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Pharmaceutical Management Agency

Annual Report

For the year ended 30 June 2014

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

New Zealand Government

PHARMAC
Pharmaceutical Management Agency

E.59

Annual Report of

Pharmaceutical Management Agency (PHARMAC)

for the year ended
30 June 2014

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PHARMAC DIRECTORY

(as at 30 June 2014)

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Board Members Stuart McLauchlan – Chair Kura Denness – Chair, Audit and Forecast Committee Dr David Kerr Prof Jens Mueller Dr Jan White Nicole Anderson	**Chief Executive** Steffan Crausaz
Pharmacology & Therapeutics Advisory Committee Dr Sisira Jayathissa – Chair	**Consumer Advisory Committee** Kate Russell – Chair
Auditors Audit New Zealand	**Bankers** ASB Bank Limited
Solicitors Bell Gully	**Insurers** Lumley General Insurance (NZ) Ltd AIG Insurance New Zealand Ltd QBE Insurance (International) Ltd

CHAIR'S REPORT

Over the past few years PHARMAC has been given greater responsibilities along with the expectations that come with those responsibilities. I am pleased to report that, in 2013/14, PHARMAC has begun to deliver on and meet – and in some cases exceed – those heightened expectations.

PHARMAC's work now encompasses management of community medicines, pharmaceutical cancer treatments and the National Immunisation Schedule (funded from the Combined Pharmaceutical Budget); management of all medicines used in District Health Board (DHB) hospitals, and national contracting of hospital medical devices.

The benefits of PHARMAC taking on this work have become immediately clear. In its second year of this expanded role, and the first year managing hospital medicines and beginning national contracting for hospital medical devices, PHARMAC has achieved net annual savings to DHBs of $25.62 million after PHARMAC's costs. The initial savings in new areas alone exceed the annual cost of running PHARMAC in its entirety. We have also continued to manage the Combined Pharmaceutical Budget (CPB) very effectively, increasing the number of new treatments being funded while creating savings of more than $5 billion over the last ten years. Savings within the CPB this year amounted to $52.2 million which was spent on managing increases in demand and funding new medicines.

Connecting with stakeholders

Underpinning PHARMAC's work throughout the year has been regular and close engagement with stakeholders. This has been a feature of our hospital medical devices work, and of the work in reviewing PHARMAC's Operating Policies and Procedures, including consultation on our wider role in hospital medical devices management and on the nine decision criteria PHARMAC uses to guide its funding decisions.

The decision criteria review commenced in May 2013 and over a three-month consultation period about 300 people attended 12 community forums throughout New Zealand. A summary of submissions was released in December 2013. Feedback from these events, and written submissions to PHARMAC, were used to form a proposal for a new decision-making framework that was released for consultation in February 2014. This also included discussion at PHARMAC's national consultation event in Wellington in April 2014 and consultation closed on 21 April.

The Wellington event, attended by about 100 people representing patients, patient support groups, clinicians, DHBs, industry and government entities, was also where PHARMAC outlined its intention to trial a new commercial approach aimed at medicines for rare disorders. During the community forums, PHARMAC heard concerns that people with rare disorders were missing out on medicines funding under the standard PHARMAC approach. Trialling a new approach is aimed at promoting competition among suppliers to lower the cost of treatments, so that greater access can be provided to this subset of patients that have felt disadvantaged.

PHARMAC's hospital medical devices work has included building relationships with many stakeholders who have not previously worked with the organisation. Over the past year engagement activity has included two rounds of consultations, forums in DHBs and meetings with DHB procurement, clinical and executive teams. A huge amount of information has been gathered, which has helped us develop the proposed approach to managing hospital devices on behalf of DHBs. PHARMAC now intends to gradually increase activity towards this, on a device category-by-category basis.

Vaccines

PHARMAC began managing the National Immunisation Schedule in 2012, and in 2013 it ran the contracting process for the entire immunisation schedule for the first time. This is the list of vaccines that are funded for New Zealanders.

With advice from its immunisation subcommittee, and following public consultation, PHARMAC announced two new vaccines to be funded, along with changed or improved versions of several others. Rotavirus and varicella vaccines will be added to the National Immunisation Schedule, along with an improved pneumococcal vaccine Prevenar 13. Rotavirus causes severe diarrhoea in children, and immunisation is a vital tool in combating its spread and its impact on families. PHARMAC estimates that, nationwide, up to 1200 hospital admissions per year could be avoided through rotavirus vaccination. Listing rotavirus vaccine is estimated to cost $6.3 million. The changes to the National Immunisation Schedule will come into place from 1 July 2014.

Hospital medicines

The first nationally consistent list of hospital medicines was introduced from 1 July 2013. Part II of Section H of the Pharmaceutical Schedule, the Hospital Medicines List (HML), was developed over a lengthy period of information sharing and input from senior DHB staff, clinicians and pharmacists. PHARMAC closely monitored the introduction of the list and, with buy-in from DHB staff, this went very smoothly.

With the introduction of the HML, many medicines that had previously only been available in some DHBs became available on a consistent nationwide basis. PHARMAC's management of the HML extends to both making savings on existing products, and making decisions on adding new products to the list. Under an agreement with DHBs, the value of new medicines added cannot exceed the predicted level of savings achieved and the value of any agreed new funding. During the year, products added to the HML included pegfilgrastim (to treat low white blood cell count in cancer patients), risedronate (for osteoporosis and Paget's disease), and paliperidone (for schizophrenia) at a combined cost of $850,000.

Agreements reached this year are estimated to produce $14.6 million in savings over five years after deducting the cost of new investments.

Medical devices

PHARMAC continues to lay the foundations for long-term management of hospital medical devices, a considerably larger area of work than pharmaceuticals with a much larger range of products involved. We continue to work towards budget management for medical devices, although this is still some way off.

It has been important for us to spend considerable time and effort talking with our stakeholders to ensure we develop our medical devices activity in the right way. In February we listed our first national contracts and have secured $4.6 million in savings over five years for DHBs. Our work has established a pipeline of significant new benefits that we expect to see achieved over the coming year.

Pharmaceutical budget management

Budget management continues to be a significant part of PHARMAC's work. The Combined Pharmaceutical Budget (CPB) was $795 million, and PHARMAC has managed spending within this total.

PHARMAC has continued to fulfil its statutory goal of achieving the best health outcomes from within the available funding. New Zealanders gained access to 26 medicines not previously funded and 35

medicines that were previously funded were made available to a larger group of patients. This means that in total PHARMAC made 61 investments in medicines during the year. As a result of to our well-developed approaches to evaluating funding options, we are confident that these 61 new investments represent the very best choices that were available to us during the year.

Summary of funding decisions, 2008-2014

Year	New listings	Widened access	Total
2008	5	15	20
2009	8	55	63
2010	20	25	45
2011	39	43	82
2012	14	10	24
2013	20	40	60
2014	26	35	61

Significant investments during 2013/14

- Adalimumab – widening access to this important treatment for arthritis and other auto-immune conditions;
- Ticagrelor – a new type of blood-thinning drug used to help prevent further heart attacks. Estimated spending of about $8.3 million (gross) on this product;
- Boceprevir – the first oral treatment for hepatitis C that can improve cure rates, in combination with other hepatitis C drugs, to up to 75%;
- Benzbromarone and febuxostat – treatment for the more severe forms of gout that have not responded well to other treatments;
- Risedronate – a new listing providing an alternative to currently funded osteoporosis and Paget's disease treatments;
- Riluzole – the first funded treatment in New Zealand for motor neurone disease;
- Eltrombopag – costing $35,000 per patient per year, this new listing is an expensive treatment for the rare blood disorder idiophathic thrombocytopenic purpura (ITP);
- Erlotinib – making this treatment for lung cancer available for newly diagnosed patients, provided they have the genetic markers that indicate the treatment will be effective; and
- Haemophilia treatments – making these treatments available without budget constraint due to listing on the Pharmaceutical Schedule.

Organisational change

The past year has seen PHARMAC's role change and expand, and PHARMAC itself has been changing and expanding to meet these demands. During the year PHARMAC underwent an internal restructure, a process designed to position PHARMAC to meet the challenges of coming years. Change can be unsettling, so it is a credit to PHARMAC's staff that the agency has continued to achieve high standards during the year, and perform its role for the benefit of DHBs and New Zealand taxpayers.

Stuart McLauchlan
Chair

On behalf of the PHARMAC Board

OVERVIEW OF PHARMAC

PHARMAC is the New Zealand government agency that decides, on behalf of District Health Boards (DHBs), which medicines and related products are publicly funded in New Zealand and to what level. PHARMAC's decisions are based on a standard process and include clinical advice from advisory committees, analysis based on examinations of clinical evidence and, usually, the community's views sought through consultation.

PHARMAC's decisions affect the lives of almost every New Zealander in terms of their access to medicines in the community or in our public hospitals. This access may be through medicines listed on the Pharmaceutical Schedule or through an assessment of their individual situation under the Named Patient Pharmaceutical Assessment (NPPA) policy. These decisions therefore attract high degrees of public and clinical scrutiny. Making robust, evidence-based decisions within a capped budget is central to PHARMAC's processes.

High quality decision-making is essential and PHARMAC's processes have been tested both in the Courts, via judicial review, and by the Ombudsman, via investigations of complaints. PHARMAC has used the outcomes of these reviews and investigations to improve its processes.

PHARMAC's main roles include:

- managing the Combined Pharmaceutical Budget for community medicines and medical devices, vaccines, and hospital cancer medicines;
- determining the Pharmaceutical Schedule (the list of government-funded medicines and medical devices prescribed and dispensed in the community), vaccines, funded medicines available in DHB hospitals (including pharmaceutical cancer treatments and haemophilia treatments) and the list of optional national contracts for hospital medical devices;
- managing access to medicines for named individuals through NPPA, and other special access programmes;
- promoting the responsible use of medicines; and
- engaging in research, policy work and support to others in the health sector.

PHARMAC is also working with Health Benefits Ltd (HBL) and its agents to progress work on management of hospital medical devices.

PHARMAC is guided by relevant legislation (including the Public Health and Disability Act 2000 and the Crown Entities Act 2004), and current Government expectations, as outlined in relevant Letters of Expectations.

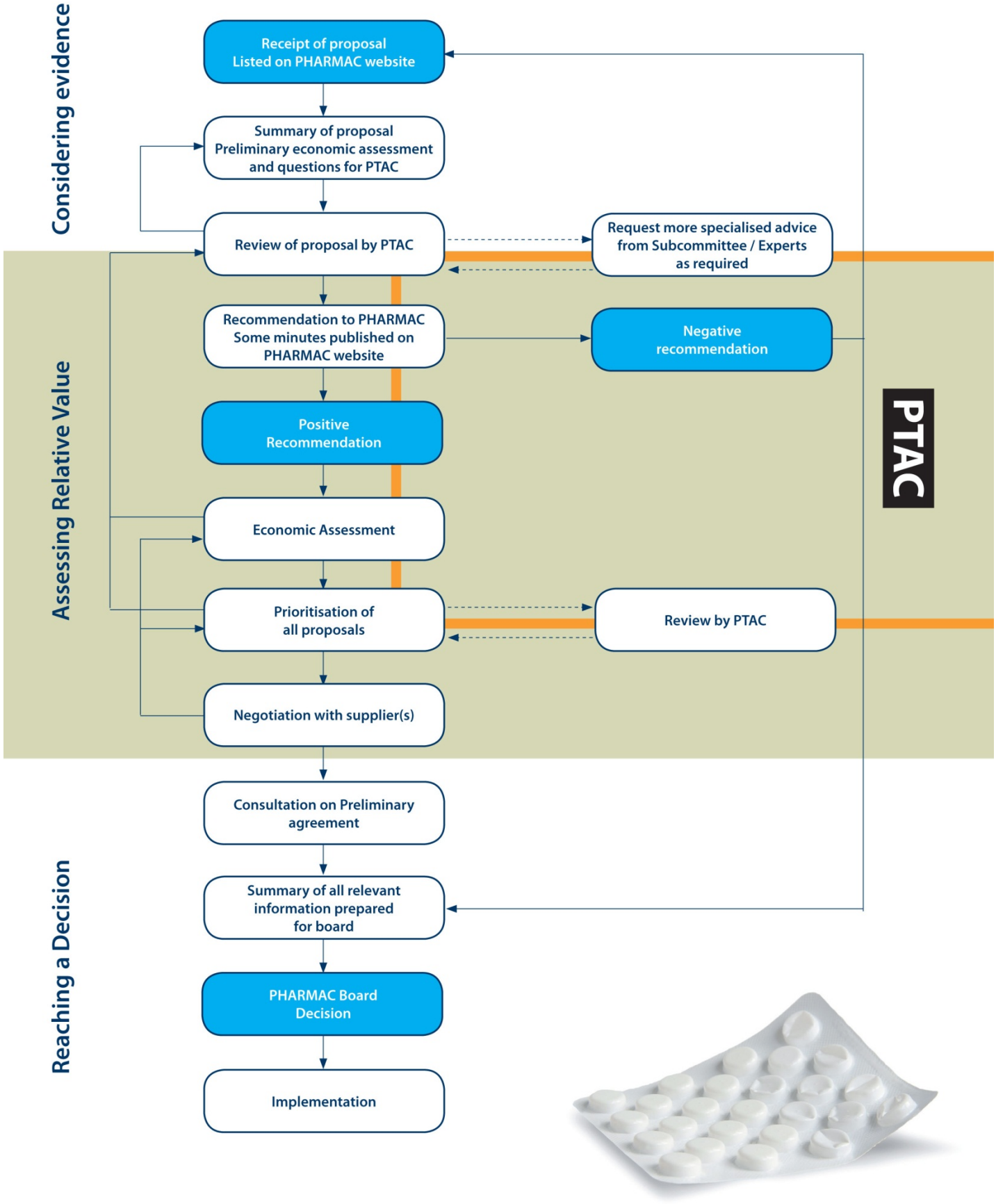
PHARMAC is one of many government agencies that influence the health of New Zealanders. Our roles in pharmaceutical assessment, funding, procurement for DHBs and promoting the optimal use of medicines, influence health and disability system outcomes both directly and indirectly. These outcomes are:

- New Zealanders live longer, healthier, more independent lives; and
- The health system is cost effective and supports a productive economy.

For a more detailed description of PHARMAC's activity, refer to *Your Guide to PHARMAC* (www.pharmac.health.nz/about/your-guide-to-pharmac/).

Schedule decision making process

The process set out in this diagram is intended to be indicative of the process that may follow where a supplier or other applicant wishes a pharmaceutical to be funded on the Pharmaceutical Schedule. PHARMAC may, at its discretion, adopt a different process or variations of the process (for example, decisions on whether or not it is appropriate to undertake consultation are made on a case-by-case basis).



