New Zealand House of Representatives
Te Whare Māngai o Aotearoa

Health Committee
Komiti Whiriwhiri Take Hauora

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2023/24 Annual review of the Pharmaceutical Management Agency (Pharmac)

Presented to the House of Representatives
by Sam Uffindell, Chairperson

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Pharmaceutical Management Agency

Recommendation

The Health Committee has conducted the annual review of the Pharmaceutical Management Agency for 2023/24, and recommends that the House take note of its report.

About the Pharmaceutical Management Agency | Te Pātaka Whaioranga

The Pharmaceutical Management Agency (Pharmac) is a statutory Crown entity with independent functions established by the New Zealand Public Health and Disability Act 2000. Pharmac decides which medicines and medical devices receive public funding. It has a fixed budget, known as the Combined Pharmaceutical Budget (CPB), which is set by the Government.

We heard from Sarah Fitt, the chief executive of Pharmac, and Hon Paula Bennett, who became the chair of the board in May 2024. We also heard from the Associate Minister of Health (Pharmac), Hon David Seymour.

In late February 2025, the chief executive announced that she would resign on 30 May 2025.

Summary of 2023/24 performance and audit results

In 2023/24, Pharmac's total revenue was $1.872 billion, up by 14.4 percent from $1.636 billion in 2022/23. Its expenditure was $1.629 billion, down 0.2 percent from the previous year. The total gross spending was $2.5 billion, but Pharmac obtained rebates and adjustments of close to $1 billion from commercial arrangements with suppliers.

Most of Pharmac's revenue comes from the CPB ($1.806 billion), and most of its expenditure relates to the purchase of pharmaceuticals. Its operating and personnel costs represent only about 2 percent ($30 million) of its expenses.

Financial trends

	2020/21 $billion	2021/22 $billion	2022/23 $billion	2023/24 $billion	Change in 2023/24
Revenue	0.028	0.167	1.636	1.872	14.4%
Expenditure	0.041	0.067	1.632	1.629	(0.2%)
Net surplus or (deficit)	(0.013)	0.100	0.004	0.243	—

On 1 July 2022, the Government restructured the Vote Health appropriations, and established a *National Pharmaceuticals Purchasing* appropriation. Pharmac directly manages this appropriation, hence the significant increase in its revenue and spending since

2022/23. The surplus of $243 million in 2023/24 reflects the delay between when funding is received for medicines and when they are distributed.

Audit results

The Auditor-General issued an unmodified opinion on Pharmac's financial and service performance information. However, his audit report drew attention to Pharmac's reporting of its greenhouse gas emissions. This issue is not specific to Pharmac; it is common for organisations that report on emissions. The auditors acknowledged that quantifying greenhouse gas emissions is inherently uncertain. This is because the scientific knowledge and methodologies to estimate emissions sources are rapidly evolving, as are emissions reporting and assurance standards.

The auditors rated Pharmac's management control environment, and its financial information and supporting systems and controls, as "very good". Its performance information and supporting systems and controls were rated as "good". The auditors acknowledged Pharmac's work in this area but recommended further improvements, including making its measures more readable. Pharmac told us it is working with Audit New Zealand to make progress in this area. All ratings are unchanged from the previous year.

Horizon scanning

We discussed Pharmac's leading role in identifying emerging medicines with potential to transform people's lives. Pharmac periodically reviews medicines with its clinical advisory networks. Pharmac told us that scanning the pharmaceutical sector for such medicines should be a sector-wide responsibility, and involve agencies such as Health New Zealand.

To illustrate the benefits of a whole-of-government approach, Pharmac told us that it has based some of its funding decisions on the Cancer Control Agency's findings. As a result, Pharmac funded medicines that it had not yet received an application for, which is usually the first step for assessing any medicine.

International benchmark and collaboration

We also discussed whether Pharmac should give more consideration to analyses by similar agencies regarding medicines that receive public funding overseas. Pharmac said it is concerned that some new generation medicines are already publicly funded in other countries, while New Zealand only funds older-generation medicines. It said it would also examine whether its expert advisory committees could contribute to monitoring emerging medicines.[1]

We are concerned that New Zealand is ranked last out of OECD countries for the number of publicly funded modern medicines launched between 2011 and 2020.[2] Pharmac acknowledged that funding is the main barrier. We heard that new medicines are more targeted but also more expensive. Pharmac is collaborating with experts from the Netherlands to assess the societal benefits of funding new medicines and ensure equitable

[1] Pharmac receives clinical advice and recommendations from its Pharmacology and Therapeutics Advisory Committee, as well as 21 specialist advisory committees. A complete list is available on the Pharmac website.

[2] More information on the OECD ranking is available on the Medicines New Zealand website.

access. The outcome of this research will determine whether it will update the Factors for Consideration.[3] It will also inform Pharmac's next budget bid for 2025/26 appropriations.

Organisational culture

We discussed internal changes at Pharmac. We heard that the Associate Minister's letter of expectations to the chair of Pharmac included an instruction to improve its organisational culture, increase employee retention, and strengthen its collaboration with stakeholders. Pharmac emphasised the benefits of engaging in tough negotiations with pharmaceutical companies to obtain favourable deals. Conversely, it acknowledged the pressure this strategy puts on its staff.

