

The Treasury

Budget 2024 Information Release

September 2024

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- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
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- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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- [40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

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Treasury Report: Pharmac Combined Pharmaceutical Budget Funding

Date:	20 December 2023	Report No:	T2023/2029
		File Number:	SH-1-8

Action sought

	Action sought	Deadline
Hon Nicola Willis Minister of Finance	<p>Agree to discuss the Combined Pharmaceutical Budget funding options with the Minister of Health, Associate Minister of Health (Pharmac) and officials in January 2024</p> <p>Agree to provide a signal to Pharmac on Combined Pharmaceutical Budget funding ahead of Budget 2024</p>	8 January 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Lydia Verschaffelt	Analyst, Health	[39]	[35]
Jess Hewat	Manager, Health and ACC, Health		✓

Minister's Office actions (if required)

<p>Return the signed report to Treasury</p> <p>Refer this report to the Minister of Health and Associate Minister of Health (Pharmac)</p>

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Pharmac Combined Pharmaceutical Budget Funding

Executive Summary

Pharmac advises it requires \$1.774b across the forecast period for its Combined Pharmaceutical Budget to continue to purchase all currently funded medicines. This is due to recent time-limited increases to fund new medicines and the transfer of COVID-19 vaccine and therapeutic purchasing to Pharmac. This report summarises these decisions and provides an initial assessment of your options to fully, partially or not fund the \$1.774b.

We recommend that you meet with the Minister of Health, Associate Minister of Health (Pharmac) and Pharmac, Health and Treasury officials in January 2024. This will allow Pharmac to explain what different funding levels could mean for the availability of publicly funded medicines, including contractual and implementation considerations. We also recommend a signal on funding is communicated to Pharmac ahead of Budget 2024 so the entity can negotiate with suppliers to ensure continuity of supply or possibly begin the process to delist medicines.

Recommended Action

We recommend that you:

- a **agree** to discuss the Combined Pharmaceutical Budget funding options with the Minister of Health, Associate Minister of Health (Pharmac), Pharmac, Health and Treasury officials in January 2024

Agree/disagree

- b **agree** to provide a signal to Pharmac on Combined Pharmaceutical Budget funding ahead of Budget 202, and

Agree/disagree

- c **refer** to the Minister of Health and Associate Minister of Health (Pharmac).

Refer/not referred

Jess Hewat
Manager, Health and ACC

Hon Nicola Willis
Minister of Finance

_____/_____/_____

Treasury Report: Pharmac Combined Pharmaceutical Budget Funding

Purpose

1. Earlier this month you received a report on time-limited funding across the public sector and agreed to receive further advice in December 2023 on the Pharmac Combined Pharmaceutical Budget (T2023/2026 refers).
2. Pharmac has advised that it requires \$1.774b across the forecast period to continue access to all of the medicines that are currently funded. This report provides additional information on the recent time-limited funding decisions and sets out next steps.

Pharmac and the Combined Pharmaceutical Budget context

3. Pharmac is a stand-alone Crown entity under section 68 of the Pae Ora (Healthy Futures) Act 2022. The entity's objective is to "secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided."¹ Pharmac estimates that its purchasing power has increased threefold since its inception in 1993.
4. Pharmac operates at arm's length from Ministers to help preserve the independence of its prioritisation and funding model.² As a Crown agent, though, it must give effect to the Government's policies and directions. In terms of roles and responsibilities, Pharmac's Board is accountable for the entity's operational and financial performance. The Ministry of Health (the Ministry) is Pharmac's primary monitoring department and provides the Minister of Health and the Associate Minister of Health (Pharmac) with information about Pharmac's performance, as well as ensuring that Pharmac's approach is consistent with the Government's strategic direction. Treasury engages with Pharmac on its funding and ad hoc financial requests, along with the Ministry.
5. The Combined Pharmaceutical Budget's funding level is typically set through the Budget process.³ Pharmac's funding requests are analysed by the Ministry alongside other Vote Health budget bids. Treasury then assesses and provides recommendations to Ministers on these bids, and Ministers take decisions on the final Budget package.

Table 1. Previous Combined Pharmaceutical Budget funding provided through Budgets 2019-2021

Combined Pharmaceutical Budget funding through Budget (\$m)*	2022/23	2023/24	2024/25	2025/26	2026/27
Budget 2019 (Funding level after B19 increase)	995.000	995.000	995.000	995.000	995.000
Budget 2020 (\$160m over 4 years - extended)	50.000	50.000	50.000	50.000	50.000
Budget 2021 (\$200m over 4 years - extended)	45.000	55.000	60.000	60.000	60.000

[38]

¹ Section 68 (1)(a) of the Pae Ora (Healthy Futures) Act 2022.