OUR CAPABILITY

Enhancing PHARMAC as a good employer

PHARMAC's success depends on high-calibre employees, so recruiting and retaining high performing people is critical. We have a range of policies to support this, starting with good employer principles and obligations and extending to encouraging superior performance. Our policies cover:

- *Leadership, Accountability and Culture* - PHARMAC has the necessary leadership capability, and we make our accountability requirements a high priority. We continue to build an organisational culture fit for current and future challenges and have a range of organisational development projects underway. Staff participation is a key part of developing the work in this area. We have conducted a structural review and have implemented a new structure. As a result, we are now reviewing our policies and processes to ensure they are fit for our current and future responsibilities, consulting with employees as required.
- *Recruitment, Selection and Induction* - PHARMAC is an equal opportunities employer and we aim to recruit the best person for each role. Vacancies are advertised to attract a range of candidates, and the approach varies according to the type of role. We are proud of our reputation for success, and recognise that this allows PHARMAC to draw high- calibre candidates. Induction programmes are run for all new staff.
- *Employee Development, Promotion and Exit* - Most PHARMAC roles offer significant levels of autonomy and responsibility. To develop the skills and careers of our employees we provide them with opportunities to move within the organisation, act in more senior roles, undertake external training, receive support for formal study, and take up secondments. With the growth of the organisation to take on new functions and the new structure and roles needed for this we now have more management positions and opportunities to progress careers within the organisation. Our performance management system includes individual and team goals that link to organisational priorities, and includes a focus on individual professional development. Departing employees are offered exit interviews.
- *Flexibility and Work Design* - Provided business needs are met, employees may work flexible hours and at times work remotely. Fourteen employees currently work part-time. PHARMAC also offers parental leave entitlements in addition to legal entitlements for both men and women. This flexibility in work arrangements, and even more importantly a culture of rotating staff between roles and encouraging staff to take up new roles as they become available, has further enhanced our ability to retain high-performing staff.
- *Remuneration, Recognition and Conditions* - PHARMAC uses independent job evaluation and market remuneration information to set salary ranges for positions. Remuneration is performance-based and pay ranges are reviewed annually against market changes and Government expectations.
- *Harassment and Bullying Prevention* - Conduct and behaviour expectations are clearly communicated through policies and at induction of new employees, and are regularly reinforced. We have policies to manage harassment and bullying, and do not tolerate such behaviour.
- *Safe and Healthy Environment* - PHARMAC's health and safety committee includes employee representatives. Information on health and safety responsibilities is included in induction information for new employees. PHARMAC also supports the health of employees through support for fitness-related activities, and the provision of workstation assessments. We monitor the health and safety of our working environment and undertake business continuity planning and emergency preparedness. We have also re-configured some of our work spaces, with input from employees, to support mobile working, so staff have flexibility to work from different areas of the office space while assuring the availability of accessible facilities.

Staffing

PHARMAC has been in a significant growth phase since 2012, with 11 more employees than at 30 June 2013, and a total increase of 36 employees over the past two years. We anticipate that growth will continue but at a slower rate than in previous years.

In 2013/14, nine permanent staff resigned (9% of total permanent staff). Turnover has decreased slightly from the previous year despite the organisational change process. However, because our total staff numbers are not high, a small change in numbers leaving may have a disproportionate effect on the relative turnover percentage.

One employee went on parental leave during this year, one resigned on parental leave and one returned from parental leave. There is a relatively high number of part-time staff – 12.5% of permanent staff worked part-time at 30 June 2014. We have a total of 105 staff – 96 permanent employees, plus nine fixed term employees.

We are currently supporting staff with disabilities and a disability register is held in case of emergency.

Permanent employees			
Gender	**Part time**	**Full time**	**Total**
Men	3	36	39
Women	9	48	57
Total	**12**	**84**	**96**

Fixed term employees			
Gender	**Part time**	**Full time**	**Total**
Men	0	4	4
Women	1	4	5
Total	**1**	**8**	**9**

Staff Numbers by Age (years)	
Under 20	0
20 -29	9
30 - 39	24
40 - 49	19
50 - 59	14
60 - 69	3
Unknown	36
Total	**105**

Staff Numbers by Ethnicity	
NZ European/ Pākehā	47
NZ European/ Pākehā and American	1
NZ European/ Pākehā and Swiss	1
British / Irish	6
Māori	4
Australian	1
Chinese	2
Dutch	1
German	1
Indian	1
Italian	1
Korean	1
Other European	1
Welsh	1
Not stated	36
Total	**105**

Our strategies for future success

PHARMAC has strategic priorities to ensure we continue to focus on achieving our objectives.

Improved clinical leadership

Our ability to gather the right information from the right people, make good decisions and obtain buy-in substantially depends on our performance in the area of clinical leadership. Part of our work in improving how we interact with stakeholders is about ensuring we have the right networks and advice across each activity. It is essential to communicate and implement our decisions clearly.

We have well-developed networks in the primary care sector. Our extended functions in secondary care (hospital medicines and medical devices) require us to ensure that we are appropriately resourced in this area.

We worked to:

- develop relationships and networks with secondary care clinicians;
- maintain existing clinical relationships and networks; and
- understand and contribute to policy development around primary care 'clinical extenders' such as pharmacy prescribing and clinical services initiatives.

Developing these areas ensured that:

- PHARMAC was able to predict issues, and seek advice and contributions from secondary care on areas of relevance to them;
- clinician perspectives were well-understood and integrated within decision-making and implementation processes; and
- PHARMAC's perspective was sought on policy initiatives relating to the role of pharmacy and other extensions of primary care.

Enhancing e-Influence

Better use of technology provides opportunities to obtain (and create) knowledge, implement PHARMAC's activities more smoothly, and communicate more broadly. Opportunities exist to maximise benefits through connecting in with sector IT initiatives including data systems, and developing and delivering our own solutions.

To achieve success PHARMAC needs connectedness in IT and information management strategy, both within the organisation and between PHARMAC and the wider sector. This has been a key priority for the year.

We have worked to:

- support and influence sector IT initiatives including data systems. As PHARMAC took responsibility for hospital medicines as of 1 July 2013, integrating sector data into PHARMAC decision making has been an important activity that has been underway for some time and will continue into 2014/15;
- develop and maintain effective networks with private software vendors, health IT, and DHB systems providers, as existing pathways for the distribution of PHARMAC schedule data and receiving back sector purchase data require continuing effort;
- participate in steering groups and working groups for New Zealand Medicines Terminology, New Zealand Universal List of Medicines, e-prescribing and other related initiatives;
- develop and maintain PHARMAC's Information Systems Strategic Plan and Information Management Strategy; work on updating these plans commenced during the year; and
- ensure human resources strategy is aligned with seeking, retaining and developing staff with information management skills.

Developing these areas has ensured that:

- health sector IT developments work seamlessly with pharmaceutical-related systems, including hospital e-prescribing initiatives and sector work on medical device procurement;
- PHARMAC's perspective was sought on health IT-related policy and process;
- integration of data related to PHARMAC's extended roles in medical devices and hospital medicines was seamless, despite challenges with some of the dependencies for this work; work to properly integrate data in a cost-effective and efficient way is ongoing;
- PHARMAC's internal systems and processes are robust and able to respond to changes in health sector IT parameters, including basic infrastructure response to external threats and ongoing architectural review to assure systems that can evolve in tandem with the larger health sector; and
- staff and stakeholders accessed high-quality information in usable formats in a timely manner as the Schedule has expanded to include hospital medicines and medical devices.

Core strength

Value is created through PHARMAC's management of medicines and other activities that reflect PHARMAC's continuing expansions in scope. In evaluating opportunities for change and improvement we ensured continued delivery of the best health outcomes, combined with budget management. We made gains by developing improved ways of measuring our performance, and communicating this to interested parties in relevant ways.

Enhancing our capability and good employer work, as outlined above, is also important to achieving this strategy. In order to deliver on our strategies in a manner consistent with our organisational values PHARMAC often needs people with relatively rare skill sets and particular attitudes and personal attributes.

We worked to:

- continue to improve PHARMAC as a good employer and attractive place to work. This includes, importantly, significant effort in organisational development to identify the critical aspects of the PHARMAC operating model that need to be cultivated or developed;
- embed PHARMAC's values and core competency within the performance planning framework. These were both updated during the year to reflect the current operating environment and new scale of the organisation; and
- develop a research and publication strategy.

Developing these areas ensured that:

- PHARMAC was able to integrate extended functions into the organisation without loss of culture or values (which are important factors in the success of our current approach). This was achieved in part by restructuring the organisation to align workload, accountabilities and functions;
- new staff were a good fit, and understood PHARMAC's values and core competency. Existing staff buy into the new identity statements and demonstrate the behaviours outlined in the revised Framework for Success;
- the quality of PHARMAC analysis and decisions led to greater health gains than the alternative, as reflected in continuing positive dialogue with the health sector on the application of PHARMAC's approach to the medical device sector; and
- 'the PHARMAC model' continues to be referenced in external reviews as best practice within the sector, for example in the analysis of PHARMAC published in *PharmacoEconomics* on 7 June 2014[1].

Value from extended functions

Evaluation of the external environment and PHARMAC's capabilities indicates that we can add value in several new areas. Greater management of hospital medicines, managing funding for vaccines and assessing future vaccines, and reorganising (with other entities) the management of medical devices are areas with which we have been given responsibility.

In line with Government expectations, PHARMAC gave a high level of attention to these areas. We focussed particularly on medical devices, as the expansion of scope in vaccines and hospital medicines was transitioned into regular day-to-day operations during 2013/14.

In order to enable the required action (and protect the core activity from distraction), we built a small medical devices establishment team with the medical, programme management and analytical capabilities needed.

We worked to:

- obtain quick wins from new activities; and
- ensure a robust process for management was developed between responsible agencies.

Developing these areas ensured that:

- the quality of PHARMAC analysis and decisions mirrors that seen for medicines;
- real sector value can be observed and is reported to stakeholders; and
- improved management of technology adoption occurs.

[1] Gauld, Robin, "Ahead of Its Time? Reflecting on New Zealand's Pharmac Following Its 20th Anniversary", *PharmacoEconomics*, 7 June 2014, http://link.springer.com/article/10.1007/s40273-014-0178-2/fulltext.html

Great reputation

A great reputation is essential to PHARMAC's future success. Gaining the potential benefits from our extended functions, as well as maintaining our business-as-usual activity, requires strong sector relationships. The Minister of Health has set a clear expectation that PHARMAC will develop and maintain strong engagement with consumers and clinicians.

Over the past year, PHARMAC has placed a strong emphasis on stakeholder engagement to inform our work in key areas. Our decision criteria review continued during 2013-14 with community forums in August followed by, a second round of consultation in early 2014 and a stakeholder event in April 2014. Participants ranged from consumers to clinicians, and other health-related agencies. Activity to establish our medical device management role has seen two rounds of consultation in 2013/14 involving forums and stakeholder meetings with DHB managers, clinicians, suppliers and professional organisations.

A key feature of PHARMAC's internal restructuring over the past year was establishing a directorate with a specific focus on Engagement and Implementation. The work of this directorate aims to support effective implementation of our decision-making. PHARMAC is building its capacity to achieve best health outcomes for New Zealanders by developing strong relationships with the health sector and communities. As well as maintaining current relationships, the recently established Māori Responsiveness Team has already begun to establish new relationships with Māori communities.

PHARMAC's drive to achieve the targets set for us, and our ongoing effective management of subsidies for medicines, sets the foundation for our reputation. A focus on further maintaining and building on our reputation for the future means continuing to do the things we do well for the benefit of DHBs and taxpayers, and delivering high-quality services that are valued by New Zealanders.

Senior Leadership Team

Steffan Crausaz (BPharm, MSc): Chief Executive

Steffan was appointed Chief Executive of PHARMAC in July 2012. Prior to taking up the Chief Executive position in an interim capacity in 2011, Steffan was Manager of Funding and Procurement, leading PHARMAC's commercial and health technology assessment activities. Before joining PHARMAC in 2003, Steffan trained as a pharmacist in the UK. He also worked in the pharmaceutical industry (branded and generic) while undertaking his Masters in pharmacoeconomics and pharmaceutical policy. Steffan oversees the Senior Leadership Team and is directly answerable to the PHARMAC Board.

Sarah Fitt (BPharm, Dip Mgt): Director of Operations

Sarah joined the PHARMAC management team in April 2013. She brings a breadth of experience and sector knowledge to PHARMAC having spent the last 12 years as Chief Pharmacist at Auckland DHB. As Director of Operations, Sarah oversees the team that manages medicines and medical devices procurement, PHARMAC's funding process and systems and the health economics team.

Jude Urlich (MPP(Dist), BA, DipBsStd(PR), APR): Director of Engagement and Implementation

With a background in the state sector and in running her own consultancy, Jude brings a wide range of organisational experience to PHARMAC's Senior Leadership Team. She has worked extensively in public affairs, communications and social marketing, and held functional leadership roles in the public service, tertiary education and wider state sector. Since joining PHARMAC in early 2010, Jude has managed corporate services and external relations activities. The Engagement and Implementation Directorate includes the Policy, Communications, Implementation and Māori Responsiveness Teams.

Mark Woodard (BA, MBA): Director of Corporate Services/CFO

Mark joined PHARMAC in 2014, to lead the Corporate Services Directorate. Mark's career has included time as CEO of Presbyterian Support and as CFO for various organisations including in the health sector. He has an MBA from Wharton and a BA from Cornell University in the United States. As Director of Corporate Services/CFO, Mark oversees the Legal, Finance, Analysis, Human Resources, Information Communications Technology, and Business Services Teams.

Dr John Wyeth (MBChB, MD, FRACP, FRCP (London)): Medical Director

John joined PHARMAC in 2012 as a deputy medical director with particular responsibility for secondary care, leading PHARMAC's clinical interactions around hospital medicines and hospital medical devices. He was appointed Medical Director in 2013, and leads the team that provides clinical input to PHARMAC, including through the Pharmacology and Therapeutics Advisory Committee. The team interacts with clinicians across both the primary and secondary care sectors.

INTERESTS

Section 68(6) of the Crown Entities Act 2004 requires the Board to disclose any interests to which a permission to act has been granted, despite a member being interested in a matter. Below are the relevant disclosures:

Member	Details of the interest	Permission granted by	Conditions of permission	Revocation/Changes to permission
David Kerr	Disclosed an interest as the Chairman of Ryman Healthcare. David requested not to be present for discussions around Special Foods in rest homes.	Board Chair	The Board noted the interest and determined that David would not participate in discussions.	This determination is for any Board meeting at which Special Foods in rest homes was discussed.
David Kerr	Disclosed an interest as a Director of Forte Health and has requested not to participate in decisions involving medical devices in private hospitals.	Board Chair	The Board noted the interest and determined that David would not participate in decisions involving medical devices in private hospitals.	This determination is for any Board meeting at which medical devices in private hospitals was discussed.

STATEMENT OF RESPONSIBILITY

The Board of PHARMAC accepts responsibility for:

- the preparation of the annual Financial Statements and Statement of Service Performance and for the judgements in them; and
- 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.

In the opinion of the Board, the Financial Statements and Statement of Service Performance for the year ended 30 June 2014 fairly reflect the financial position and operations of PHARMAC.

Stuart McLauchlan
Chair

8 October 2014

Jens Mueller
Board member

8 October 2014

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of
Pharmaceutical Management Agency's
financial statements and non-financial performance information
for the year ended 30 June 2014

The Auditor-General is the auditor of Pharmaceutical Management Agency (Pharmac). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and non-financial performance information of Pharmac on her behalf.

