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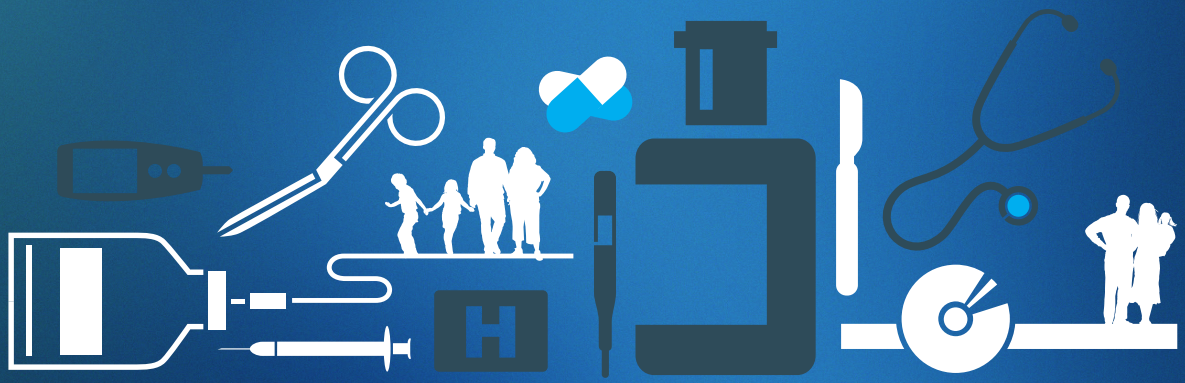
Pharmaceutical Management Agency

Annual Report

For the year ended 30 June 2015

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



PHARMAC
Pharmaceutical Management Agency

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Pharmaceutical Management Agency (PHARMAC)

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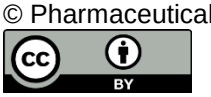

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PHARMAC DIRECTORY

(as at 30 June 2015)

Head Office Level 9, Simpl House 40 Mercer Street Wellington	**Postal Address** PO Box 10 254 Wellington Telephone: (04) 460 4990 Facsimile: (04) 460 4995 Website www.pharmac.govt.nz
Board Members Stuart McLauchlan – Chair Prof Jens Mueller – Chair, Audit and Forecast Committee Dr David Kerr 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

PHARMAC continues to grow and adapt to meet the considerable expectations that flow from its work. In the past financial year, PHARMAC has continued to meet or exceed those expectations while continuing to progress towards longer-term goals.

PHARMAC has put additional effort into connecting with the community around its work. An important activity in the past year has been the survey PHARMAC conducted to check in with stakeholders on how they perceived PHARMAC's performance, and how this could be further improved.

More than 800 stakeholders responded to the survey, which has provided a rich source of feedback on views around our work. Our next step is to build on the feedback we have received and share it with our stakeholders. This is an important piece of work that will help shape PHARMAC's interaction with the community over the coming years.

Factors for Consideration

PHARMAC has announced that it will move towards a new way of making decisions, using Factors for Consideration (the Factors) rather than its current decision criteria. This is the biggest change to the way PHARMAC makes decisions in the agency's 22-year history.

The announcement came after extensive public consultation, including community forums throughout New Zealand. The change is designed to give us a framework that is fit for the wider range of decisions PHARMAC is now responsible for – including medicines, medical devices and vaccines.

Input from our Consumer Advisory Committee has also helped shape the final version of the Factors, and helped guide the communication of the change through an online interactive graphic and a video.

Helping stakeholders, in particular suppliers, understand how to use the Factors and how they will be used to make decisions will be the next phase of development, as we move towards making decisions using this new framework from mid-2016.

Expansion of hospital work

PHARMAC's work in hospital medicines and medical devices procurement has gathered pace throughout the year.

The first national contracts for hospital medical devices took effect in February 2014. By 30 June 2015, PHARMAC had negotiated 14 contracts for about 14,000 medical devices, covering $43–47 million of district health board (DHB) hospital expenditure. The net savings to DHBs from PHARMAC's contracted medical devices (this financial year and last) are estimated at $11.2 million over five years.

Together with the work in hospital medicines, savings achieved in this area since PHARMAC took on this area of responsibility in 2013/14 amount to a net five-year total of $96.7 million, $76.7 million of which was secured in the 2014/15 year. These savings are important, giving the health system additional scope to invest in the health care of the community.

