

Briefing

Pharmac performance report quarter 1 2023/24

Date due to MO:	24 January 2024	Action required by:	N/A
Security level:	IN CONFIDENCE	Health Report number:	2024034920
To:	Hon David Seymour, Associate Minister of Health (Pharmac)		
Copy to:	Hon Dr Shane Reti, Minister of Health		
Consulted:	Health New Zealand: <input type="checkbox"/> Māori Health Authority: <input type="checkbox"/>		

Contact for telephone discussion

Name	Position	Telephone
Simon Medcalf	Deputy Director-General, Regulation and Monitoring Te Pou Whakamaru	s 9(2)(a)
Liz Stirling	Manager, System Planning and Accountability, Regulation and Monitoring Te Pou Whakamaru	s 9(2)(a)

Minister's office to complete:

- | | | |
|---|------------------------------------|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Decline | <input type="checkbox"/> Noted |
| <input type="checkbox"/> Needs change | <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn | |

Comment:

Pharmac performance report quarter 1 2023/24

Security level: IN CONFIDENCE

Date: 24 January 2024

To: Hon David Seymour, Associate Minister of Health (Pharmac)

Purpose of report

1. This report provides commentary on Pharmac | Te Pataka Whaioranga (Pharmac) performance report for quarter 1 2023/24 (1 July 2023 – 30 September 2023). This report is being provided to you outside of the normal cycle due to the general election and the formation of the new Government.
2. The full performance report is attached as **Appendix 1**.

Summary

3. Crown entities report to their responsible Minister quarterly against the measures outlined in their Statements of Performance Expectations (SPE). Pharmac has an annual output agreement agreed with their responsible Minister that sets out the timeframes for reporting. Crown entities are generally required to provide quarterly performance reports to the Minister, copied to the Ministry of Health | Manatū Hauora (the Ministry) approximately 5 weeks after the end of the quarter to which they apply (exact dates depend on Board meeting dates).
4. The Ministry typically provides you with our quarterly assessments of performance for the specialist Crown entities one month after we receive the Crown entity report.
5. Pharmac has made progress against almost all of its SPE activities, some of which address the Government response to the independent review of Pharmac. In the first quarter it has continued to invest in a range of new medicines and widened access to others, making use of the additional resources approved in Budget 2022. It has recently secured agreement with Health New Zealand | Te Whatu Ora (Health New Zealand) on resourcing (funding and seconded staff) to take Pharmac's work on medical devices to the next stage, to drive better value from investments.

Recommendations

We recommend you:

- a) **Note** the contents of the report on the performance for quarter 1 2023/24 of Pharmac. **Noted**

- b) **Note** the timeframe for quarterly Pharmac performance reports to be provided to you as responsible Minister is within one month of the Ministry of Health receiving the last quarterly report from the health Crown entity. **Noted**



Simon Medcalf
Deputy Director-General
Regulation and Monitoring
Te Pou Whakamaru
Date: 24 January 2023

Hon David Seymour
Associate Minister of Health (Pharmac)
Date:

PROACTIVELY RELEASED

Pharmac performance report quarter 1 2023/24

Background

- The Crown Entities Act 2004 (CE Act) sets out the accountability arrangements that apply to Pharmac. The approach the Ministry takes to entity performance monitoring is underpinned by the "It takes three: operating expectations framework written by Te Kawa Mataaho – Public Service Commission" (briefing 2023020597 refers).
- Crown entities report to the Ministry and the responsible Ministers on a quarterly basis against the measures outlined in their SPE. Under the requirements of the CE Act, each entity produces an annual report, that once finalised, is presented in the House of Representatives.
- In November 2023, we held a monitoring meeting with Pharmac to discuss quarter 1 performance.

Key Performance Areas

The response to the review of Pharmac

- At its meeting on 21 July 2023, Cabinet confirmed the recommendations of the Social Wellbeing Committee that Pharmac and the Ministry are making satisfactory progress in implementing the recommendations of the independent review of Pharmac, and that there is more work to be done. Continuing progress will be monitored as part of regular monitoring against Pharmac's SPE.

Financial Performance

- From 1 July 2022 for the first time Pharmac became responsible for a new appropriation for the national purchase of pharmaceuticals. This is in addition to its operating budget for managing that process, plus 2 additional appropriations related to COVID-19 activities. These are discussed further below. The Ministry engaged with Pharmac staff on the detail underlying its financial reports.

