



MP for Epsom

Deputy Prime Minister (from 31 May 2025)

Minister for Regulation

Associate Minister of Education (Partnership Schools)

Associate Minister of Finance

Associate Minister of Health (Pharmac)

Associate Minister of Justice (Treaty Principles Bill)

Hon Paula Bennett
Chair
Pharmac
PO Box 10254
Wellington 6143

Dear Paula

The Government is working on solving a range of challenges to improve the lives of New Zealanders. This is occurring while we are operating in a difficult fiscal and economic environment domestically and internationally. However, it remains our commitment that the wider public service and the health system should work well for all New Zealanders. This Government is committed to ensuring timely access to quality health care and good outcomes for all New Zealanders, with relative need as the key criterion.

Medicines and medical devices are developing at an incredibly rapid pace. Today we have treatments that could not have been imagined when Pharmac was first established over 30 years ago. This combined with increasing community expectations around transparency and accountability means we need to respond to the significant changes in the Pharmac operating environment.

This letter sets out my expectations to you as Chair of Pharmac for the remainder of 2023/24 and for 2024/25.

Organisational culture

While Pharmac is governed by statutory obligations and its governance framework, it also needs to maintain its legitimacy, credibility and trust. The organisation is empowered to make significant decisions about funded access to medical technologies which impact individuals' lives, and therefore the public needs to have confidence that the organisation is acting in an acceptable way, performing better than demanded solely by its statutory obligations.

Collaborating and partnering with stakeholders in the health sector has the potential to greatly improve the health outcomes for New Zealanders. This joint work often produces better, more effective and sustainable outcomes. The process of collaboration and partnership also can build trust.

In order to build positive relationships with stakeholders and maintain public trust it also must have a culture which is professional and respects stakeholders. Pharmac also needs to ensure its organisational culture supports the recruitment and retention of employees.

In relation to *Organisation culture*, please ensure that:

1. Partnership work is strengthened to ensure stakeholders understand how Pharmac operates, that its legitimacy, credibility, and trust is enhanced, and that all feedback and ideas are dealt with respectfully and valued.
2. Priority is given to identifying and pursuing any opportunities to work collaboratively and collectively with other entities, government and non-government, where this partnership will result in process improvements, health gains, or enable efficiencies.
3. Pharmac regularly reports to me on how it is tracking in relation to organisational culture and stakeholder sentiment, and what actions are being undertaken to address any issues identified.
4. Executive staff are providing the right information to enable the Board to make strategic decisions, and to undertake assessment and learning activities to improve the performance of your Board members in their important role.

The role of Pharmac

Statutory objective

As you are aware, Pharmac's objectives are set out in section 68 of the Pae Ora (Healthy Futures) Act 2022. In particular, section 68(1)(a) states its first 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 ..."

Section 4 of the Pae Ora (Healthy Futures) Act 2022 defines a pharmaceutical as: *".... a medicine, therapeutic medical device, or related product or related thing."* In this letter the term "medical technologies" is used to cover this statutory definition of pharmaceutical.

This statutory objective confines Pharmac's role to one only within the funding it is provided. The Government is therefore proposing to reform Pharmac's funding model to account for positive fiscal impacts on the Crown of funding more medical technologies and I will be seeking to work with Pharmac and the Ministry of Health on progressing this element of the Government's agenda.

Treaty of Waitangi

I note that in the previous 2023/24 Letter of Expectations Pharmac was provided a specific expectation to consider how it could contribute to *"embedding Te Tiriti o Waitangi across the health sector"*. I do not believe this is an appropriate expectation to place on Pharmac. Pharmac's role should focus on delivering improved health outcomes underpinned by robust data and evidence, in accordance with its statutory responsibilities. This should serve all New Zealanders based on actual need, without assigning their background as a proxy of need.

Dual roles of value assessment and procurement

Currently Pharmac undertakes the role of funding medical technologies in the New Zealand health system. This role combines two important but distinct functions, namely:

- a health technology assessment¹ process for medical technologies; and
- the procurement or purchasing of medical technologies.

¹ Health technology assessment, also known as HTA, is a multidisciplinary process that uses explicit methods to determine the value of a health technology at different points in its lifecycle. Definition from HTAi – see <https://htai.org>

In some comparable jurisdictions, for example the United Kingdom and Canada, these roles are performed by different bodies within their national health systems.

In any given year there will be a vast variety of medical technologies that will be considered by Pharmac. Some of these may be complex, often with evolving clinical data, while others might be simple and can move directly to an efficient procurement process. I encourage Pharmac to consider whether clear pathways for medical technologies, with fit-for-purpose processes, might ensure that the appropriate resources and expertise are devoted to the different types of value assessment undertaken by Pharmac. The organisation might also benefit from a more functionally separate procurement process.

Responsibility for medical devices

The 2022 Pharmac Review noted²:

"Pharmac was given responsibility for managing hospital medical devices in 2012. The rationale, as with vaccines, included that it would be able to negotiate more competitive prices, just as it does for pharmaceuticals. However, the savings have been slower to come and harder to make than Pharmac envisaged. In the past decade, it has put considerable effort into compiling a catalogue of all medical devices used in hospitals and other health care settings (for example, district health board supplied equipment for patients to use at home) and negotiating contracts with suppliers for the delivery of these items. These are important tasks, but the scale of work that was needed has meant Pharmac has had to focus more on managing the current approaches than being able to innovate to make savings.