Pharmac indicated that consultant Debbie Francis has recently conducted a three-week review of the entity's organisational culture, interviewing both staff and external stakeholders. Based on the review's findings, Pharmac will develop an action plan to address the Minister's expectations. We are pleased to hear that Pharmac is exploring ways to improve its organisational culture, and we intend to monitor its progress in this area.

Resourcing

When asked about resourcing challenges, Pharmac said that the increase to the CPB came with additional operational funding, which it used to hire more health economists, doubling the number that it previously had. This will allow the agency to address the backlog of applications that need to be assessed. We heard that the number of applications received has increased significantly in recent years, a challenge that similar agencies overseas are also grappling with. Pharmac also collaborates with other agencies, such as the Cancer Control Agency, to exchange ideas and share resources where possible.

Consultation

Pharmac indicated that it would consider how to give consultation with patients and consumers an increased weight in the funding decision process. It will also reassess whether it takes place at the right time in the assessment process. We heard that Pharmac is determined to work increasingly in partnership with all stakeholders involved in funding decisions: consumers and patients, clinical experts, and pharmaceutical companies.

The Associate Minister said that in his letter of expectations he asked the chair of Pharmac to shift the agency's culture away from being perceived as adversarial. This shift would be achieved by improving consultation, collaborating more with clinicians and providers, and a better consideration of patient voice. The Associate Minister said that, although Pharmac must consider economic and pharmacological criteria, it must keep in mind that patients will be the ones that are primarily affected by the funding decisions.

Māori strategy

We discussed Pharmac's Māori strategy and its equity policy. We heard that, when considering an application for funding, Pharmac's Pharmacology and Therapeutics Advisory

[3] The Factors for Consideration is the framework used by Pharmac when making funding decisions. There are 16 factors for consideration across four dimensions: need, health benefits, suitability, and costs and savings.

Committee (PTAC) carefully considers equitable access, with a focus on Māori, Pasifika, and disabled communities. An equity manager assesses every application, focusing on equitable access for Māori, Pasifika, and disabled communities. This assessment influences the prioritisation decisions made by Pharmac and guides the agency's collaboration with Māori pharmacists and other stakeholders.

In October 2024, Pharmac disestablished Te Rōpu, its Māori advisory committee, to focus on existing partnerships with iwi Māori, such as the 15 Iwi Māori Partnership Boards that were established under the Pae Ora (Healthy Futures) Act 2022.[4] When asked about the disestablishment, Pharmac said it is focused on the expertise of individual members of its specialist advisory committees. Pharmac also indicated that increasing Māori participation would be better addressed at the community level, rather than by an advisory committee. Pharmac has long-standing relationships with groups of health professionals, such as Māori pharmacists, and is committed to strengthening those ties.

We were informed that the agency has increased its proportion of Māori staff: it is now at 9 percent, which Pharmac acknowledged is still too low. The Māori directorate, which was set up in December 2022, is leading this work internally.

High-needs population and ethnicity

Pharmac said it is in line with the Associate Minister's view that access should not be based on ethnicity; its focus is on assessing health needs and populations with high health needs. It acknowledged continued inequity in access, which it would work on addressing. One of its performance measures is "access to medicines for priority populations", which is assessed by an internal evaluation. Further, we were informed that Pharmac, through its Factors for Consideration, assesses populations who would benefit from medicines, including Māori and Pasifika.

We sought comments from Pharmac on some experts' view that ethnicity is an effective way to identify need, also referred to as a "proxy for need". We heard that the agency's primary test is need, in accordance with the "need, not race" directive mentioned by the Associate Minister, which was published in September 2024.[5] Pharmac said that it had considered ethnicity criteria in the past but is now considering all high-needs populations. Ethnicity is now covered by the equity assessment mentioned above and by clinical advice.

Further, Pharmac told us that, of the 28 new medicine and access widening investments for implementation in 2023/24, five were identified as a Māori health area of focus, 17 as affecting Māori, and 18 as having benefits for equity.

Māori trust

One of Pharmac's performance measures is Māori trust and confidence in Pharmac. We are concerned that this measure has dropped from 21 percent in 2022/23 to 11 percent in 2023/24. Pharmac said it will address this issue by enabling community-level access to

[4] More information on the disestablishment of Te Rōpu is available on the Pharmac website.

[5] The circular can be read on the Department of the Prime Minister and Cabinet website.

medicines which will reduce the need to travel to larger healthcare facilities, and increasing the use of technology. We hope to see progress in this area.

The options for investment list

Pharmac receives an average of 100 applications every year to fund new medicines. These applications are organised into three different lists according to their priority level. The options for investment list (OFI) includes medicines that would receive funding if Pharmac's budget allowed for it. We were informed that clearing the OFI list would require an additional $400 million each year.

We discussed the OFI list mechanism. We heard that it is a dynamic list: some medicines have been on this list for many years, but this does not preclude new medicines from obtaining funding quickly if they are needed and more effective than other medicines that have been on the list for longer. Additionally, medicines that have been at the bottom of the list are periodically reviewed to assess whether they are still needed, or if better options have since been funded.

