

Pharmaceutical Management Agency
Te Pātaka Whaioranga

ANNUAL REPORT

*for the year ended
30 June 2020*

Pūrongo ā-Tau

PHARMAC
TE PĀTAKA WHAIORANGA

New Zealand Government



Presented to the House of Representatives pursuant to Section 150(3) of the Crown Entities Act 2004

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Contents

Ihirangi

Statement of responsibility	4
Chair's report	5
PHARMAC explained	8
Our changing Strategic Direction	12
The year in numbers	20
Summary of medicines spending	22
Our people	28
Measuring our impact	36
Statement of performance	44
Independent auditor's report	64
Financial statements	69
Notes to the financial statements	77
Supplementary information	96
PHARMAC directory	97

Statement of responsibility

The Board of PHARMAC accepts responsibility for:

- the preparation of the annual Financial Statements and Statement of Performance and for the judgements in them
- establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting
- any end-of-year performance information provided by PHARMAC under section 19A of the Public Finance Act 1989

In the opinion of the Board, the Financial Statements and Statement of Performance for the year ended 30 June 2020 fairly reflect the financial position and operations of PHARMAC.



Hon Steve Maharey
Chair
30 October 2020



Nicole Anderson
Chair, Audit and Forecast Committee
30 October 2020



Chair's report

Te pūrongo a te Heamana

Tēnā koutou ngā karanga maha
Tēnā koutou ngā mate rangatira huhua
Tēnā koutou 'Te Pātaka Whaioranga'
Tēnā koutou katoa

Greetings to you all. As I introduce the Annual Report for 2019/20, I want to acknowledge my sector colleagues, the leaders and Board members who have come before me, and the skilled and committed staff of PHARMAC, Te Pātaka Whaioranga.

More medicines for New Zealanders

Every year we talk about making more funded medicines and medical devices available for New Zealanders.

The first half of the financial year was focused on achieving this, helped by a budget uplift announced in September 2019, of an extra \$20 million in 2019/20 and \$40 million in 2020/21. With that followed significant work across the organisation resulting in PHARMAC making 46 new investment decisions. Fourteen new medicines were funded and access widened to 32 more, at a gross cost of \$31.6 million from within the available budget.

PHARMAC continues to make large medicines savings over time

Over the last 10 years, PHARMAC has saved an estimated \$9.3 billion in net medicines costs, based on estimated expenditure at 2010 prices. In the last year alone we have saved New Zealand over \$300 million which has been reinvested in the health sector.

Six new cancer medicines

These new investments included six new cancer treatments. Palbociclib is now funded for first-line and second-line treatments for certain types of breast cancer, which will benefit more than 2,000 eligible New Zealanders in the first year of funding and up to 950 more New Zealanders over each subsequent year.

Among many other investments, PHARMAC also approved funding for ivacaftor for approximately 30 people who have a rare type of cystic fibrosis, expanded access to the meningococcal vaccine to include people living in close quarters (estimated at 35,000 people annually), and widened access to smoking cessation treatment, varenicline, potentially helping over 10,000 more people to quit smoking.

We have continued our work in hospital medical devices with more than 120,000 items and almost \$300 million of annual expenditure now under PHARMAC contracts through 80 suppliers.

New Strategic Direction

A key piece of work produced during the last 12 months has been the development of our new Strategic Direction across six priority areas – Enhance Key Functions, Medical Devices, Equitable Access and Use, Data and Analytics, Public Understanding, Trust and Confidence, and Relationships and Partnerships. And for the first time, PHARMAC has finalised a People and Capability Strategy.

These priority areas are where PHARMAC intends to concentrate our efforts to deliver on our purpose and our enduring impacts. Our new Statement of Intent 2020/21 – 2023/24 describes in detail how we will achieve our objectives across the six priority areas.

Te Whaioranga

We have recently launched PHARMAC's refreshed Māori Responsiveness Strategy, Te Whaioranga. This is a key part of PHARMAC's new Strategic Direction and will support our drive to address inequities and improve health outcomes of Māori. The refresh of Te Whaioranga responds to wider system expectations for Crown agents to partner with Māori to meet our Te Tiriti o Waitangi obligations.

Improving our ability to measure equitable access to medicines

PHARMAC has been developing a methodology to track population-level measures for equitable access to, and use of medicines, and the drivers of these outcomes which is a world first. Baseline reports, on which we can measure progress, were produced in 2019/20 for access, persistence and adherence to type 2 diabetes medicines for both Māori and Pacific populations.

Public understanding, trust and confidence in PHARMAC

We have continued to build on our work to increase transparency of our processes and improve communication with the public and our stakeholders.

This work has included launching PHARMConnect, our online funding application system, making improvements to the PHARMAC website, strengthening the role and function of our Consumer Advisory Committee, and closing out funding applications that are not being actively considered.

The Colmar Brunton Public Sector Reputation Index report this year showed our overall reputation score has improved by four points, a significant increase.

Publication on the New Zealand experience of medicines for rare disorders

In October last year, PHARMAC published a report on Funding Medicines for Rare Disorders, that outlines the landscape from PHARMAC's perspective. This includes the international and New Zealand contexts, insights from our work over the past five years, and our ongoing commitment to providing access to funding medicines for rare disorders.

COVID-19 pandemic response

PHARMAC's business in the second half of the 2019/20 financial year was significantly disrupted by the impacts of COVID-19. As a result of PHARMAC resources being diverted to manage the impacts of COVID-19, some planned work was delayed or deferred.

However, I was impressed with how well and quickly PHARMAC staff were able to adjust to the changes that occurred, particularly during lockdown, when PHARMAC operated at full capacity with all staff working from home.

PHARMAC's two key priorities during COVID-19 have been to support the health sector to respond to the pandemic and to ensure uninterrupted supply of medicines and medical devices. COVID-19 has slowed or halted activities in manufacturing plants and impacted the importation and transportation of medicines and medical devices globally. Despite these interruptions to the pharmaceutical supply chain, PHARMAC's work ensured that there were no significant clinical impacts to New Zealanders.

Record number of New Zealanders were immunised against the flu

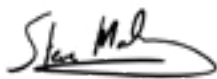
The potential impacts of COVID-19 drove increased demand for the seasonal influenza vaccine and uptake has been much higher than forecast. In 2020 more than 1.77 million influenza vaccines were distributed around the country, which has resulted in a record number of New Zealanders being immunised. This, combined with social distancing practices and a focus on hand sanitisation, contributed to a much lower incidence of influenza in New Zealand this winter.

Our work makes a real difference to New Zealanders

As I reflect on the key highlights over the past 12 months, in what has truly been a year of two halves, I am reminded of many other examples of how PHARMAC's work is making a real difference to New Zealanders.

One such example is PHARMAC's decision to widen funded access to Mirena as well as new funding for Jaydess, both long-acting reversible contraceptive options, which will benefit approximately 21,000 New Zealanders.

This decision removed a cost barrier and ensured a broader range of choices around the contraceptives people can use, which is a great outcome. Family Planning Chief Executive Jackie Edmond said the decision was a "great step forward for New Zealand", and one which would "improve equity and access to health care."



Hon Steve Maharey
Chair



PHARMAC explained

*Te pātaka whaioranga
he whakamārama*



Who are we?

PHARMAC is the government health agency that decides which medicines, and some medical devices, are available to New Zealanders in a way that is affordable and accessible.

Most New Zealanders experience PHARMAC's work when they get a prescription filled at the pharmacy, when they are vaccinated for free, or when they receive medicines in a public hospital.

Available

Each year, PHARMAC aims to make more medicines available to more New Zealanders. This is by funding new medicines or making the medicines we already fund available to more people.

Affordable

The Government sets the budget for overall public spending on health. The Minister of Health then decides how much of the health budget will be managed by PHARMAC and used to fund medicines. PHARMAC's mission is to, within the fixed budget, choose medicines to fund that will get the best health outcomes for New Zealanders.

Accessible

After PHARMAC makes the decision to fund a medicine or medical device, we want to make sure that everyone who will benefit from it, gets it and uses it. We are committed to ensuring equitable access to the treatments we have made available and that everyone uses treatments in the best way, so they get the health benefits they offer.



How does PHARMAC choose which medicines should be funded?

PHARMAC receives applications for medicines to be funded, usually from medicine suppliers, but sometimes from clinicians or everyday New Zealanders.

PHARMAC uses its Factors for Consideration to assess medicines. The Factors enable us to look carefully at information and evidence about the health of people who need the medicines, the health benefits the medicine offers, and any costs or savings that funding the medicine would have for overall public spending on health. We also think about the suitability of the medicine for people who will need to use or administer it.

Every year, the total cost of all the new medicines we could fund is more than the amount we could possibly spend from our fixed budget. Decisions take time – we consider a lot of detailed information because we take our responsibility to make these important choices seriously. We want to ensure New Zealanders achieve the best health outcomes from medicines by using our fixed budget in the best way possible.


We know that it's sometimes hard to understand what is happening with a funding application and whether PHARMAC will or won't fund a medicine. We have an Application Tracker that anyone can use to see where a medicine is at in our decision-making process.

We also know people want us to make our decisions faster, and we do too. From 1 January 2020, we started assessing cancer medicines for funding in parallel with Medsafe (New Zealand's Medicines and Medical Devices Safety Authority). Medsafe decides whether a medicine meets standards for quality, safety and efficacy, and approves it for marketing in New Zealand. By assessing medicines at the same time as Medsafe, PHARMAC hopes to reduce the overall time between a medicine being approved for sale in New Zealand and us reaching a decision about whether or not the medicine will be funded.

The process explained

When PHARMAC receives an application for a medicine to be funded, all the supporting evidence is reviewed. This can be from a range of sources, including our own research and input from patients, patient representative groups and clinicians.

The medicine, and all the evidence, is then looked at by experienced doctors and other health care professionals on the Pharmacology and Therapeutics Advisory Committee (PTAC) or one of its specialist subcommittees. PTAC and its subcommittees are made up of expert clinical advisors from around New Zealand who work within the health system and give PHARMAC the expert advice we need. You can learn more about the members of PTAC and its subcommittees on our website.



PTAC and its subcommittees use PHARMAC's Factors for Consideration when looking at the evidence and giving advice to PHARMAC. The committees can make a recommendation to PHARMAC to either fund the medicine (with either a high, medium or low priority) or to decline the funding application. PTAC and subcommittee advice and recommendations are published on our website and can also be found via our Application Tracker.

A recommendation to fund the medicine by PTAC or one of its subcommittees is not a decision. This is because the PHARMAC Board (or its delegate) is the decision-maker. Following advice and recommendations from our clinical experts, PHARMAC completes a health economic assessment and gathers all the information it has together. Using the Factors for Consideration, PHARMAC compares all the new medicines with each other and ranks them in order of preference. This creates a prioritised list of medicines that could be funded.

PHARMAC's mission is to fund as many of the medicines it can on this list from any available money in its fixed budget. When there is sufficient funding available, we enter into negotiations with the suppliers to secure a price and other supply terms for the medicines.

If we decide to decline funding for a medicine, we let the applicant know. We won't consider the medicine for funding again, unless there is new evidence.

Getting more medicines for more New Zealanders

Medicines and medical devices can cost a lot of money. PHARMAC has a fixed budget, which we aim to spend in the most worthwhile way possible. We try to fund as many new good value medicines as we can from that budget. Occasionally, we take steps to reduce the costs of some already funded medicines, so we can use the money to buy more medicines for more New Zealanders. This might mean we make brand changes for medicines we already fund. Before we make these kinds of decisions, we seek clinical advice to make sure it's the right thing to do, and we publicly consult to understand what impacts the change might have on people. Supporting clinicians and people who use medicines to make these kinds of changes is an important part of our work.



Our changing Strategic Direction

Ngā whakahoutanga o te koronga rautaki

PHARMAC contributes to the Government's priority of improving the wellbeing of New Zealanders and their families, through achieving our purpose to deliver the best health outcomes from New Zealand's investment in medicines and medical devices.

This Annual Report relates to the last year of PHARMAC's 2017/18-2020/21 Statement of Intent, which included PHARMAC's three Bold Goals. These goals, outlined on the following pages, that we want to achieve by 2025, push beyond our everyday work to challenge us to deliver the very best we can for New Zealand.



Eliminate inequities

in access to medicines

Generate savings

of \$1 billion from medical device management, to reinvest in health outcomes for New Zealanders

Create systems

that enable the best investment choices to be implemented across all PHARMAC activities

Eliminate inequities in access to medicines

Not all New Zealanders are achieving the best health outcomes from medicines funded by PHARMAC.

Due to a range of systemic barriers, Māori are not able to benefit from funded medicines in the community in the same way as non-Māori. Pacific peoples, those experiencing socio-economic disadvantage and those in rural locations are likely to face barriers too.

Taking a focused approach

In *Achieving medicine access equity in Aotearoa New Zealand: towards a theory of change*¹ (published April 2019), we identified our scope for current and future equity work.

We are focused on conditions that respond well to medicines. This includes medicines for the prevention, treatment and/or management of:

- asthma;
- diabetes;
- gout;
- hypertension (high blood pressure);
- primary and secondary prevention of a cardiovascular event.

In line with the Government's priorities, we are focused on the primary care setting. Over time, we'll look to improve equity of access to medicines in secondary care, and for funded vaccines.

Priority is given to our Treaty partner, Māori, who are well-evidenced to experience health inequities. Other priority populations are:

- Pacific peoples;
- those living in high socio-economic deprivation;
- those residing in rural and isolated areas where access to health services is more challenging;
- people from former refugee backgrounds.

Measuring outcomes

We have developed a Medicines Access Equity Outcomes Framework. This recognises that there are multiple reasons for medicines access inequities, and most require a system-level response. Tracking system level progress will help PHARMAC to understand where to invest resource, and where to influence change with health sector players and communities.

We have used this newly developed methodology to produce the first outputs of the Medicine Access Equity Outcomes Framework. We have developed some indicators and undertaken baseline analysis informed by a range of perspectives, including Māori, clinical and population health expertise.

