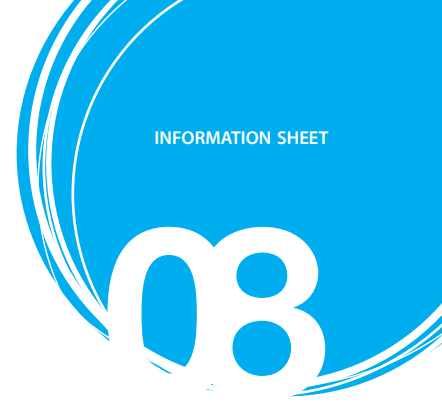


# The Combined Pharmaceutical Budget (CPB)



## Having a budget

Most people use a budget to manage their household spending. We take a similar approach to manage spending on medicines. Having a budget means you have to take a disciplined approach to spending to make sure you get the most from your money. In our case, we're making choices to try to get the best health outcomes for New Zealanders from the money available for pharmaceuticals.

## What's special about medicines?

Medicines are the only part of the NZ health sector where a separate government agency manages a defined budget on behalf of District Health Boards. The emphasis on 'manages' is important: PHARMAC does not hold the money as it continues to be held and spent by DHBs, with the exception of the Discretionary Pharmaceutical Fund (DPF) that is held by PHARMAC.

## What is the Combined Pharmaceutical Budget for?

This budget is purely for subsidies for community medicines (those medicines dispensed by your pharmacist) and cancer medicines which are given in hospitals. It does not include other hospital medicines, which are funded from DHB hospital budgets.

PHARMAC's operating budget is a separate amount of money that is used to meet the day-to-day costs of running PHARMAC, and is set by the Minister of Health. It also includes the Discretionary Pharmaceutical Fund (DPF), which is a multi-year fund of not more than 2 percent of the value of the CPB.

Payments for distribution, such as the fees that your pharmacist receives for dispensing medicines, are not included in the CPB and are paid from DHB budgets via the Ministry of Health's centralised payments service.

## The Discretionary Pharmaceutical Fund (DPF)

In 2010/11 PHARMAC was given a Discretionary Pharmaceutical Fund (DPF) that can be used to provide additional funding to DHBs. The fund was established by the Minister of Health to give PHARMAC flexibility to absorb spending over the nominal budget without adversely affecting DHB budgets and to take advantage of opportunities that bring forward expenditure into an earlier financial year.

The fund only reimburses DHBs for funding decisions taken by PHARMAC in accordance with its Operating Policies and Procedures. In turn, DHBs top-up the DPF in order to ensure it maintains a minimum opening balance of \$10 million each year. The DPF may not hold more than 2 percent of the value of the CPB.

## 3 year funding path

PHARMAC has an indicative 3-year 'funding path' for the CPB. This allows us to make medicine investments and be confident that we will still be able to afford those medicines in later years. Without this knowledge, it would be much more difficult to guarantee ongoing medicine subsidies for patients.

## Monitoring expenditure and forecast

To stay within budget, we constantly monitor medicines usage and must forecast future expenditure before deciding to subsidise new medicines. This involves making a range of assumptions about factors such as demand trends for existing medicines and likely future use of newly funded medicines. When we're thinking about subsidising a new medicine we need to weigh up future cost implications against budget projections to ensure we can continue to subsidise that medicine in the future.

## Why does PHARMAC always underspend its budget?

PHARMAC is required by law to remain within budget. Our spending decisions directly affect DHBs, who hold the funding for medicines. If PHARMAC overspent the CPB, DHBs would have to increase debt or reduce their spending in other areas in order to meet this overspend, which could impact other important health areas. If PHARMAC underspends, DHBs may reimburse the DPF up to its maximum value, before retaining the funding for use on other health interventions.

## Gross expenditure and net expenditure – what is the difference?

There are two expenditure figures – gross and net. Gross expenditure is the total amount spent on medicines before taking into account any rebates we may receive from pharmaceutical suppliers. Net expenditure is the amount spent on medicines after rebates have been deducted. >>

Rebates are amounts of money repaid to DHBs (via PHARMAC) by pharmaceutical suppliers based on supply agreements. They are used to reduce the cost of medicines where the pharmaceutical company is unable to notify a lower price (e.g. because of concern over price disclosure or re-export of low priced products). Rebates can also be used to manage risk of expenditure blow-outs by 'capping' public expenditure at a certain level, with the company taking on the excess. This is known as a risk-sharing agreement.

## Measuring expenditure growth

Medicine prices in New Zealand have fallen significantly over more than a decade. This means that PHARMAC's purchasing power has increased significantly - three-fold since 1993. Today we are able to subsidise a much higher volume of medicines with, for example, a million dollars, than we would have been able to a few years ago with the same amount of money.

To accurately measure medicines expenditure over time we use a pharmaceutical price index, which tracks pharmaceutical price movements. The Consumer Price Index (CPI), by comparison, measures changes in the price of general goods and services and has little, if any, relevance to price movements in medicines.

## How is the budget set?

In 2000 Cabinet agreed that following a process of consultation with DHBs and forecasting by PHARMAC, the Ministry of Health would advise the Minister of Health on the notional pharmaceutical budget for PHARMAC to manage the Pharmaceutical Schedule.

## The budget setting process is as follows.

### Step 1: Discussion

We discuss the level of funding for community medicines for the coming year, as well as for two years into the future, with DHBs. We provide DHBs with a budget proposal based on an analysis of medicine usage trends and potential new medicines investments.

### Step 2: Recommendation

After discussion, we make a budget recommendation to the Minister of Health, either a joint recommendation with DHBs or separate recommendations, and we advise the Ministry of Health. This includes a recommendation for the coming financial year as well as a likely range for the budget for the following two out-years.

### Step 3: Advice

The Ministry of Health provides advice to the Minister on the PHARMAC/ DHB proposals.

### Step 4: Decision

The Minister makes a decision and advises PHARMAC and DHBs of the confirmed budget.

### Step 5: Publication

The confirmed budget for the coming financial year is publicised by the Minister, generally in association with the Government's Budget announcements in May each year.

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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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