

INTRODUCTION TO
PHARMAC

WHAT IS PHARMAC?

PHARMAC is the New Zealand government agency that decides which pharmaceuticals to publicly fund in New Zealand. PHARMAC makes choices about District Health Boards' (DHBs) spending on vaccines, community and cancer medicines.

Most New Zealanders will only notice this when they pick up a prescription from the pharmacy at a subsidised price, are vaccinated at no charge by their doctor or when they receive medicines in a public hospital for free.

PHARMAC was created in 1993 to ensure that New Zealanders get the best possible health outcomes from money the Government spends on medicines used in the community. Since then our role has expanded to include cancer medicines, vaccines, and haemophilia treatments, which are all funded by District Health Boards through the Combined Pharmaceutical Budget (CPB). PHARMAC also makes decisions about the medicines funded in DHB hospitals and negotiates national contracts for medical devices used in hospitals. We're working towards budget management of hospital medicines and medical devices in the longer term.

Since its establishment, PHARMAC has increased the range of subsidised medicines available and met the cost of growth in demand for existing medicines within the amount of funding provided each year.

PHARMAC MUST:

'Secure for eligible people in need of pharmaceuticals, the best health outcomes that can reasonably be achieved, and from within the amount of funding provided.'

New Zealand Public Health and Disability Act 2000

PHARMAC HAS FOUR MAIN FUNCTIONS:

1 Managing the Pharmaceutical Schedule

Consisting of about 1900 Government-subsidised community pharmaceuticals, 2600 medicines used in public hospitals, and 14,000 hospital medical devices (September 2015)

2 Promoting the responsible use of medicines

3 Managing the Named Patient Pharmaceutical Assessment policy for patients in exceptional circumstances

SAVINGS OVER TIME

Because the Combined Pharmaceutical Budget (CPB) is a fixed budget constraint, savings made in-year are not returned to DHBs as direct financial benefits. The benefits to DHBs are greater health outcomes and reduced future expenditure through an ability to set a budget lower than the increase in volumes and use of new, more expensive, medicines would suggest,

Our work has meant that, between 2004 and 2015, we have saved District Health Boards about \$5.1 billion, including about \$1.9 billion in 2014/15.

At the same time, the number of new medicines and patients receiving them has increased. This estimate is based on pharmaceutical prices in 2005 mapped onto actual prescribing activity, and compares actual spending with what would have happened had PHARMAC taken no action. If not for PHARMAC, this funding would have had to come from other areas of health spending.

PHARMAC's work gives DHBs funding choices they wouldn't otherwise have.

As well as these savings, PHARMAC's more recent work in hospital medicines and medical devices has so far produced savings of nearly \$100 million over five years. And that's just the very beginning of this work.

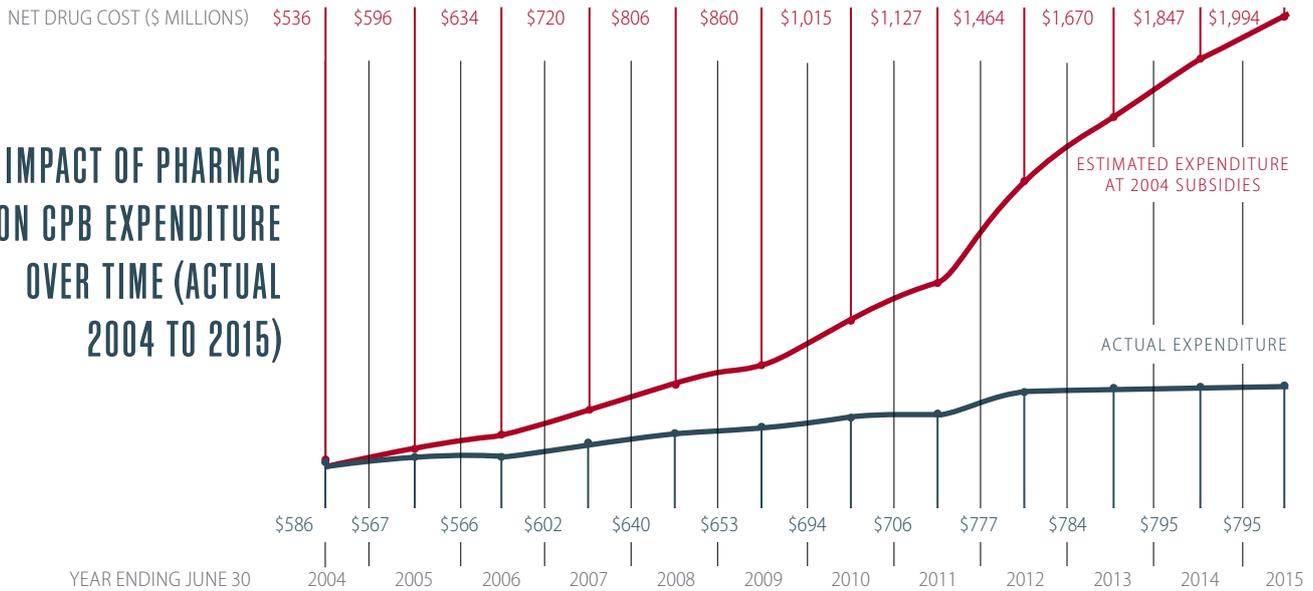
In short, PHARMAC's work saves money for the health system that can be spent on obtaining other health outcomes that wouldn't otherwise be able to be obtained.