² As per section 66(2) of the Pae Ora Act: "No direction may be given to Pharmac under section 103 of the Crown Entities Act 2004 that would—

(a) require Pharmac to purchase a pharmaceutical from a particular source or at a particular price; or
(b) provide any pharmaceutical or pharmaceutical subsidy or other benefit to a named individual."

³ The Combined Pharmaceutical Budget is in the 'National Pharmaceutical Purchasing' Vote Health appropriation. T2023/2029 Pharmac Combined Pharmaceutical Budget Funding

Recent Combined Pharmaceutical Budget time-limited funding decisions

6. The Combined Pharmaceutical Budget can also be increased through out-of-cycle funding if agreed by Ministers. Providing time-limited funding for the Combined Pharmaceutical Budget is challenging given the expectation it generates with the public and clinical stakeholders that a medicine will continue to be provided.

Table 2. Recent time-limited Combined Pharmaceutical Budget funding⁴

Time-limited Combined Pharmaceutical Budget funding (\$m)*	2022/23	2023/24	2024/25	2025/26	2026/27
Baseline as at Budget 2022	1,115.000	1,125.000	1,130.000	1,130.000	1,130.000
Budget 2022	71.000	120.000	-	-	-
Out-of-cycle increase November 2022	-	66.000	-	-	-
COVID-19 therapeutics and vaccines (transferred June 2023)	-	164.800	-	-	-
Budget 2023 funding transferred for co-payment initiative	-	21.800	-	-	-
Total	1,186.000	1,497.600	1,130.000	1,130.000	1,130.000

Budget 2022

7. Budget 2022 provided a \$191m increase to the Combined Pharmaceutical Budget (\$71m in 2022/23 and \$120m in 2023/24) to purchase additional medicines. Treasury's advice was to defer this initiative given the recent Budget 2021 Combined Pharmaceutical Budget investment and higher needs across the rest of Vote Health. An incremental uplift across the forecast period instead of time-limited funding would have resulted in fewer medicines being purchased.
8. Our advice was that if the initiative was funded, Ministers should provide funding across the forecast period to avoid a "baseline drop-off". Consistent with the rules for Specific Fiscal Risks, Treasury has included the Combined Pharmaceutical Budget time-limited funding as a significant fiscal risk since the 2022 Budget Economic and Fiscal Update (BEFU).⁵

November 2022 funding for additional medicines

9. In November 2022, Ministers agreed to a further increase to the Combined Pharmaceutical Budget to provide funding for priority investments. Pharmac reallocated \$11m in 2022/23 for these medicines from existing Combined Pharmaceutical Budget funding, and Ministers provided \$66m for 2023/24 (\$41.463m was reprioritised from Vote Health Managed Isolation and Quarantine funding and \$24.537m was sourced from the 2022 Between Budget Contingency).
10. Treasury acknowledged the benefit these new medicines would provide to New Zealanders. However, we did not support the Budget increase on the basis it was an out-of-cycle funding request that could not be effectively prioritised against other initiatives and further exacerbated the time-limited funding amount.

⁴ These figures do not show reprioritisation (i.e. the \$11m for the November 2022 medicines in 2022/23). [25]

⁵ Under the Public Finance Act 1989, Treasury is required to reflect government decisions in the fiscal forecasts. Where a choice remains for the government on funding a policy, including extending time-limited funding, it will not be reflected in the fiscal forecasts. However, the fiscal risks created by time-limited funding are disclosed in our Economic and Fiscal Updates as Specific Fiscal Risks (T2023/2026 refers).
T2023/2029 Pharmac Combined Pharmaceutical Budget Funding

COVID-19 vaccines and therapeutics

11. COVID-19 vaccine and therapeutic funding was time-limited given the quantum of these purchases and the uncertainty of future demand and product development. In the circumstances, we considered time-limited funding was appropriate to respond to the changing COVID-19 environment.
12. Cabinet agreed in June 2023 to transition responsibility for COVID-19 vaccine and therapeutic purchasing from the Ministry to Pharmac. The \$164.8m of remaining funding in 2023/24 for these products was consequently transferred into the Combined Pharmaceutical Budget.⁶ This transition meant Pharmac could manage these products in-line with their usual purchasing processes to improve ongoing value for money and deliver reprioritisation benefits over time. While Ministers now have reduced visibility of COVID-19 vaccine and therapeutic purchasing decisions than when they previously made them, this is consistent with other pharmaceutical purchasing decisions.