We have audited:

- the financial statements of Pharmac on pages 43 to 64, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of movements in public equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and

- the non-financial performance information of Pharmac that comprises the statement of service performance on pages 35 to 42 and the report about outcomes on pages 26 to 34.

Opinion

Financial statements and non-financial performance information

In our opinion:

- the financial statements of Pharmac on pages 43 to 64:
    - comply with generally accepted accounting practice in New Zealand; and
    - give a true and fair view of Pharmac's:
        - financial position as at 30 June 2014; and
        - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of Pharmac on pages 26 to 34 and 35 to 42:
    - complies with generally accepted accounting practice in New Zealand; and
    - gives a true and fair view of Pharmac's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:
        - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
        - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 8 October 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of Pharmac's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the appropriateness of the reported non-financial performance information within Pharmac's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

In accordance with the Financial Reporting Act 1993 we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of Pharmac's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance and outcomes.

The Board of Directors is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Crown Entities Act 2004, the Financial Reporting Act 1993 and the New Zealand Public Health and Disability Act 2000.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in Pharmac.

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

PHARMACEUTICAL EXPENDITURE

Key figures: Combined Pharmaceutical Budget

- **$795.0 million** – yearly DHBs' combined pharmaceutical expenditure (on budget)
- **$806.9 million** – total combined pharmaceutical expenditure before adjustments to assure that budget was not exceeded
- **41.8 million** – number of funded prescription items filled (1.0% decrease)
- **3.4 million** – number of New Zealanders receiving funded medicines
- **$52.2 million** – amount of savings achieved
- **26** – number of new medicines funded
- **35** – number of medicines with access widened
- **42,885** – estimated number of additional patients benefitting from these decisions in a full year

Key figures: Hospital Medicines

- **$3.65 million** – full year savings to DHB hospitals from hospital medicines decisions
- **$0.6 million** – cost of new investments in hospital medicines
- **$14.6 million** – savings to DHBs over five years after costs of new investments.

Key figures: Hospital Medical Devices

- **2,800** – number of line items on the Pharmaceutical Schedule under national contracts
- **$1.12 million** – annual savings to DHBs from national contracts
- **$4.6 million** – savings to DHBs over five years from national contracts

Key figures: Other Pharmaceuticals

- **$28.0 million** – savings to DHBs from listing haemophilia treatments

Hospital pharmaceutical savings in 2013/14

Hospital medicines

PHARMAC manages available funding for new investments in hospital medicines, including accounting for the cost of individual approvals for medicines not listed on the Schedule or not listed for the indication sought. This funding is achieved through savings made in an annual tender for a range of products used in District Health Board hospitals, as well as on other savings transactions. In 2013/14 available funds for investment based on the three year average from the date of implementation of a decision was $3.65 million. After investments of $0.6 million, based on a three year average cost, the net annualised saving was $3.05 million to DHB hospitals. Over five years, this represents $14.6 million of savings after investments.

PHARMAC also estimates that rebates on hospital medicines will be $6.2 million (excluding GST) for the 2013/14 financial year.

Hospital medical devices

The national contracts available to DHBs will return $1.12 million in savings in 2013/14 based on current usage. If DHBs increased their market share of nationally contracted products, the value of savings would increase. DHBs not currently using the nationally contracted products would make additional savings. Over five years, the current savings represent $4.6 million.

Combined pharmaceutical expenditure in 2013/14

PHARMAC manages the annual Combined Pharmaceutical Budget (CPB), which is discussed each year with DHBs and set by the Minister of Health. DHBs hold funding for the CPB and PHARMAC works to ensure spending does not exceed the CPB.

PHARMAC holds a multi-year Discretionary Pharmaceutical Fund (DPF), which allows PHARMAC to take a long-term approach to spending decisions. The DPF may be supplemented by DHB underspending in the CPB in any financial year and may also be used to reimburse DHBs if there is any collective overspend in the CPB.

The total spend by DHBs was $795 million. This consisted of $806.9 million on combined pharmaceuticals (including hospital pharmaceutical cancer treatments, National Immunisation Schedule vaccines and haemophilia treatments), and $11.9 million transferred from the DPF to DHBs.

The DHBs' combined pharmaceuticals spend represents an increase of $11.4 million over the previous year's expenditure. For 2013/14, net spending was made up of gross expenditure of $954.1 million plus $1.8 million of other expenditure, less an estimated $149.0 million expected from suppliers as rebates.

The key drivers of expenditure were:

- $38.2 million net spending increase from changing volumes of subsidised pharmaceuticals; and
- $38.2 million ($44.5 million full year impact) net expenditure on new investments and increased access to medicines this financial year.

Despite a 1.0% reduction in the number of prescription items, the net cost of pharmaceuticals already funded continues to rise. This reflects a decline in lower value prescription items and an increase in prescription items of higher value.

As well as the increase in the value of the CPB, PHARMAC has to work to offset the effect of this continuing volume/mix growth through savings programmes on currently funded medicines that delivered $52.2 million in savings in 2013/14 ($38.0 million ($65.2 million full year) new savings, plus $14.2 million in savings from 2012/13 decisions). This activity has enabled

Savings and benefits

PHARMAC delivers a range of benefits and savings to the health sector. These are expressed in a variety of ways:

Benefits for the health system from the CPB

Because the CPB is a fixed budget constraint, savings made in-year are not returned to DHBs as direct financial benefits – the benefits to DHBs are greater health outcomes and reduced future expenditure through an ability to set a budget lower than the increase in volumes and use of new, more expensive, medicines would suggest. PHARMAC needs to secure savings to meet this cost of growth in demand for pharmaceuticals listed on the Schedule. These costs are usually around $40-$60 million per annum. Savings are therefore made in pharmaceutical funding to meet these costs. If PHARMAC delivers greater savings, these are reinvested in new pharmaceuticals or in widening access to those currently listed, or can be returned to the wider health system for other services. In addition, PHARMAC's activity means DHBs avoid substantial expenditure as the value of the CPB has not had to increase to match the rate of volume increases and new investments.

Savings to DHBs from hospital activity

All savings are retained by DHBs as expenditure not made. The value of these annual savings to DHBs is estimated based on existing volumes and forecast over five years from the first year of savings. The cumulative value of new savings made in the following financial years will be added over a five year period.

Hospital medicines
PHARMAC manages expenditure on hospital medicines through making new investments after securing sufficient savings. Any savings not invested are retained by DHB hospitals as expenditure not made.

Hospital medical devices
PHARMAC manages national contracts for DHBs that deliver lower prices. Reported savings are based on current usage patterns. DHBs can increase their savings through shifting a greater market share of their existing product orders to these contracts.

Other savings to DHBs
PHARMAC also undertakes other transactions that return net financial benefits to DHBs, such as transferring expenditure to the CPB. This enables ongoing growth in volumes and new investments in those areas while freeing up expenditure for DHBs to invest in other beneficial health services.

PHARMAC to continue its track record, since 1993, of effectively managing pharmaceutical expenditure, while increasing access to new and existing medicines.

Savings

The breakdown of savings across therapeutic groups is shown below ($ million).

Therapeutic group	Increase	Saving	Net change in spending	Full year net change
Alimentary Tract and Metabolism	0.0	-1.3	-1.3	-2.0 M
Blood and Blood Forming Organs	1.0	0.0	0.9	1.3 M
Cardiovascular System	0.0	-3.1	-3.1	-3.1 M
Genito-Urinary System	0.0	-0.4	-0.3	-0.3 M
Infections - Agents for Systemic Use	0.1	-5.1	-5.0	-5.8 M
Musculoskeletal System	0.0	-0.6	-0.5	-1.0 M
Nervous System	0.1	-9.3	-9.2	-13.2 M
Oncology Agents and Immunosuppressants	0.2	-2.7	-2.6	-14.7 M
Hospital Pharmaceutical Cancer Treatments	0.1	-2.1	-2.0	-2.4 M
Respiratory System and Allergies	0.0	-2.8	-2.7	-5.0 M
Special Foods	0.1	0.0	0.1	0.1 M
Unknown	0.0	0.0	0.0	-1.8 M
National Immunisation Schedule	0.0	-1.0	-1.0	-1.1 M
Tender	0.2	-11.1	-10.9	-15.7 M
Tender ACP	0.0	-0.3	-0.3	-0.5 M
Totals	$1.9	-$39.9	-$38.0	-$65.2 M

The table below summarises the factors that have contributed to changes in combined pharmaceutical expenditure:

Summary of Combined Pharmaceutical Expenditure 2013/14 ($ million)

	Expenditure	Impact in 2013/14	Full year Impact
Expenditure for year ended 30 June 2013	$783.6		
Volume changes			
Volume increases		$60.9	
Volume decreases		-$22.7	
Widened access to medicines already funded		$5.0	$6.1
New investments		$33.2	$38.4
Net volume changes	$76.4		
Subsidy changes			
Subsidy increases		$1.9	$2.8
Subsidy decreases		-$28.5	-$51.6
Savings from annual tenders		-$11.1	-$15.9
Savings from alternative commercial proposals		-$0.3	-$0.5
De-listings		-$1.0	
Residual subsidy increases from 2012/13		$6.9	
Residual subsidy decreases from 2012/13		-$20.1	
Net subsidy changes	-$52.2		
Change in additional items not included above	-$3.0		
Change in DPF income[1]	-$9.8		
Total expenditure for year ended 30 June 2014	$795.0		
Total change from previous year[2]	*$21.2*		

[1] This is the net change in DPF movement, not the change in DPF balance.
[2] Total change in expenditure excluding DPF movement.

Table of combined pharmaceutical funding decisions 2013/14

The table below lists details of the medicines investment decisions implemented in the 2013/14 financial year.

Note that expenditure figures are gross and estimated, and may be subject to rebates (which reduce the net spending figure), volume changes, prescribing patterns and factors outside PHARMAC's control.

- n/a indicates that data are not available.
- 'New listing' refers to listing or relisting of any pharmaceutical not presently on the Schedule and new formulations and presentations that represent a significant shift in treatment options.
- 'Widened access' refers to changes in access criteria of existing pharmaceuticals affecting a wider patient population or populations.

Pharmaceutical (number of chemicals)	Used to treat	Decision type	Estimated # gross spending 2013/14	Estimated # new people in 2013/14	Estimated # new people in 2014/15
July 2013					
Adalimumab	Juvenile idiopathic arthritis and fistulising Crohn's disease	Widened access	$804,000	30	40
Amiloride[1]	Cardiovascular (renal tubular diseases)	New listing	$10,000	250	250
Blood glucose diagnostic test strip[2]	Blood glucose testing	New listing	$190,000	12,000	12,000
Blood ketone diagnostic test meter[2]	Blood ketone testing	New listing	$36,000	800	800
Cabergoline	Acromegaly	Widened access	$108,000	24	24
Hyoscine (scopolamine) patches	Nausea and clozapine-induced hypersalivation	Widened access	$38,000	240	240
Ketone blood beta-ketone electrodes[2]	Blood ketone testing	New listing	$83,000	4,000	4,000
Pegfilgrastim[3]	Infections	New listing	$5,515,000	n/a	n/a
Sodium hyaluronate	Dry eyes	New listing	$703,000	6,600	6,900
Ticagrelor	Acute Coronary Syndromes	New listing	$3,891,000	3,300	7,100
Ursodeoxycholic acid	Chronic intrahepatic cholestatic diseases	Widened access	$14,000	84	85
Ceftriaxone sodium	Treatment of gonorrhoea and pelvic inflammatory disease	Widened access	$17,000	3,000	3,000
Tenofovir disoproxil fumarate	Decompensated cirrhosis and prevention of vertical transmission of HBV	Widened access	$73,000	42	42

Pharmaceutical (number of chemicals)	Used to treat	Decision type	Estimated # gross spending 2013/14	Estimated # new people in 2013/14	Estimated # new people in 2014/15
Minocycline hydrochloride	Treatment for rosacea	Widened access	$61,000	n/a	n/a
Moxifloxacin	Treatment of confirmed mycoplasma genitalium	Widened access	$86,000	100	100
Lamivudine	To allow prophylaxis for at risk groups	Widened access	$42,000	100	100
Valaciclovir	Treatment of herpes zoster in immunocompromised patients	Widened access	$4,000	20	20
Antiretrovirals (9)	To provide prophylaxis for non-consensual intercourse	Widened access	$263,000	200	200
Pegylated interferon alpha-2a	Treatment post liver transplant for patients with hepatitis C	Widened access	$9,000	1	1
Haemophilia Products (5)[4]	Haemophilia	New listing	$28,000,000	300	300
Cefazolin sodium	Treatment of cellulitis in the community	Widened access	$8,000	n/a	n/a
August 2013					
Carbomer	Dry eyes	New listing	$173,000	830	940
Macrogol 400 and propylene glycol	Dry eyes	New listing	$59,000	1,380	1,520
Naltrexone	Alcohol Addiction	Widened access	$13,000	0	0
Progesterone	Prevention of pre-term labour	New listing	$17,000	130	260
Mianserin	Depression	Widened access	$23,000	0	0
Buspirone	Anxiety	Widened access	$33,000	0	0
September 2013					
Desmopressin	Diabetes insipidus and nocturnal enuresis	New listing	$132,000	140	150
Boceprevir	Hepatitis C type 1	New listing	$6,527,000	146	103
Pegylated interferon alpha-2a	Hepatitis C type 1	Widened access	$1,595,000	113	137
Venlafaxine	Major depression, generalised anxiety disorder and socialised anxiety disorder	Widened access	$855,000	7,400	8,500
Cerezyme	Gaucher's disease	Widened Access	$50,000	1	2

Pharmaceutical (number of chemicals)	Used to treat	Decision type	Estimated # gross spending 2013/14	Estimated # new people in 2013/14	Estimated # new people in 2014/15
Risedronate	Osteoporotic fractures and treatment of Paget's disease	New listing	$200,000	1,000	1,900
October 2013					
Riluzole	ALS	New listing	$215,000	60	80
Hepatitis A Vaccine	Hepatitis A	New listing	$48,000	1,500	0
November 2013					
Methotrexate prefilled syringe	Pain Management	New listing (new presentation)	$68,000	800	800
Valganciclovir	Organ rejection	Widened access	$27,000	3	3
December 2013					
Amoyxcillin, erythromycin ethyl succinate, phenoxymethylpeni-cillin (penicillin V) (3)	Rheumatic fever	Widened access	$21,000	2,500	5,000
January 2014					
Erlotinib	Alternative first-line treatment with a tyrosine kinase inhibitor	Widened access	$150,000	10	53
Blood ketone diagnostic test meter	Blood ketone testing	Widened access	$40,000	200	200
Eltrombopag	Idiopathic thrombocytopenic purpura	New listing	$554,000	41	42
Fluticasone with Salmeterol	Asthma	Widened access	$61,000	760	760
February 2014					
Atomoxetine	ADHD patients	Widened access	$49,000	50	100
Baclofen	For use in a programmable pump	New listing (new presentation)	$20,000	3	3
Ferrous sulphate	Treatment and prophylaxis of iron deficiency anaemia	New listing (new presentation)	-$3,000	0	0
May 2014					
Paliperidone Palmitate	Treatment of schizophrenia in adults	New listing	$96,000	92	533
June 2014					
Febuxostat	Gout	New listing	$50,000	98	1173
Total (unadjusted)			**$51,028,000**	**48,300**	**57,180**
Total (adjusted)[5]			**$38,271,000**	**36,225**	**42,885**

1. Amiloride was fully funded until 1 January 2005, when it was delisted due to discontinuation by the supplier.
2. Diabetes New Zealand was previously contracted to supply these to practitioners.
3. This investment is partly from new use for communities and a reduction in use for hospitals.
4. Previously the responsibility of the National Haemophilia Management Group (NHMG).
5. The total figures are adjusted to align with historic performance compared with forecast.