Operating Budget

Table 1: Pharmac Operating Financial Performance

	Sep YTD Actual \$'000	Sep YTD Plan \$'000	YTD Variance \$'000	YTD Variance %	Full Year Forecast \$'000	Full Year Plan \$'000	Full Year Variance \$'000	Full Year Variance %
Financial Performance (P&L)								
Total Revenue	8,943	7,617	1,326	17%	32,232	30,823	1,409	5%
Total Expenditure	8,451	8,819	368	4%	34,689	33,085	(1,604)	-5%
Net Surplus/(Deficit)	492	(1,202)	1,694	141%	(2,457)	(2,262)	(195)	-9%
Financial Position (Balance Sheet)								
Total Equity ⁽¹⁾	27,415	N/A	N/A	N/A	N/A	31,554	N/A	N/A
Cash Balance (Ending) ⁽¹⁾	12,081	N/A	N/A	N/A	N/A	10,159	N/A	N/A

Notes:

⁽¹⁾ Total Equity and Cash Balances: No Quarterly Plan and Full Year Forecast amount provided

- Pharmac reported a net surplus result of \$0.492 million for year-to-date (YTD) September 2023 against a planned deficit of \$1.202 million for its operating budget. Pharmac attributes the favourable variance of \$1.694 million to:

- a. Additional Crown funding of \$0.100 million in Quarter 1 (full year \$0.400 million).
 - b. Medical Devices Programme funding contribution from Health New Zealand of \$1.006 million.
 - c. Interest income of \$0.172 million from higher cash holdings.
 - d. Underspend across several budget lines totalling \$0.368 million notably from information management, consultants, and equity access projects; offset by higher spend in pharmaceutical contract management that includes the funded medical devices programme expenses.
12. Total equity of \$27.4 million and cash balances of \$12.1 million were reported for quarter 1 however, there were no corresponding plan financials provided for those items to assess their performance against expectations for the quarter.
 13. Pharmac has forecast to end the financial year on a net operating deficit of \$2.457 million, \$0.195 million adverse to the expected \$2.262 million deficit. While operating revenue is forecast to continue at the current rate, Pharmac has projected higher expenditure in the next 3 quarters mostly in personnel costs and other operating expenses of \$1.037 million and \$0.697 million respectively. The Ministry notes this to be a low to medium financial risk and will continue to discuss its financial operating performance with Pharmac, including the provision of forecast financial statements (balance sheet and cash flow statements) for the remainder of the year.

National Pharmaceuticals Purchasing

14. 2022/2023 was the first full year Pharmac managed the appropriation for national pharmaceuticals purchasing, and Pharmac has managed expenditure very close to budget.
15. For the purposes of reporting on pharmaceuticals spend, Pharmac records rebates from suppliers as a net Combined Pharmaceutical Budget (CPB) expenditure (rebates recovery), and likewise for the 2 appropriations for COVID-19 vaccines and therapeutics and their respective expenditure.
16. Table 2 below illustrates the key revenue streams making up the total reported revenue for pharmaceutical purchasing.

Table 2: National Pharmaceuticals Purchasing Revenue

	Sep YTD Actual \$'000	Sep YTD Plan \$'000	YTD Variance \$'000	Full Year Forecast \$'000	Full Year Plan \$'000	Full Year Variance \$'000
National Pharmaceuticals Purchasing Appropriation	333,200	N/A	N/A	1,332,800	1,311,000	21,800
COVID Treatments (Appropriation Revenue)	20,950	N/A	N/A	83,800	0	83,800
COVID Vaccines (Appropriation Revenue)	20,250	N/A	N/A	321,000	0	321,000
Interest Income	2,572	N/A	N/A	7,156	2,342	4,814
CPB Rebate 2022/23 Difference	19	N/A	N/A	19	0	19
Total Revenue	376,991	N/A	N/A	1,744,776	1,313,342	431,434

Notes:

(1) Pharmaceuticals Rebate Recoveries netted off against CPB purchasing costs and distribution expenditure

(2) Pharmac did not provide Monthly/Quarterly Plan financials

Table 3: National Pharmaceuticals Purchasing Financial Performance

	Sep YTD Actual \$'000	Sep YTD Plan \$'000	YTD Variance \$'000	YTD Variance %	Full Year Forecast \$'000	Full Year Plan \$'000	Full Year Variance \$'000	Full Year Variance %
<u>Financial Performance (P&L)</u>								
Total Revenue	376,991	N/A	N/A	N/A	1,744,776	1,313,342	431,434	33%
Total Expenditure	339,899	N/A	N/A	N/A	1,825,777	1,425,400	(400,377)	-28%
Net Surplus/(Deficit)	37,092	N/A	N/A	N/A	(81,001)	(112,058)	31,057	N/A
<u>Summary by Appropriation</u>								
National Pharmaceuticals Purchasing	12,780	N/A	N/A	N/A	(21,001)	2,942	(23,943)	-814%
COVID Treatments	9,286	N/A	N/A	N/A	(25,000)	0	(25,000)	N/A
COVID Vaccines	15,026	N/A	N/A	N/A	(35,000)	(115,000)	80,000	-70%
Net Surplus/(Deficit) by Appropriation	37,092	N/A	N/A	N/A	(81,001)	(112,058)	31,057	-28%
<u>Financial Position (Balance Sheet)</u>								
Total Equity ⁽¹⁾	168,921	N/A	N/A	N/A	N/A	43,864	N/A	N/A
Cash Balance (Ending) ⁽¹⁾	100,907	N/A	N/A	N/A	N/A	65,085	N/A	N/A