The current time-limited Combined Pharmaceutical Budget funding profile (\$1.774b)

Table 3. Indicative medicines funded by the Budget 2022 and November 2022 decisions forecast in out years as at November 2022

Combined Pharmaceutical Budget funding required (\$m)	2024/25	2025/26	2026/27	2027/28 & outyears	Total
[38]					

* Pharmac provided these numbers in November 2022. Pharmac has since updated its forecasts as below in table 4 where these medicines are included together. Pharmac's recent forecast, shown in table 4, provides an improved forecast position of \$73m across the forecast period than it previously estimated.

Table 4. Pharmac's current updated forecasted funding required to continue access to currently funded medicines from 2024/25 beyond the \$1.130b baseline

Combined Pharmaceutical Budget funding required (\$m)	2024/25	2025/26	2026/27	2027/28 & outyears	Total
[38]					

13. Pharmac has advised that its costings include a small provision for growth in the use of existing treatments and other cost pressures. For instance, in November 2022, Pharmac noted they estimated that the treatments funded by the November 2022

⁶ \$0.4m was also transferred into Pharmac's operating budget to cover the cost of distributing COVID-19 therapeutics in 2023/24.

decision of the \$66m in 2023/24 would benefit up to approximately 4,700 New Zealanders that financial year, which would rise to approximately 15,000 in the following. The cost pressures are due to: price increases; population growth and demographic changes; changes in clinical practice; flow-on consequences of older (lower-cost) medicines being discontinued; and the market shifting to more expensive treatments.

14. Pharmac runs regular forecasting of likely total expenditure on the investment in pharmaceuticals to be funded. Modelling the cost pressures associated with existing medicines is complex and Pharmac is best placed to further advise on its forecast (noting the commercial sensitivities involved).

Combined Pharmaceutical Budget funding options

You could fund the full \$1.774b for the Combined Pharmaceutical Budget

15. Funding the full \$1.774b across the forecast period would ensure that New Zealanders continue to have access to the currently funded medicines available to them, improve individuals' health outcomes and reduce pressure on some parts of the health system. This option would provide Pharmac with continuity to fund its current pharmaceutical portfolio.
16. Funding the \$1.774b would further constrain the Budget 2024 operating allowance at a time when challenging funding decisions and trade-offs are being made across the public sector. The Budget 2024 allowance already faces significant pressure and a substantial savings exercise is proposed to help achieve the Government's fiscal strategy, and fund critical cost pressures and Government policy commitments.

You could direct Pharmac not to progress funding transactions that are underway

17. Pharmac currently has a small number of funding transactions in progress (and publicly announced) that you could direct it to cease. These transactions include potential funding of continuous glucose monitors and treatments for multiple myeloma.⁷ This approach would prevent some planned forecast expenditure from being incurred (as outlined in table 4 above in anticipated/planned costs). It would also prevent Pharmac from funding therapies and treatments addressing unmet clinical need, and would disappoint stakeholder expectations.

You could provide partial funding for the Combined Pharmaceutical Budget shortfall

18. Providing partial funding would ensure ongoing access to some but not all medicines. Pharmac must manage the Combined Pharmaceutical Budget within the funding provided and part of its prioritisation process includes cost-utility analysis. Pharmac has a strong track record of purchasing a wide range of medicines within its budget.⁸
19. Pharmac does have time-limited contracts; however, as part of its commercial processes, the entity manages an evolving portfolio of products and responds to market developments. For instance, Pharmac may renegotiate or end contracts due to supply chain issues, patent changes, new medicines coming onto the market, responses to Requests for Proposals, and updated efficacy and eligibility evidence.

⁷ Pharmac is currently progressing a funding and procurement process for continuous glucose monitors and other diabetes related medical devices (insulin pumps and insulin pump consumables). Subject to completing its funding application process, Pharmac has noted it would publicly fund access to continuous glucose monitors for individuals with type 1 diabetes irrespective of age from 2024 onwards.

⁸ As per Pharmac's Board Governance Manual, Pharmac's Chief Executive must not do, or authorise to be done, anything that could in any way cause financial harm or threaten the financial integrity of the Pharmaceutical Budget or its future funding path, including approving any funding proposal that would result in the Combined Pharmaceutical Budget and its future funding path being exceeded.

Pharmac consequently has mechanisms to restrict eligibility or end contracts, and consequently reduce expenditure, and these vary depending on the different products. As noted above, the entity continues to manage within its budget but will need an early signal on the Combined Pharmaceutical Budget's funding path to manage accordingly.