¹ <https://www.pharmac.govt.nz/assets/achieving-medicine-access-equity-in-aotearoa-new-zealand-towards-a-theory-of-change.pdf>





Generate \$1 billion of savings from medical device management to reinvest in health outcomes for New Zealanders

More medical devices used by District Health Boards (DHBs) were brought under national contracts this year, which means any DHB can purchase the contracted items under common terms for things like price, maintenance and supply.

We have a total of over 123,000 hospital medical device line items listed in the Pharmaceutical Schedule. Following the Government's decision to apply the PHARMAC management model to DHB hospital medical devices, PHARMAC will be responsible for deciding what medical devices are used or provided by DHBs.

In future, our approach to medical device funding decisions will have many similarities with the approach we currently use for medicines. For example, decisions will be based on the Factors for Consideration, which means we will assess the need, benefits, costs and savings, and suitability of a particular device, including how these apply to the individual requiring treatment, their family/whānau and wider society, as well as the broader health system.

Create systems that enable the best investment choices to be implemented across all PHARMAC activities

Getting the best health outcomes from the decisions we make depends on the right systems and processes being in place to support those decisions – not just within PHARMAC, but across the wider health sector too.

The work we have been doing towards this involves changing how we do things and how we work with others to achieve our goal of delivering the best health outcomes for New Zealanders.

Within PHARMAC, we have implemented PHARMConnect, a new online system for submission of medicines funding applications. This makes it easier for people to track the status of an application. PHARMConnect launched in late August 2019.

New Strategic Direction for 2020/21 and outyears

During 2019/20, PHARMAC has developed a new Strategic Direction that reflects and anticipates new challenges and imperatives for our work. Our new Strategic Direction, described in our Statement of Intent 2020/21 – 2023/24 and outlined on page 19, takes forward the aims of the previous strategy and builds on our progress.

To support our work, PHARMAC has developed, for the first time, a People and Capability Strategy, as we know that in order to succeed in these priorities we need to develop different capabilities and get better at projecting our future capability needs.

At the same time we have refreshed Te Whaioranga, our Māori Responsiveness Strategy, which provides a cross-cutting lens through which we will plan and implement each priority – success will only be achieved in each area if we deliver it for and with Māori as a Treaty partner.



Te Whaioranga – living up to our Treaty obligations

Te Whaioranga provides a framework for ensuring PHARMAC meets our Te Tiriti o Waitangi responsibilities and achieves the best health outcomes for Māori. Te Whaioranga was updated in 2013 and was intended to last until 2023.

In 2020 we refreshed Te Whaioranga 2013-2023, to align and integrate with PHARMAC's new Strategic Direction and respond to wider system expectations for Crown agents to partner with Māori, to meet our Te Tiriti o Waitangi obligations. The aim of the refresh was to:

1. Ensure Te Whaioranga guides and supports PHARMAC to fulfil our responsibilities under Te Tiriti o Waitangi.
2. Provide a strong strategy for ensuring our work delivers equitable health outcomes for Māori from New Zealand's investment in medicines and related products and, in future, medical devices.
3. Ensure PHARMAC is guided by ongoing strategic advice that supports our aims and our role as a Te Tiriti o Waitangi partner.

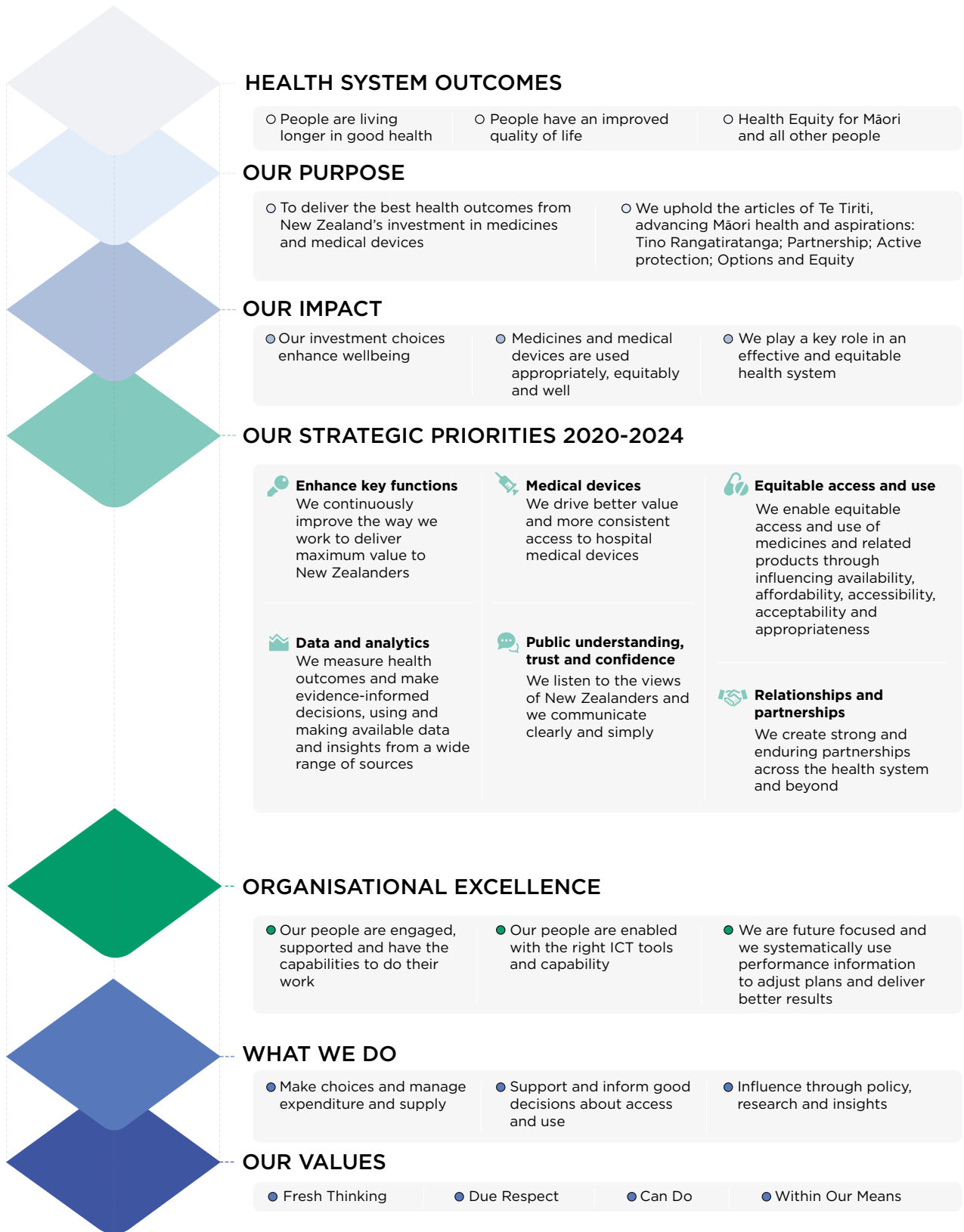
The refreshed strategy focuses on six areas:

- Te Tiriti o Waitangi;
- Māori leadership;
- Māori/Crown partnerships;
- equity for Māori;
- accountability; and
- building capability and removing bias.

At the same time as creating a refreshed Te Whaioranga, we have continued to work closely with our Whānau Ora Collectives partners and with Māori health professional organisations to create relationships that can support equitable health outcomes for Māori.



Our Strategic Direction



The year in numbers

He tau anō nō te tau

Combined Pharmaceutical Budget 2019/20



\$1.04 billion

DHBs' combined medicines expenditure

3.74 million

Number of New Zealanders receiving funded medicines



14

Number of new medicines funded

32

Number of medicines with widened access



71,245

Estimated number of additional patients benefiting from decisions



\$87.4 million

In savings reinvested in more medicines

Hospital medical devices 2019/20



17,000

Additional line items on the
Pharmaceutical Schedule under
national contracts



123,000

Total line items on the
Pharmaceutical Schedule under
national contracts



\$41 million

Value of additional medical
devices under contract for
2019/20



\$296 million

Total value of medical devices
under PHARMAC contract

Summary of medicines spending

He whakarāpopoto o ngā whakapaunga pūtea ki te rongōā

PHARMAC is responsible for deciding which medicines to publicly fund in New Zealand. In order to make these funding decisions, PHARMAC works to a budget held by DHBs, known as the Combined Pharmaceutical Budget (CPB).

This budget is set by the Minister of Health. PHARMAC's role is ensure that spending on medicines doesn't exceed this budget.

The CPB increased from \$985 million in 2018/19 to \$1,040 million in 2019/20

Medicines spending was on budget...

This year, medicines spending was on budget at \$1,040 million. This budget figure is determined through the following:

\$1,646.9 million	total gross spending on medicines used in community and hospital settings, including cancer treatments, vaccines and haemophilia treatments
-\$625.2 million	rebates and adjustments (part of our commercial agreements with suppliers)
+\$18.3 million	transfer from DHBs to the Discretionary Pharmaceutical Fund (DPF) ²
<hr/>	
\$1,040.0 million	total medicines spending for 2019/20

This means that, in total, DHBs spent \$1,040 million on both maintaining the supply of medicines we currently fund, as well as the purchase of new medicines.

...while the number of medicines available for New Zealanders also increased

In 2019/20, PHARMAC made decisions to fund 14 new medicines and widen access to a further 32 medicines, meaning that more New Zealanders have access to more treatments. This is on top of continuing to purchase the medicines that are already funded.

This year saw a 0.9 percent increase in the number of prescription items for medicines compared to last year. This means that the total amount of medicines being used in New Zealand is growing.

Although the cost of medicines is increasing, we were able to make savings of \$87.4 million during the year, which was reinvested in more medicines.

² This fund is explained in more detail on page 26.

The table below shows how many medicines we have funded or widened access to over the last 10 years:

Year	New listings	Widened access	Total
2019/20	14	32	46
2018/19	10	10	20
2017/18	13	39	52
2016/17	18	8	26
2015/16	15	6	21
2014/15	21	20	41
2013/14	26	35	61
2012/13	20	40	60
2011/12	14	10	24
2010/11	39	43	82

Six new funded cancer treatments

Six new cancer medicines were approved for funding during the last financial year.

This included palbociclib (Ibrance) and fulvestrant, which are used in combination, for first-line and second-line treatments for HR-positive, HER2-negative locally advanced or metastatic breast cancer. Palbociclib improves progression-free survival with maintained quality of life for people with these cancers. This will benefit more than 2,000 eligible New Zealanders in the first year of funding and up to 950 more New Zealanders over each subsequent year.

Other newly funded cancer treatments include alectinib for ALK positive advanced non-small cell lung cancer, venetoclax (used in combination with rituximab) for chronic lymphocytic leukaemia, olaparib for BRCA-mutated ovarian cancer, and trastuzumab emtansine for HER-2 positive metastatic breast cancer.

More choice of funded contraceptives

Mirena and Jaydess, levonorgestrel intrauterine systems (LIUS), have been fully funded without any restrictions from 1 November 2019.

PHARMAC widened funded access to Mirena, as well as listing a new long-acting reversible contraceptive option, Jaydess, which benefits around 21,000 New Zealanders.

We heard from New Zealanders that this was something they wanted us to fund. This gives people a broader range of choices around the contraceptives they can use and provides a treatment option for those who suffer from heavy menstrual bleeding, endometriosis or endometrial hyperplasia.

This decision has improved funded access to contraceptives and provides a choice of a three-year or five-year long-acting reversible contraceptive for people in New Zealand.

New funded treatment for cystic fibrosis

PHARMAC approved funding for ivacaftor (Kalydeco) tablets and granules for the treatment of patients with cystic fibrosis with the G551D mutation (or other class III gating mutations).

Ivacaftor has the potential to make a real difference to the lives of the estimated 30 to 35 people in New Zealand living with this particular type of cystic fibrosis.

Cystic fibrosis is an inherited life-threatening rare disorder that damages the lungs and digestive system. Ivacaftor treats the disease rather than the symptoms of the disease.

We acknowledged the high degree of public interest in funding ivacaftor and heard from many New Zealanders that this was something that they wanted funded.

Widened access to meningococcal vaccine

Meningococcal ACWY vaccine (Menactra) has been funded for people aged from 13 to 25 years living in boarding school hostels, tertiary education halls of residence, military barracks, or prisons, since 1 December 2019.

After the first year, funding will only be available to people entering their first year of living in such institutions.

Approximately 35,000 people will be eligible for vaccination during the first year and approximately 8,000 people in each following year.

This decision has provided vaccination to adolescents and young adults in close-living situations, which will reduce the carriage of meningococcal bacteria and the risk of these people developing meningococcal disease due to the A, C, W and Y groups.

PHARMAC has continued expanding its role into hospital medical devices

We are working with DHBs, suppliers and others to increase our involvement in the management of medical devices used or supplied to people by DHBs. This approach is about supporting more consistent access to medical devices for New Zealanders and helping DHBs manage spending on medical devices.

During the year, PHARMAC added 17,000 medical devices to the Pharmaceutical Schedule, bringing the total number of line items to over 123,000. The value of the hospital medical devices negotiated in our agreements with DHBs totalled \$296 million as at 30 June 2020, which is \$41 million higher than at the end of 2018/19.



How PHARMAC managed spending in 2019/20

In addition to managing the CPB, PHARMAC has three funds that it looks after:

- Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund (CPB DPF);
- Hospital Discretionary Pharmaceutical Fund (HDPF);
- Legal Risk Fund.

Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund

The CPB DPF is a special purpose reserve fund which also serves as a budget management tool in that it both:

1. allows PHARMAC to manage unexpected fluctuations in medicines expenditure, which may lead to over or under spending of the CPB;
2. allows PHARMAC to make investment decisions that might otherwise be unaffordable within the CPB.

At the start of the 2019/20 financial year, the CPB DPF balance was \$19.5 million; its maximum value is 2 percent of the CPB, which in 2019/20 was \$20.8 million. By agreement of the PHARMAC Board, and in accordance with the CPB DPF Policy, the opening balance was transferred to the HDPF. An amount of \$18.3 million was invoiced to DHBs for the CPB DPF on 30 June 2020 to bring net pharmaceutical expenditure equal to budget. The closing balance of the CPB DPF on 30 June 2020 was \$18.3 million, which is now available for spending on pharmaceuticals in future years.