Tables of hospital pharmaceutical funding decisions 2013/14

Details of the savings and expenditure transactions PHARMAC has made in hospital medicines that may be used in all public hospitals are outlined below; along with savings on national contracts for hospital medical devices.

Hospital medicines savings 2013/14

Each month PHARMAC is able to secure savings from its annual tender on a range of products, as decisions made come into effect. In addition, new listings and access widenings that represent cost reductions are shown below:

Pharmaceutical	Used to treat	Decision type
July 2013		
Pegfilgrastim	Infections	New listing
September 2013		
Risedronate	Osteoporotic fractures and treatment of Paget's disease	New listing
January 2014		
Salmeterol	Asthma	Price changes
Fluticasone with salmeterol	Asthma	Widened Access
Fluticasone	Asthma	Price changes
April 2014		
Nicotine	Smoking cessation	Price changes
May 2014		
Risperidone	Treatment of schizophrenia	Price changes

Hospital medicines costs 2013/14

Each month PHARMAC must account for any increases in costs arising from its annual tender on a range of products as decisions made come into effect, as well as account for expenditure on pharmaceuticals approved for named patients. PHARMAC is able to make new listings and widen that represent cost increases are shown below:

Pharmaceutical	Used to treat	Decision type
July 2013		
Adalimumab	Juvenile idiopathic arthritis and fistulising Crohn's disease	Widened access
February 2014		
Sugammadex	Severe neuromuscular degenerative disease	Widened access
March 2014		
Rituximab	Various indications	Widened access
May 2014		
Paliperidone palmitate	Treatment of schizophrenia in adults	New listing

Hospital medical devices savings 2013/14

Each month PHARMAC is able to secure savings from its national contracts for hospital medical devices, as decisions made come into effect.

Pharmaceutical	Used to treat	Decision type
February 2014		
Disposable laparoscopic devices	Laparoscopic surgery	New listing
Mölnlycke wound care products	Wounds	New listing
March 2014		
Smith & Nephew wound care products	Wounds	New listing
April 2014		
3M wound care products	Wounds	New listing
May 2014		
USL wound care products	Wounds	New listing
June 2014		
Protec wound care products	Wounds	New listing

IMPACTS – PHARMAC'S INFLUENCE

PHARMAC's work directly affects the lives of New Zealanders, many of whom rely on medicines to go about their daily lives. PHARMAC is one of many government agencies that influence the health of New Zealanders. We work alongside others in the health sector to be well informed about evidence-based medicines and we provide assistance to District Health Boards (DHBs) to achieve wider value for money in other procurement initiatives.

Impacts

Our work creates impacts, or intermediate outcomes, that contribute to the outcomes of the Government's *Medicines New Zealand strategy*. We have defined these impacts as:

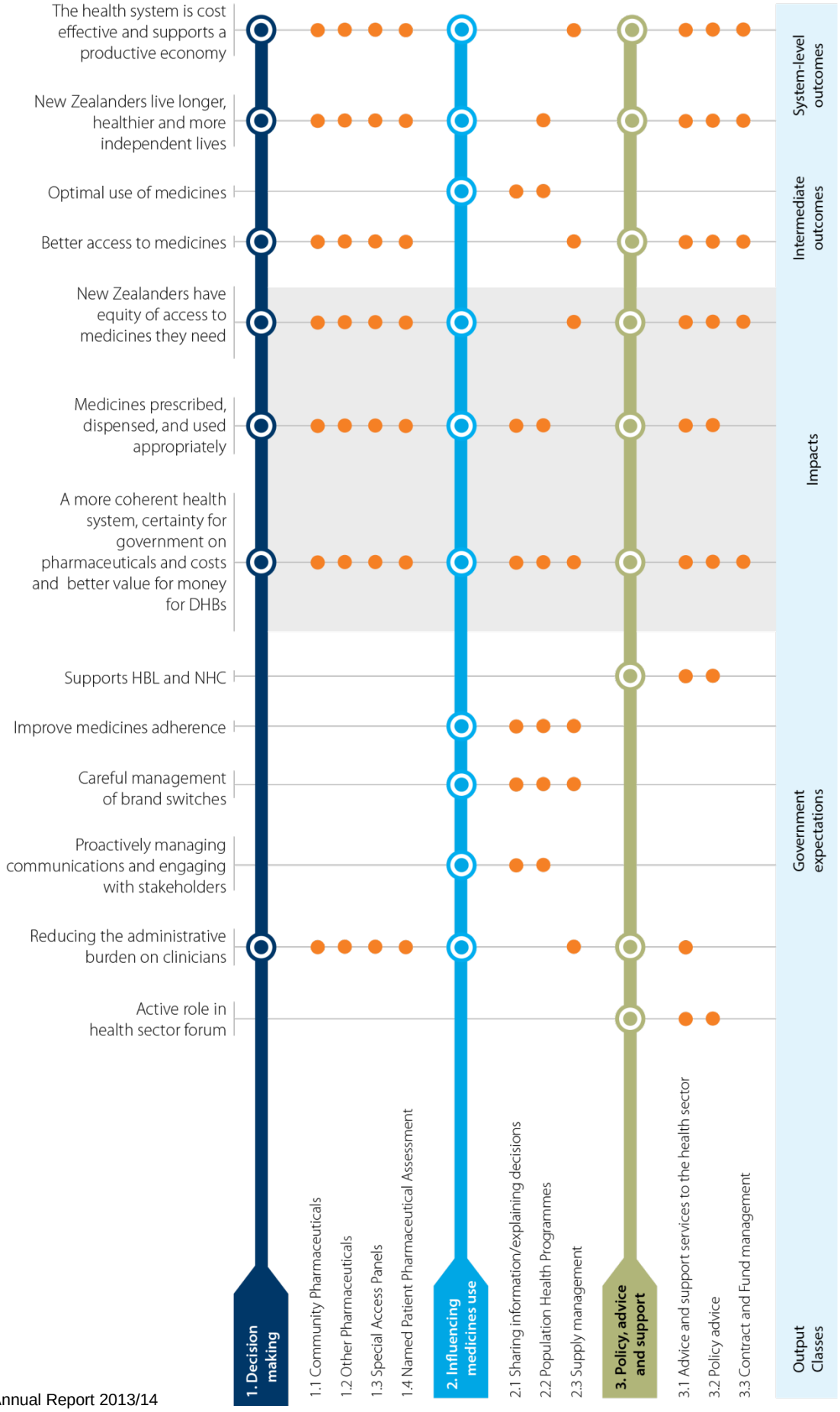
- access impacts – our influence over people's ability to obtain medicines;
- usage impacts – influencing people's use of medicines to ensure they aren't under-, over- or misused; and
- economic and system impacts – helping the health system work more effectively, and improving value for money.

These impacts are made possible through the services we provide – our outputs - which are grouped under the following four categories (output classes):

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. Community Pharmaceuticals 1.2. Other Pharmaceuticals 1.3. Special Access Panels 1.4. Named Patient Pharmaceutical Assessment
2. Influencing medicines use	Promoting the optimal use of medicines and ensuring decisions are understood.	2.1. Explaining Decisions/ Sharing Information 2.2. Population Health Programmes 2.3. 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

These are reported on in full in our Statement of Service Performance (SSP – pages 35 to 42).

Fitting it all together: Linking PHARMAC's activities to Government expectations and health system outcomes



1. Access impacts

We want to improve people's ability to have equitable access to medicines

How we influence access to medicines

PHARMAC's decisions to list medicines on the Pharmaceutical Schedule mean they are equally affordable for people, regardless of their geographic location. Many medicines would otherwise be too expensive and priced outside some people's reach. This is particularly the case for new technology medicines such as biologics (these are medicines that often treat conditions such as auto-immune diseases and some forms of cancer). Listing a medicine on the Schedule means that medicine is fully funded in the community, so patients will typically only pay the co-payment that is set by the Government. This reduces the cost factor which can be a barrier to people accessing medicines. Medicines given in a public hospital don't require a patient co-payment.

PHARMAC is not the only agency that has an impact on access to medicines. The Government regulator Medsafe, DHB funders, prescribers and pharmacists all have an impact on access. PHARMAC's particular impact is on negotiating contracts that apply nationally and make medicines affordable. In addition, by managing funds we manage risk and optimise cashflows within the system.

Our work in managing contracts and keeping watch on the pharmaceutical supply chain helps ensure medicines are available when people need them.

Sometimes when a medicine is funded it is subject to subsidy rules that may restrict the health conditions for which it can be prescribed or which prescribers can do so. While these rules may be seen as an administrative hurdle for clinicians, they help target medicines to people who most need them. This helps to ensure funded medicines are used cost-effectively.

Measuring our impact on access to medicines

In the 2013/14 financial year, PHARMAC added 26 pharmaceuticals to the Pharmaceutical Schedule and widened access to 35 others.

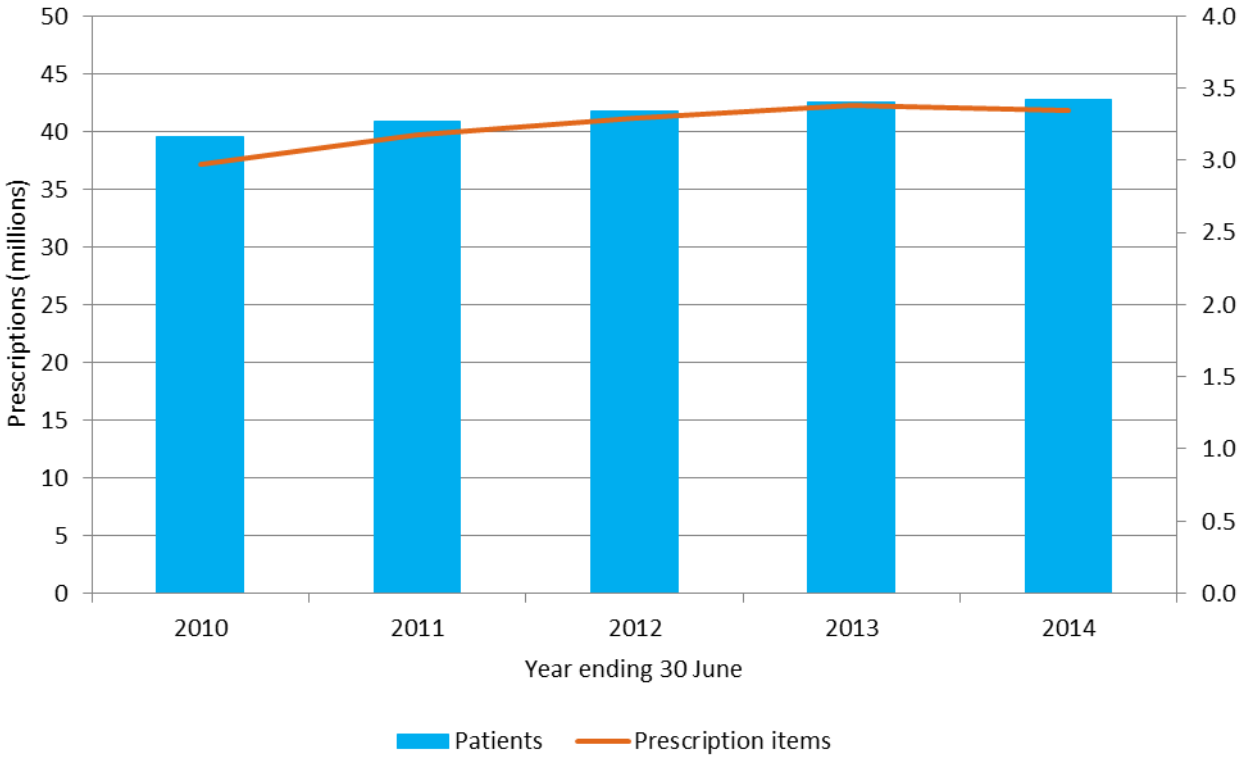
These decisions have led to gross expenditure of $38.3 million, and to approximately 36,225 people receiving these medications in 2013/14. In a full year this is expected to be 42,885 people.

Patients receiving subsidised medicines and number of subsidised prescription items from 2012 to 2014

	2011/12	2012/13	2013/14
Patients	3.3 million	3.4 million	3.4 million
Prescription items	41.1 million	42.2 million	41.8 million

The graph below shows that patient access to community medicines has increased (blue bars). The orange line shows the number of prescription items rising at a steeper rate before declining slightly in 2013/14. This indicates that the average number of prescription items per patient is levelling off. Provided health system policy settings remain similar, PHARMAC expects there to be continued prescription growth. This is due to both external factors such as population ageing and PHARMAC's savings activity freeing up funding for new investment. PHARMAC has monitored prescription growth to better understand whether our funding decisions are resulting in the desired access to prescription medicines for eligible people.

Patients and prescription item trend – from 2010 to 2014



2. Usage impacts

We want medicines to be prescribed, dispensed and used by patients as well as possible. If medicines are over-, or under- or mis-used, then people miss out on the health benefits the medicines could provide them.

How we influence usage of medicines

We work to ensure health professionals are well informed about funded medicines and provide services to help clinicians become better informed about evidence-based medicine. This includes funding the provision of high-quality evidence-based prescriber educational materials and running the PHARMAC Seminar Series for health professionals.

Pharmacists play an important role in helping people understand their medicines, and we provide information to support pharmacists to help people adjust to brand changes.

In the past year we have undertaken significant engagement and planning to support PHARMAC's work on hospital medical device procurement on behalf of DHBs. This work will support future implementation activity in DHBs and the development of a secondary care demand management strategy.

We have focused on working with the Ministry of Health and other partners to support key health programmes such as the Rheumatic Fever Programme (school-based) and adherence to antibiotics. We supported the Ministry of Health's antibiotic adherence trial and will continue to support the on-going roll-out of this work in the coming year. It is critical to understand what drives adherence and how we can better influence it.