20. If you are considering this option or the option not to provide any funding, we recommend you raise this with Pharmac officials to understand its implications. We understand that Pharmac officials have been providing regular updates to their Board and have talked about options to manage to the fiscal position if needed. We also recommend you commission further advice from Pharmac and the Ministry of Health on the health outcomes and equity impacts if you decide to provide partial or no funding (noting the modelling required for this could be complex).

a) Providing a lower funding amount across the full forecast period

21. You could fund some, but not all of the \$1.774b requested, to an amount of Cabinet's choosing. This would require Pharmac to delist medicines (number dependent on the funding level) and/or narrow the eligibility criteria for currently funded medicines. If funding was significantly below the forecasted level required, Pharmac has indicated it would have to either:

Restrict funding of current funded medicines:

This approach would limit funding for some medicines to existing patients. Pharmac has noted this could be achieved via a funding rule preventing new patients from starting treatment on these currently funded medicines or limiting the eligibility criteria to access them. The latter option would likely take a longer time for savings to accumulate. Pharmac has advised that there would be complexity in defining which medicines it would target, including consideration of contractual agreements with suppliers (noting many of the higher cost medicines have contractual clauses preventing these types of restrictions).

Delist currently funded medicines:

This approach would mean stopping the funding for currently funded medicines, requiring existing patients to stop or change their treatment.

22. Pharmac has indicated that undertaking either of the options outlined above would be a reasonably lengthy process (6-12 months depending on the medicine/s), and would require:
- Clinical advice from Pharmac's expert advisory network to determine factors such as the clinical impacts, health system impacts, and availability (or not) of alternative treatments.
 - Analysis to determine the fiscal impacts to the Combined Pharmaceutical Budget (accounting for the use of alternative treatments) and the health sector, over time.
 - Legal review of contractual arrangements with suppliers, noting that many agreements, particularly for higher cost treatments, contain protections from restrictions and delisting.
 - Public consultation, noting the likelihood of strong public opposition.
 - Decisions by Pharmac's Board.
 - An implementation programme.
23. Pharmac notes that while the proposed options may offer financial relief, each comes with clinical, legal, ethical and implementation considerations and risks.

b) Directing Pharmac to not fund certain medicines, such as in relation to COVID-19 vaccines and therapeutics

24. The Government can provide policies and directions that Pharmac must give effect to. If the Government made a broader policy decision on the COVID-19 response, noting that decisions are still required on what level of funding, if any, is provided for ongoing COVID-19 public health response activities beyond 2023/24, this could direct COVID-19 vaccine and therapeutic purchasing decisions. Given the role of COVID-19 vaccines and therapeutics to reduce the impact of COVID-19 on the community, Pharmac is currently working to provide ongoing supply of these products.
25. Pharmac and health officials continue to review the latest evidence for COVID-19 vaccines and therapeutics, and assess the eligibility criteria, particularly to ensure New Zealanders at high risk of severe illness following COVID-19 infection can access the most appropriate treatments and vaccines. The Minister of Health and Associate Minister of Health (Pharmac) could request advice on further narrowing eligibility criteria in order to reduce costs, although this is a decision for health officials. If a reduction in the current level of Combined Pharmaceutical Budget funding impacted COVID-19 vaccine and therapeutic purchasing decisions, this would impact the health entities' COVID-19 and immunisation policies and programmes and contribute to increased costs elsewhere in the health system.⁹

You could decide not to provide additional funding for the Combined Pharmaceutical Budget

26. Noting the advice in paragraphs 19 and 20, this option would result in Pharmac restricting or delisting a significant list of medicines that would have public, clinical and legal ramifications and broader impacts on the health system. Not providing this funding would conflict with commitments made by parties to Government to fund more cancer medicines, fund continuous glucose monitors for under-18s and to more broadly increase Pharmac's funding.

Funding sources

27. For the options above, we have assumed the funding source would be the Budget 2024 allowance given the quantum involved. This would allow funding for the Combined Pharmaceutical Budget to be assessed against other cost pressures, new initiatives and commitments across government (and would also restrict your ability to fund these things if the \$1.774b were provided).
28. You could instead seek to fund some or all of the \$1.774b via reprioritisation within Vote Health. As the Vote is already under significant pressure, any non-minor reprioritisation would require Ministerial decisions to reduce health services and/or investment in other high-cost Vote Health areas, such as capital or workforce development. You recently received Treasury advice on providing multi-year funding for Vote Health cost pressures to help manage the affordability challenge the Vote presents to the Crown and the constraints the proposed funding track would operate in (T2023/2003 refers).¹⁰
29. Officials can provide you with further advice on this reprioritisation option, noting that health officials would likely consider significant reprioritisation for the Combined Pharmaceutical Budget unsustainable given other fiscal pressures within the Vote and broader savings programmes. You can also make final decisions on the funding mechanism as part of the Budget 2024 process where you can make trade-offs between allowance and reprioritisation options.