We heard that Pharmac has previously been reluctant to decline applications, instead keeping them at the bottom of the list. Recently, the agency has changed its approach, and has removed 500 inactive applications in the last few years.

Procurement of medical devices

Pharmac procures medical devices and equipment for use in hospitals and the community. The funding for medical devices is from Health New Zealand but is managed by Pharmac. Pharmac is compiling a nationally managed Health Sector Catalogue (HSC), detailing all 175,000 devices and 3,000 medicines currently in use in hospitals. Pharmac aims to complete this list by the end of 2025. This will allow Pharmac to improve transparency and accountability of medical device investment choices.

In 2023/24, Pharmac achieved 68 percent of medical devices on national contract with Pharmac, exceeding its target of 60 percent. It aims to have contracts for as many products as possible and will work with suppliers and Health New Zealand to ensure key products are covered by good commercial terms.

We asked about the arrangement between Pharmac and Health New Zealand to take different responsibilities for medical devices. Pharmac said it was yet to determine an optimal arrangement, noting that Health New Zealand would remain responsible for the rollout and use of medical devices in hospitals. The Associate Minister also indicated that he expects greater clarity about the arrangement.

We asked about health technology assessments for medical devices. Pharmac said it has conducted pilot assessments for Health New Zealand, and is working to expand this work with the aim of influencing Health New Zealand's investment decisions.

Menopause patches

In November 2024, Pharmac announced that it had decided to change the main funded brand of oestradiol patches (also known as menopause patches), a hormone replacement

therapy aimed at reducing menopausal symptoms. The new brand would become the only funded brand available from December 2025. This decision was made in response to a global shortage of menopause patches.

We heard that this decision did not go through the Board and that the Chair felt she had been blindsided. The Associate Minister said this decision showed poor consultation and a disregard for patients' views. Pharmac said its priority was addressing the shortage. The main providers had warned that they were unable to meet New Zealand demand, so Pharmac turned to a provider that assured it that it could meet demand.

In January 2025, Pharmac announced that it would be reviewing its menopause patch options following "considerable feedback". In February, it announced that it was getting closer to finalising a proposal to fund more than one brand of patches after December 2025. It plans to open for public consultation on the proposal in March. We expect Pharmac to improve its consultation processes and we intend to monitor progress in this area in the next financial year.

Process for changing suppliers

We asked Pharmac whether there is a scientific component to the process of changing suppliers for the same medicine, as happened in the case of menopause patches. In that case, Pharmac told us that it received advice from the Tender Clinical Advisory Committee and the Endocrinology Advisory Committee on the new product. Medsafe is the regulator in charge of controlling the chemicals used in the product.

Other matters considered

We also discussed the following matters. For more detail, refer to the pages noted below in the *Hansard* transcript of our hearing, available on the Parliament website.

- **Rare diseases**—We discussed Pharmac's Named Patient Pharmaceutical Assessment (NPPA), which allows the agency to rapidly consider a funding application from a clinician for an individual patient whose clinical circumstances are exceptional. We heard that there is no capped budget for the NPPA. Pharmac contributed to the development of the Ministry of Health's Rare Disorders Strategy, which aims to break down barriers for access to health care by people with rare disorders. *(Transcript pp 17–19)*
- **COVID-19 vaccine contracts**—In 2020 and 2021, the Government entered advance purchase agreements (APAs) with vaccine suppliers. After Pharmac took over the management of COVID-19 vaccines from the Ministry of Health in July 2023, it received $284 million to pay for Novavax vaccines. We understand that, since Pharmac has not received these vaccines, this money is kept as retained earnings and is not transferred to the CPB. It will be returned to the Crown if it is not spent on vaccines. Pharmac is currently in a dispute with Novavax over this APA. *(Transcript pp 19–23)*
- **Blood cancer medicines**—A report from the Cancer Control Agency highlighted significant gaps in the resourcing of blood cancer medicines in New Zealand compared to Australia. Pharmac indicated that it has started funding new blood cancer medicines thanks to its increased budget. *(Transcript pp 34–35)*

Appendix

Committee procedure

We met between 2 December 2024 and 12 March 2025 to consider the annual review of Pharmac. We conducted a standard annual review, hearing evidence on 2 December 2024 from Pharmac for two hours and from the Associate Minister of Health (Pharmac) for 30 minutes. We received advice from the Office of the Auditor-General.

Committee members

Sam Uffindell (Chairperson)
Dr Hamish Campbell
Dr Carlos Cheung
Ingrid Leary
Cameron Luxton
Hūhana Lyndon
Jenny Marcroft
Debbie Ngarewa-Packer
Hon Dr Ayesha Verrall

Glen Bennett, Todd Stephenson, and Helen White also participated in our consideration of this item of business.

Related resources

We received the following documents as advice and evidence for this annual review. They are available on the Parliament website, along with the Hansard transcript and a recording of our meeting on 2 December 2024.

- Office of the Auditor-General (Briefing on Pharmac).
- Pharmac (Responses to written questions).