A further major step forward was to secure DHB data on hospital medicines spending. For the first time, PHARMAC now has a clearer picture of what DHB hospitals spend on medicines – an important step in any future move towards budget management of hospital medicines on behalf of DHBs.

PHARMAC also took its first steps towards introducing competition in the hospital medical devices market. A discussion document sought feedback on a proposed approach to market share procurement, beginning with wound care products used in hospitals. To date, hospital medical devices work has focused on national contracts for existing products. Market share procurement would introduce competition, with the potential for greater savings.

Combined Pharmaceutical Budget (CPB) management

New Zealanders' medicine access continued to expand during the year, with an estimated 70,685 new patients benefiting in a full year. These investments are made possible through a number of carefully managed transactions that involve securing ongoing savings for existing medicines,

sometimes through a change in brand, while at the same time covering the cost of growth in demand for these treatments. The Combined Pharmaceutical Budget (CPB) allocation was $795 million for the year. PHARMAC has managed this spending on-budget, while listing 21 new pharmaceuticals (including two new vaccines), and widening access to 20 others. In order to help meet the future costs of these investments, PHARMAC was able to use $53.7 million of savings during the year.

PHARMAC completed its largest and most complex commercial arrangement during the year, in agreements covering 18 products from two different suppliers. The agreements, with Novartis and Biogen, listed 10 new medicines, including new treatments for dementia, chronic obstructive pulmonary disease, asthma, multiple sclerosis, chronic myeloid leukaemia, and a type of brain tumour. The agreements are estimated to benefit up to 12,000 New Zealanders.

The agreements also represented PHARMAC's largest single investment for the year, with the listing of the two multiple sclerosis treatments fingolimod and natalizumab estimated to account for $15.6 million of gross spending (before rebates) in their first full year of funding.

Abiraterone for advanced prostate cancer was another significant listing, representing in the first full-year expenditure of $14.9 million before rebates, as was azacitidine for myelodysplastic syndromes. Azacitidine is estimated to have a gross cost (before rebates) of $13 million in the first full year.

Summary of major investments

Abiraterone – a new treatment for advanced prostate cancer. Estimated full-year investment of $14.9 million before rebates.

Azacitidine – to treat the blood disorders known as myelodysplastic syndromes. Estimated full-year spending of $13 million before rebates.

Fingolimod and **natalizumab** – two new-generation treatments for multiple sclerosis. PHARMAC also changed the access criteria for multiple sclerosis treatments, so they can be given earlier in the disease. Estimated full-year spend of $15.6 million before rebates.

Lenalidomide – for the blood disorder multiple myeloma. Estimated $5.8 million of gross spending in first full year.

Nilotinib – further treatment for chronic myeloid leukaemia. Full-year spend of $2.2 million before rebates.

Varicella vaccine – for immune compromised people and some household contacts.

Rotavirus vaccine – to protect children from the debilitating gastric virus rotavirus. Estimated full-year gross cost of $5.6 million.

Summary of CPB funding decisions, 2009/10–2014/15

Year	New listings	Widened access	Total
2009/10	20	25	45
2010/11	39	43	82
2011/12	14	10	24
2012/13	20	40	60
2013/14	26	35	61
2014/15	21	20	41

Summary of Hospital funding decisions, 2013/14–2014/15

Year	New listings	Widened access	Total
2013/14	9	4	13
2014/15	4	7	11

Stuart McLauchlan
Chair
On behalf of the PHARMAC Board

OVERVIEW OF PHARMAC

PHARMAC is the New Zealand government agency that decides which pharmaceuticals to publicly fund in New Zealand. PHARMAC makes choices about district health boards' (DHBs') spending on vaccines, community and cancer medicines through the Combined Pharmaceutical Budget (CPB), and use of PHARMAC's Discretionary Pharmaceutical Fund. The Minister of Health decides the value of the CPB each year. PHARMAC also makes decisions about the medicines funded in DHB hospitals and is working towards budget management of hospital medicines and medical devices in the longer term.

PHARMAC's decisions affect most New Zealanders because almost everyone will be prescribed a medicine or receive a service involving a medical device at some stage. PHARMAC decisions therefore attract high degrees of public and clinical scrutiny. It is important that we continue to engage and consider stakeholder views in our decision-making processes.