Hospital Discretionary Pharmaceutical Fund

The HDPF is a fund which supports the long-term management of DHB expenditure and increases PHARMAC's capacity to make efficient budgeting decisions. The HDPF provides the ability to manage investments over financial years for the overall benefit of the health system.

At the start of the 2019/20 financial year, the HDPF balance was \$3.9 million. By agreement of the Board, the opening balance of the CPB DPF, \$19.5 million, was transferred to the HDPF. Payments from the HDPF of \$0.135 million relate to initiatives to support long-term management of DHB expenditure and increase PHARMAC's capacity to make efficient budgeting decisions. The closing balance of the HDPF on 30 June 2020 was \$23.3 million.

Legal Risk Fund

PHARMAC maintains a Legal Risk Fund, which can be used to initiate or defend legal action to which PHARMAC is a party. Any spending from this fund needs to be approved by PHARMAC's Board in accordance with the Use of Legal Risk Fund Policy. Historically, PHARMAC has experienced a high level of litigation activity. It is difficult to predict when litigation can occur, and it may extend beyond our normal, year-to-year resourcing. Having the Legal Risk Fund allows us to commence or continue with legal proceedings as required without delay.

There was nil expenditure from the Legal Risk Fund for 2019/20 (2018/19: Nil). PHARMAC's operational litigation budget is used to replenish the Legal Risk Fund at financial year end, in the event that funds remain in that budget. At 30 June 2020, nil (2018/19: Nil) remained in the litigation budget. The balance of the Legal Risk Fund at 30 June 2020 was \$8.4 million.





Our people
Ō mātou tāngata



Overview of key capability

PHARMAC requires a broad range of capabilities to carry out its work effectively. We have a strong focus on building capability to enhance current work and ensure PHARMAC is well-prepared for future challenges.

Key capability areas include:

- *Governance* – Board members are appointed by the Minister of Health. A Governance Manual guides the Board's operations and sets out legal obligations, relevant procedures and the delegations framework for PHARMAC's decision-making.
- *Critical appraisal and evidence-based medicine* – clinical evidence is a fundamental part of PHARMAC's decision-making. We have a strong focus on continual development of critical-appraisal skills, monitoring international developments in evidence-based medicine, and providing effective support to PHARMAC's clinical advisory committees.
- *Procurement and contracting* – an important part of PHARMAC's work is the negotiation of commercial contracts. In addition to ongoing development of negotiation and contracting skills, PHARMAC has a well-developed set of purchasing strategies, tools and systems to support procurement and contracting work. We also have a strong focus on managing contracts once in place.
- *Policies and procedures* – PHARMAC has a wide set of corporate and operational policies and procedures to ensure work is carried out in the best possible way, including to ensure probity and integrity across PHARMAC's operations. Policies and procedures are regularly reviewed, and operational policies and procedures are also regularly updated.
- *Risk management* – PHARMAC operates a risk management framework with a regular focus on risks and their management by both management and the Board.
- *Stakeholder relationships* – PHARMAC places high value in effective stakeholder relationships, to understand stakeholder issues and views, and to ensure a good understanding of PHARMAC's work and the decisions that are made.

People and Capability Strategy

This year we have, for the first time, developed a comprehensive People and Capability Strategy, following substantial engagement with PHARMAC staff. The Strategy is focused around five priorities:

- engaged staff;
- strengthening our leadership;
- diversity and inclusion;
- organisational capability;
- health and wellbeing.

Work programmes for each of these priorities are being developed and will be implemented over the coming year.

Enhancing PHARMAC as a good employer

PHARMAC's success requires the right people in the right roles at the right time, so high importance is attached to recruiting and retaining high-performing employees. We have several initiatives in place guided by sound principles of being a good employer. We regularly review our programmes and policies to ensure they meet the changing demographics and the workplace.

Leadership, accountability and culture

PHARMAC focuses on developing effective individual and organisational leadership. All staff members are expected to act with respect, integrity, and accountability. We invest in programmes and activities that support leadership development, and staff advancement. We encourage openness in the workplace, including providing regular opportunities for staff to contribute to, and be actively involved, in PHARMAC decisions. Policies and procedures are regularly reviewed to ensure they are fit for purpose.

Recruitment, selection and induction

We are an equal opportunity employer (EEO) and aim to recruit the best person for each role. Vacancies are advertised to attract a range of candidates, with the approach varying according to circumstances and role type. We have a strong and diverse employer brand in the health industry, and work to extend this has been supported through social media channels such as Facebook, Twitter and LinkedIn. An induction programme is in place to help new staff members familiarise themselves with PHARMAC's operations as quickly as possible.

PHARMAC considers equity and diversity in all decisions. We have formed a new partnership with Diversity Works this year and are undertaking a planned approach to enhance our understanding of, and to create, a more inclusive and welcoming work environment at PHARMAC. As a Crown entity, we also have obligations under Te Tiriti o Waitangi, and we take our commitments seriously.



Employee development, promotion and exit

We provide and encourage development opportunities for staff to grow their skills, abilities, and careers. These opportunities include taking on senior roles, undertaking external training and development, receiving support (including opportunities for scholarships) for formal study, and secondment opportunities. We also offer regular training to directly support Te Tiriti o Waitangi, including te Reo Māori classes and Te Tiriti o Waitangi training, as well as a range of other activities.

The Pacific Responsiveness Strategy's purpose is to support Pacific People in New Zealand to live healthy lives through improved and timely access to, and the use of, medicines and medical devices. Our planned cultural awareness sessions are designed to support our Pacific Responsiveness Strategy and educate staff.

Our internal staff development plans provide clear linkages to the PHARMAC business plan and our overall strategic direction.

Online exit surveys and face-to-face interviews are offered to all departing employees. The data collected from these is analysed to monitor, manage, and communicate reasons for people leaving the organisation.

Flexibility and work design

PHARMAC recognises that supporting employees to balance their work and family commitments will, over time, have a positive impact on work quality, productivity, and employee wellbeing.

Our flexible working arrangements ensure staff, who work remotely, are provided with appropriate technology and communication solutions to enable seamless working arrangements. This was demonstrated during COVID-19 alert levels 3 and 4, when all staff had access to the necessary resources to be able to work productively and efficiently from home. We have continued to allow flexible working arrangements for staff post the lockdown period.

We offer generous parental leave entitlements in addition to legal entitlements.

Remuneration, recognition and conditions

We use independent job evaluation and market remuneration information to set salary ranges for positions. We aim to achieve fairness and equity through reviewing and eliminating inappropriate pay disparities. Remuneration is reviewed annually against market changes and Government expectations. We create work conditions that enable staff to feel comfortable and supported, including those who identify as LGBTQI+, and those with disabilities.

Harassment, discrimination and bullying prevention

We do not tolerate any bullying, discrimination, or harassment. Conduct and behaviour expectations are clearly communicated through our Bullying, Harassment and Discrimination Policy, which is provided to staff at the induction stage. Existing staff are regularly reminded about policies and expectations, including specific workshops for managers on this topic.

Safe and healthy environment

PHARMAC aims to provide a working environment and management process which is, so far as is reasonably practicable, free of risks to health and safety. Our health and safety systems ensure that hazards are identified, and risks are controlled and managed accordingly.

PHARMAC is committed to doing everything possible to prevent injury. This includes establishing early reporting and detection procedures, training and education, and providing guidelines on safe working conditions. All accidents, injuries, and near misses and hazards are reported to the Health and Safety Committee for analysis, and necessary actions are taken to eliminate recurrence, using a hierarchy of controls.

Maintaining a safe and healthy workplace, free from injury, is our aim. In the 2019/20 financial year, we had zero lost time injuries. The following table provides a summary of the 2019/20 financial year reported events:

Category of incident	Number of incidents reported
Lost time injuries	0
Reported accidents / incidents / events / hazards	11
Non-work related	2
Near miss	2

Our Health and Safety approach aims to enable staff to operate and work in a safe and healthy environment. This is achieved through our Health and Safety Governance programme.

- *PHARMAC Board Health and Safety Committee* – meets several times per year to assist the Board to provide leadership in discharging its health and safety management responsibilities within the organisation.
- *Staff Health and Safety Committee* – meets monthly to deliver key priorities, address risks, and minimise risks of incidents from occurring, as well as audit the systems of work.
- *Well Working Group* – a subgroup of PHARMAC's Health and Safety Committee and exists to support a work culture of wellness. The working group's role is to identify and implement wellness practices in the following areas: stress management, mental health, physical health, healthy environment, and organisational engagement.

- *Health and safety training and safety culture* – PHARMAC provides regular training and engagement in health and safety, with the aim of encouraging individual responsibility for health and safety in the workplace. Staff are provided regular updates on health and safety matters via all staff meetings and the PHARMAC intranet, as well as access to simplified near miss reporting tools, which aim to encourage individuals to report on potential hazards.

In order to manage and monitor health and safety in the organisation, PHARMAC has developed key performance indicators. Our Risk Management System provides reporting on incidents, emergency preparedness and business continuity planning.

Staffing

At 30 June 2020, we had a total of 132 staff – 118 permanent employees, plus 14 fixed-term employees. We also had eight vacancies. Permanent staff turnover for the 2019/20 year was 27 percent, which is slightly lower than last year and driven by a variety of factors³. Seven employees were on parental leave during the year.

We have a relatively high number of part-time staff – 12 percent at 30 June 2020 – to retain valuable skills and competencies and provide for work-life balance. We are also currently supporting staff with disabilities, and a disability register is held in case of an emergency.

Gender	Part-time	Full time	Total
Permanent employees			
Male	3	35	38
Female	10	68	78
non-Specified	0	2	2
Fixed-term employees			
Male	1	3	4
Female	2	8	10
non-Specified	0	0	0
Grand total			132

³ The main factors that led to staff turnover in 2019/20 included taking up opportunities for career progression (due to PHARMAC's small organisation size), personal reasons and employees moving away from Wellington.

**Staff numbers by ethnicity
/ country of origin**

African	1
Australian	2
British / Irish	5
Chinese	5
Dutch	2
Fijian	1
Indian	2
Japanese	1
Korean	1
Maori	3
NZ European/ Pakeha	75
Samoan	1
Other ethnicity	2
Other European	4
Not disclosed	27

Total 132

**Staff numbers by age
(years)**

20-29	26
30-39	38
40-49	28
50-59	20
60-69	9
70-79	1
Undeclared	10

Total 132








Measuring our impact

Te whakaine i te pānga o ngā mahi



PHARMAC's statutory objective is to secure the best health outcomes for New Zealanders from pharmaceutical treatment. This means it is vitally important that PHARMAC's work has a positive impact for New Zealanders and contributes to health gains in the wider health system.

PHARMAC has identified four areas that we use to measure the impact of our work. These impact areas are laid out in our Statement of Intent 2017/18 – 2020/21 and are outlined below.

Impact area 1: Increased access to effective medicines and medical devices

Why is this important?

Funding more clinically effective and good value medicines and medical devices helps New Zealanders to live longer and healthier lives. PHARMAC creates savings from funded medicines so we can purchase more medicines or allow more people to benefit from existing funded medicines. We also make decisions about the access criteria to some funded medicines so that, within the funding available, the right people benefit from the medicines they need, and the best health outcomes are achieved.

Where are we focused?

- We will continue to manage the list of funded medicines and related products by ensuring total expenditure is within the fixed budget. We will continue to decide on contract arrangements and usage for medical devices across all DHBs.
- We will decide and monitor rules or criteria for access to specific products and distribution arrangements.
- We will make decisions on funding medicines for people in exceptional circumstances.

The following page details PHARMAC's performance for this impact area.



Impact

Measure

Rationale

Results

The price paid for medicines and related products in the CPB reduces in real terms over time, while access to them increases.

In managing the CPB we want to, in effect, get more for less.

We are always aiming to increase people's access to clinically effective, good value medicines by reducing prices. This is demonstrated by the graphs on the following page.

Between 2010 and 2020, we saved DHBs a cumulative total of around \$9.3 billion, including \$2.04 billion in 2019/20. At the same time, the number of new medicines and the number of prescriptions per year has increased.

The number of New Zealanders receiving funded medicines increases.

We want to see an increase in the number of New Zealanders receiving funded medicines. This would help to reflect the success of our work in:

- funding more medicines;
- removing or widening clinical access criteria, so more people can get funded medicines;
- reducing inequities in access to medicines.

While the number of New Zealanders receiving funded medicines (excluding vaccinations, hospital medicines and haemophilia patients) decreased by 0.8⁴ percent to 3.74 million in the year to 30 June 2020, we funded 14 new medicines and widened access to 32 more medicines.

The decrease was due to the impact of COVID-19. The numbers of people collecting prescriptions dropped considerably during April and May 2020 (during the Alert Level Four lockdown), compared to the months before and after this and compared to the same period last year.

However, in the 12 months prior to lockdown, from 31 March 2019 to 31 March 2020, the number of New Zealanders receiving funded medicines increased by 1.9 percent to 3.82 million.

Increased access to effective medicines and medical devices

Total value and total number of hospital medical devices under contract increases.

As we progress our work in hospital medical devices, we expect to see an increase in the number of devices that we've secured contracts for. We also track our progress through the value of the contracts we've negotiated – demonstrating the extent of our work.

This measure shows the growth of PHARMAC's medical devices work programme.

We estimate the annualised spend on hospital medical devices under contract has increased by \$41 million.⁵

In 2019/20, the total number of new medical devices under contract has increased by 17,000 listings to over 123,000 items.

The average value of our funding decisions is higher than the average value of all investment proposals.

To get the best health outcomes – our overarching objective – we need to decide which funding applications represent the best health outcomes for us to progress and implement. This fundamentally means making the best of all choices available to us in any year.

Combined with the integrity of our application process, including priority recommendations from PTAC, this measure helps us prove that the best choices were made.

There were 31 quality-adjusted life-year (QALYs)⁶ achieved per \$1 million spent for funded proposals, compared to 13 QALYs per \$1 million for all available investment options.