Measuring our impact on usage of medicines

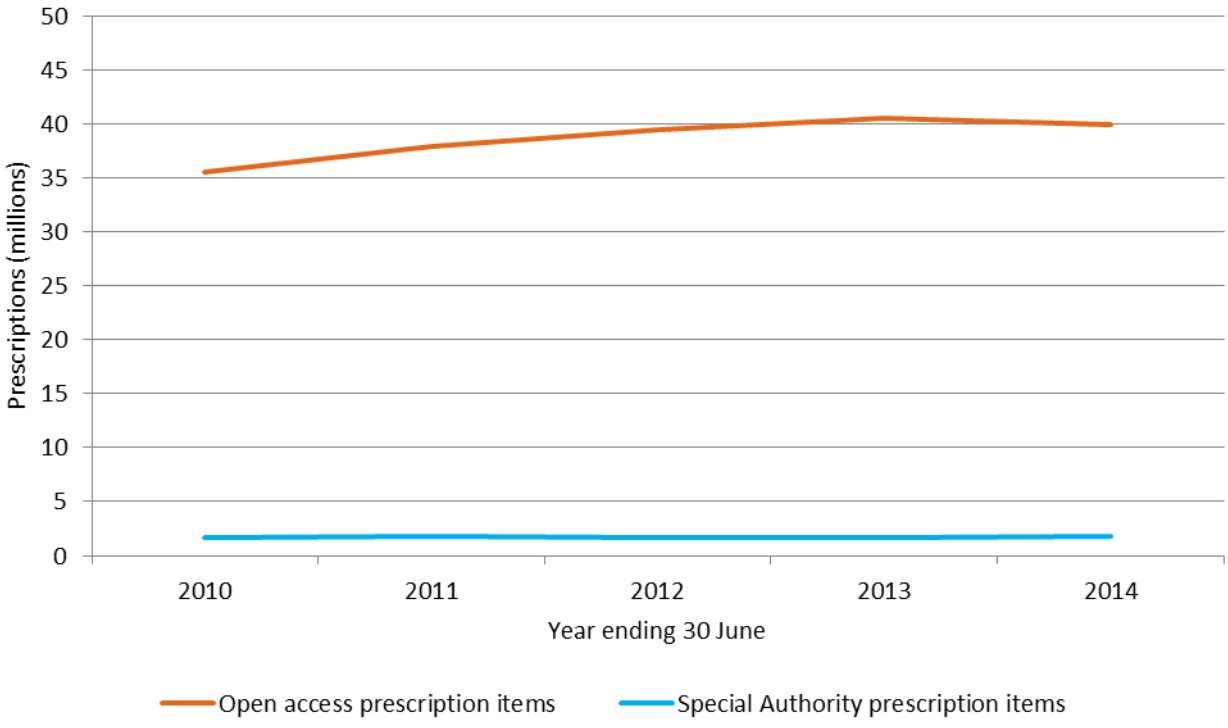
PHARMAC expects that prescriptions for open-access medicines (those without restrictions on health conditions or prescribers) will grow at a faster rate than prescriptions for medicines prescribed under Special Authority (those with restrictions on health conditions or prescribers), because Special Authorities are a targeting mechanism that over time can be relaxed. Special Authorities are an important tool for managing medicines use and therefore spending growth, They enable PHARMAC to provide funded access to certain (particularly higher cost) medicines sooner for those people most likely to benefit. This is important because over-prescribing expensive medicines would limit our ability to use the pharmaceutical budget cost-effectively and reduce the opportunity to invest in new medicines.

Number of subsidised prescription items with open access versus Special Authority

	2011/12	2012/13	2013/14
Number of prescription items for Special Authority medicine	1.7 million	1.7 million	1.8 million
Number of prescription items for medicines with open access	39.4 million	40.5 million	40.0 million

The trend is illustrated in the graph below (the line illustrates the number of prescription items for open access and special authority medicines):

Prescription item trend – open access versus Special Authority



Te Whaioranga 2013-2023 responding to Māori health needs

"Kua hinga te kākākura i te pōkai o Ngongotaha, ko Hiwinui Heke-Hiwinui Heke, the leading bird of the flock of Ngongotaha has fallen". The Hiwinui Heke Pharmacy Scholarship Award has been run by PHARMAC in partnership with the Ngā Kaitiaki o Te Puna Rongoā o Aotearoa – Māori Pharmacists Association. This scholarship was established in 2008 to support the education of Māori Pharmacy students studying toward their Bachelor of Pharmacy degree and to promote pharmacy as a career. The scholarship is named after Hiwinui Heke, New Zealand's first Māori pharmacist.

"Kua hinga te tōtara nui o Te Wāonui-ā-Tāne, ō Hikurangi me Maungapōhatu, ko Tāmati Davis-Tāmati Davis, a tōtara tree of the Great Forest of Tāne, of Ngāti Porou and of Tūhoe, has fallen". Tāmati Davis was a model guest advocate and presenter of "The One Heart Many Lives" programme. PHARMAC continues to resource the programme via approved local programme providers.

PHARMAC has had a Māori Responsiveness Strategy since 2002. The current strategy – Te Whaioranga 2013-2023 – aims to ensure equitable access to medicines for Māori. This was developed after extensive consultation with the Māori community, and guides us on how to best meet the needs of Māori. The five strategies of Te Whaioranga are:

- advance tino rangatiratanga with whānau in health interventions;
- establish and maintain authentic strategic connections;
- champion evidence based Māori medicine management;
- support and engage in indigenous research and development about pharmaceutical management; and
- enhance and enable internal expertise and capability in Te Āo Māori.

PHARMAC formally established the Whakarata Māori/ Māori Responsiveness Team this year with two permanent appointments:

- Kaiwhakahaere Whakarata Māori (Manager, Māori Responsiveness); and
- Kaiwhakarata Māori (Co-ordinator, Māori Responsiveness).

The Māori Responsiveness Team is guided by Te Whaioranga Māori Responsiveness Strategy 2013-2023. A two year Te Whaioranga implementation plan is in progress.

The formal establishment of the Māori Responsiveness Team helps to deliver a coordinated approach across all PHARMAC teams with the expanded functions into hospital medicines, vaccines and hospital medical devices. Consultation with a Māori Focus Group to give input into PHARMAC's review on its Operating Policies and Procedures was completed in early 2014. A particular focus was the proposed change to the current 'Decision Criteria 2: the particular needs of Māori and Pacific peoples'.

We are also continuing to improve our responsiveness to Māori in other ways. There is Māori representation on PHARMAC's Board and in advisory bodies. Te Rōpū Āwhina Māori is the whakapapa-based PHARMAC advisory group, which is drawn from Māori across all of PHARMAC, the Board and advisory bodies, to discuss the impact of PHARMAC decisions on Māori communities.

'He Rongoā Pai, He Oranga Whānau' is the PHARMAC-funded flagship wānanga programme for improving access to, and optimal use of, medicines by Māori. This wānanga delivers education sessions to Māori by Māori and health professionals who service Māori communities.

3. Economic and system impacts

Helping the health system work more cohesively, providing certainty for government on the costs of pharmaceuticals and assisting DHBs to obtain better value for money.

How we contribute to economic and system impacts

PHARMAC's economic impact supports the Government's overall fiscal management through tight budgetary control. This is particularly important at a time of fiscal restraint and tight budgets.

We estimate health gain in terms of Quality Adjusted Life Years (QALYs – see description in box opposite). Each year PHARMAC is faced with a list of medicines seeking funding, and prioritises how best to spend the available funding in order to maximise health outcomes. Prioritisation is necessary because the demand for funding is always greater than the amount of available funding. We do this by using our decision criteria (see box on page 35).

We measure our decision-making effectiveness by calculating the average value of the funding options we had available (our prioritisation list), and comparing that figure with the average value of the funding decisions actually made. Value is expressed in terms of the number of QALYs gained per million dollars spent. We have out-performed the average value of the funding options available, and this illustrates PHARMAC's ability to select the best-value funding options available to use during the year.

Measuring our impact – the QALY

PHARMAC measures the impact of its decisions using QALYs (quality-adjusted life years). This is an international standard measure that takes into account the impact a pharmaceutical or other medical intervention has on quality and quantity of life.

For example, a person who regularly takes their asthma preventer inhaler as directed not only reduces their chance of premature death, they also may be more able to go about daily tasks such as walking the children to school, doing the housework or even being able to return to work. Such factors are all taken into account in the QALY measure.

Measuring our contribution to economic and system impacts

In 2013/14 PHARMAC's operating budget increased to give us the resources to start working on hospital medical devices management. The Combined Pharmaceutical Budget (CPB) also grew to accommodate additional funding provision for new investments and widened access in combined pharmaceuticals. While the volume of medicines funded declined by 1.0%, the number of New Zealanders receiving them remained the same and they had access to more medicines than ever before.

Our work has meant that, since 2003, we have saved District Health Boards a cumulative total of $5.02 billion. At the same time, the number of new medicines and patients receiving them has grown. This estimate is based on pharmaceutical prices in 2003 mapped onto actual prescribing activity, and compares actual spending with what would have happened had PHARMAC taken no action. If not for PHARMAC, this funding would have had to come from other areas of health spending.

PHARMAC's work gives District Health Boards funding choices they wouldn't otherwise have.

In 2013/14 PHARMAC:

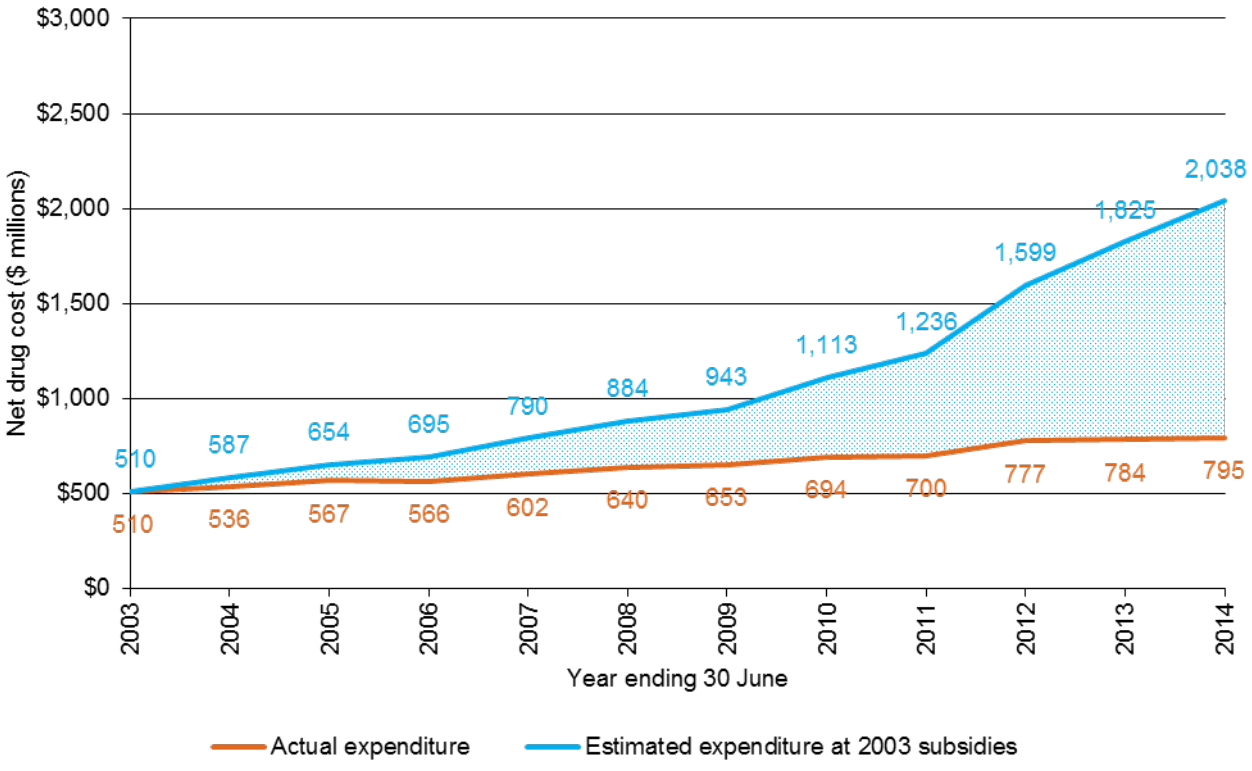
- sought clinical advice through the Pharmacology and Therapeutics Advisory Committee (PTAC) and PTAC sub-committees on potential new pharmaceutical investments, resulting in 26 new listings in 2013/14;
- reviewed (where appropriate) access to currently funded medicines and removed access barriers where possible, resulting in 35 listings with widened access in 2013/14;
- continued to work with pharmaceutical suppliers to reach cost-effective and mutually acceptable agreements for new pharmaceuticals;

- continued to run commercial processes to extract value from currently-funded medicines; including the tender process, requests for proposals (RFP) and requests for information (RFI); and
- invested in 26 new listings (and widened access to 35 others) where PHARMAC considered this led to improved health outcomes for New Zealanders.

Economic and system impact	Measure	Aim/target by 2014/15	Result
DHBs get best value for money	Average value of funding decisions is greater than the average value of all opportunities.	The average value of funding decisions is greater than the average value of funding opportunities we could have chosen during that year.	Achieved. Funded proposals provided a minimum weighted average of 28 QALYs per million dollars spent, compared with an average of 13 QALYs/$1m from all proposals considered to have health gains. This shows PHARMAC obtained the best value from the available funding options.

The graph below shows PHARMAC's impact on drug expenditure in the Combined Pharmaceutical Budget.

PHARMAC's impact on CPB drug expenditure over time - from 2003 to 2014



The shaded area between the graph's lines indicates the total amount saved since 2003. This is the difference between estimated spending without savings, and actual spending.

The value of the CPB includes nicotine replacement therapy from 2010/11, pharmaceutical cancer treatments from 2011/12, vaccines from 2012/13, and haemophilia treatments from 2013/14.

Potential savings to DHBs from PHARMAC's medical devices activity

In 2011/12 it was estimated that DHBs were spending around $880 million on medical devices, with the cost growth estimated at around 7% per annum. Cabinet expects PHARMAC to deliver savings to DHBs from the full management of these medical devices. This includes assessment, prioritisation, standardisation, and procurement of all hospital medical devices within a fixed budget. PHARMAC is moving towards achieving this in a carefully sequenced way. This has included extensive engagement with clinicians, DHBs, suppliers and other interested groups.

In the meantime, Cabinet agreed to adoption of an accelerated plan for PHARMAC to assume responsibility for the procurement of some medical device categories immediately, as a first step to full PHARMAC management within the Pharmaceutical Schedule. This procurement work has delivered $1.12 million of annualised savings to DHBs from 2013/14. DHBs funded costs incurred by PHARMAC in establishing our organisational capacity to manage our current and future medical devices activity.

During 2013/14 PHARMAC undertook several consultations on our future hospital medical devices activity and listed more than 2,800 line items as national contracts for DHBs to use. Savings estimates are based on actual usage according to DHB and supplier data. We are working to help DHBs realise greater savings through changing their mix of product use. We have been developing approaches to deliver even greater future pricing value.

STATEMENT OF SERVICE PERFORMANCE

This Statement of Service Performance (SSP) records how PHARMAC has performed against targets outlined in its 2013/14 Statement of Intent (SOI).

PHARMAC defined three output classes for 2013/14. Note that the outputs with the greatest impact are measured and reported on. The Statement of Comprehensive Income by output class provides the actual revenue and expenses incurred compared with budget.