Notes:

⁽¹⁾ Total Equity and Cash Balances: No Quarterly Plan and Full Year Forecast amount provided

17. Pharmac reported a net surplus result of \$37.1 million for year-to-date (YTD) September 2023 for its National Pharmaceuticals Purchasing (NPP).
18. Pharmac forecast a full year net deficit result of \$81.0 million, \$31.1 million favourable to the Plan of \$112.1 million deficit. This is despite the quarter 1 net surplus result of \$37.1 million. Pharmac has attributed this to:
 - a. Post-budget COVID-19 vaccines and treatments funding of \$321 million and \$83.8 million were approved for 2023/24. This is being offset by the corresponding total spend of \$404.8 million plus a reduction in inventory with a combined value of \$64.4 million during the year resulting in a balance as at 30 June 2024 of \$9.2 million for COVID-19 vaccines (previous year inventory balance was \$44.2 million) and \$26.2 million for COVID-19 treatments (previous year inventory balance was \$51.2 million).
 - b. Favourable CPB rebates revenue of \$135.9 million from higher activity, which also causes the adverse CPB expenditure spend of \$185.8 million.
 - c. Interest income \$4.8 million from higher cash holdings.
 - d. Additional Crown funding forecasted \$21.8 million.
19. Pharmac was unable to provide the planned financial statements to support assessment of its financial performance for quarter 1. The Ministry will continue to discuss the financial performance on the NPP with Pharmac, including the provision of the monthly and quarterly planned and forecast financial statements to facilitate adequate assessment.

Service Performance

20. Pharmac has received additional funding from Health New Zealand for the Hospital Medical Device work programme. This new funding is being used to increase capability and capacity for assessment and decision-making on devices.
21. Pharmac and the Health New Zealand Northern Region Clinical Practice Committee (NRCPC) have completed a collaborative health technology assessment on robotic assisted knee replacement surgery for the Counties Manukau District. The assessment did not recommend

investment in the technology based on health outcomes, costs, cost-effectiveness, or equity of outcome. This is significant because it is the first time that Pharmac and Health New Zealand have collaborated in this way. The next step will be a report to national devices health technology assessment stakeholders on lessons learned for future initiatives.

22. At ministerial request Pharmac is working with the Ministry, Health New Zealand and Treasury to assess the impact on prescription volumes of the removal of the \$5.00 prescription charge. This work is being modified to reflect policy changes signalled by the Government.

Medicine Spending Highlights:

23. In quarter 1, Pharmac has invested in 3 new listings and widened access to 7 treatments, which will benefit an estimated 6,868 new patients. Key decisions have included:
- The first funded treatment for primary progressive multiple sclerosis.
 - Widened access to Emicizumab (branded as Hemlibra) for the treatment of people with severe haemophilia A.
 - Recognising a high unmet health need for people with multiple myeloma, bids have been sought from suppliers of 2 medicines, lenalidomide and pomalidomide to increase access to these treatments.
 - Issue of a Future Procurement Opportunity (FPO) for the supply of oestradiol transdermal products to help alleviate supply issues with global demand for hormone replacement therapy (HRT) requests for proposals (RFPs) to fund Continuous Glucose Monitors (CGMs), insulin pumps and consumables. The RFP has now closed and will be assessed in the next quarter with the aim of enabling many of the 17,000 New Zealanders living with type 1 diabetes, to have funded access to these devices.