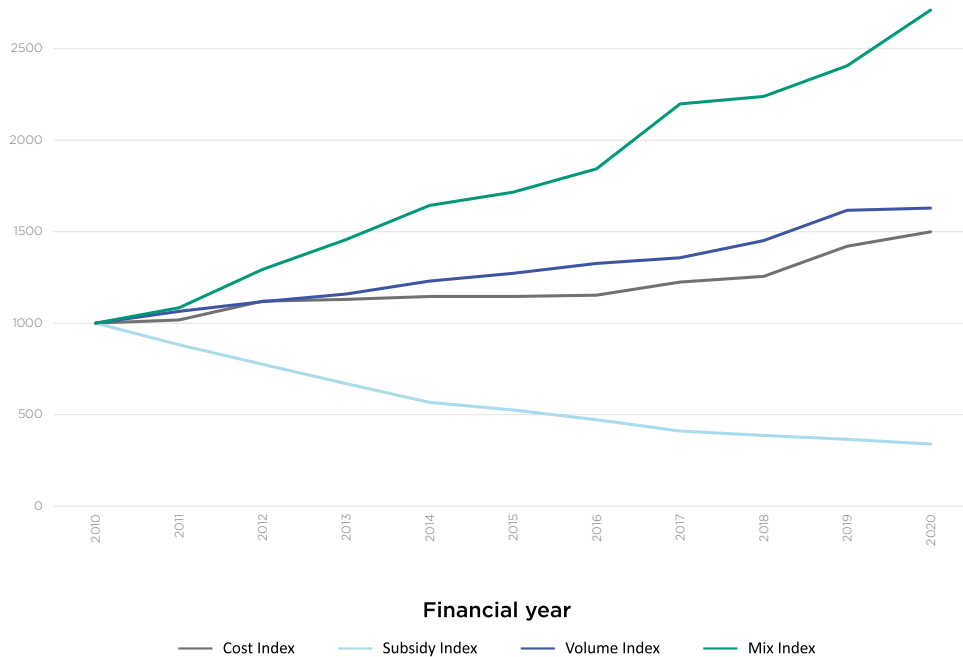
⁴ The number of New Zealanders receiving funded medicines is estimated using data as at August 2020. The data is not finalised until late 2020, due to lags in pharmacies submitting prescription claims. For consistency of reporting year-on-year, the reported decrease of 0.8 percent is calculated from the 2019/20 data estimate compared to the 2018/19 reported estimate.

⁵ This estimate is based on information provided by suppliers in their submissions to PHARMAC. While we consider this a reasonable estimate, the actual figure may vary due to spend being estimated from historical data.

⁶ A QALY is a measure of the health of a person or group in which the benefits, in terms of length of life, are adjusted to reflect the quality of life.

New Zealanders are getting more medicines and paying less for them

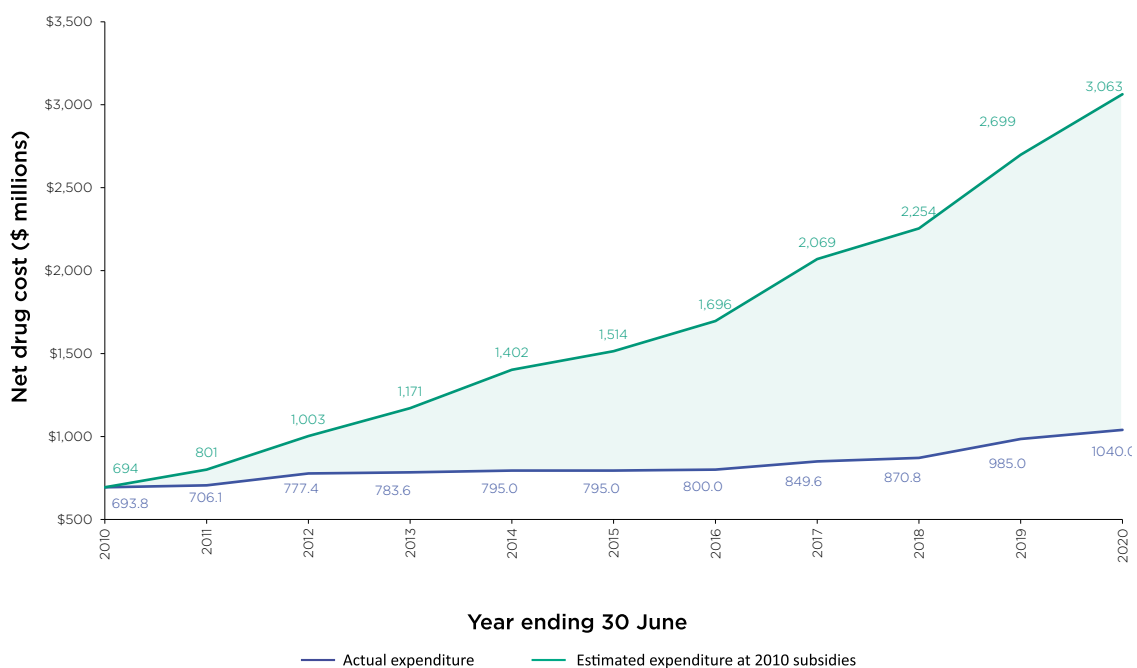
The graph below shows that from 2010 the 'volume' (number of medicines) and 'mix' (variety of medicines) has increased over time, meaning we are seeing more, and varied, medicines in New Zealand. Over the same period, subsidies paid ('subsidy') have gone down, signalling that PHARMAC is achieving savings in the face of increasing medicines costs ('cost').



New Zealand is making large medicines savings over time

The graph below shows estimated savings on medicines spending, using 2010 subsidies as a baseline. Over the last ten years, PHARMAC has saved \$9.3 billion on net medicine costs, with the gap between the two lines highlighting how much money PHARMAC is estimated to have saved through its work.

PHARMAC's impact on predicted CPB medicines expenditure over time (actual 2010-2020)



Impact area 2: Funded medicines and medical devices are available when needed

Why is this important?

Continued availability of funded products is critical to the efficient running of the health system – people need certainty that funded products are available when and where they are needed.

Where are we focused?

- We will use contracting methods and other mechanisms to ensure continued supply.
- We will continue to monitor the continuity of supply of funded medicines and medical devices.

Impact	Measure	Rationale	Results
<p>Funded medicines and medical devices are available when needed</p>	<p>No supply situations result in patients losing access to a suitable funded medicine that they need.</p>	<p>Supply issues arise for a variety of different, and often uncontrollable, reasons.</p> <p>We undertake a considerable amount of work to monitor and manage potential stock outages, such as sole-provider contracts, stock management tools and sourcing suitable alternatives.</p> <p>We do not want any situations where New Zealanders cannot access medicines they need.</p>	<p>PHARMAC actively monitors stock issues and records these in our tracker. Once we are notified of a potential supply issue, we work with the supplier to mitigate any impact to patients. Mitigation can occur by:</p> <ul style="list-style-type: none"> • influencing usage by either removal of all-at-once dispensing or notifying pharmacists they can dispense under rule 5.5 of the Pharmaceutical Schedule; • seeking an alternative brand of the same chemical; • changing patients to an alternative medicine with the same or similar therapeutic outcomes. <p>COVID-19 had a significant impact on the global medicines supply chain and PHARMAC has needed to use a range of mitigations to ensure people could access the medicines they need. This has meant some patients have had to change brands of funded medicines. Additionally, PHARMAC instigated monthly dispensing for most medicines, to avoid stockpiling of medicines, during the last quarter of the financial year.</p> <p>At 30 June 2020, there have been no out of stock situations that have had a sustained or irreversible impact on the health of patients in this financial year.</p>

Impact area 3: Medicines and medical devices are used optimally

Why is this important?

The debate about access to medicines is often focused on new medicines. But getting the best out of what is already in the medicines “toolbox” is just as important. Patients will have improved health outcomes when medicines and medical devices are prescribed, dispensed, accessed, and used optimally.

PHARMAC helps ensure medicines and hospital medical devices are used in the most responsible way so that they are used when they are needed, and not under or overused. This includes a focus on optimal prescribing, dispensing, access and the way people use them.

Sometimes, our funding decisions allow new groups of health professionals to prescribe funded products. Supporting new prescribers is important in ensuring the optimal use of products along with improving access so that more New Zealanders can get the health care they need.

Where are we focused?

We will inform and support health professionals and consumers on the use of medicines and medical devices.

Impact	Measure	Rationale	Results
Medicines and medical devices are used optimally	The objectives of PHARMAC's projects to improve the optimal use of medicines are met.	We want to demonstrate that the information and education activities we undertake have a positive effect on the optimal use of pharmaceuticals.	We have completed a behavioural insights 'nudge' project with general practitioners to influence their antibiotic prescribing during winter months. This project showed that the nudge (in the form of a personalised letter) reduced the antibiotic prescribing rate by 9.2 percent for those who received the intervention. The project was a proof of concept to see if the intervention made a difference to prescribing so that future projects and interventions could be modelled in the same way.
	Undertake research to identify medicines with gaps in equitable access and then develop targeted programmes to address these gaps.	This measure relates to our goal of eliminating inequities in access to medicines. The first step in achieving this goal is identifying what particular medicines have access inequities and for which groups of people. We will then be able to develop specific programmes to address and eliminate these inequities. Partnership with other health sector agencies will be essential.	Our partnership with the Health Quality Safety Commission to support three community-led quality improvement projects focusing on improving equitable access to medicines in the community has concluded. A joint-agency evaluation report has been completed. We plan to share learnings from this project to influence medicine access equity interventions in the sector. We have also partnered with Arthritis NZ to undertake an evaluation of two gout management programmes to support action for a national gout management programme. We recently facilitated a webinar to share these findings, which attracted 400 registrations and a live audience of 250 people.

Impact area 4: In a high performing health system

Why is this important?

PHARMAC works closely with many people in the health system towards the same end goal - that New Zealanders live well, get well, and stay well. We are focused on the ongoing improvement in the design and operation of the health system, and how that system works together.

Where are we focused?

We will continue working with stakeholders to help ensure the health system is well-designed and well-coordinated.

Impact	Measure	Rationale	Results
In a high-performing health system	There is an improved perception by health sector agencies that PHARMAC works with.	<p>An effective and joined up health system relies on strong engagement and collaboration.</p> <p>We want to understand whether we are working effectively with stakeholders, so we can continue to improve our contribution.</p>	PHARMAC's overall reputation score increased by four points on the previous year as determined through the annual Colmar Brunton Public Sector Reputation annual index 2019. This will be used as a baseline to assess improved public perceptions of PHARMAC.





Statement of performance

Te tauākī o ngā mahi i tutuki





In order to deliver on our strategy, and ensure that PHARMAC’s funding decisions lead to the best health outcomes from New Zealand’s investment in medicines and medical devices, we established measures to monitor the impact of our work.

Output class measures are key areas of service delivery we provide the Government, in exchange for the money we are provided. These measures help us demonstrate that we are performing to a high standard and delivering best outcomes for New Zealanders. These measures were set out in our 2019/20 Statement of Performance Expectations (SPE).

These measures are grouped in three output classes:

1. making decisions about medicines and medical devices;
2. influencing pharmaceuticals access and use;
3. providing policy advice and support.

Each output class has a series of outputs. Not all outputs have associated measures (as detailed in the tables on subsequent pages) in the SPE. Measures are not required where the class of outputs is not funded (in whole or part) by the Crown, or through other mechanisms as outlined in section 136(1) of the Crown Entities Act.⁷

Output class	Description	Outputs
1. Making decisions about pharmaceuticals	Work that leads to new medicines being funded and money being saved on older medicines.	1.1. Combined Pharmaceuticals 1.2. Hospital medical devices 1.3. Special access panels 1.4. Named Patient Pharmaceutical Assessment
2. Influencing medicines access and use	Promoting access to and the optimal use of medicines and ensuring decisions are understood.	2.1. Sharing information/explaining decisions 2.2. Population health programmes 2.3. Equitable access to funded medicines 2.4. Supply management
3. Providing policy advice and support	Assisting the cohesiveness of the broader health sector.	3.1. Advice and support services to the health sector 3.2. Policy advice 3.3. Contracts and fund management 3.4. Research



⁷ Reportable class of outputs is defined in section 136(1) as a class of outputs that the Crown entity proposes to supply in the financial year and that is directly funded (in whole or in part) by the Crown in accordance with an appropriation for the purpose, or by grants distributed under any Act, or by levies, fees, or charges prescribed by or under any Act and which has not been exempted from reporting for the financial year by the Minister of Finance under section 149F of the Crown Entities Act 2004.

Output 1: Making decisions about medicines and medical devices

Making robust and fair funding decisions is key to achieving our statutory objective. PHARMAC achieves this by:

- managing the national budget decided by the Minister of Health, in consultation with DHBs, for all medicines use (whether in the community or DHB hospitals) through the CPB;
- making decisions about hospital medical devices.

PHARMAC's Operating Policies and Procedures (OPP) inform the way we work. Our processes need to be as efficient and effective as possible, because good quality processes increase the likelihood of making the best possible decisions.

PHARMAC takes into account a broad range of factors to make robust funding decisions in the New Zealand context. PHARMAC's decision-making framework, which is used throughout the assessment process, is called the Factors for Consideration (The Factors). The Factors set out the things we take into account when making pharmaceutical funding decisions.

The Factors cover four dimensions: need, health benefits, costs and savings, and suitability. Within each of these, we consider impacts of the decision on the person, their family, whānau and wider society, and the health system (including the health workforce). PHARMAC staff can compare potential pharmaceutical investments against one another using the Factors, to determine which will ultimately result in best health outcomes.

The decision-making process for considering new pharmaceuticals to fund includes economic analysis, clinical advice from PTAC and specialist clinical subcommittees as appropriate, negotiations with pharmaceutical suppliers and public consultation. One way to assess the quality of PHARMAC's decision-making is to consider the average cost per quality adjusted life year (QALY) of the choices we make compared with the average value of all available choices.

Stakeholder voices are important. Consumers, clinicians and industry representatives are able to track the progress of funding applications being considered as part of PHARMAC's assessment process through our online Application Tracker, and contribute to consultations on proposed changes to funded pharmaceuticals (i.e., new listings or widened access). In 2019, improvements were made to our Application Tracker to make it easier to track the progress of current funding applications and to provide more information through this mechanism. PHARMAC is also continuing work to improve how consumer voices are incorporated into our funding processes.

