	2025/26	2026/27	2027/28	2028/29	Total
Total estimated additional cost (CPB)	\$156.97M	\$86.74M	\$80.52M	\$33.98M	\$358.22M
Estimated Health sector cost	\$69.25M	\$51.01M	\$52.24M	\$43.14M	\$215.64M
Patients*	2,744,300	1,721,400	1,749,200	1,655,800	7,870,700

* patients receive multiple vaccines

Increasing period of supply limit for medicines

24. Cabinet is scheduled to consider a proposal to amend the Medicines Regulations 1984 to increase the period of supply limit (prescribing duration) for prescribed medicines, from 3 months to 12 months.
25. Removing barriers to accessing medicines is expected to lead to an increase in demand for funded medicines.
26. Pharmac's preliminary modelling estimates the fiscal impact on the medicines budget to be an increase in costs of \$32 million - \$61 million (\$42 million mid-range) in the first year.

27. There are potential significant fiscal risks for Pharmac. If proposed amendments to the Medicines Regulations are made in 2024/25 without a budget uplift, Pharmac will have to amend or potentially stop plans this year for planned investments in new or widened access to medicines following the June 2024 budget uplift.
28. If changes are made from 2025/26 and no new funding is provided in Budget 2025, we will have to meet costs within baseline, which would severely hamper Pharmac's ability to progress funding of new medicines or widening access.

	2025/26	2026/27	2027/28	2028/29	Total
Total estimated additional cost (CPB)	\$42.0M	TBC	TBC	TBC	TBC
Impact	Enables supply for prescribed medicines Meet cost pressures associated with legislative change				

Funding Medicines in Private Settings

29. We note that you have also requested advice on options to access publicly funded medicines in private settings, which could have an implication on the medicines budget (CPB).
30. Separate advice, via a Ministry of Health briefing, will be provided to your office. We are jointly working with the Ministry on the potential cost implications of associated initiatives.

Investment in Pharmac operating budget (including future cost pressures)

31. Pharmac's 2024/25 Letter of Expectations outlined a range of actions and improvements that the Government expects Pharmac to progress. Whilst we can progress most actions within existing operating budget baseline, additional investment in Pharmac's operating budget is required to make changes and improvements to accelerate our work to increase patient voice and engagement activity; modernise our data and digital infrastructure; and provide necessary additional capacity to deliver medical devices.

Investment in Operational Expenditure

32. Operational expenditure will be fully costed once preferred investment options for the medicines budget (CPB) are known.
33. Initial estimates to support a budget uplift, progress pilot programmes, and increase our patient voice and engagement activity are as follows:

	2025/26	2026/27	2027/28	2028/29	Total
Total estimated additional cost (baseline operating)	\$2.0M	\$2.0M	-	-	\$4.0M
Impact	Able to support budget uplifts and meet Government expectations. Supports organisational improvements, including enhanced consumer and patient voice activity, increased engagement activity, and decision-making capability.				

Investment in Data and Digital infrastructure

34. The old age of some of our IT systems is problematic which, when coupled with the growth in the scope and complexity of Pharmac's responsibilities, means that replacement of IT systems will be necessary to successfully deliver on our core functions, streamline operations, enhance our assessment and decision-making processes and keep up with expectations of our performance.
35. Historically we have not been able to replace some of our IT systems due to the age and complexity of the systems used within the health sector. Because of the significant IT changes occurring through Health NZ's Health Sector Agreements and Payments (HSAAP), we are at risk of being forced to replace our systems that interact with systems across the sector.

	2025/26	2026/27	2027/28	2028/29	Total
Total estimated additional cost (Operating)	\$6.50M	\$6.50M	\$6.50M	\$1.0M*	\$20.05M
Impact	Improves our ability to manage the Pharmaceutical Schedule and helps manage risk relating to IT upgrades elsewhere in the sector. Improved experience for suppliers, consumers and other stakeholders.				

**ongoing costs following implementation*

Investment in Medical Devices

36. Without additional investment in Pharmac's operational budget, Pharmac can't deliver the benefits and value from hospital medical devices that we are currently delivering to the health sector, as well as future increased benefit.
37. An estimated conservative saving of \$51 million per annum could be achieved in time through Pharmac applying its full management model to hospital medical devices. This would be achieved once Pharmac's business requirements are delivered by Health NZ's Finance Procurement Information Management (FPIM) System project.

38. Pharmac are planning to complete a comprehensive list of hospital medical devices by July 2025, and will then look to increase the value of this investment in the health system, through using a wider range of commercial approaches.
39. The Ministry of Health have commissioned an external review of the hospital medical devices programme. The planned timeframe for provision of Ministry advice to Ministers is early 2025. The outcome of the review and Ministerial decisions could impact a potential Budget 2025 proposal; advice to date has been to proceed with the Budget 2025 bid given the importance of the work and value-add to the health system.
40. While we await the outcome of the external review, we have costed the following option for indicative purposes that support the accelerated delivery of hospital medical devices programme. As well as delivering benefits and savings for the sector in the hospital context, this also allows for future scope expansion of the medical devices from hospital into community health, and into other government agencies who invest in medical devices in order to deliver greater value to the Crown.

	2025/26	2026/27	2027/28	2028/29	Total
Total estimated additional cost (baseline operating)	\$6.9M	\$8.7M	\$13.7M	\$14.4M	\$43.7M
One-off ICT cost	\$10.0M	-	-	-	\$10.0M
Impact	Up to a possible \$115 million in potential accumulated costs avoided over four years dependent on economic conditions and inflationary factors.				

Next Steps

41. Further to the Minister of Finance's invitation letter for Budget 2025, the Ministry is preparing a briefing to support the Health Budget 2025 bilateral meeting with the Minister of Finance on 5 December. All Health-portfolio Ministers will have an invitation extended to this bilateral.
42. This briefing will attach a shared annex of potential Budget 2025 initiatives, from which Ministers would agree with the Minister of Finance at the bilateral which options are invited. It would therefore be useful for both Pharmac and the Ministry to receive your direction on priority initiatives soon.
43. We will continue to report progress against the initiatives (including the pilot programme for societal impacts) in our monthly and quarterly reports.
44. Please let us know if you require any further information. We would be happy to discuss further.