Strategic Priorities	Ministry comments
Strategic management of Combined Pharmaceutical Budget (CPB):	<p>Pharmac has reported on 6 initiatives, of which 5 are measured as on track with one on hold.</p> <p>Highlights:</p> <ul style="list-style-type: none"> • Preparation and engagement with the Ministry is underway for Budget 2024. • Māori Health considerations underpin 4 recent investment transactions. • Pharmac has appointed a new Principal Engagement Advisor to advance work on updating/adapting commercial activities to accommodate expansion of Pharmac’s scope, (this initiative had been on hold.). • Ongoing collaboration with Health New Zealand and the health sector to improve: <ul style="list-style-type: none"> - Understanding implications of Pharmac investments on service and workforce. - Hospital medicines management. - The pharmaceuticals schedule as part of the Health Sector Agreements and Payments Programme. <p><i>Further information is available on pages 12-16 of Appendix 1.</i></p>

<p>Enhanced assessment and decision making:</p>	<p>Pharmac has reported on 7 initiatives, of which 5 are measured as on track with one on hold and the remaining one off-track. The National Medical Devices Action Plan between Pharmac and Health New Zealand will begin to be implemented once capacity in Health New Zealand has been confirmed.</p> <p>Highlights:</p> <p>Pharmac continues to work on improving its assessment and funding processes, including a focus on the under-representation of Māori and Pacific people on its advisory committees.</p> <p>Pharmac has included consumer members on its advisory committees and tender panels and is pro-actively publishing more information on its website on investment decisions. To make the decision process timelier, and more efficient, Pharmac is considering how to right-size assessment processes.</p> <p>The plan to review Pharmac’s decision-making framework (the Factors for Consideration) is on hold until early 2024.</p> <p><i>Further information is available on pages 17-21 of Appendix 1.</i></p>
<p>Strategic management of medical devices</p>	<p>Pharmac has reported on 7 initiatives, of which 4 are measured as on track, 1 on hold and 2 off track.</p> <p>Work to finalise and manage the Medical Devices List is on track, as is collaboration with Health New Zealand to develop the investment management approach to medical devices, although work to determine milestones and timing following the seed funding with Te Whatu is off-track.</p> <p>Work to incorporate equity and take a population-based approach is also off track owing to capacity constraints.</p> <p><i>Further information is available on pages 16-17 of Appendix 1.</i></p>
<p>Organisational Capability</p>	<p>Pharmac has reported on 5 initiatives, all of which are measured as on track.</p> <p>Highlights:</p> <p>Pharmac is progressing work to give effect to the health sector principles of Pae Ora. Individual and collective Te Tiriti accountabilities are being finalised with the senior leadership team, and Te Tiriti training (including te reo classes, mihi whakatau and waiata sessions) are being provided.</p> <p><i>Further information is available on pages 24-25 of Appendix 1.</i></p>
<p>Equity policy</p>	<p>Pharmac has reported on 2 equity initiatives which address recommendations of the independent review, of which one is currently on hold and the other on track.</p> <p>Work to improve ways to ensure the experiences and perspectives of disabled has included talks with the Ministry of Disabled People, but activity is on hold because of a need to improve information.</p>

	<p>Work on the Pacific Responsiveness Strategy is on track.</p> <p><i>Further information is available on pages 25 to 26 of Appendix 1.</i></p>
Engagement and Collaboration	<p>Pharmac has reported that progress on 2 initiatives is on track.</p> <p>A draft engagement strategy and associated implementation roadmap will be considered at the November meeting. Media releases and external stakeholder updates are regularly released by Pharmac.</p> <p><i>Further information is available on pages 26-27 of Appendix 1.</i></p>
Organisational Excellence	<p>Pharmac has reported on 6 initiatives, of which 4 are reported as on track with one off track and one on hold.</p> <p>Highlights:</p> <p>Pharmac's proportion of Māori staff is currently at 6% which is below the population-based target of 17%. Pharmac are continually reviewing their recruitment process to lift this off-track initiative.</p> <p>Pharmac is on track with other activities relating to Te Tiriti and equity.</p> <p>Its work to assess how its insights reports have been received and utilised by other key agencies and stakeholders is on hold.</p> <p>Further information is available on page 27 of Appendix 1.</p>

24. Pharmac reports in considerable detail on its risks and associated mitigation activities, with risks rated on likelihood and impact. These risks are inherent to the role it plays within the wider health sector. In general, Pharmac manages its risks well.

25. *Further information is available on pages 36 to 48 of **Appendix 1**.*

Equity

26. As noted above Pharmac is undertaking a number of activities to advance equity, which also respond to recommendations in the Government response to the independent review of Pharmac.

Next steps

27. As the reformed sector develops, we expect the monitoring of the 6 specialist Crown entities and Health New Zealand to be more closely aligned. That alignment will facilitate the stewardship role of the Ministry, allowing officials to look across the various entities that contribute to the system to ensure that their activity supports the collective goals embodied in Pae Ora.

ENDS.

Appendix 1: Pharmac's quarter 1 2023/24 performance report

The documents in Appendix 1 are the responsibility of Pharmac.

PROACTIVELY RELEASED