PHARMAC's decisions are informed by robust processes involving consultation, advisory groups, assessment and analysis. PHARMAC also takes into account the impact its decisions will have across the health sector, including things like potential reductions in hospital admissions or reductions in the demand for hospital services as a result of pharmaceutical funding.

High-quality decision making is essential and PHARMAC's processes have been frequently tested both in the Courts, via judicial review, and by the Ombudsman, via investigations of complaints. PHARMAC uses the outcomes of these reviews and investigations and its own self-review as an opportunity to continually improve its processes.

PHARMAC's key functions are set out in the New Zealand Public Health and Disability Act 2000 (NZPHD Act). These include:

- managing and maintaining a Pharmaceutical Schedule[1]
  PHARMAC decides which products to list and oversees the supply chain for these. PHARMAC also arranges distribution of certain high-cost medicines and manages national contracts for some medicines and related products used in public hospitals
- providing for subsidies in exceptional circumstances when a pharmaceutical isn't listed in the Schedule
  PHARMAC operates the Named Patient Pharmaceutical Assessment (NPPA) policy, which enables prescribers to apply for subsidy in certain circumstances for individual patients
- promoting the responsible use of pharmaceuticals
  PHARMAC runs population health programmes, supports the health sector with resources when our decisions result in change (eg brand changes) and provides education and professional development tools for health professionals
- engaging in research as appropriate
  PHARMAC engages in research and policy work and provides support to others in the health sector.

In addition to the NZPHD Act, PHARMAC's activity is guided by the Crown Entities Act 2004, and current Government expectations, as outlined in Ministers' Letters of Expectations. These expectations are reflected in the Statement of Intent and the accompanying Statement of Performance Expectations.

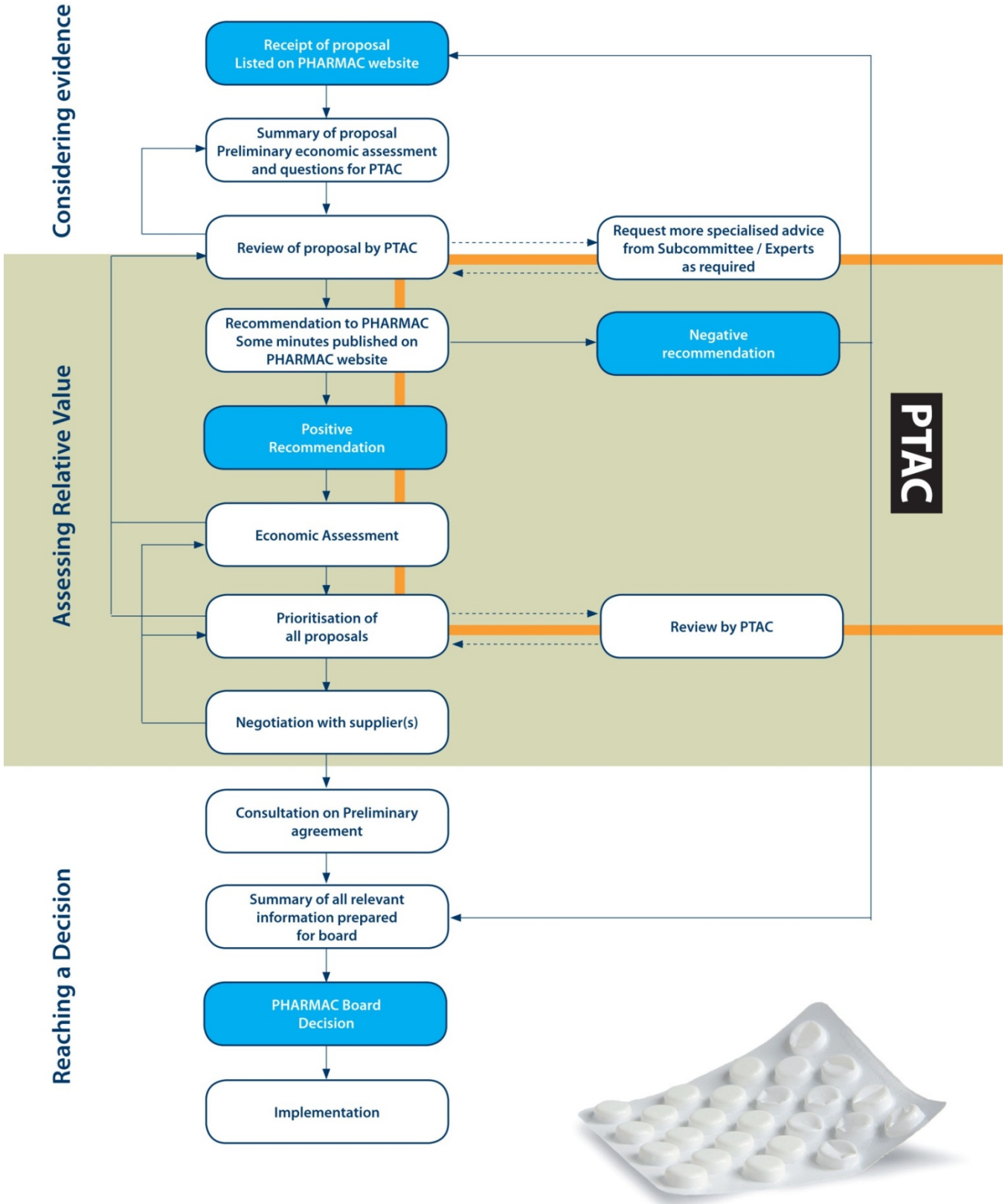
As a government agency, PHARMAC has a commitment to upholding the principles of the Treaty of Waitangi. PHARMAC's Māori Responsiveness Strategy, Te Whaioranga, provides a framework for ensuring that PHARMAC responds to the particular needs of Māori in relation to pharmaceuticals.