**OUR MANAGEMENT OF THE CPB HAS
SAVED DISTRICT HEALTH BOARDS
FROM PAYING AN ADDITIONAL**

**\$5.1 BILLION
OVER 11 YEARS**

4 Engaging in research as required

We are guided by a number of laws, regulations and Government guidelines, and Medicines New Zealand – the Government's strategy for the medicines system, as well as our own internal decision-making framework, decision criteria and from July 2016 the Factors for Consideration.



MANAGING WITHIN BUDGET

PHARMAC manages a Combined Pharmaceutical Budget (CPB) and also holds further funding (Discretionary Pharmaceutical Fund (DPF)). The DPF enables PHARMAC to manage up to two percent variation in the expenditure figure which allows a long-term approach to spending decisions. The DPF may be supplemented by DHB underspending in combined pharmaceuticals in any financial year and may also be used to pay DHBs if there is any collective overspend in combined pharmaceuticals.

The CPB is set each year by the Minister of Health, on the advice of District Health Boards and PHARMAC. The CPB includes funding for community medicines and some medical devices, hospital cancer medicines, haemophilia treatments and vaccines.

PHARMAC forecasts the level and cost of growth in demand for products already listed, and then decides what additional pharmaceuticals (medicines and some medical devices) to fund, negotiates prices, sets subsidy levels and conditions, and ensures spending stays within budget. The list of subsidised pharmaceuticals is published in the Pharmaceutical Schedule.

We also manage the cancer medicines DHBs must have available. Funding for hospital cancer medicines has been part of the CPB since 2011/12.

PHARMAC is not able to spend more than the budgeted amount by law, so we try to keep spending as close as possible to the target figure while remaining under it.

Recently we have also taken on responsibility for non-cancer hospital medicines and, medical devices. These are funded through DHB hospitals.

PHARMAC manages the introduction of new hospital medicines through an expenditure provision created by PHARMAC's savings activities for existing hospital medicines. Any savings not otherwise spent on new hospital medicines or widening access to existing hospital medicines is retained by DHBs.

NEW ZEALAND PHARMACEUTICAL SCHEDULE

All of PHARMAC's funding decisions are listed in a schedule, the Pharmaceutical Schedule. It tells people what funded medicines and devices are available, what level of subsidy a particular item has or the price to be paid.

However, the subsidy is the amount for the pharmaceutical paid to the pharmacist, and is not the amount of money the patient pays. That amount (known as the co-payment) is set by Government and is free for children under the age of 13 years and usually \$5 per item for each family's first 20 items each year. A small number of medicines require payment of an additional manufacturer charge on top of the patient co-payment. There are some other costs that pharmacists may charge for additional services and they will explain these to you at the time.

For medicines the Pharmaceutical Schedule includes what formulation a medicine is available in, how much can be prescribed at one time and what, if any, restrictions are in place. Anyone can look at the Schedule (see Inside the Pharmaceutical Schedule information sheet).

AS WELL AS MANAGING FUNDING, PHARMAC
ASSESSES & PRIORITISES
VACCINES, ALONGSIDE OTHER
PHARMACEUTICALS



WORKS WITH SUPPLIERS
ACROSS THEIR FULL PRODUCT
PORTFOLIOS TO OBTAIN THE

\$ BEST VALUE \$

VACCINES

PHARMAC began negotiating supply terms for the national seasonal influenza vaccine in 2003/04. In July 2012 PHARMAC's role expanded to encompass full management of all other vaccines on the National Immunisation Schedule, including the childhood immunisation schedule, hepatitis B, HPV and meningococcal vaccines. These are all funded from within the CPB. In 2014 we added two new vaccines to the funded list and continue to keep funding under active review.