Output 1.1 Combined pharmaceuticals

Sections B to I of the Pharmaceutical Schedule (the Schedule) contain a list of pharmaceuticals funded through the CPB that all New Zealanders can access, via DHB hospitals and in the community. The Schedule includes medicines, vaccines, haemophilia treatments, and a small number of medical devices used in the community, such as blood glucose meters and intra-uterine devices.

PHARMAC makes savings to the ongoing cost of already funded medicines to pay for future volume growth and new medicines or widened access to currently subsidised medicines (and some devices).

Impact	Output	Measure	Rationale	2019/20 Target	2019/20 Results
Increased access to effective medicines and medical devices	1.1 Combined pharmaceuticals decisions	Savings are made to meet cost of growth and to enable new investments.	<p>Savings need to be generated every year to meet the cost of growth in demand for funded pharmaceuticals.</p> <p>We also need to generate additional savings, so that we can fund new medicines or provide funded medicines to more people by widening access to currently subsidised medicines.</p>	<p>Savings are generated to meet the cost of future volume growth and allow for new investments.</p> <p>PHARMAC will make new investments, meaning funding new medicines and/or widening access to currently subsidised medicines.</p>	<p><i>Achieved</i></p> <p>\$87.4 million in savings were generated to meet the cost of future volume growth and allow for new investments.</p> <p><i>(2018/19 result: Achieved)</i></p>

Output 1.2 Hospital Medical devices

Part III of section H of the Pharmaceutical Schedule includes the contracts and agreements we've negotiated for hospital medical devices. As of 30 June 2020, these agreements cover approximately \$296 million worth of annual DHB expenditure. During 2019/20, we worked on national contracting for hospital medical devices where DHBs remain free to choose to use those contracted suppliers or not; and the implementation of market share agreements, where DHBs can choose suppliers of certain products only from within a closed list. By the end of 2021, most medical devices used in DHB hospitals will be listed on the Pharmaceutical Schedule.

Impact	Output	Measure	Rationale	2019/20 Target	2019/20 Results
Increased access to effective medicines and medical devices	1.2 Hospital medical devices	The total value and number of hospital medical devices under contract increases.	<p>We want to continue increasing the number of hospital medical devices under contract, and the amount of expenditure we have contracts for.</p> <p>This provides an indication of our progress towards full budget management and an indication of the savings to DHBs we will be able to generate as our work progresses.</p>	The total value and number of hospital medical devices under contract increases.	<p><i>Achieved</i></p> <p>The total number of medical devices listed by 30 June 2020 is over 123,000. This is approximately 17,000 more devices than at the end of the 2018/19 financial year.</p> <p>The total spend under contract at the end of June 2020 was approximately \$296 million. This is \$41 million higher than the end of 2018/19 financial year.</p> <p><i>(2018/19 result: Achieved)</i></p>

Output 1.3 Special access panels

Some medicines require nationally consistent assessment of clinical criteria to determine funded access. To help ensure these are appropriately targeted, PHARMAC manages panels of expert clinicians to apply the clinical criteria on which patients can access treatment. During 2019/20 we maintained panels for managing treatments of:

- cystic fibrosis;
- Gaucher disease;
- haemophilia;
- hepatitis C;
- multiple sclerosis;
- pulmonary arterial hypertension.



Output 1.4 Named Patient Pharmaceutical Assessment

The Named Patient Pharmaceutical Assessment (NPPA) Policy sits within PHARMAC's broader Exceptional Circumstances Framework. The Exceptional Circumstances Framework provides a pathway for making funding decisions for individuals who fall outside of the Pharmaceutical Schedule funding process. The NPPA Policy is the main part of the Framework, and is accessed when a prescriber wants to use a treatment that is not on the Pharmaceutical Schedule (either at all or for their patient's clinical circumstances).

The NPPA Policy has three core principles that must be met for an application to be considered for funding:

1. provides a pathway to consider those whose clinical circumstances cannot be met through the Pharmaceutical Schedule at a given point in time;
2. complements the Pharmaceutical Schedule and the Schedule decision-making process;
3. is designed for individual assessment.

Each application that meets the core principles is assessed using the Factors for Consideration and then a funding decision is made.

The Exceptional Circumstances Framework also includes the ability to apply for Special Authority waivers and Hospital Medicine restriction waivers. Some pharmaceuticals listed in the Pharmaceutical Schedule require conditions to be met before funded access will be granted. These conditions generally ensure that funded access is available to those patients who would benefit most from treatment. The waivers are granted at PHARMAC's discretion, where a person's clinical circumstances meet the spirit or intent of the conditions within the Schedule, but do not meet the technical requirements.

Output 2: Influencing medicines access and use

Deciding to fund a medicine or contract for a hospital medical device is only part of the pathway to medicines and medical devices reaching New Zealanders who need them. PHARMAC has a legislative function to promote the responsible use of pharmaceuticals and this is an essential part of achieving best health outcomes. We help to ensure that medicines and hospital medical devices are used in the most responsible way – so that they are used when they are needed, and not under, over, or mis-used.

To do this, we need to communicate our decisions and provide information and support so that medicines are prescribed and used well. Good communication helps people understand the reasons for PHARMAC’s decisions and also contributes to realising the health outcomes sought from the funding decision.

PHARMAC recognises that Māori communities, and some other sections of society, are not currently achieving equitable access to medicines, and that this has an impact on their overall health outcomes. PHARMAC is committed to meeting our obligations under the Te Tiriti o Waitangi and to improving health outcomes for Māori. PHARMAC’s Māori responsiveness strategy, Te Whaioranga, and our medicines access equity work programme are key ways in which we meet our Treaty obligations. Under Te Whaioranga we deliver a range of community-based programmes with Māori health partners to support Māori to improve their access, to and their use of medicines. We include Māori world views in our work through the Hauora Arotahi - the health areas Māori have told PHARMAC are of most importance to them. Our access equity work has a particularly strong focus on addressing the variation in medicines access between Māori and others.

PHARMAC aims to support health professionals on optimal prescribing, and dispensing, and support their patients to use pharmaceuticals in the best way. An important aspect of optimal medicines use is adherence (ensuring patients take the medicine prescribed for them in the way intended by their prescriber). To ensure the medicines that are funded are used optimally, we take actions to improve people’s understanding of medicines, support workforce development and community engagement, and we work with health professionals to deliver programmes.

PHARMAC works with other health sector agencies to maximise the value of the responsible use programmes we develop.



Output 2.1 Sharing information/explaining decisions

We consider feedback from prescribers and pharmacists on potential Schedule changes through our consultation processes, and we regularly meet with health professional groups to obtain their input. We also work alongside health professional groups and consumer groups to help implement funding decisions and support other responsible use activities, where appropriate. A responsible use advisory group provides advice to PHARMAC on the direction and content of materials produced under PHARMAC's responsible use contracts.

We maintain regular contact with patient and consumer groups and engage with them on medicine funding, hospital medical devices, and other issues. To make sure we are asking the right questions of the right people, we seek advice from our statutory committee, the Consumer Advisory Committee. From time to time, PHARMAC also undertakes engagement and consultation activities with DHBs and the community through a range of measures including regional and national forums, online and social media.

To explain our decisions, we send information to health professionals to assist them in supporting patients with the introduction of new medicines or brand changes. For consumers, we provide information on our website, and we respond to queries through various channels including our 0800 line, and email and social media channels. We communicate with DHB procurement teams on the availability of national contracts for hospital medical devices.

As well as notifying people about our decisions, we work to implement our decisions in a way that supports both health professionals and patients. This can be through targeted provision of clinical advice, working closely with DHB implementation teams, or through more widespread provision of information about the changes.

Impact	Output	Measure	Rationale	2019/20 Target	2019/20 Results
Medicines and medical devices are used optimally	2.1 Sharing information and explaining decisions	PHARMAC's engagement with DHB hospitals contributes to effective implementation of changes to hospital medicines and medical devices, and the optimal use of these pharmaceuticals.	Effective engagement with DHBs on changes to medicines and medical devices in DHB hospitals contributes to PHARMAC's function of ensuring pharmaceuticals are used optimally.	<p>PHARMAC engages with all DHBs or agents acting on their behalf on implementing hospital medical device national contracts. Feedback from the engagement contributes to implementation activity as appropriate.</p> <p>PHARMAC engages all relevant DHB hospital services to support hospital medicine changes. Feedback from the engagement contributes to implementation activity as appropriate.</p>	<p><i>Achieved</i></p> <p>All hospital medical device contracts were consulted on as standard practice and feedback taken into account as appropriate.</p> <p>PHARMAC has continued to engage relevant DHB hospital services to support hospital medicines changes, including, providing weekly updates to Chief Pharmacists in DHBs about medicine changes and supply issues.</p> <p>PHARMAC created an ad-hoc critical care advisory group, with clinical representatives from DHBs, to provide advice on the supply of critical care medicines to support New Zealand's response to COVID-19.</p> <p><i>(2018/19 result: Achieved)</i></p>
		Survey shows primary care organisations and primary care representative bodies value their relationships with PHARMAC. <i>(New measure for 2019/20)</i>	Ensuring PHARMAC continues to develop and establish relationships that provide value-add to PHARMAC and primary care will support our transactional and responsible use activity.	Primary care organisations will value their relationship with PHARMAC as evident from the results of the survey completed with primary care stakeholders before the end of the financial year.	<p><i>Deferred due to the impact of COVID-19</i></p> <p>Due to the impact of COVID-19, this work did not take place.</p> <p>PHARMAC did not undertake the survey with primary care stakeholders before the end of the financial year. This action has been incorporated into our Relationships and Partnerships strategic priority, and a stakeholder survey is being planned for the next financial year.</p>

Impact	Output	Measure	Rationale	2019/20 Target	2019/20 Results
		<p>Relationships with primary care organisations have supported PHARMAC in our optimal use activity.</p> <p><i>(New measure for 2019/20)</i></p>	<p>Ensuring PHARMAC continues to develop and establish relationships that provide value-add to PHARMAC and primary care will support our transactional and responsible use activity.</p>	<p>PHARMAC will have a number of examples of where relationships with primary care have effectively supported our optimal use activity.</p>	<p><i>Achieved</i></p> <p>PHARMAC and the Health Quality Safety Commission partnered to support a behavioural insights trial to support appropriate antimicrobial prescribing during winter 2019. This was supported by our relationships with Royal NZ College of General Practitioners and the NZ Medical Association's primary care council.</p> <p>PHARMAC partnered with the Health Quality and Safety Commission to support three projects focused on improving medicine access equity. The projects were undertaken by a range of primary care providers including general practice, community pharmacy, Māori and Pacific health providers, and rural practice. All three projects demonstrated successful improvements to medicine access.</p>
		<p>Improvements to the transparency of PHARMAC's processes, including how PHARMAC receives and communicates information about medicine funding applications.</p> <p><i>(New measure for 2019/20)</i></p>	<p>It is important that the public understand our processes and how we make decisions. We recognise the importance of providing opportunities and support for consumers to make submissions on funding applications, and to engage with our decision-making processes.</p>	<p>PHARMAC will roll out a new online application and tracking tool, enabling people to more easily track progress of medicine funding applications. PHARMAC will seek feedback and input from stakeholders on the development of the new application tool and take this feedback into account.</p>	<p><i>Achieved</i></p> <p>PHARMConnect, PHARMAC's new online funding application system, was successfully launched on 30 August 2019. The new system allows funding applications to be securely lodged, viewed and tracked online. PHARMAC sought feedback from PTAC, clinical advisory committees and suppliers during the design, build and testing phases of PHARMConnect. Feedback is also received from portal users intermittently, and this is taken into account for updates.</p>

Impact	Output	Measure	Rationale	2019/20 Target	2019/20 Results
			<p>We also consider it important to provide better certainty to people about what medicines may or may not be funded, by undertaking a process, including consultation with interested parties, to close medicine funding applications that aren't being actively considered.</p>	<p>PHARMAC will complete an initial round of decisions on medicine funding applications that aren't being actively considered and will establish an ongoing process for this work.</p>	<p><i>Achieved</i></p> <p>PHARMAC has reviewed, and publicly consulted on, two groups of funding applications which were not being actively considered. A total of 25 different medicines have been declined for funding. The applications for these declined medicines have now been closed. PHARMAC has established the ongoing process for this work.</p>
			<p>PHARMAC has taken steps to reduce the time taken for records of clinical advisory meetings to be published. This is an important element of becoming more transparent and open. Over time, we expect to improve this timing further.</p>	<p>PHARMAC will publish records for 70 percent of clinical advisory committees within 70 business days of the meetings.</p>	<p>For the 2019/20 financial year there were 13 clinical advice meetings. An average of 62 percent of the records were published within the 70-day timeframe.</p>



Output 2.2 Population health programmes

Our population health programmes are developed in response to evidence-based analysis and identified unmet need, and aim to improve access and promote responsible use of medicines. We are working to better understand the barriers that create inequitable access to, and uptake of medicines. This will allow us to develop programmes alongside health sector partners to address and eliminate these inequities and meet our obligations as a Treaty partner.

Our health education programmes, such as He Rongoā Pai He Oranga Whānau, support responsible use of medicines, and sometimes implementation of specific medicines decisions, by providing hauora Māori kaimahi with clinical information to pass on to whānau. We also promote responsible medicines use directly to population groups through public events, such as Pasifika Fest and Te Matatini Kapa Haka Festival.

We share information and promote evidence-based prescribing to health professionals through our PHARMAC seminar series and by contracting for the provision of high-quality educational resources to promote appropriate prescribing.