PHARMAC contributes to the Government's goal of a growing, sustainable economy through being part of the New Zealand health and disability system. We contribute to the health system outcomes: New Zealanders live longer, healthier, more independent lives; and the health system is cost-effective and supports a productive economy.

[1] The Pharmaceutical Schedule (the Schedule) lists the vaccines, cancer treatments and community medicines funded through the CPB. Section H of the Schedule includes the Hospital Medicines List (HML), listing the medicines available to use in DHB hospitals, as well as the medical devices for which PHARMAC has negotiated national contracts.

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).



Note that implementation of a decision includes both positive and negative funding decisions. These may include notification of a Schedule listing or notification that an application has been declined.

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 completed a range of organisational development projects during the year. Staff participation is a key part of developing the work in this area. As a result of a new structure implemented in 2013, we are continuing to review 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. A number of management and team leader roles have been filled through internal promotions. 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 are also referencing the WorkSafe New Zealand bullying prevention guidelines. We 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 ensuring the availability of accessible facilities.

Staffing

PHARMAC has been in a significant growth phase since 2012, with nine more employees than at 30 June 2014, and a total increase of 20 employees over the past two years. We anticipate that growth will continue but at a slower rate than in previous years.

In 2014/15, 14 permanent staff resigned (13 percent of total permanent staff). This is an increase from 9 percent in 2013/14. 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.

Two employees went on parental leave during the year. There is a relatively high number of part-time staff – 12 percent of permanent staff worked part-time at 30 June 2015. At 30 June 2015 we had a total of 115 staff – 104 permanent employees (including two on parental leave), plus 11 fixed-term employees.

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

Staff numbers by ethnicity	
Australian	2
Australian/Indian	1
Chinese	3
Danish	1
Indian	1
Italian	1
Malaysian/Chinese	1
NZ	16
NZ/British/Irish	1
NZ/Chinese	2
NZ/Indian	1
NZ/Korean	1
NZ/Māori	4
NZ Māori/NZ Pākehā	2
NZ European/Pākehā	49
NZ European/Pākehā & American	1
NZ European/Pākehā & Irish	1
NZ European/Pākehā & Polish	1
NZ European/Pākehā & Samoan	1
UK/Welsh	1
UK/British/Irish	7
UK/NZ European/Pākehā	1
USA	1
Unknown	15
Total	**115**

Staff numbers by age (years)	
Under 20	0
20–29	19
30–39	27
40–49	23
50–59	18
60–69	3
Unknown	25
Total	**115**

Gender	Part-time	Full-time	Total
Permanent employees			
Men	3	43	46
Women	9	49	58
Total	**12**	**92**	**104**
Fixed-term employees			
Men	0	2	2
Women	2	7	9
Total	**2**	**9**	**11**

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 depended on our performance in the area of clinical leadership. Part of our work in improving how we interacted with stakeholders was about making sure we had the right networks and advice across each activity. Communicating and implementing our decisions were clearly essential.