Output Class 1 – Making decisions about pharmaceuticals

PHARMAC's pharmaceutical funding decisions are key to our statutory objective *"to secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided".*

PHARMAC achieves this partly through managing the notional budget decided by the Minister of Health and set aside by District Health Boards (DHBs) for pharmaceuticals through the Combined Pharmaceutical Budget (CPB). The CPB includes funding for community pharmaceuticals and medical devices, hospital pharmaceutical cancer treatments, haemophilia treatments and vaccines. PHARMAC does not hold these funds but monitors spending to ensure it does not exceed the agreed notional budget. PHARMAC also has a Discretionary Pharmaceutical Fund that enables timely pharmaceutical decision making and smoother management of the CPB across financial years. Most of PHARMAC's decisions are implemented through the Pharmaceutical Schedule, which is a comprehensive list of pharmaceuticals covering the majority of New Zealanders' health needs.

PHARMAC's decisions involve economic analysis, clinical advice from PTAC and specialist subcommittees as appropriate, negotiations with pharmaceutical suppliers and, often, public consultation. The Schedule decision-making process is outlined in the diagram on page 6.

PHARMAC takes into account a broad range of factors important for making robust pharmaceutical funding decisions in the New Zealand context. The affordability of decisions is essential since PHARMAC's funding decisions are made within a fixed budget. However, there are many other factors that PHARMAC considers when making decisions. These include clinical risks and benefits, health needs including disease severity, the effect on addressing health disparities including those experienced by Māori and Pacific peoples, the suitability of the treatment, and cost-effectiveness as measured by Quality Adjusted Life Years.

PHARMAC'S DECISION CRITERIA

PHARMAC uses the criteria set out below, where applicable and giving such weight to each criterion as PHARMAC considers appropriate, when making Pharmaceutical Schedule decisions:

- the health needs of all eligible people;
- the particular health needs of Māori and Pacific peoples;
- the availability and suitability of existing medicines, therapeutic medical devices and related products and related things;
- the clinical benefits and risks of pharmaceuticals;
- the cost-effectiveness of meeting health needs by funding pharmaceuticals rather than using other publicly funded health and disability support services;
- the budgetary impact (in terms of the pharmaceutical budget and the Government's overall health budget) of any changes to the Schedule;
- the direct cost to health service users;
- the Government's priorities for health funding, as set out in any objectives notified by the Crown to PHARMAC, or in PHARMAC's Funding Agreement, or elsewhere; and
- such other criteria as PHARMAC thinks fit.

PHARMAC's Operating Policies and Procedures (OPP) inform the way we work. These processes need to be as efficient and effective as possible, because good quality processes increase the likelihood of making the best possible decisions. A focus on continuously improving our work is therefore important. In 2012/13 PHARMAC initiated an ongoing review of the OPP, which began with a review of our nine decision criteria. This review has involved extensive stakeholder engagement and consultation including community forums and a stakeholder event in April 2014. A new decision-making approach is being finalised for consideration by the Board in 2014/15.

Decisions involve choice. One way to assess the quality of PHARMAC's decision making is to consider the average value for money of the choices we make compared with the average value of all available choices. Assurance about whether PHARMAC is making good choices is provided through the robust inputs PHARMAC uses to manage its decision-making processes. One activity that supports effective decision making is monitoring pharmaceutical patents and, where appropriate, questioning or challenging them.

PHARMAC's decision making can include decisions to decline funding. These decisions are made carefully in the context of achieving the best health outcomes. One impact of a decision to decline funding is to increase the availability of funding for other, more cost-effective medicines. Transparency, where possible, is important and consumers, clinicians and industry representatives are able to track progress with funding applications for Schedule listings through PHARMAC's online Application Tracker on our website (http://www.pharmac.govt.nz/patients/ApplicationTracker).

Output 1.1 Community pharmaceuticals
The Schedule contains a list of medicines and medical devices subsidised for all New Zealanders, and dispensed in the community, funded vaccines, and haemophilia treatments and pharmaceutical cancer treatments given in DHB hospitals.

Output 1.2 Other pharmaceuticals
PHARMAC manages pharmaceutical expenditure for DHBs in areas outside the community setting including an expanded role with hospitals. This includes managing Section H of the Schedule. In past years this was a list of hospital medicines for which PHARMAC negotiated national supply terms. From 2013/14 Part II included a Hospital Medicines List of medicines that may be used in DHB hospitals while Part III included optional pharmaceuticals including national contracts for hospital medical devices (see box). Eventually all medical devices used in DHB hospitals will be listed on the Pharmaceutical Schedule. Section H pharmaceuticals are funded through DHB hospitals, so are not included in the CPB.

HOSPITAL MEDICINES LIST AND MEDICAL DEVICES

During 2010 the Government gave PHARMAC expanded roles, including taking a greater role in vaccines, managing hospital medicines, and in planning for the management of medical devices. These are multi-year projects with changes being implemented over the next few years.

Hospital medicines
There had historically been variation in the hospital medicines that each DHB funded for its patients. The introduction of a new hospital Schedule (Section H, Part II) standardised the funding of medicines in DHB hospitals throughout the country, and new hospital medicines are introduced on a nationally consistent basis. This eliminates the phenomenon known as postcode prescribing, and also creates greater efficiencies through using a central agency (PHARMAC).

Medical devices
We are responsible for funding a small number of medical devices in the community. These include:

- asthma management (peak flow meters, spacers, masks);
- blood glucose testing and management (test strips/meters, insulin needles/syringes, and insulin pumps and consumables);
- contraception/IUDs;
- pregnancy test kits; and
- urine testing for blood/protein.

Before 2013/14 we administered contracts in DHB hospitals for volatile anaesthetic agents, which require a vaporiser device (Sevoflurane, Isoflurane, Desflurane). The device is supplied under the contract for the anaesthetic agent. We also procured radiological contrast media.

During 2013/14 we worked with Health Benefits Limited to support its work to deliver on the Finance, Procurement and Supply Chain (FPSC) Business Case, which will see a range of shared services for 20 DHBs delivering national savings. PHARMAC has a key role to play in delivering the benefits relating to procurement of medical devices. Some savings will be returned to DHBs as reductions in expenditure; other savings secured by PHARMAC will be used to fund growth and new investments.

Output 1.3 Special Access Panels
Some pharmaceuticals are very expensive, and to help ensure these are appropriately targeted PHARMAC manages panels of expert doctors to apply the criteria on which patients can access treatment. Around 4000 panel applications are received each year.

Panels are maintained for:

- Cystic Fibrosis;
- Gaucher's Disease;
- Human Growth Hormone (children and adult);
- Insulin Pumps;
- Multiple Sclerosis;
- Pulmonary Arterial Hypertension;
- Haemophilia treatments (through the National Haemophilia Treaters' Group); and
- Treatments for chronic myeloid leukaemia and gastrointestinal stromal tumour (GIST) (imatinib, dasatinib).

Output 1.4 Named Patient Pharmaceutical Assessment
This is the mechanism that assesses applications for individual patients to receive funding of medicines that are not otherwise funded through the Pharmaceutical Schedule. PHARMAC introduced the NPPA policy in 2012 following a comprehensive review of the previous Exceptional Circumstances schemes for community, hospital, and cancer medicines.

In July 2013 PHARMAC took over the management of medicines given in DHB hospitals. We published Section H of the Pharmaceutical Schedule of which Part II is the Hospital Medicines List (HML). The HML lists medicines that all DHB hospitals must provide to patients being treated in DHB hospitals. If a DHB hospital wants to provide a medicine to a patient that is not listed (either at all or under the restrictions listed in the HML), an application for NPPA must be submitted and approved before the treatment is begun. DHB hospitals may make Rapid Assessments under the NPPA policy. However, if a situation is deemed to be clinically urgent, a clinician can follow the local DHB protocol to start a treatment and inform PHARMAC of the treatment as soon as possible.

Expenditure for NPPA community and hospital cancer treatments continues to be drawn from the CPB, while the individual DHB hospital funds medicines approved under NPPA for supply to patients in a DHB hospital.

Making decisions about pharmaceutical output measures

Impact	Output		2013/14 target	Result
Access Economic and system	1.1	Community pharmaceuticals decisions.	All funding decisions are supported by evidence and made using PHARMAC's nine decision criteria.	Achieved. All funding decisions are supported by evidence and made using PHARMAC's nine decision criteria.
			Decisions on more than 90% of line items (excluding bids held open while awaiting Medsafe registration) will be made within six months of the tender closing.	Achieved. 95% completed by end of June.

Impact	Output		2013/14 target	Result
Access Economic and system	1.2	Other pharmaceutical decisions (including medical devices).	Clinical engagement consultation on proposal completed. Gross savings: $9.42 m Savings net of PHARMAC's costs returned to DHBs: $3.77 m	Achieved: Consultation completed. Achieved: Gross savings to DHBs $32.77 m (includes hospital medicines savings $3.65 m , haemophilia treatments $28 m, and hospital medical devices $1.12 m) Net savings to DHBs before PHARMAC's costs $32.17 m (includes $0.6 m new investment in hospital medicines) Net savings to DHBs after PHARMAC's costs $26.52 m (includes $0.6 m new investment in hospital medicines, contribution to PHARMAC's operational cost for hospital medical devices establishment work $5.65 m)
		Hospital pharmaceuticals decisions.	New investments made in hospital pharmaceuticals within financial limits agreed with DHBs, with all funding decisions supported by evidence and made using PHARMAC's nine decision criteria.	Achieved. New investments made in hospital pharmaceuticals within financial limits agreed with DHBs, with all funding decisions supported by evidence and made using PHARMAC's nine decision criteria.

Output Class 2 – Influencing medicines use

Making decisions to subsidise medicines is only part of the pathway in medicines reaching New Zealanders. We have a legislative function to promote the responsible use of medicines. To do this, we communicate our decisions and provide information and support to help ensure medicines are prescribed and used well. This helps people to understand the reasons behind decisions. It also helps ensure that the health outcomes sought through the funding decision are realised, and that medicines aren't overused, underused or misused by patients. Medicine adherence – ensuring patients take the medicine prescribed for them in the way intended by their prescriber – is a further important component. Beyond providing information, this work includes workforce development, seeking community input, and working with health professionals to deliver the programmes so that the medicines that are funded for people are used optimally.

Output 2.1 Explaining decisions/ sharing information

Excellent implementation is a key part of supporting PHARMAC's funding decisions. Our role is to make sure that feedback from key stakeholders affected by decisions is listened to and responded to so that decisions make sense and patients, prescribers and pharmacists receive support. We regularly meet with medical groups and seek their input through our consultation processes. We are also relying increasingly on a range of other stakeholders such as the Consumer Advisory Committee, NGOs and other health-care workers for information where appropriate. We maintain regular contact with patient and consumer groups and welcome dialogue on medicine funding, or other issues. From time to time, PHARMAC undertakes engagement and consultation activities with the community through regional and national forums.

We work to explain our decisions clearly through our notification letters, the PHARMAC website and information sent to health professionals and patients to help them adjust to the introduction of new

medicines or brand changes. We also work to implement our decisions in a way that supports both health professionals and patients. This can be through targeted provision of clinical advice, or through more widespread provision of information about the changes.

Output 2.2 Population health programmes

Population health programmes are developed in response to evidence-based analysis and identified unmet need, and aim to improve access and promote optimal use of medicines. Key projects advanced in 2013/2014 are outlined in the box opposite.

The Seminar Series we run for health professionals is an excellent way to share information and promote evidence-based prescribing. Following a competitive tender bpac$_{nz}$ provides high-quality educational materials and resources.

Adherence programmes
Adherence programmes play an important role in PHARMAC's activity. The responsible use of medicines involves ensuring medicines are prescribed and used as intended, that is, they are not overused, underused or misused by patients. PHARMAC is trialling two technology-based adherence programmes, and testing the hypothesis that greater engagement with consumers through technology improves medication adherence.

Our population health programmes

One Heart Many Lives
This programme aims to increase awareness of cardiovascular risk and provide tools for reducing cardiovascular risk, particularly among Māori and Pacific men aged over 35. The programme is in transition to community and Whānau Ora providers.

Antipsychotics in dementia
This pilot programme aims initially to assess the extent of inappropriate prescribing of antipsychotics for behavioural and psychological symptoms of dementia in residential care facilities. This review will inform development of an appropriate education, resource and support programme to address inappropriate prescribing of antipsychotics in this setting.

Output 2.3 Supply management

PHARMAC has dedicated resources that make us more aware of when supply shortages might arise, and allow us to take action to mitigate them. We're also aware that medicines not on contract are important to patients and need to be monitored. This requires on-going vigilance of the supply chain to ensure adequate supplies between pharmaceutical companies, wholesalers, pharmacists and patients. Currently, PHARMAC also manages distribution of some complex medicines directly to patients. This includes some medicines used to treat leukaemia, multiple sclerosis and enzyme deficiency disorders. PHARMAC is considering moving distribution through community pharmacies.

Influencing medicines use output measures

Impact	Output		2013/14 target	Result
Access Usage	2.1	Explaining decisions and sharing information	Amount of campaign materials distributed is greater than previous year.	Not achieved. During the 2013/14 year, there were 1056 orders (2012/13: 1815) for campaign materials, with an average of 2.6 (2012/13: 2.9) different 'products' per order. Some campaign materials were provided in electronic format on PHARMAC's website, which may have contributed to the decrease in distributed material compared with the previous financial year.
	2.2	Population health programmes	Surveys of attendees show at least 90% of surveyed attendees rate their satisfaction with the seminars at least four out of five.	Achieved: PHARMAC hosted 21 seminars from the period 1 July 2013 to 30 June 2014. Feedback from 94% of respondents rated the seminars at least four out of five.

Impact	Output		2013/14 target	Result
Access Usage	2.3	Supply management.	Respond to low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.	Achieved. PHARMAC worked with suppliers to manage several stock events. A significant number required intervention management by PHARMAC staff; this resulted in continuity of supply to patients. Activities included sourcing alternative supply with suppliers and liaising with Medsafe, wholesalers and distributors.

Output Class 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 management of pharmaceutical spending in the community, advice and support to DHBs on a range of matters including pharmacy contracting and medicines distribution, and contribution to the development of a New Zealand Universal List of Medicines and New Zealand Formulary. Other sector-wide initiatives include those that seek to reduce the administrative workload of clinicians.

We undertake work to assist health sector procurement where it fits with PHARMAC's skills, for example with some blood products. PHARMAC continues to work with other agencies to identify further potential value-for-money initiatives that we can contribute to – either through our activities or through providing advice and support to Health Benefits Limited, DHBs or the Ministry of Health.

Output 3.2 Policy advice

We provide specialist operational policy advice to Ministers and officials from a range of government agencies. This includes meetings, papers, submissions, Ministerial support services and other information.

Output 3.3 Contracts and fund management

PHARMAC manages pharmaceutical expenditure on behalf of DHBs within the amount approved by the Minister of Health. We have dedicated contract management resources that enable us to collect rebates from pharmaceutical suppliers. These are distributed back to District Health Boards.

PHARMAC also has access to a Legal Risk Fund, with a value of $6.915 million in 2013/14, which is used to meet litigation costs that are not otherwise met from PHARMAC's regular operational spending on legal services.

From 2010/11 PHARMAC established the Discretionary Pharmaceutical Fund, a funding mechanism to allow more effective use of the pharmaceutical budget across financial years.

Providing policy advice and support output measures.