Impact	Output	Measure	Rationale	2019/20 Target	2019/20 Results
Medicines and medical devices are used optimally	2.2 Population health programmes	Survey of attendants at a PHARMAC seminar show a positive professional change in optimal use behaviour as a result of attendance.	Assessing whether our PHARMAC seminars have a positive effect in improving health professionals' knowledge and behaviour will help us to determine whether the seminars continue to have an impact on the optimal use of pharmaceuticals.	Responses to the survey show at least 80 percent have made positive changes as a result of attendance.	<p>Surveys of attendees are sent two to three months after the completion of the seminar. Eight seminars held were surveyed with 78 percent of respondents indicating they made a change in practice as a result of attending a seminar.</p> <p>No seminars were held in the second half of this financial year.</p> <p><i>(2018/19 result: Achieved)</i></p>

Impact	Output	Measure	Rationale	2019/20 Target	2019/20 Results
		<p>Medicines use community health programmes are delivered to a range of health and community workers, particularly focusing on areas where health need is high.</p>	<p>Whānau Ora Collectives (WOC) are best placed to assess the needs of their communities for knowledge of medicines relating to the Māori health areas of focus.</p>	<p>Community-based delivery of programmes will occur in all WOC partner areas.</p> <p>WOC-led He Rongoā Pai, He Oranga Whānau programmes will be facilitated in geographical areas where there are high levels of health need.</p>	<p><i>Not fully achieved due to the impact of COVID-19</i></p> <p>Of PHARMAC's 15 Whānau Ora Collective partners, 11 completed programmes during 2019-2020. Three He Rongoā Pai He Oranga Whānau wānanga were completed during this financial year, with two being cancelled due to COVID-19. The wānanga were held in Putaruru-Bay of Plenty, Kaiapoi and Invercargill-Bluff.</p> <p>11 out of the 22 programmes that were planned to be delivered were to occur during the COVID-19 lockdown, so could not be held. Funding was redirected from two programmes to support whānau with accessing their medicines during the lockdown.</p> <p><i>(2018/19 result: Achieved)</i></p>
		<p>Engagement by primary health care professionals with responsible use materials developed by PHARMAC service providers.</p> <p><i>(New measure for 2019/20)</i></p>	<p>PHARMAC contracts for the delivery of responsible use materials that focus on key priority areas as identified by PHARMAC and primary care representatives.</p>	<p>Baseline measure of uptake of responsible use materials by primary care providers.</p>	<p><i>Partially achieved in 2019/20</i></p> <p>Uptake figures of materials were collected; however, a baseline measure was not finalised as PHARMAC has contracted a new supplier, with whom a baseline measure will be developed.</p> <p>PHARMAC ran a competitive process for a service provider for responsible use materials. The contract with the new service provider will include measures to report on the uptake of materials. Measures are being developed and will be reported on as part of the service provider's reporting to PHARMAC for 2020/21 onwards.</p>

Output 2.3 Equitable access to funded medicines

PHARMAC had a Bold Goal to eliminate inequities in access to medicines by 2025. PHARMAC's immediate focus was on understanding the underlying reasons that result in inequitable access to funded medicines, starting with population groups that we know face health inequities. PHARMAC has developed a medicines access equity outcomes measurement framework that will track our progress and help guide our access equity work programme. This has been incorporated into our new performance framework and new Statement of Intent from 2020/21.

Impact	Output	Measure	Rationale	2019/20 Target
Medicines and medical devices are used optimally	2.3 Equitable access to funded medicines	A framework for measuring and monitoring equitable access to medicines <i>(New output and measure for 2019/20)</i>	We need a consistent way of measuring changes in equity of access to medicines.	Establish a baseline for existing indicators, develop new indicators, and set future targets.

2019/20 Results

Not fully achieved due to the impact of COVID-19

In the second half of 2019/20, PHARMAC used its newly developed methodology to produce the first outputs of the medicines access equity outcomes measurement framework: a baseline report on Māori and Pacific access, persistence and adherence for type 2 diabetes medicines, and a report on the impact of medicine affordability and acceptability for Māori and Pacific compared with non-Māori/non-Pacific/non-Asian.

Methodology was developed but engagement with Ministry of Health and the Health Quality and Safety Commission, to seek validation, was delayed due to Covid-19.

PHARMAC plans to use the methodology to produce insights on other conditions (asthma, chronic obstructive pulmonary disease, cardiovascular disease, and gout) and population groups (Pacific) and to build on the methodology.

Engagement with the health sector on this work was delayed due to the impact of COVID-19.

Impact	Output	Measure	Rationale	2019/20 Target
Medicines and medical devices are used optimally	2.3 Equitable access to funded medicines	The rate of medicines dispensed to Māori compared to non-Māori, adjusted for age structure and the relative burden of disease, for a specific condition. <i>(New output and measure for 2019/20)</i>	PHARMAC has a Bold Goal to eliminate inequities in access to medicines by 2025. This measure provides an initial indicator of one element of access equity, to measure PHARMAC's progress toward this Bold Goal. <i>As this is a new measure for 2019/20, it is a baseline measure and therefore we will not be establishing a target. Rather this demonstrates PHARMAC's commitment to a future medicines outcomes performance framework that will demonstrate meaningful progress towards eliminating inequities in access to medicines.</i> <i>The focus for this measure is on comparing Māori with non-Māori because of our obligations as a Te Tiriti o Waitangi partner, and the strong evidence demonstrating the current inequities in access for Māori.</i>	Target will be set once baseline has been established.

2019/20 Results

Achieved

PHARMAC has completed the first output of the framework which is a baseline report on Māori access, persistence and adherence to type 2 diabetes medicines, and the impact of medicine affordability and acceptability for Māori compared with non-Māori/non-Pacific/non-Asian.

The baseline report indicates that, despite a high level of need, Māori access to appropriate medicines for type 2 diabetes is significantly less than it should be.

Other measures indicate underlying issues: affordability is a significant barrier for access to medicines for Māori, impacting both on their access to a general practitioner or nurse, and the affordability of prescriptions. Analysis of medicines acceptability indicates Māori are less involved in decisions about medications, and less likely to have had the purpose of their medications explained.

Output 2.4 Supply management

PHARMAC has dedicated contract management staff, which enables us to be more aware of when supply shortages might arise and to take action to mitigate them. We are also aware that medicines not on contract are important to patients and need to be monitored. This requires ongoing vigilance of the supply chain to ensure adequate supplies between pharmaceutical and medical device companies, wholesalers, pharmacists, DHBs, and patients. PHARMAC manages the storage and distribution arrangements for vaccines.

Currently, PHARMAC also manages the direct distribution of some medicines to patients. PHARMAC regularly considers whether medicines it distributes can be moved into the regular supply chain, through community pharmacies or primary care.

The table below details PHARMAC's performance for this output measure.

Impact	Output	Measure	Rationale	2019/20 Target	2019/20 Results
Medicines and medical devices are used optimally	2.4 Supply management	Low medicine stock situations are identified, and actively managed to avoid a sustained or irreversible impact on the health of patients.	Ensuring we know and understand the impact of stock shortages so we can act to minimise disruption for patients and providers is important for achieving best health outcomes.	<p>We will respond to all low medicine stock reports. We will work with the Ministry of Health and DHBs to actively manage any stock situations where a supply shortage will have a sustained or irreversible impact on the health of patients.</p> <p>For all stock issues we will communicate effectively and proactively and take action as necessary alongside the Ministry of Health and DHBs.</p>	<p><i>Achieved</i></p> <p>Low stock situations have been managed and alternative supply options secured where required. There have not been any out of stock situations that have had a sustained or irreversible impact on the health of patients in this financial year.</p> <p><i>(2018/19 result: Mostly achieved)</i></p>

Output 3: Providing policy advice and support

Output 3.1 Advice and support services to the health sector

PHARMAC provides advice and support for other health sector agencies to improve the cost-effectiveness of health spending. This includes managing medicines and medical device spending, providing advice to DHBs on a range of matters including community pharmacy contracting services and medicines distribution, among other sector-wide initiatives including those that aim to reduce the administrative workload of clinicians. We have worked closely with DHBs and their agents to support the development of sector procurement strategies at a national level, particularly where this intersects with our extended function to manage hospital medical devices.

Output 3.2 Policy advice

PHARMAC provides specialist operational policy advice to Ministers and officials from a range of Government agencies. We do this through meetings, papers, submissions, Ministerial support services and providing other information. PHARMAC also provides policy advice through our attendance and contribution to wider health sector forums.

PHARMAC's policy work supports the Government's priority to improve environmental sustainability. Work is underway to consider what specific actions PHARMAC can take in relation to environmentally sustainable procurement. This will be aligned with Government rules of sourcing. We are also engaging with the Ministry of Health and DHBs to support them with their work in this area.

Impact	Output	Measure	Rationale	2019/20 Target	2019/20 Results
In a high performing system	3.2 Policy advice	PHARMAC staff participate in and contribute to wider sector forums.	Whether our policy advice to the sector is sought after is an indication of the quality of advice and contributions we make.	PHARMAC staff participate in wider sector forums.	<i>Achieved</i> PHARMAC regularly engaged with the Ministry of Health on a number of policy issues, including early access to new cancer medicines; the Cancer Action Plan; abortion law reform; medicinal cannabis, and the Therapeutics Products Bill. (2018/19 result: <i>Achieved</i>)

Output 3.3 Contracts and fund management

PHARMAC manages DHB pharmaceutical expenditure within the budget approved by the Minister of Health. PHARMAC has dedicated contract management resources that enable us to collect rebates from pharmaceutical suppliers. These are distributed back to DHBs.

PHARMAC also has access to a Legal Risk Fund, with a value of around \$8.4 million in 2019/2020, which is used to meet litigation costs that are not otherwise met from our regular operational spending on legal services.

We also manage a CPB Discretionary Pharmaceutical Fund and a Hospital Discretionary Pharmaceutical Fund. These two funds broaden PHARMAC's options in delivering on our statutory objective. They support long-term management of DHB expenditure and increase PHARMAC's ability to make efficient budgeting decisions by providing the ability to manage investments over financial years, and across Vote Health, for the overall benefit of the health system.

Impact	Output	Measure	Rationale	2019/20 Target	2019/20 Results
In a high performing system	3.3 Contract and fund management	All rebates are collected and distributed to DHBs in accordance with PHARMAC policy.	Effective management of rebates provides certainty to DHBs.	All fund use will be in accordance with PHARMAC policy.	<i>Achieved</i> All fund use was in accordance with PHARMAC policy. <i>(2018/19 result: Achieved)</i>

Output 3.4 Research

PHARMAC has a statutory function to engage in research as appropriate. We are involved in supporting, and/or initiating research which supports PHARMAC's core function and aligns with both our strategic priorities and priorities for the health system. PHARMAC collaborates with other agencies and organisations to contribute to research projects that are mutually beneficial, including through providing funding and sharing data and information.

Impact	Output	Measure	Rationale	2019/20 Target	2019/20 Results
In a high performing system	3.4 Research	PHARMAC is involved in, or contributing to, research which supports PHARMAC's core functions and strategic priorities. <i>(New output and measure for 2019/20)</i>	PHARMAC has a statutory function to engage in research as appropriate. PHARMAC undertakes, or supports, research that aligns with both our research and strategic priorities, and supports our core functions.	PHARMAC will initiate, or collaborate, on research that supports PHARMAC's core functions and strategic priorities. PHARMAC will also engage with other Government entities to collaborate on, or help contribute to, research that supports the strategic priorities for the health system.	<i>Achieved</i> PHARMAC, in partnership with the Health Research Council, runs an annual request for proposals for research initiatives. Two research applications were approved in 2019/20 that will contribute to supporting PHARMAC's core functions and strategic priorities. These projects seek to further understand childhood vaccination and impacts of invasive pneumococcal disease, as well as pharmaceutical information pathways between general practitioners, pharmacists, and patients.



Independent Auditor's Report

To the readers of Pharmaceutical Management Agency – Te Pataka Whaioranga's financial statements and performance information for the year ended 30 June 2020

The Auditor-General is the auditor of Pharmaceutical Management Agency - Te Pataka Whaioranga (PHARMAC). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information, of PHARMAC on his behalf.

Opinion

We have audited:

- the financial statements of PHARMAC on pages 69 - 95, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of PHARMAC on pages 36 to 62.

In our opinion:

- the financial statements of PHARMAC on pages 69 to 95:
 - present fairly, in all material respects:
 - its financial position as 30 June 2020; and
 - its financial performance and cash flows for the year then ended; and
- the performance information on pages 36 to 62:
 - presents fairly, in all material respects, PHARMAC's performance for the year ended 30 June 2020, including:
 - for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - complies with generally accepted accounting practice in New Zealand.



Our audit was completed on 30 October 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of COVID-19 on PHARMAC. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Emphasis of matter – Impact of COVID-19

Without modifying our opinion, we draw attention to the disclosures about the impact of COVID-19 on PHARMAC as set out in note 25.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Board for the financial statements and the performance information

The Board is responsible on behalf of PHARMAC for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of PHARMAC for assessing PHARMAC's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of PHARMAC, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to PHARMAC's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PHARMAC's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within PHARMAC's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PHARMAC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause PHARMAC to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages 1 to 35 and pages 95 to 97, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of PHARMAC in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in PHARMAC.



Kelly Rushton

Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand





Financial statements

Ngā tauākī pūtea

FINANCIAL STATEMENTS

To the readers of Pharmaceutical Management Agency – Te Pataka Whaioranga’s financial statements and performance information for the year ended 30 June 2020

FINANCIAL STATEMENTS

Statement of comprehensive revenue and expense

For the year ended 30 June 2020

	Note	Actual 2020 \$000	SPE Budget 2020 \$000	Actual 2019 \$000
Non exchange revenue				
Crown funding		23,488	23,488	23,488
DHB - Operating funding		1,490	1,490	1,490
Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund (CPBDPF)	5	18,332	2,450	9,780
Exchange revenue; other				
Interest received - Operating		501	360	543
- Legal Risk Fund		238	180	273
Other revenue - Operating		367	130	933
Total revenue		44,416	28,098	36,507
Expenditure				
Operating costs		6,455	7,631	7,909
Personnel costs	2	15,666	15,261	14,944
Audit Fees		63	70	53
CPBDPF	5	-	-	-
Depreciation and amortisation costs	10,11	321	378	479
Director Fees		142	168	148
Finance Costs	3	-	19	-
Hospital Discretionary Pharmaceutical Fund (HDPF)	4	135	-	275
Herceptin SOLD trial administration		-	-	-
Implementation projects		1,446	2,140	2,008
Legal Risk Fund payments for litigation		-	180	-
Occupancy costs		695	800	868
Total expense		24,923	26,647	26,684
Net surplus/(deficit) for the period		19,493	1,451	9,823
Other comprehensive revenue		-	-	-
Total comprehensive revenue and expense		19,493	1,451	9,823

Explanations of significant variances against budget are detailed in note 24.
The accompanying accounting policies and notes form part of these financial statements.

