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Extract from Rigsrevisionen's report on

the sale of the vaccine production of the state-owned Statens Serum Institut

submitted to the Public Accounts Committee



1849
147.281
237
1976
114.6
22.480
908

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1. Introduction and conclusion

1.1. PURPOSE AND CONCLUSION

1. This report concerns the Danish government's sale of the vaccine production unit of the state-owned Statens Serum Institut (SSI). Rigsrevisionen initiated the study in June 2017, because the selling price of DKK 15 million was considerably lower than expected. In addition, the buyer had negotiated a substantial reduction in rent corresponding to approximately DKK 200 million in the period from 2017 to 2020. It took four years to complete the sale, of which the preparations and the actual sales process took two and a half year, despite the fact that the Ministry of Health had wanted to complete the process quickly.

2. The vaccine production unit of the SSI produced vaccines for the Danish childhood vaccination programme, and tuberculosis vaccines for export and vaccination of vulnerable groups in society. The SSI will also in the future be responsible for the purchase and supply of vaccines for the Danish national vaccination programmes, but following the sale, vaccines will be purchased from external manufacturers. The SSI's vaccine production had been in the red since 2010, and by 2012, the Ministry of Health had to consider whether the vaccine production should be sold, closed or continued under the auspices of the state. The ministry prepared the basis for the decision to start the sales process, which was subsequently organised and managed by the ministry with assistance from the Ministry of Finance and external consultants. In June 2016, the Ministry of Health sold the vaccine production for takeover in January 2017.

3. In the opinion of Rigsrevisionen, the Ministry of Health's responsibility for government funding within the remit of the ministry includes preparing analyses that help the ministry to determine which of the three scenarios – selling, closing or continuing the vaccine production – that would offer the best value for money.

The Ministry of Health sees the sale of the vaccine production as a political decision, and does not agree with Rigsrevisionen that the ministry should have provided equally comprehensive assessments of the consequences of selling, closing or continuing the vaccine production. It is the ministry's assessment that Rigsrevisionen – with this statement – is attempting to set standards for the political considerations underlying the political decision to sell the vaccine production.

STATENS SERUM INSTITUT (SSI)

The SSI is a state-owned business under the Ministry of Health, whose purpose it is to prevent and control infectious diseases, congenital diseases and biological threats.

In the opinion of Rigsrevisionen, it follows from the framework conditions specified for appropriations that the purpose of an appropriation should be achieved in the most economic, efficient and effective manner. It is therefore the Ministry of Health's responsibility to document that the ministry has acted in compliance with these conditions and that this is reflected in the decision to sell the business, the preparation of the sale and the actual sales process.

4. The purpose of the study is to assess whether the basis for decision elaborated by the Ministry of Health and its preparation and implementation of the sale of the vaccine production unit were satisfactory.

CONCLUSION

It is Rigsrevisionen's assessment that the Ministry of Health's basis for decision, preparation and implementation of the sale of the vaccine production was very unsatisfactory. The ministry's decision to consider whether the vaccine production should be sold, closed or continued was well founded from an operational perspective. However, the basis for decision was not balanced and complete, because selling the vaccine production appeared as the only valid option in preference to closing or continuing the production. Moreover, the ministry underestimated the complexity of the sale and did not ensure adequate and timely integration of the most basic conditions of achieving a good sale in the process. This in spite of the prolonged process and the fact that the ministry through most of the process was focused on selling rather than closing or continuing the production of vaccine. This approach may have weakened the ministry's negotiating position. The preliminary net proceeds of the sale of the vaccine production is a deficit of approximately DKK 279 million (sales price less the rent reduction and expenses for consultancy) against an estimated surplus of up to DKK 285 million.

Rigsrevisionen is not taking a position on which of the three scenarios that would offer the best value for money. It is Rigsrevisionen's assessment that the financial calculations concerning the sales scenario that were included in the basis for decision were more detailed than the rough estimates made for the other two scenarios. As a result hereof, relevant financial and professional benefits and disadvantages of closing or continuing the vaccine production were not adequately presented and providing a platform for assessing which of the three scenarios that offered the best value for money. Moreover, the sales scenario was based on the best-case estimate, and the basis for decision was not updated with information on the latest negative development in the economy of the vaccine production. Therefore, the sales scenario did not adequately reflect that there was a high risk that the sales gain could end up being close to nil.

In the event of a sale or closedown, vaccine for the childhood vaccination programme was to be purchased from external suppliers. Two cross-departmental analyses from 2004 and 2011 pointed to the fact that there were very few suppliers in the market for vaccines for the childhood vaccination programme. This meant that countries with no state-owned vaccine production would be vulnerable to private manufacturers' strategic considerations concerning pricing and production of specific vaccines. It did not appear from the basis for decision whether a sale could affect the security of supply and, if so, what the risks would be.

The preparations to sell the vaccine activities were not from the beginning focused on and incorporating sufficient time for the development of a detailed business plan. Having a detailed business plan is important when an unprofitable business unit is to be sold; partly because the plan shows the buyer how the business can become profitable and partly because the purchase price is generally based on the projected earnings of the business, over a number of years. However, the ministry decided to work out a general business plan, because the elaboration of a detailed plan would take too long, considering the financial position of the vaccine production unit. Additionally, the ministry did not work out a plan for the separation of IT from the carve-out; the ministry was therefore unable to present the potential buyers with an overview of the time and resources that would be required for the IT separation. Nor were steps taken to ensure that key staff was retained during the sales process.

The sales process was significantly affected by the lack of focus on IT separation and staff retention; the sales process was extended, because an acceptable plan for the IT separation had to be worked out at this point, and the financial results worsened, because key members of staff left the SSI, which interfered with the quality assurance of the vaccines and prevented the release of the vaccines for sale. The remaining potential buyer downgraded his offer in line with the financial results of the vaccine production, but the Ministry of Health did not review the possible scenarios in order to determine if a sale was still the option that offered the best value for money.