HOSPITAL MEDICINES

PHARMAC has negotiated prices (and other supply terms) for some hospital medicines on behalf of DHBs since 2001. Hospital cancer medicines have been funded from the Combined Pharmaceutical Budget since 2011/12. All hospital medicines are listed in Section H of the Pharmaceutical Schedule. Since July 2013 PHARMAC's role in public hospitals expanded to encompass management of all hospital medicines. PHARMAC now assesses, prioritises and manages all new investments in hospital medicines which are funded by DHB hospitals. This is primarily to avoid the phenomenon known as 'postcode prescribing', where medicines had been funded in some DHB areas but not in others.

HOSPITAL MEDICAL DEVICES

PHARMAC has funded some medical devices in the community for several years, including asthma inhalers, condoms, contraceptive intrauterine devices, diabetes blood glucose meters and test strips and, from 2012, insulin pumps and consumables. We do this under the CPB because, for the purposes of PHARMAC's work, the term 'pharmaceutical' encompasses both medicines and medical devices used in the treatment of patients.

The Government has asked PHARMAC to extend its role to include the management of hospital medical devices on behalf of DHBs, on the basis that there are likely to be significant benefits from applying the PHARMAC model. We have now established national contracts in six categories of hospital medical devices. We have already listed approximately 14,000 devices on the Schedule and made minimum annual savings for DHBs of almost \$2.94 million or \$13.2 million over five years.

Quality of the devices and user safety are important considerations when deciding whether new devices are listed. We are working with clinicians, other DHB staff and patient groups to gather feedback on what works for them. PHARMAC is mindful that a one-size-fits-all approach won't be appropriate for medical devices so we aim to be adaptable and find solutions to fit the situation.

Whilst national contracting activity continues, we are working on other ways to deliver further savings and benefits to DHBs.

WE EXPECT OUR WORK IN MANAGING HOSPITAL MEDICAL DEVICES TO:

- improve national consistency in the treatment of patients
- provide for appropriate local variation where needed
- free up health spending that can then be re-invested in the health sector.

Over time we will move towards managing DHB devices budgets but at present our focus is on making savings through national contracts.

ADVISORY COMMITTEES

The Pharmacology and Therapeutics Advisory Committee (PTAC) gives us advice on whether new medicines (and some community devices) should be subsidised and what priority they should be given.

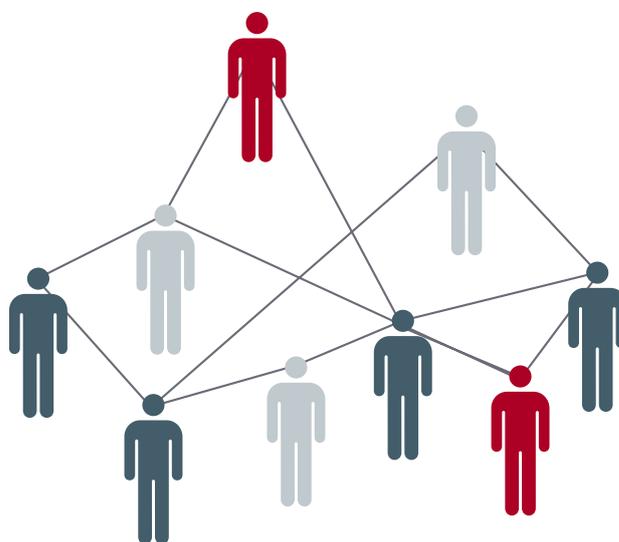
PTAC is made up of practising clinicians with expertise in general and specialist medical practice, clinical pharmacology, and in examining data from clinical trials. The Committee generally meets four times a year.

Members are appointed by the Director-General of the Ministry of Health. PTAC has 20 subcommittees that provide more specialised advice, such as on cancer and diabetes treatments, when necessary. Together these committees provide PHARMAC with access to more than 140 clinicians who help us to make the right decisions.

To support our work with hospital medical devices, we have established a Wound Care Advisory Group of clinicians to provide advice on the range of wound care products under consideration.

PHARMAC is also supported by our Consumer Advisory Committee (CAC) providing the patient or health consumer point of view. Its members are appointed by the PHARMAC Board. Members bring a wide range of consumer perspectives, such as gender, age, ethnicity, urban/rural and geographical location.

We also draw on expertise from other sources as necessary, for example, we may want further advice on particular medical devices or specialist experts.



RESPONSIBLE USE OF MEDICINES

As well as making medicines available, an important part of PHARMAC's role is to ensure that medicines are used appropriately, and not overused, underused or misused. We do this by developing population health programmes and by ensuring smooth implementation of our funding decisions – particularly those that involve people having to change from one brand or type of medicine to another.

PHARMAC'S PEOPLE

PHARMAC employees undertake a wide variety of roles including analysing proposals to subsidise medicines and community medical devices, negotiating with pharmaceutical companies, economic and clinical assessment and developing responsible use initiatives. A range of skills and expertise enables this work to be done effectively. Our office is in Wellington, with approximately 110 staff.