Our extended functions in the area of secondary care (hospital medicines and hospital medical devices) required us to ensure we were appropriately resourced in this area. We:

- developed relationships and networks with secondary care clinicians, including visits to hospital Grand Rounds
- maintained existing clinical relationships and networks, including meetings with clinical colleges
- understood and contributed to policy development around prescribing and clinical services initiatives, including convening a clinical governance group within PHARMAC.

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
- PHARMAC's perspective was sought on policy initiatives relating to the supply of medicines as part of clinical services.

Enhancing e-influence

There are major initiatives underway in the health sector and the government sector as a whole, and PHARMAC worked to ensure that internal information technology tools and initiatives were designed to converge with those external initiatives, while participating in the external initiatives to ensure that the priorities of users of pharmaceuticals were incorporated into the larger system-wide initiatives. Opportunities existed to maximise benefits through connection with sector IT initiatives, including data systems, and developing and delivering our own solutions. We:

- supported and influenced sector IT initiatives, including data systems
- developed and maintained effective networks with private software vendors, health IT, and DHB systems providers
- participated in steering groups and working groups for New Zealand Medicines Terminology, New Zealand Universal List of Medicines, e-prescribing and other related initiatives

- developed and maintained PHARMAC's Information Systems Strategic Plan and Information Management Strategy
- ensured human resources strategy was aligned with seeking, retaining and developing staff with information management skills.

Developing these areas ensured that:

- health sector IT developments worked seamlessly with pharmaceutical-related systems
- PHARMAC's perspective was sought on health IT-related policy and process
- work was undertaken to seamlessly integrate data related to PHARMAC's extended roles in medical devices and hospital medicines
- PHARMAC's internal systems and processes were robust and able to respond to changes in sector health IT parameters
- staff and stakeholders had timely access to high-quality information in usable formats.

Core strength

PHARMAC created value for the health system through effective management of medicines. We ensured we continued to deliver best health outcomes along with effective budget management when evaluating opportunities for change and improvement. Gains were made through developing improved ways of measuring our performance, and communicating this to interested parties in relevant ways.

Enhancing our capability and responsibilities as a good employer was also important to achieving this strategy. To deliver on our strategies in a manner consistent with our organisational values, PHARMAC requires people with relatively rare skill sets and particular attitudes and personal attributes. We:

- continued to make PHARMAC a good employer and an attractive place to work
- embedded the PHARMAC values and developed core competencies within the performance planning framework
- developed and enhanced PHARMAC's ability to effectively and efficiently manage an organisation that has increasing scope of responsibilities
- ensured PHARMAC's health and safety systems provided a secure working environment for all staff
- closely monitored the protection and security of PHARMAC's data, particularly the private personal information entrusted to us.

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)
- new staff were a good fit and understood PHARMAC's values and core competency; and existing staff bought into the new identity statements and demonstrated the behaviours outlined in the revised Framework for Success
- the quality of PHARMAC analysis and decisions continued to lead to better health outcomes than the alternative
- 'the PHARMAC model' continued to be referenced in external reviews as best practice within the sector.

Value from extended functions

Evaluation of the external environment and PHARMAC's capabilities indicates that we added value in a number of new areas. Greater management of hospital medicines, managing funding for vaccines and assessing future vaccines, and reorganising (with other entities) the management of hospital medical devices were areas with which we had been tasked.

In line with Government expectations, PHARMAC gave a high level of attention to these areas, in particular with hospital medical devices. In order to enable the required action (and protect core activity

from distraction), we built a small medical devices establishment team with the requisite capabilities, including medical, programme management and analytical capabilities. We:

- obtained value from new activities
- ensured a robust process for management is developed between responsible agencies.

Developing these areas ensured that:

- the quality of PHARMAC analysis and decisions mirrored that seen for medicines
- real sector value was observed and reported to stakeholders
- longer-term improved management of technology adoption is able to occur.

In addition, PHARMAC's work in extended functions was expanded and improved through the collection of a new and rich data source from DHBs for hospital medicine expenditure, which will allow for comparative analysis and a more comprehensive approach to wise purchasing. Work to more effectively manage vaccine storage and delivery rounds out the increasing value provided by extended functions.