⁹ Vaccines and therapeutics are central to the Ministry's Strategic Framework for Managing COVID-19.

¹⁰ Te Whatu Ora has also recently provided the Minister of Health with advice on 'Savings underway and choices to manage future cost growth' (HNZ00034513).

Options to provide a signal on funding

A signal ahead of Budget 2024 would allow Pharmac sufficient time to negotiate with suppliers and commence work to progress decisions that Ministers make

30. In an ideal world, Ministers would take decisions about Pharmac funding through the standard Budget 2024 process, to enable them to compare the value of all possible investments across government. However, in practice Pharmac will require a lead-in period to negotiate with suppliers to ensure continuity of pharmaceutical supply or potentially begin the process to restrict or delist medicines. As time progresses, it will become increasingly difficult to manage funding step-downs in the 2024/25 financial year depending on the option chosen. We therefore recommend that you agree to provide Pharmac with funding certainty early, if possible, to minimise costs.
31. There are two options available to provide funding certainty:
 - a **A Cabinet decision** ahead of Budget 2024 (which would then be confirmed in the Budget 2024 Cabinet paper), pre-committing the operating allowance (*Treasury preference*).
 - b **A letter** from the Ministers of Finance and Health to Pharmac stating that a set level funding will be provided, followed by a cabinet decision. This would have the same practical effect as a pre-commitment against the Budget 2024 allowance. There is a precedent of this option to allow Pharmac to continue purchasing negotiations. However, Treasury's first best advice is for a funding decision to be taken by Cabinet. If the Minister is seeking to provide a letter of comfort to Pharmac that means the Government is committed to providing specified funding and an agreement being reached is highly likely, with little to no discretion, then this funding will have to be included in the fiscal forecasts.

Further decisions that could impact the Combined Pharmaceutical Budget

32. \$21.8m was added to the Combined Pharmaceutical Budget in June 2023 for one year only to account for the impact of the Budget 2023 initiative to remove the \$5 co-payment charge from prescription medicines and a consequent increased uptake of medicines.¹¹ Due to the Government's proposed re-introduction of co-payments with exemptions, Combined Pharmaceutical Budget funding for co-payments has not been factored into Pharmac's forecast from 2024/25 onwards. However, Pharmac has indicated it may need more funding in 2023/24 before the co-payment is reintroduced. We recommend that any additional 2023/24 funding is provided for from the returned revenue when a decision is taken on implementing this policy in 2024.¹²
33. Parties to Government also have several manifesto commitments that could impact the Combined Pharmaceutical Budget beyond the time-limited decisions outlined in this report. These include funding 13 new cancer treatments, funding continuous glucose monitors for under-18s and increasing Pharmac funding. You will receive additional advice and options on these commitments in due course.
34. We also note the Coalition Agreements' broader Pharmac policies, such as to update Pharmac's decision making model to ensure it appropriately takes patient voice into

¹¹ The previous Minister of Finance and Health wrote to Pharmac noting that up to an additional \$30m in 2023/24 could be provided if the policy had a greater impact than currently estimated on the Combined Pharmaceutical Budget. The available data shows that spending on prescription medicine might exceed the \$21.8m, but the exact impact is currently uncertain.

¹² The Ministry is providing the Minister of Health with advice on this policy and will provide further options in early 2024 (H2023033029 refers).

account and reform the funding model to account for positive fiscal impacts on the Crown of funding more medicines. This work could include considering various aspects of Pharmac's current funding model, including its cost-utility analysis and procurement processes, as well as co-payment settings. There will continue to be challenges in providing New Zealanders with ongoing, and possibly increased, access to medicines and balancing the Government's other priorities and medium-term fiscal strategy.

Next steps

We recommend you meet with the Minister of Health, Associate Minister of Health (Pharmac) and officials (Pharmac, Health and Treasury) in January 2024

35. As noted in T2023/2026, it will be important that Ministers are across the areas of time-limited funding in their portfolios and that solving the challenges of time-limited funding is not solely left to you as the Minister of Finance.
36. A meeting will also allow Pharmac to explain what different funding levels could mean for the availability of publicly funded medicines, including contractual considerations, as well as the implications for its processes and the high-level health system impacts. Further advice could be commissioned following this meeting if you would like additional information before you take a decision on Combined Pharmaceutical Budget funding.