Impact	Output		2013/14 target	Result
Economic and system	3.2	Policy advice.	An average survey score of at least 4.5 in each area.	Not Achieved. PHARMAC surveyed a significantly wider range of policy recipients and policy requesters in July 2014. The results gave PHARMAC an average out of a possible score of 5. Scores are shown with 2013 results in brackets. • 3.91 (4.33) for timeliness; • 4.1 (4.22) for quality of analysis given; • 4 (4.50) for relevance; • 3.82 (4.11) for thoroughness; • 3.45 (4.11) for clarity; and • 3.64 (4.33) for informal policy support and availability.
Economic and system	3.3	Rebates distribution	All fund use is in accordance with PHARMAC policy.	Achieved. All fund use is in accordance with PHARMAC policy.

Fund management on behalf of third parties

PHARMAC manages funds on behalf of third parties. Receipts consist of monies collected and interest earned. Payments include those agreed to be paid on behalf of third parties or distributed directly to them.

	2014 $000	2013 $000
Opening Balance 1 July	78,792	84,492
Receipts from third party suppliers	156,465	145,980
Interest received	1,071	939
Total collected	157,536	146,919
Payments on behalf of third parties (DHBs)	79,969	48,279
Distributions to third parties (DHBs)	69,509	104,340
Total distributed	149,478	152,619
Closing Balance 30 June	**$86,850**	**$78,792**

Table is shown net of GST
Distributions to DHBs include GST credits

Legal Risk Fund

In performing its functions, PHARMAC maintains a Legal Risk Fund. This fund can be used to initiate or defend legal action to which PHARMAC is a party. The PHARMAC Board is responsible for approving access to PHARMAC's Legal Risk Fund on the basis of defined rules.

The existence of the Legal Risk Fund recognises the high litigation risk associated with the activity of a government agency engaged in procurement (evidenced by PHARMAC's litigation history). The size and regularity of litigation can be unpredictable and may extend beyond the level of litigation activity a government agency can manage within normal, year-to-year resourcing. A fund can help manage litigation risk better by making it possible (and without delay) to commence or continue with major or complex legal proceedings.

A total of $70,327 was spent from the Legal Risk Fund during 2013/14. The funds were used to respond to a dispute resolution process triggered by a supplier, and to proceedings threatened by a third party. These have been subsequently resolved.

PHARMAC's litigation budget ($100,000) is used to replenish the Legal Risk Fund at financial year end, in the event that funds remain in that budget. As at 30 June 2014 no funds remained in the litigation budget. The balance of the Legal Risk Fund at 30 June 2014 was $6,915,000.

Discretionary Pharmaceutical Fund (DPF)

The 2010/11 Output Agreement between the Minister of Health and PHARMAC included the provision for establishment of a multi-year fund called the Discretionary Pharmaceutical Fund. The purpose of the DPF is to allow PHARMAC to take advantage of investment opportunities that might not otherwise be able to be funded in that year, as well as deal with the sometimes lumpy effects of growth in pharmaceutical usage.

At the start of the 2013/14 financial year the DPF balance was $13,140,050. DHB Combined Pharmaceutical Budget expenditure for the 2013/14 year was $11,904,623 over the agreed budget. This amount was paid to DHBs from the DPF on 28 June 2013. The closing balance of the DPF on 30 June 2014 was $1,235,427.

Herceptin SOLD Trial Fund

The Herceptin SOLD trial is an international research trial examining whether the nine-week or 12-month duration of Herceptin offers a better treatment. The trial is headed by Professor Heikke Joennsuu of the University of Helsinki in Finland. In February 2007 PHARMAC contracted to contribute $3.2 million over at least 10 years towards the trial costs. The PHARMAC Board established a fund in 2009/10 to ensure PHARMAC could meet its contractual obligations over future years. The fund is noted in the 2013/14 Output Agreement.

In the year to 30 June 2014, spending from the Herceptin SOLD Trial Fund was $372,118.

The balance of the fund stands at $737,000 at year end.

STATEMENT OF ACCOUNTING POLICIES

Reporting entity

These are the financial statements of the Pharmaceutical Management Agency (PHARMAC), a Crown entity in terms of the Crown Entities Act 2004. 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 for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements of PHARMAC are for the year ended 30 June 2014. The financial statements were authorised by the Board of PHARMAC on 8 October 2014.

Basis of preparation

The financial statements of PHARMAC have been prepared in accordance with, and comply with:

- New Zealand generally accepted accounting practices (NZ GAAP);
- requirements of the Crown Entities Act 2004 and the New Zealand Public Health and Disability Act 2000; and
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit entities.

The financial statements have been prepared on an historical cost basis, and are presented in New Zealand dollars, which is the functional currency of PHARMAC, and rounded to the nearest thousand dollars ($000).

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to PHARMAC, include:

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, PHARMAC is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July

2014. This means PHARMAC expects to transition to the new standards in preparing its 30 June 2015 financial statements.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

PHARMAC anticipates that these standards will have no material impact on the financial statements in the period of initial application. It is likely that the changes arising from this framework will affect the disclosures required in the financial statements. However, it is not practicable to provide a reasonable estimate until a detailed review has been completed.

SIGNIFICANT ACCOUNTING POLICIES

Revenue

Revenue is measured at the fair value of consideration received.

Revenue Crown
Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

Interest
Interest income is recognised using the effective interest method.

Leases

Operating leases
An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Financial Instruments

Financial assets and financial liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the statement of comprehensive income.

Cash and Cash Equivalents

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

Debtors and Other Receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Impairment of a receivable is established when there is objective evidence that PHARMAC will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor and default in payments are considered objective evidence of impairment. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount

of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the statement of comprehensive income. Overdue receivables that are renegotiated are reclassified as current.

Investments

At each balance sheet date PHARMAC assesses whether there is any objective evidence that an investment is impaired.

Investments are initially measured at fair value plus transaction costs.

After recognition, investments are measured at amortised cost using the effective interest method.

Impairment is established when there is objective evidence PHARMAC will not be able to collect amounts due according to the original terms of the deposit. Significant financial difficulties of the bank, probability that the bank will enter into bankruptcy, and default in payments are considered indicators that the deposit is impaired.

Property, Plant and Equipment

Property, plant and equipment consist of leasehold improvements, computer hardware, 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 income.

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.

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 included in the statement of comprehensive income.

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.

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 %
Office Equipment	2.5 - 5 years	20% - 40%
Computer Hardware	2.5 - 5 years	20% - 40%
Furniture and Fittings	5 years	20%

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

Capital work in progress is not depreciated. The total cost of a project is transferred to the asset class on its completion and then depreciated.

The residual value and useful life of an asset are 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 period is recognised in the statement of comprehensive income. For computer software (the only identified intangible asset), the useful life is assumed as 2-5 years with a corresponding depreciation rate of 20-50%.

Creditors and Other Payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Employment Entitlements

Employee entitlements that PHARMAC expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued to balance date, and annual leave earned but not yet taken. PHARMAC recognises a liability and an expense for bonuses where it is contractually bound to pay them.

Provisions

PHARMAC recognises a provision for future expenditure on 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 a finance cost.

Public Equity

Public equity is the Crown's investment in PHARMAC and is measured as the difference between total assets and total liabilities. Public equity is classified as general funds, Herceptin SOLD Trial Fund, Discretionary Pharmaceutical Fund and Legal Risk Fund.

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the value of that penalty or exit cost.

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 an input tax, then 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 in terms of the Income Tax Act 2007 and consequently is exempt from income tax. Accordingly no charge for income tax has been provided for.

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 Discretionary Pharmaceutical Fund is dependent on the value of the final estimate of the District Health Boards' Combined Pharmaceutical Budget.

Critical judgements in applying PHARMAC's accounting policies

Management has not exercised any critical judgements in applying PHARMAC's accounting policies for the period ended 30 June 2014.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

	Note	Actual 2014 $000	SOI Budget 2014 $000	Actual 2013 $000
Income				
Crown funding		15,135	15,135	15,135
DHB - Operating funding		3,395	3,395	3,760
DHB - Discretionary Pharmaceutical Fund	4	0	2,198	0
Additional Sector Contribution		5,650	5,650	1,400
Other:				
Interest received - Operating		342	314	353
- Discretionary Pharmaceutical Fund	4	0	0	1
- Legal Risk Fund		272	260	260
Other revenue - Operating		272	160	77
Total Income		25,066	27,112	20,986
Expenditure				
Operating costs		4,850	6,677	5,244
Personnel costs	1	11,370	11,958	8,550
Audit Fees		42	42	40
Depreciation & amortisation costs	8&9	433	668	527
Director Fees		148	135	135
Discretionary Pharmaceutical Fund	4	11,905	2,050	2,063
Finance Costs	2	13	9	11
Herceptin SOLD trial administration		372	396	315
Legal Risk Fund		70	260	0
Occupancy costs		421	489	461
Implementation projects		3,164	4,700	5,063
Total expenditure		32,788	27,384	22,409
Net surplus/(deficit) for the period		(7,722)	(272)	(1,423)
Other comprehensive income		0	0	0
Total comprehensive income		**$(7,722)**	**$(272)**	**$(1,423)**

Explanations of significant variances against budget are detailed in note 23.

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

STATEMENT OF MOVEMENTS IN PUBLIC EQUITY

For the year ended 30 June 2014

	Note	Actual 2014	SOI Budget 2014	Actual 2013
		$000	$000	$000
Balance at 1 July		25,957	19,874	27,380
Total Comprehensive Income		(7,722)	(272)	(1,423)
Balance at 30 June	3	**$18,235**	**$19,602**	**$25,957**

Explanations of significant variances against budget are detailed in note 23.

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	Actual 2014	Budget 2014	Actual 2013
		$000	$000	$000
PUBLIC EQUITY				
Retained earnings and reserves	3	9,348	4,306	4,995
Herceptin SOLD Trial fund	3	737	693	1,109
Legal risk fund	3	6,915	7,950	6,713
Discretionary Pharmaceutical Fund	3	1,235	6,653	13,140
TOTAL PUBLIC EQUITY		**$18,235**	**$19,602**	**$25,957**
Represented by:				
Current assets				
Cash and cash equivalents		4,107	13,717	7,023
DPF monies deposited into rebates account	5	1,235	7,950	13,140
Investments	6	10,748	0	6,035
Debtors and other receivables	7	2,364	100	1,645
Prepayments		108	0	37
GST Receivable		1,683	0	278
Total current assets		20,245	21,767	28,158
Non-current assets				
Property, plant and equipment	8	834	715	696
Intangible Assets	9	93	120	124
Total non-current assets		927	835	820
Total assets		21,172	22,602	28,978
Current liabilities				
Creditors and other payables	10	1,309	2,290	1,632
Employee entitlements	11	1,343	500	1,192
GST Payable		0	0	0
Total current liabilities		2,652	2,790	2,824
Non-current liabilities				
Provisions	12	285	210	197
Total liabilities		2,937	3,000	3,021
NET ASSETS		**$18,235**	**$19,602**	**$25,957**

Explanations of significant variances against budget are detailed in note 23.

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	Note	Actual 2014	SOI Budget 2014	Actual 2013
		$000	$000	$000
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Crown		15,135	15,135	15,135
- DHBs Operating		3,395	3,395	4,205
- DHBs Discretionary Pharmaceutical Fund		0	2,198	5,201
- Additional Sector Contribution		5,133	5,650	77
- Interest Operating		277	314	343
- Interest Discretionary Pharmaceutical Fund		0	0	1
- Interest Legal Risk Fund		235	260	235
- Other Operating		252	160	35
- Discretionary Pharmaceutcal Fund release from rebates bank account		11,905	0	0
		36,332	27,112	25,232
Cash was disbursed to:				
- Legal Risk Fund expenses		(70)	0	0
- Discretionary Pharmaceutical Fund expenses		(11,905)	(2,050)	(2,063)
- Discretionary Pharmaceutical Fund deposited in rebates bank account		0	(5,190)	(3,081)
- Payments to suppliers and employees		(20,523)	(19,224)	(19,523)
- Goods and services tax (net)		(1,485)	(400)	(531)
		(33,983)	(26,864)	(25,198)
Net cash flow from operating activities	13	2,349	248	34
CASH FLOWS – INVESTING ACTIVITIES				
- Purchase of property, plant and equipment		(502)	(588)	(381)
- Purchase of intangible assets		(50)	(80)	(80)
- Purchase of investments		(4,713)	0	(2,735)
Net cash flow from investing activities		(5,265)	(668)	(3,196)
Net increase/(decrease) in cash		(2,916)	(420)	(3,162)
Cash at the beginning of the year		7,023	14,137	10,185
Cash at the end of the year		4,107	13,717	7,023

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 23.

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

STATEMENT OF COMPREHENSIVE INCOME, BY OUTPUT CLASS

For the year ended 30 June 2014

Output Actual 2013/14	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	7,010	7,125	446	(21,265)	(6,684)
Influencing Medicine Use	6,042	1,077	390	(8,367)	(858)
Policy Advice and support	2,083	843	50	(3,156)	(180)
Total	**15,135**	**9,045**	**886**	**(32,788)**	**(7,722)**

Output SOI Budget 2013/14	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	7,010	7,125	1,988	(15,810)	313
Influencing Medicine Use	6,042	1,547	340	(8,389)	(460)
Policy Advice and support	2,083	843	134	(3,185)	(125)
Total	**15,135**	**9,515**	**2,462**	**(27,384)**	**(272)**

Output Actual 2012/13	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	7,010	150	980	(9,687)	(1,547)
Influencing Medicine Use	6,042	2,790	980	(9,671)	141
Policy Advice and support	2,083	820	131	(3,051)	(17)
Total	**15,135**	**3,760**	**2,091**	**(22,409)**	**(1,423)**

STATEMENT OF COMMITMENTS

As at 30 June 2014

Operating leases as lessee.

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

	Actual 2014 $000	Actual 2013 $000
Capital commitments approved and contracted	307	-
Operating commitments approved and contracted		
Not later than one year	623	461
Later than one year and not later than five years	1,878	1,844
Later than five years and not later than ten years	0	0
Total commitments	**$2,808**	**$2,305**

The rental lease expires 24 July 2018. The commitment is recognised for the full term of four years.

PHARMAC has recognised a make good provision of $285,000 (2013: $197,000).

STATEMENT OF CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2014

PHARMAC had no contingent assets at 30 June 2014 (2013: $nil).

PHARMAC had no contingent liabilities at 30 June 2014 (2013: $nil).

Explanations of significant variances against budget are detailed in note 23.