Statement of changes in equity

For the year ended 30 June 2020

	Actual 2020 \$000	SPE Budget 2020 \$000	Actual 2019 \$000
Balance at 1 July	41,743	24,278	31,920
Total comprehensive revenue and expense	19,493	1,451	9,823
Balance at 30 June	61,236	25,729	41,743

Explanations of significant variances against budget are detailed in note 24.
The accompanying accounting policies and notes form part of these financial statements.

Statement of financial position

As at 30 June 2020

		Actual 2020 \$000	SPE Budget 2020 \$000	Actual 2019 \$000
	Note			
PUBLIC EQUITY				
Contribution capital	4	1,856	1,856	1,856
Retained earnings and reserves	4	9,353	5,906	8,295
Restricted reserves				
CPBDPF	4	18,332	9,963	19,493
HDPF	4	23,258	100	3,900
Legal Risk Fund	4	8,437	7,904	8,199
TOTAL PUBLIC EQUITY		61,236	25,729	41,743
Represented by:				
Current assets				
Cash and cash equivalents	6	2,283	3,184	1,009
Investments	7	11,100	6,096	10,425
Debtors and other receivables	8	21,590	150	11,706
Prepayments		621	200	373
GST Receivable		-	-	-
Current assets associated with Restricted reserves				
Cash and cash equivalents - Legal Risk Fund/HDPF	6	194	100	89
Investments - Legal Risk Fund/HDPF	7	12,065	7,904	12,134
CPBDPF monies deposited into rebates account	9	19,493	9,963	9,713
Total current assets		67,346	27,597	45,449
Non-current assets				
Property, plant and equipment	10	721	552	817
Intangible Assets	11	91	50	57
Total non-current assets		812	602	874
Total assets		68,158	28,199	46,323
Current liabilities				
Creditors and other payables	12	2,441	1,200	1,657
Employee entitlements	13	1,269	900	966
Make Good Provision	14	-	-	-
GST Payable		2,884	170	1,629
Total current liabilities		6,594	2,270	4,252
Non-current liabilities				
Make Good Provision	14	328	200	328
Total liabilities		6,922	2,470	4,580
NET ASSETS		61,236	25,729	41,743

Explanations of significant variances against budget are detailed in note 24.

The accompanying accounting policies and notes form part of these financial statements.

Statement of cash flows

For the year ended 30 June 2020

	Actual 2020 \$000	SPE Budget 2020 \$000	Actual 2019 \$000
CASH FLOWS – OPERATING ACTIVITIES			
Cash was provided from:			
- Receipts from the Crown	23,488	23,488	23,488
- DHBs Operating	1,490	1,490	1,490
- Interest Operating	636	360	501
- Interest Legal Risk Fund	311	180	242
- Other Operating	367	130	933
- CPBDPF top up	9,780	2,450	-
- CPBDPF release from rebates bank account	-	-	-
- Goods and services tax (net)	1,255	-	2,210
	37,327	28,098	28,864
Cash was disbursed to:			
- Legal Risk Fund expenses	-	(180)	-
- CPBDPF expenses	-	-	-
- CPBDPF deposited in rebates bank account	(9,780)	(2,450)	(716)
- HDPF expenses	(135)	-	(275)
- Payments to suppliers and employees	(25,168)	(26,068)	(27,413)
- Goods and services tax (net)	-	-	-
	(35,083)	(28,698)	(28,404)
Net cash flows from operating activities	2,244	(600)	460
	15		
CASH FLOWS – INVESTING ACTIVITIES			
- Purchase of property, plant and equipment	(196)	(324)	(846)
- Purchase of intangible assets	(63)	(50)	(49)
- Proceeds from the redemption of investments	39,733	2,000	27,840
- Purchase of investments	(40,339)	-	(27,559)
	(865)	1,626	(614)
Net cash flows from investing activities			
Net increase/(decrease) in cash	1,379	1,026	(154)
Cash at the beginning of the year	1,098	2,258	1,252
Cash at the end of the year	2,477	3,284	1,098

The GST (net) component of operating activities reflects the net GST paid and received. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

Explanations of significant variances against budget are detailed in note 24. The accompanying accounting policies and notes form part of these financial statements.

Statement of comprehensive revenue and expense by output class

For the year ended 30 June 2020

	\$000	\$000	\$000	\$000	\$000
Output Actual 2019/20	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/ (deficit)
Decision Making	11,744	18,332	-	(10,756)	19,320
Influencing Medicine Access and Use	8,221	1,490	-	(10,032)	(321)
Policy Advice and support	3,523	-	1,106	(4,135)	494
Total	23,488	19,822	1,106	(24,923)	19,493

Output SPE Budget 2019/20	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/ (deficit)
Decision Making	11,744	2,450	425	(11,991)	2,628
Influencing Medicine Access and Use	8,221	1,490	245	(10,659)	(703)
Policy Advice and support	3,523	-	-	(3,997)	(474)
Total	23,488	3,940	670	(26,647)	1,451

Output Actual 2018/19	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/ (deficit)
Decision Making	11,744	9,780	-	(11,111)	10,413
Influencing Medicine Access and Use	8,221	1,490	-	(10,722)	(1,011)
Policy Advice and support	3,523	-	1,749	(4,851)	421
Total	23,488	11,270	1,749	(26,684)	9,823

Explanations of significant variances against budget are detailed in note 24.

The accompanying accounting policies and notes form part of these financial statements.

Statement of commitments

As at 30 June 2020

Non-cancellable operating lease commitments

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2020 \$000	Actual 2019 \$000
Capital commitments approved and contracted	-	-
Operating commitments approved and contracted		
Not later than one year	695	695
Later than one year and not later than five years	2,432	2,780
Later than five years and not later than ten years	-	347
Balance at 30 June	3,127	3,822

PHARMAC's rental lease dates back to 2002/03 financial year, and has been the subject of regular variation. The current lease expiry is 31 December 2024. During 2018/19, variations were executed to relinquish certain non-adjacent space enabling occupation of contiguous space. PHARMAC has recognised a make good provision of \$327,825 (2019: \$327,825).

Statement of contingent assets and liabilities

As at 30 June 2020

PHARMAC has no contingent assets as at 30 June 2020 (2019: \$nil).

PHARMAC has no contingent liabilities as at 30 June 2020 (2019: \$nil).

Explanations of significant variances against budget are detailed in note 24.

The accompanying accounting policies and notes form part of these financial statements.





Notes to the financial statements

He tāpiringa ki ngā tauākī pūtea

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Statement of Accounting Policies

Reporting entity

Pharmaceutical Management Agency (PHARMAC) is a Crown entity as defined in the Crown Entities Act 2004 and is domiciled and operates in New Zealand. PHARMAC acts as an agent of the Crown for the purpose of meeting its obligations in relation to the operation and development of a national Pharmaceutical Schedule.

PHARMAC has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of PHARMAC are for the year ended 30 June 2020. The financial statements were approved by the Board of PHARMAC on 30 October 2020.

Basis of preparation

The financial statements of PHARMAC have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

Statement of compliance

The financial statements of PHARMAC have been prepared in accordance with the requirements of the Crown Entities Act 2004 and the New Zealand Public Health and Disability Act 2000, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP). The financial statements have been prepared in accordance with Tier 1 PBE standards.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

Standard early adopted

In line with the Financial Statements of the Government, PHARMAC has elected to early adopt PBE IFRS 9 Financial Instruments. PBE IFRS 9 replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. There has been no effect on the financial statements as a result of early adoption.

Standards and amendments, issued but not yet effective and not early adopted

Amendment to PBE IPSAS 2 Statement of Cash Flows

An amendment to PBE IPSAS 2 Statement of Cash Flows requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. PHARMAC does not intend to early adopt the amendment.

PBE IPSAS 41 Financial Instruments

PBE IPSAS 41 Financial Instruments replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement and PBE IFRS 9 Financial Instruments. This standard is effective for reporting periods beginning on or after 1 January 2022, with early application permitted. Although PHARMAC has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

PBE FRS 48 Service Performance Reporting

The New Zealand Accounting Standards Board has issued an exposure draft proposing to defer the adoption of PBE FRS 48 Service Performance Reporting by one year.

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is now effective for reporting periods beginning on or after 1 January 2022. PHARMAC has not yet determined how application of PBE FRS 48 will affect its statement of performance.

Summary of Significant Accounting Policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note are outlined below.

Revenue

Funding from the Crown

PHARMAC is primarily funded from the Crown. This funding is restricted in its use for the purpose of PHARMAC meeting the objectives specified in its founding legislation and the relevant appropriations of the funder.

PHARMAC considers there are no conditions attached to the funding and it is recognised as revenue at the point of entitlement. This is considered to be the start of the appropriation period to which the funding relates.

The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

Funding from DHBs

Operating funding includes agreed expenses to be provided by PHARMAC for 20 DHBs, the Discretionary Pharmaceutical Fund payments reflect expenses incurred under the Discretionary Pharmaceutical Fund Policy, and additional contributions are made to support implementation of PHARMAC's hospital medical devices activity.

Funding is recognised as revenue when it becomes receivable.

Interest revenue

Interest revenue is recognised using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less.

Receivables

Short-term receivables are recorded at value, less any provision for impairment.

A receivable is considered impaired when there is evidence that PHARMAC will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amounts expected to be collected.

Investments

Bank term deposits

Investments in bank term deposits are initially measured at the amount invested.

After initial recognition, investments in bank deposits are measured at amortised cost using the effective interest method, less any provision for impairment.

Property, plant and equipment

Property, plant and equipment consist of leasehold improvements, EDP equipment, and furniture and office equipment, and are shown at cost less accumulated depreciation and impairment losses.

Any write-down of an item to its recoverable amount is recognised in the statement of comprehensive revenue and expense.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to PHARMAC and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

Disposals

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal are reported net in the surplus or deficit.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to PHARMAC and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, at rates that will write-off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Item	Estimated useful life	Depreciation rate
Leasehold improvements	5 years	20 percent
Office equipment	2.5 - 5 years	20 percent - 40 percent
EDP equipment	2.5 - 5 years	20 percent - 40 percent
Furniture and fittings	5 years	20 percent

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by PHARMAC are recognised as an intangible asset. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with the development and maintenance of PHARMAC's website are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

For computer software (the only identified intangible asset), the useful life is estimated as 2–5 years with a corresponding depreciation rate of 20 percent – 50 percent.

Payables

Short-term payables are recorded at their fair value.

Employment entitlements

Employee entitlements that are due to be settled within 12 months, after the end of the period in which the employee renders the related service are measured, based on accrued entitlements at current rates of pay. These include salaries and wages accrued to balance date and annual leave earned to date but not yet taken at balance date. PHARMAC recognises a liability and an expense for at-risk provisions where it is contractually bound to pay them.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit as incurred.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing where there is a present obligation (either legal or constructive) as a result of a past event. It is probable that an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time, value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in 'finance costs'.

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- contribution capital
- retained earnings and reserves
- CPB Discretionary Pharmaceutical Fund
- Hospital Discretionary Pharmaceutical Fund
- Legal Risk Fund.

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, except for receivables and payables, which are stated on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of the receivables or payables in the statement of financial position.

The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

PHARMAC is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

Budget figures

The budget figures are derived from the Statement of Performance Expectations as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

Cost allocation

PHARMAC has determined the cost of outputs using the cost allocation system outlined below.

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output.

Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity or usage information.

Critical accounting estimates and assumptions

In preparing these financial statements, PHARMAC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- the value of PHARMAC's CPB Discretionary Pharmaceutical Fund is dependent on the value of the final estimate of the District Health Boards' expenditure against the Combined Pharmaceutical Budget.

Critical judgements in applying PHARMAC's accounting policies

Management has not exercised any critical judgements in applying accounting policies for the period ended 30 June 2020.

Note 2: Personnel costs

	Actual 2020 \$000	Actual 2019 \$000
Salaries and related costs	14,863	14,167
Employer contributions to defined contribution plans	318	284
Other personnel costs	485	493
Total personnel costs	15,666	14,944

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Savings Scheme and KiwiSaver.

Note 3: Finance costs

	Actual 2020 \$000	Actual 2019 \$000
Expense of current discounted value (refer note 14)	-	-
Total finance costs	-	-

Note 4: Public equity

	Actual 2020 \$000	Actual 2019 \$000
CONTRIBUTION CAPITAL		
Balance at 1 July	1,856	1,856
Balance at 30 June	1,856	1,856
RETAINED EARNINGS AND RESERVES		
Balance at 1 July	8,295	8,272
Net surplus/(deficit)	19,493	9,823
Net transfer from/(to) CPBDPF	(18,332)	(9,780)
Net transfer from/(to) HDPF	135	275
Net transfer from/(to) Legal Risk fund	(238)	(295)
Balance at 30 June	9,353	8,295
CPBDPF		
Balance at 1 July	19,493	9,713
Add: Revenue received transferred from/(to) retained earnings	18,332	9,780
Less: Transfer to HDPF	(19,493)	-
Less: Pharmaceutical expenses transferred from/(to) retained earnings	-	-
Balance at 30 June	18,332	19,493
HDPF		
Balance at 1 July	3,900	4,175
Add: Transfer from retained earnings	-	-
Add: Transfer from CPBDPF	19,493	-
Less: Expenses transferred from/(to) retained earnings	(135)	(275)
Balance at 30 June	23,258	3,900
LEGAL RISK FUND		
Balance at 1 July	8,199	7,904
Add: Interest received transferred from/(to) retained earnings	238	273
Add: Unused litigation from PHARMAC budget 2017/18 and 2016/17	-	22
Less: Litigation expenses transferred from/(to) retained earnings	-	-
Balance at 30 June	8,437	8,199
TOTAL PUBLIC EQUITY	61,236	41,743

Note 5: CPBDPF

The revenue in 2020 of \$18.332 million (2019: \$9.780 million) relates to the purpose of the DPF, which is to manage unexpected expenditure and enable PHARMAC to take advantage of investment opportunities that might not otherwise be funded in that year. The expenditure in 2019 of \$nil million (2019: \$nil) relates to disbursements to DHBs so that the CPB expenditure does not exceed the CPB budget of \$1.040 million.