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, required strong sector relationships. The Minister of Health set a clear expectation that PHARMAC would develop and maintain strong engagement with consumers and clinicians. As we started to bed in our role managing hospital medicines and established our role with hospital medical devices, we required a much higher level of engagement with, and responsiveness to, our stakeholders. Particularly with regard to hospital medical devices, PHARMAC engaged with a much broader group of stakeholders within DHBs than we had previously.

PHARMAC's drive to achieve the targets set for us, and our ongoing effective management of subsidies for medicines, set the foundation for our reputation. A focus on further maintaining and building on our reputation for the future means we continued to do the things we do well for the benefit of DHBs and taxpayers, and delivered 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 the 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 the Wharton School of the University of Pennsylvania 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, leads clinical governance 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.

MINISTERIAL DIRECTIONS

Section 151(1)(f) of the Crown Entities Act 2004 requires information on any new direction given to PHARMAC by a Minister in writing under any enactment during that financial year, as well as other such directions that remain current. The following are directions or authorisations to PHARMAC:

Direction/Authorisation	Minister	Effective date
Whole of Government Direction regarding Procurement Functional Leadership	Minister of State Services and Minister of Finance	February 2015
Whole of Government Direction regarding Property Functional Leadership	Minister of State Services and Minister of Finance	July 2014
Authorisation of PHARMAC to perform an additional function	Minister of Health	August 2001
All-of-government shared authentication services	Minister of State Services and Minister of Finance	July 2008

STATEMENT OF RESPONSIBILITY

The Board of PHARMAC accepts responsibility for:

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

In the opinion of the Board, the Financial Statements and Statement of Performance for the year ended 30 June 2015 fairly reflect the financial position and operations of PHARMAC.

Stuart McLauchlan
Chair

20 October 2015

Prof Jens Mueller
Board member

20 October 2015

Independent Auditor's Report

To the readers of Pharmaceutical Management Agency's financial statements and performance information for the year ended 30 June 2015

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 the performance information, including the performance information for an appropriation of Pharmac on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of Pharmac on pages 45 to 64, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information of Pharmac on pages 26 to 44 and 53.

In our opinion:

- the financial statements of Pharmac:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2015; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Tier 1 Public Benefit Entity (PBE) accounting standards.
- the performance information:
    - presents fairly, in all material respects, Pharmac's performance for the year ended 30 June 2015, including for each class of reportable outputs:
        - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year;
        - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
        - what has been achieved with the appropriation.

- complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 20 October 2015. 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 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 the 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 the 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 the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the 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 performance information 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;
- the appropriateness of the reported performance information within Pharmac's framework for reporting performance
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

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

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

Responsibilities of the Board

The Board is responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly the Pharmac's financial position, financial performance and cash flows; and
- present fairly the Pharmac's performance.

The Board's responsibilities arise from the Public Finance Act 1989 and the Crown Entities Act 2004.

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

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

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 2014/15

- **$795 million** – yearly DHBs' combined pharmaceutical expenditure (on budget)
- **43.1 million** – number of funded prescription items filled (3.2 percent increase)
- **3.5 million** – number of New Zealanders receiving funded medicines
- **$52.7 million** – amount of savings achieved
- **21** – number of new medicines funded
- **20** – number of medicines with access widened
- **70,685** – estimated number of additional patients benefiting from these decisions in a full year

Key figures: Hospital Medicines 2014/15

- **$18.34 million** – full-year savings to DHB hospitals from hospital medicines decisions
- **$3.38 million** – cost of new investments in hospital medicines
- **$70.7 million** – savings to Vote Health over five years after costs of new investments

Key figures: Hospital Medical Devices 2014/15

- **10,965** – number of line items on the Pharmaceutical Schedule under national contracts
- **$2.94 million** – annual savings to DHBs from national contracts
- **$6.04 million** – savings to Vote Health over five years from national contracts net of DHB investment

Hospital pharmaceutical savings in 2014/15

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 2014/15 available funds for investment based on the three-year average from the date of implementation of a decision was $18.34 million. After investments of $3.38 million, based on a three-year average cost, the net annualised saving was $14.96 million to Vote Health. Over five years, this represents $70.7 million of savings after investments.

PHARMAC also estimates that rebates on hospital medicines will be $8.3 million (excluding GST) for the 2014/15 financial year.