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Personnel Costs

	Actual 2014 $000	Actual 2013 $000
Salaries and related costs	9,947	7,974
Employer contributions to defined contribution plans	244	161
Increase/(decrease) in employee entitlements	151	192
Other personnel costs	1,028	223
Total personnel costs	**$11,370**	**$8,550**

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

Note 2: Finance Costs

	Actual 2014 $000	Actual 2013 $000
Discount unwind on provisions (note 12)	**$13**	**$11**

Note 3: Public equity

RETAINED EARNINGS	Actual 2014 $000	Actual 2013 $000
Balance at 1 July	4,995	4,301
Net surplus/(deficit)	(7,722)	(1,423)
Net transfer from/(to) Herceptin SOLD trial fund	372	315
Net transfer from/(to) discretionary pharmaceutical fund	11,905	2,062
Net transfer from/(to) legal risk fund	(202)	(260)
Balance at 30 June	**$9,348**	**$4,995**

HERCEPTIN SOLD TRIAL FUND	Actual 2014 $000	Actual 2013 $000
Balance at 1 July	1,109	1,424
Add:Net transfer from/(to) retained earnings	(372)	(315)
Balance at 30 June	**$737**	**$1,109**

LEGAL RISK FUND	Actual 2014 $000	Actual 2013 $000
Balance at 1 July	6,713	6,453
Add: Interest received transferred from/(to) retained earnings	272	260
Add: Other Income received transferred from/(to) retained earnings	0	0
Less: Litigation expenses transferred from/(to) retained earnings	(70)	0
Balance at 30 June	**$6,915**	**$6,713**

DISCRETIONARY PHARMACEUTICAL FUND	Actual 2014 $000	Actual 2013 $000
Balance at 1 July	13,140	15,202
Add: Income received transferred from/(to) retained earnings	0	0
Add: Interest received transferred from/(to) retained earnings	0	1
Less: Pharmaceutical expenses transferred from/(to) retained earnings	(11,905)	(2,063)
Balance at 30 June	**$1,235**	**$13,140**
TOTAL PUBLIC EQUITY	**$18,235**	**$25,957**

Note 4: Discretionary Pharmaceutical Fund

The revenue in 2014 of ($0): (2013: $1,111) relates to the purpose of the DPF to enable PHARMAC to take advantage of investment opportunities that might not otherwise be able to be funded in that year. The expenditure in 2014 of $11,904,623.44 (2013: $2,063,000) relates to payouts to DHBs so that the CPB expenditure does not exceed the CPB budget of $795.0m.

Note 5: DPF Monies

During the year, PHARMAC advances DPF monies to DHBs via the PHARMAC–managed Combined Rebates Bank Account to enable earlier payout of accrued rebates to DHBs. The DPF 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 6: Investments

	Actual 2014 $000	Actual 2013 $000
Current Portion		
Term Deposits	$10,748	$6,035
Total Investments	**$10,748**	**$6,035**

Note 7: Debtors and Other Receivables

The carrying value of debtors and other receivables approximates their fair value. Debtors are non-interest bearing and generally on 30 days terms.

	2014			2013		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due	2,364	0	2,364	35	0	35
Past due 30-60 days	0	0	0	1,610	0	1,610
Past due 61-90 days	0	0	0	0	0	0
Past due > 91 days	0	0	0	0	0	0
Total	**$2,364**	**$0**	**$2,364**	**$1,645**	**$0**	**$1,645**

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

Note 8: Property, Plant and Equipment

	Cost at beginning of year	Additions during the year	Disposals during the year	Accumulated Depreciation beginning of the year	Depreciation for the year	Elimination on disposals	Net Carrying Amount as at 30 June
	$000	$000	$000	$000	$000	$000	$000
2013							
Furniture and fittings	502	40	32	460	21	(32)	61
EDP equipment	1,591	136	0	1,262	206	0	259
Office equipment	471	51	11	419	19	0	73
Leasehold improvements	916	149	0	614	148	0	303
Total PPE Assets	**$3,480**	**$376**	**$43**	**$2,755**	**$394**	**($32)**	**$696**
2014							
Furniture and fittings	510	20	3	449	19	(3)	62
EDP equipment	1,728	239	16	1,468	225	(16)	274
Office equipment	511	13	0	438	21	0	65
Leasehold improvements	1,065	217	0	762	87	0	433
Total PPE Assets	**$3,814**	**$489**	**$19**	**$3,117**	**$352**	**($19)**	**$834**

Note 9: Intangible assets

	Cost at beginning of year	Additions during the year	Disposals during the year	Accumulated Amortisation beginning of the year	Amortisation for the year	Elimination on disposals	Net Carrying Amount as at 30 June
	$000	$000	$000	$000	$000	$000	$000
2013							
Total Intangible Assets	$1,154	$85	$5	$977	$133	0	$124
2014							
Total Intangible Assets	$1,234	$50	$0	$1,110	$81	0	$93

Note 10: Creditors and Other payables

	Actual 2014 $000	Actual 2013 $000
Creditors	832	1,407
Accrued expenses	477	225
Total trade and other payables	**$1,309**	**$1,632**

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.

A portion of accrued expenses has been reclassified as Employee Entitlements. The comparatives have been restated with no net change in liabilities.

Note 11: Employee Entitlements

	Actual 2014 $000	Actual 2013 $000
Annual leave entitlement	536	567
Accrued salaries and wages	807	625
Total employee entitlements	**$1,343**	**$1,192**

Note 12: Provisions

	Actual 2014 $000	Actual 2013 $000
Non-current provisions are represented by:		
Lease make-good	285	197
Total provisions	**$285**	**$197**

Movement for “make good” provision

	2014 $000	2013 $000
Balance at 1 July	197	186
Additional provisions made	75	0
Amount used	0	0
Unused amounts reversed	0	0
Discount unwind	13	11
Balance at 30 June	**$285**	**$197**

The make good provision relates to a rental lease that expires 24 July 2018. PHARMAC leases four floors of an office building.

Note 13: Reconciliation of the Net Surplus from Operations with the Net Cash Flows from Operating Activities

2203	Actual 2014 $000	Actual 2013 $000
Net surplus/(deficit)	$(7,722)	$(1,423)
Add non-cash items:		
Discount on unwind provision	12	11
Depreciation & Amortisation	433	532
Total non-cash items	$445	$543
Add (less) movements in working capital items:		
Decrease/(increase) in debtors and other receivables	(719)	4,883
Decrease/(increase) in prepayments	(71)	(36)
(Decrease)/increase in payables	(323)	113
(Decrease)/increase in make good provision	88	11
(Decrease)/increase in employee entitlements	151	192
(Decrease)/increase in net GST	(1,405)	(1,168)
Net movements in working capital items	(2,279)	3,995
Other movements		
DPF monies released from/(deposited in) rebates bank account	$11,905	$(3,081)
Net cash flow from operating activities	**$2,349**	**$34**

Note 14: Related Party Transactions

All related party transactions have been entered into on an arm's length basis.

PHARMAC is a wholly owned entity of the Crown.

Significant transactions with government-related entities

PHARMAC has been provided with funding from the Crown of $15.135 million (2013: $15.135 million) for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations.

PHARMAC has also received funding from the DHBs of $3.395 million and additional sector services of $5,650 million (2013: $5.160 million). The amount outstanding as at 30 June was $2.203 (2013: $1.400 million).

Collectively, but not individually, significant, transactions with government-related entities

In conducting its activities, PHARMAC is required to pay various taxes and levies (such as GST, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. PHARMAC is exempt from paying income tax.

PHARMAC also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30

June 2014 totalled $0.520 million (2013: $0.570 million). These purchases included the purchase of electricity from Genesis, air travel from Air New Zealand, and postal services from New Zealand Post.

Key management personnel

Key management personnel includes the Chief Executive, Directors and six managers. The following transactions were entered into during the year with key management personnel:

- Our Chair, Stuart McLauchlan is a Director of University of Otago Holdings Limited which has a 20% ownership of $bpac_{nz}$. PHARMAC has a contract with $bpac_{nz}$ to provide responsible use of pharmaceutical information to the primary healthcare sector for 2014 financial year $2.217 million (2013:$2.200 million).
- A board member, Jens Mueller is the shareholder in Triaxis Limited. PHARMAC procured books for 2014 financial year $780 (2013:$0).

Key management personnel compensation

	Actual 2014 $000	Actual 2013 $000
Salaries and other short term employee benefits and directors' fees	1,596	1,467
Post employee benefits	44	22
Total key management personnel compensation	**$1,640**	**$1,489**

Note 15: Events after the Balance Sheet Date

There have been no significant events after the balance sheet date.

Note 16: Financial Instrument Risks

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. There are no financial instruments that expose PHARMAC to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

PHARMAC's only financial instruments that are interest bearing are short term deposits. Accordingly, PHARMAC has limited exposure to interest rate risk.

Credit risk

Credit risk is the risk that a third party will default on its obligation to PHARMAC, causing PHARMAC to incur a loss. In the normal course of its business, credit risk arises from debtors and deposits with banks.

PHARMAC's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and debtors. There is no collateral held as security against these financial instruments. PHARMAC is only permitted to deposit funds with New Zealand registered banks. PHARMAC does not have a bank overdraft facility.

PHARMAC does not have significant concentration of credit risk.

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 sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	2014 Less than 6 months $000	2013 Less than 6 months $000
Creditors and other payables	**$1,309**	**$1,632**

Fair value

The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2014 and 30 June 2013 approximate their fair values.

Note 17: Categories of Financial Instruments

The carrying amounts of financial assets and liabilities are as follows:

Financial Assets: Loans And Receivables	**Actual 2014** $000	**Actual 2013** $000
Cash and cash equivalents	16,090	26,198
Debtors and other receivables	4,155	1,960
Total loans and receivables	**$20,245**	**$28,158**

Financial Liabilities: Financial Liabilities At Amortised Cost	**Actual 2014** $000	**Actual 2013** $000
Trade and other payables	1,309	1,632
Total financial liabilities at amortised cost	**$1,309**	**$1,632**

Note 18: 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 19: Employee Remuneration

Total remuneration and benefits	Number of employees	
$000	**2014**	**2013**
100 – 110	6	7
110 – 120	9	5
120 – 130	3	5
130 – 140	4	1
140 – 150	2	2
150 – 160	2	2
160 – 170	2	1
170 – 180	1	1
180 – 190	2	1
210 – 220	1	1
220 – 230	1	0
250 – 260	0	1
330 – 340	0	1
340 – 350	1	0

Note 20: Indemnities and Insurance Cover for Board Members and Employees

This information is presented in accordance with sections 152(1) (e) and (f) of the Crown Entities Act 2004. Under individual employment contracts, PHARMAC indemnifies employees should they be found liable in any proceedings for damages arising out of the employee's reasonable performance of their duties and responsibilities. Insurance cover is provided to Board members and employees under Directors and Officers Liability, Personal Accident and Overseas Travel policies.

Note 21: Board and Committee Fees

Board members received the following fees during the year:

Member	Fees	
	2014	**2013**
	$000	$000
Mr Stuart McLauchlan (Chair)	48	40
Mrs Nicole Anderson	2	0
Ms Kura Denness	24	20
Dr David Kerr	24	20
Mrs Anne Kolbe	2	20
Prof Jens Mueller	24	20
Dr Jan White	24	15
Total Board fees	**$148**	**$135**

Committee and PTAC Sub-Committee members paid more than $500 are listed below. Some members do not claim fees. In 2013/14 the following fees were paid:

Note 21 cont: Board and Committee Fees

Advisory committee members paid more than $500 are listed below. Some members do not claim fees. In 2013/14 the following fees were paid.

Committees

	Payment ($000)		Payment ($000)
Consumer Advisory		**PTAC**	
Anne Fitisemanu	1	Christina Cameron	4
Maurice Gianotti	1	Melissa Copland	16
Jennie Michel	1	Stuart Dalziel	13
Anna Mitchell	1	Sean Hanna	22
Katerina Pihera	2	Ian Hosford	14
Kate Russell	4	Sisira Jayathissa	21
		George Laking	16
		Dee Mangin	10
		Graham Mills	20
		Marius Rademaker	20
		Jane Thomas	14
		Mark Weatherall	15

PTAC Sub-Committees

	Payment ($000)		Payment ($000)
Analgesic		**CaTSOP**	
Rick Acland	1	Scott Babington	3
Bruce Foggo	1	Bernie Fitzharris	1
Geoffrey Robinson	1	Tim Hawkins	3
Jane Thomas	2	Peter Ganley	1
		Vernon Harvey	3
Anti-Infective		Sisira Jayathissa	3
Emma Best	2	George Laking	3
Simon Briggs	1	Lochie Teague	2
Steve Chambers	1		
James Chisnall	1	**Cardiovascular**	
Sean Hanna	1	Dee Mangin	1
Tim Matthews	1	Martin Stiles	2
Graham Mills	2	Mark Weatherall	1
Jane Morgan	1		
Nigel Paton	1	**Dermatology**	
Howard Wilson	1	Julie Betts	1
		Melissa Copland	1
Endrocrinology		Vincent Crump	2
Anna Fenton	1	Paul Jarrett	1
Ian Holdaway	1	Marius Rademaker	2
Craig Jefferies	1	James Reid	1
Jane Thomas	2	Pip Rutherford	1
Haematology		**Gastrointestinal**	
Nyree Cole	1	Simon Chin	2
Tim Hawkins	1	Alan Fraser	1
Paul Ockelford	2	Ian Hosford	1
Nigel Patton	2		
Mark Weatherall	1		

Note 21 cont: Board and Committee Fees

Immunisations	
Tim Blackmore	1
Stuart Dalziel	1
Cameron Grant	1
Karen Hoare	1
Caroline McElnay	1
Patricia Priest	1
Gary Reynolds	1
Elizabeth Wilson	1
Mental Health	
Ian Hosford	2
Verity Humberstone	1
Gavin Lobo	1
Dee Mangin	3
David Menkes	1
Gavin Lobo	1
Richard Porter	1
Rheumatology	
Melissa Copland	1
Sisira Jayathissa	1
Nora Lynch	1
Sue Rudge	1
Special Foods	
Simon Chin	1
Stuart Dalziel	2
Kim Herbison	2
Alan Jenner	1
Victoria Logan	2
Kerry McIlroy	2
Moira Styles	2
Russell Walmsley	1
Neurological	
Richard Hornabrook	2
Ian Hosford	2
Sisira Jayathissa	1
Jim Lello	2
John Mottershead	2
Ian Rosemergy	2
Paul Timmings	2
William Wallis	2
Mark Weatherall	1
Respiratory	
Tim Christmas	1
Stuart Dalziel	2
Greg Frazer	1
Jim Lello	2
David McNamara	1
Ian Shaw	1
Justin Travers	1
Tender	
William Allan	2
Melissa Copland	3
Ben Hudson	2
John McDougall	3
Craig McKenzie	1
Graham Mills	2
Clare Randell	2
Geoff Savell	1
John Savory	1

Note 22: 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 a payment to a former employee during the 2014 financial year $750: (2013 $0).

Note 23: Explanation of Major Variances Against Budget

Explanations of major variances from PHARMAC's estimated figures in the SOI are as follows:

Statement of comprehensive income
The net deficit for the year ended 30 June 2014 of $7,722,000 is $7,450,000 less than the SOI budgeted deficit of $272,000.

The main difference in revenue is $2,198,000 where the SOI budget allowed for a top-up of the Discretionary Pharmaceutical Fund (DPF) but this was not requested.

The main differences in operating expenditure arise from over-expenditure of $9,855,000 of the DPF, and an under-expenditure of $626,000 personnel costs due to recruitment delays, $733,000 information management due to reduction in contractor costs, $1,536,341 implementation projects due to reduced activity.

Statement of financial position
The decrease in cash and cash equivalents of $9,610,000 arises from an increase in investments of $4,713,000, increase in debtors of $2,372,000, increase in GST receivable of $1,683,000, and a decrease of DPF deposit into rebates account $6,715,000 and other sundry movements.

The decrease in public equity of $1,367,000 also reflects the movements above.

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