Note 6: Cash and cash equivalents

	Actual 2020 \$000	Actual 2019 \$000
PHARMAC funds	2,283	1,009
Legal Risk Fund/HDPF (Restricted)	194	89
Total Cash and cash equivalents	2,477	1,098

Note 7: Investments

	Actual 2020 \$000	Actual 2019 \$000
Term deposits - PHARMAC	11,100	10,425
Term deposits - Legal Risk Fund	8,165	7,959
Term deposits - HDPF	3,900	4,175
Total Investments	23,165	22,559

There is no impairment provision for investments.

The carrying amounts of term deposits with maturities of less than 12 months approximates their fair value.

Note 8: Debtors and other receivables

The carrying value of receivables approximates their fair value. Receivables are non-interest bearing and generally on 30 day terms.

	2020			2019		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	21,590	-	21,590	11,706	-	11,706
Past due 30-60 days	-	-	-	-	-	-
Past due 31-90 days	-	-	-	-	-	-
Past due > 90 days	-	-	-	-	-	-
Total	21,590	-	21,590	11,706	-	11,706

All receivables greater than 30 days in age are considered to be past due.

Note 9: CPBDPF Monies

During the year, PHARMAC advances CPBDPF monies to DHBs via the PHARMAC-managed Combined Rebates Bank Account to enable earlier pay out of accrued rebates to DHBs. The CPBDPF is utilised at year end should DHB pharmaceutical expenditure exceed the CPB value. Where this is forecast, PHARMAC ensures it recovers any advanced DPF cash prior to year end.

Note 10: Property, plant and equipment

	Cost at beginning of the year \$000	Additions during the year \$000	Disposals during the year \$000	Accumulated depreciation beginning of the year \$000	Depreciation for the year \$000	Elimination on disposals \$000	Net Carrying Amount as at 30 June \$000
2019							
Furniture and fittings	453	35	(155)	378	50	(155)	60
EDP equipment	840	210	(146)	701	168	(146)	181
Office equipment	146	-	(52)	124	13	(52)	9
Leasehold improvements	1,551	601	(702)	1,422	163	(702)	567
Total PPE Assets	2,990	846	(1,055)	2,625	394	(1,055)	817
2020							
Furniture and fittings	333	54	-	273	21	-	93
EDP equipment	904	111	-	723	121	-	171
Office equipment	94	7	-	85	9	-	7
Leasehold improvements	1,450	24	-	883	141	-	450
Total PPE Assets	2,781	196	-	1,964	292	-	721

Note 11: Intangible assets

	Cost at beginning of the year \$000	Additions during the year \$000	Disposals during the year \$000	Accumulated amortisation beginning of the year \$000	Amortisation for the year \$000	Elimination on disposals \$000	Net Carrying Amount as at 30 June \$000
2019							
Total Intangible assets	741	49	(233)	648	85	(233)	57
2020							
Total Intangible assets	557	63	-	500	29	-	91

Note 12: Creditors and other payables

	Actual 2020 \$000	Actual 2019 \$000
Creditors	1,086	857
Accrued expenses	1,355	800
Total creditors and other payables	2,441	1,657

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. The carrying value of creditors and other payables approximates their fair value.

Note 13: Employee entitlements

	Actual 2020 \$000	Actual 2019 \$000
Annual leave entitlement	869	632
Accrued salaries and wages	400	334
Total employee entitlements	1,269	966

Note 14: Provisions

	Actual 2020 \$000	Actual 2019 \$000
Current provisions are represented by:		
Lease make good	-	-
Total current provisions	-	-
Non-current provisions are represented by:		
Lease make good	328	328
Total non-current provisions	328	328
Movement for "make good" provision		
Balance at 1 July	328	363
Additional provisions made	-	40
Amount used	-	(75)
Unused amounts reversed	-	-
Discounted value recognised as expense	-	-
Balance at 30 June	328	328

The make good provision relates to a rental lease that expires 31 December 2024. PHARMAC leases four floors of an office building.

Note 15: Reconciliation of the net surplus from operations with the net cash flows from operating activities

	Actual 2020 \$000	Actual 2019 \$000
Net surplus/(deficit)	19,493	9,823
Add non-cash items:		
Make good provision - discounted value recognised as expense	-	-
Depreciation and amortisation	321	479
Total non-cash items	321	479
Add/(less) movements in working capital items:		
Decrease/(increase) in debtors and other receivables	(9,884)	(11,345)
Decrease/(increase) in prepayments	(248)	71
Increase/(decrease) in creditors and other payables	784	(6)
Increase/(decrease) in employee entitlements	303	(21)
Increase/(decrease) in make good provision	-	(182)
Decrease/(increase) in net GST	1,255	2,210
Net movements in working capital	(7,790)	(9,273)
Other movements		
CPBDPF monies released from/(deposited in) rebates bank account	(9,780)	(716)
Increase/(decrease) in non-current make good provision	-	147
Total other movements	(9,780)	(569)
Net cash flows from operating activities	2,244	460

Note 16: Related party transactions

PHARMAC is a wholly owned entity of the Crown. Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect PHARMAC would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Note 16: Related party transactions (continued)

	Actual 2020	Actual 2019
Key management personnel compensation		
Board members		
Remuneration	\$ 142,000	\$ 148,000
Full-time equivalent members	5.00	5.00
Leadership team		
Remuneration	\$ 1,460,309	\$ 1,594,597
Full-time equivalent members	5.00	5.65
Total key management personnel compensation	\$ 1,602,309	\$ 1,742,597
Total full-time equivalent members	10.00	10.65

The full-time equivalent for Board members has been determined based on the number of Board members appointed for this financial year.

Note 17: Board members' remuneration

The total value of remuneration paid or payable to each Board and committee member during the year was:

Member	Fees	
	2020 \$000	2019 \$000
Hon Steve Maharey (Chair)	48	44
Nicole Anderson	24	24
Prof Ross Lawrenson	24	24
Dr Jan White	24	24
Claudia Wyss	16	-
Prof Jens Mueller	6	24
Stuart McLauchlan (Chair, 2010-2018)	-	8
Total Board member remuneration	142	148

There have been payments of \$426,000 (2019: \$400,000) made to committee members appointed by the Director-General of Health or the Board who are not Board members during the financial year.

PHARMAC has provided a deed of indemnity to Directors for certain activities undertaken in the performance of PHARMAC's functions.

PHARMAC has taken out Directors' and Officers' Liability and Professional Indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees.

No Board members or committee members received compensation or other benefits in relation to cessation (2019: \$nil).

Note 18: Employee remuneration

Total remuneration paid or payable	Actual	
	2020	2019
\$000		
100 - 110	6	9
110 - 120	7	15
120 - 130	10	11
130 - 140	7	10
140 - 150	9	4
150 - 160	1	1
160 - 170	2	3
170 - 180	2	2
180 - 190	1	4
190 - 200	1	-
200 - 210	-	1
210 - 220	1	-
230 - 240	-	1
240 - 250	2	1
250 - 260	-	2
260 - 270	1	-
270 - 280	1	-
410 - 420	-	1
420 - 430	1	-

Note 19: Events after the balance date

There have been no significant events after the balance date.

Note 20: Financial instrument risks

PHARMAC's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquid risk. PHARMAC has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Credit risk

Credit risk is the risk that a third party will default on its obligation to PHARMAC, causing PHARMAC to incur a loss. Due to the timing of its cash inflows and outflows, PHARMAC invests surplus cash with registered banks.

PHARMAC does not have significant concentration of credit risk.

Note 20: Financial instrument risks (continued)

Liquidity risk

Liquidity risk is the risk that PHARMAC will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, PHARMAC closely monitors its forecast cash requirements. The table below analyses PHARMAC's financial liabilities that will be settled based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	2020 Less than 6 months \$000	2019 Less than 6 months \$000
Creditors and other payables	2,441	1,657

Fair value

The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2020 and 30 June 2019 approximate their fair values.

Note 21: Categories of financial instruments

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit rating.

	Actual 2020 \$000	Actual 2019 \$000
Counterparties with credit ratings		
Cash at bank and term deposits		
AA-	37,135	19,626
A+	-	-
A	8,000	13,744
Total cash at bank and term deposits	45,135	33,370
Receivables		
Debtors and other receivables	21,590	11,706
Total receivables	21,590	11,706

Note 22: Capital management

PHARMAC's capital is its equity, which comprises accumulated funds and other reserves. Equity is represented by net assets.

PHARMAC is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which imposes restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

PHARMAC manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure PHARMAC effectively achieves its objectives and purpose, while remaining a going concern.

PHARMAC is currently exempt from the imposition of the Crown's capital charge.

Note 23: Cessation payments

This information is presented in accordance with section 152(1)(d) of the Crown Entities Act 2004. Cessation payments include payments that the person is entitled to under contract on cessation such as retirement payment, redundancy, and gratuities. PHARMAC made no cessation payments to former employees during the financial year (2019: \$nil).


Note 24: Explanation of major variances against budget

Explanations of major variances from PHARMAC's estimated figures in the Statement of Performance Expectations (SPE) are as follows:

Statement of comprehensive income and expense

The net surplus (deficit) for the year ended 30 June 2020 of \$19,493,000 is \$18,042,000 more than the SPE budgeted surplus of \$1,451,000. The CPBDPF revenue is \$15,882,000 above budget (net of GST).

Total expense was \$1,724,000 lower than budget, or 6.5%. The main differences in expenses include an underspend of \$694,000 for implementation costs following a review of the contracts in this area. There were no litigation costs incurred relating to the Legal Risk fund; the budgeted amount was \$180,000. Depreciation and amortisation costs were lower by \$57,000 from lower investment in property plant and equipment. Occupancy costs were lower by \$105,000 following completion of an office relocation project. Personnel costs were higher by \$405,000 owing to additional use of contractors following a relatively high year of staff turnover. Other routine variances were not material.



Operating costs impacted by the COVID-19 pandemic were underspent by \$1,176,000, predominantly from deferred meetings of our clinical advisers and travel not undertaken associated with meetings (\$464,000 and \$159,000, respectively). In addition, lower research costs (\$170,000), lower legal costs (\$123,000), and lower information management costs (\$47,000) also related in part to the COVID-19 lockdown period.

Statement of financial position

The increase in current assets of \$39,749,000 arises from an increase in cash equivalents and investments of \$17,888,000, an increase in receivables and prepayments of \$21,862,000, of which \$21,081,000 (including GST) relates to the CPBDPF revenue.

The increase in non current assets is \$210,000. The increase in current liabilities (\$4,324,000) relates mainly to an increased GST Payable (\$2,714,000) relating to the CPBDPF revenue. Creditors and other payables have increased (\$1,610,000) from higher than expected payables compared to the SPE.

The increase in public equity of \$35,507,000 reflects the movements described above.

Note 25: Impact of COVID-19

As a consequence of the COVID-19 global pandemic, in late March 2020 the New Zealand Government declared a State of National Emergency. This resulted in New Zealand entering a 4-week national lockdown. Restrictions were then gradually relaxed and from early June 2020, New Zealand moved to alert level 1. At alert level 1, there are no significant restrictions within New Zealand however there continue to be significant border controls severely limiting access into New Zealand.

We have assessed the impact of the pandemic on PHARMAC. We have also reviewed our financial statements on a line by line basis and considered whether any adjustments were necessary in accordance with NZ GAAP. No adjustments were identified or required. The main factors contributing to this conclusion are:

- PHARMAC operations continued without interruption during the pandemic.
- PHARMAC revenue was not materially impacted.
- PHARMAC unrestricted balance sheet accounts, including equity, were not materially impacted.

Management will continue to monitor the impact of the pandemic on the results of the entity and manage the business accordingly to best ensure PHARMAC continues to meet its financial and other objectives.

Supplementary information

Interests of Directors

For the purpose of section 68(6) of the Crown Entities Act 2004, there were no occasions during the year where permission was given to a Board member to act, despite being interested in a matter.

Ministerial directions

PHARMAC is required to publish information on any new direction given to PHARMAC by a Minister in writing under any enactment during that financial year, along with other directions that remain current.

PHARMAC did not receive any new Ministerial directions in 2019/20. The following table outlines the directions and authorisations we have in place:

Direction/authorisation	Minister	Effective date
Direction to PHARMAC to contribute to New Zealand meeting its international obligations under the Trans-Pacific Partnership Agreement	Minister of Health	September 2016
Whole of Government Direction regarding the New Zealand Business Number	Minister of State Services and Minister of Finance	October 2018
Whole of Government Direction regarding Procurement Functional Leadership	Minister of State Services and Minister of Finance	February 2015
Whole of Government Direction regarding Property Functional Leadership	Minister of State Services and Minister of Finance	July 2014
All-of-Government shared authentication services	Minister of State Services and Minister of Finance	July 2008
Authorisation of PHARMAC to perform an additional function	Minister of Health	August 2001

PHARMAC directory

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Board Members

Hon Steve Maharey - Chair
Nicole Anderson - Chair, Audit and Forecast
Committee
Dr Jan White - Deputy Chair, and Chair,
Health and Safety Committee
Prof Ross Lawrenson
Dr Claudia Wyss

Pharmacology and Therapeutics Advisory Committee (PTAC)

Mark Weatherall (Chair)
Marius Rademaker (Deputy Chair)
Brian Anderson
Rhiannon Braund
Elizabeth Dennett
Alan Fraser
Sean Hanna
Bruce King
Jennifer Martin
Stephen Munn
Giles Newton-Howes
Lisa Stamp
Tim Stokes
Matthew Strother
Jane Thomas
Simon Wynn Thomas

Auditors

Audit New Zealand Limited

Solicitors

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Chief Executive

Sarah Fitt

Consumer Advisory Committee 2019/20 (CAC)

David Lui (Chair)
Key Frost
Lisa Lawrence
Te Ropu Poa
Tuiloma Lina Samu
Adrienne von Tunzelmann

Bankers

ASB Bank Limited

Insurers

Lumley General Insurance (N.Z.) Limited
AIG Insurance New Zealand Limited
QBE Insurance (International) Pty Limited





PHARMAC

TE PĀTAKA WHAIORANGA

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Te Pātaka Whaioranga
Te Kāwanatanga o Aotearoa

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