Despite this good work, the review considers that under the reformed health system Pharmac is no longer the most appropriate agency to lead this function. It should move to Health NZ, which is responsible for establishing a national approach to managing the supply of medical devices. Pharmac might, however, have a continuing supporting role in this area by conducting health technology assessments of hospital medical devices as required by Health NZ."

Despite this recommendation, the previous Government retained the responsibility of medical devices with Pharmac. The medical devices industry has continued to voice concerns about the length of time Pharmac has taken to put in place appropriate processes.

In relation to the above issues identified in relation to the *Role of Pharmac*, I would like to work with the Board and Ministry of Health on:

5. How the current statutory objectives and functions of Pharmac could be updated to ensure that the organisation is operating in a way which ensures the optimisation of health outcomes which can be provided by medical technologies.
6. Would New Zealand's needs be better served by a clear delineation of the roles of value assessment and procurement in the area of medical technologies.
7. The role that Pharmac is playing in the value assessment and procurement of medical devices.

² Pharmac Review, February 2022, page 105

8. How can Pharmac put forward medical technology budget requests to its responsible Minister in a manner which maintains independence but supports additional investment.

I expect the Board to support this work and I look forward to collaborating on this.

Methods and processes

Internationally there is an increasing focus on ensuring patients have input into the development, approval and funding of medicines and medical devices I also note the *Code of expectations for health entities' engagement with consumers and whanau* as required under the Pae Ora (Healthy Futures) Act 2022.

It is known that investments in medical treatments may reduce expenditure in other parts of the health sector and/or other areas of government, and that there may also be additional societal benefits from these investments.

The 2022 Pharmac Review noted issues around transparency and timeliness by Pharmac which needed improvement. Many stakeholders continue to raise this as a concern and wish to see more progress.

In relation to *Methods and processes*, can you please ensure that Pharmac:

9. Has appropriate processes and methodologies for ensuring that those living with a disease, and their carers and family, can participate and provide input into the decision-making processes. This should also include the involvement of patient groups.
10. Continues to act in accordance with the *Code of expectations for health entities' engagement with consumer and whanau*.
11. Reports publicly, at a minimum annually, on how it is progressing in relation to numbers 9 and 10 above.
12. Updates its decision-making and evaluation models to include the wider fiscal impact of funding or not funding a medicine or medical device to the whole of government, and has tools to consider the wider societal impact.
13. Publishes in a timely manner agendas and minutes for all meetings of the Board, advisory committees, and other relevant groups.
14. Publicly provide reporting on timeliness from the receipt of an application for a medical technology, its assessment period, and then placement on one of the three priority lists.

Broader health system priorities and accountability

While my specific priorities for Pharmac are outlined above, I also expect that Pharmac contributes to broader health system priorities. This includes giving effect to the Government Policy Statement on Health, which sets out the Government priorities and objectives for the Health System for the next three years from 1 July 2024. I also expect Pharmac to act in accordance with the *Code of Expectations for health entities' engagement with consumer and whānau* (the Code) when engaging with consumers and whānau and annually reporting on how you have given effect to the Code. I also expect you to work with Health New Zealand as it develops the Health Plan.

The Government is reinstating health targets to improve delivery of key health services. The targets focus on the following areas:

- Faster cancer treatment

- Improved immunisation
- Shorter stays in emergency departments
- Planned care – shorter wait times for first specialist assessment
- Planned care – shorter wait times for elective treatment.

The Government is also developing five mental health and addiction targets that will help drive improved mental health and addiction outcomes for New Zealanders.

The annual performance expectations and milestones against these targets will be set in the Government Policy Statement on Health for 2024-2027.

With regards to the broader health system priorities, I expect Pharmac to:

15. Outline how you will give effect to the Government Policy Statement on Health.
16. Consider how you can support the progress against the Government's targets in focus areas. I note that improving child immunisation rates will be critically dependent on Pharmac's role in vaccines.
17. Work with Health New Zealand as it develops the New Zealand Health Plan.
18. Work with the Ministry of Health as it develops the rare disorders strategy.

Accountability

I expect that your reporting, and the associated monitoring undertaken by the Ministry of Health, will enable me to assess both the performance of your entity and how you are contributing to overall system performance.

I ask you to:

19. Draft a new Statement of Performance Expectations for 2024/25, with a revised draft to be provided to your contact at the Ministry of Health by 1 July 2024.
20. An update to your Statement of Intent to reflect the new priorities of this Government. An updated Statement of Intent should be provided to your contact at the Ministry of Health by 31 October 2024.
21. Continue to outline how Pharmac is implementing the 2022 Pharmac Review including implementation timelines.

I look forward to working with you as we continue to ensure New Zealanders get timely access to medical technologies.

Yours sincerely



Hon David Seymour
Associate Minister for Health