Hospital medical devices

PHARMAC added 10,965 hospital medical device line items to the Pharmaceutical Schedule, bringing the total number to 14,000. The national contracts available to DHBs will return $2.94 million in savings in 2015/16 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 across all contracted items represent $13.2 million, reducing to $11.2 million after 2014/15 DHB investment of $2 million.

Combined pharmaceutical expenditure in 2014/15

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 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 pay DHBs if there is any collective overspend in the CPB.

The total spend by DHBs was $795 million. This consisted of $793.3 million on combined pharmaceuticals (including hospital pharmaceutical cancer treatments, National Immunisation Schedule vaccines and haemophilia treatments), and $1.7 million transferred from DHBs to the DPF.

The DHBs' combined pharmaceuticals spend represents a decrease of $1.7 million over the previous year's expenditure. For 2014/15, net spending was made up of gross expenditure of $987.62 million plus $1.93 million of other expenditure, less an estimated $196.27 million expected from suppliers as rebates. The key drivers of expenditure were:

- $46.8 million net spending increase from changing volumes of subsidised pharmaceuticals
- $19.5 million ($48.8 million full-year impact) net expenditure on new investments and increased access to medicines this financial year.

Alongside a 3.2 percent increase 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.

PHARMAC has to work to offset the effect of this continuing volume/mix growth through savings programmes on currently funded medicines that delivered $53.7 million in savings in 2014/15 ($42.1 million ($52.7 million full year) new savings, plus $11.6 million in savings from 2013/14 decisions). PHARMAC has continued its track record, since 1993, of effectively managing pharmaceutical expenditure, while increasing access to new and existing medicines.

Savings and benefits

PHARMAC delivers a range of benefits and savings to the health system. 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 [in?] 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 Vote Health from hospital activity

All savings are retained initially by DHBs as expenditure not made and able to be reallocated within Vote Health. The value of these annual savings 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 initially 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 by 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.

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	-0.7	-0.7	-0.7
Blood and Blood Forming Organs	0.5	-10.2	-9.7	-8.5
Cardiovascular System	0.0	-0.8	-0.7	-0.9
Genito-Urinary System	0.0	-1.7	-1.7	-2.2
Infections – Agents for Systemic Use	0.1	-2.6	-2.5	-2.5
Musculoskeletal System	0.0	-3.8	-3.8	-4.2
Nervous System	0.7	-3.5	-2.8	-4.1
Oncology Agents and Immunosuppressants	0.1	-3.7	-3.6	-4.3
Respiratory System and Allergies	0.1	-2.1	-2.0	-2.0
Sensory Organs	0.1	0.0	0.0	0.0
Special Foods	0.1	0.0	0.0	0.1
Unknown	0.2	-0.4	-0.2	-2.2
Tender	0.7	-14.7	-14.0	-20.5
Tender ACP	0.0	-0.5	-0.5	-0.9
Grand Total	**$2.5**	**-$44.6**	**-$42.1**	**-$52.7**

* Full-year value of savings secured in 2014/15 is realised with $42.1 million in 2014/15 and $10.6 million in 2015/16.

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

Summary of combined pharmaceutical expenditure 2014/15 ($ million)			
	Expenditure	**Impact in 2014/15**	**Full-year impact**
Expenditure for year ended 30 June 2014	795.0		
Volume changes			
Volume increases		89.6	
Volume decreases		-42.8	
Widened access to medicines already funded		12.0	16.4
New investments		7.5	32.4
Net volume changes	66.4		
Subsidy changes			
Subsidy increases		2.5	3.6
Subsidy decreases		-29.5	-35.0
Savings from annual tenders		-14.7	-20.4
Savings from alternative commercial proposals		-0.5	-0.9
De-listings		-1.5	
Residual subsidy increases from 2013/14		10.6	
Residual subsidy decreases from 2013/14		-20.7	
Net subsidy changes	-53.7		
Change in additional items not included above	0.9		
Change in DPF income*	-13.6		
Total expenditure for year ended 30 June 2015	$795.0		
Total change from previous year **	*$-13.6*		

* This is the net change in DPF movement, not the change in DPF balance.
** Total change in expenditure excluding DPF movement.

Table of combined pharmaceutical funding decisions 2014/15

The table below lists details of the medicines investment decisions implemented in the 2014/15 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 2014/15	Estimated # new people in 2014/15	Estimated # new people in 2015/16
July 2014					
Adalimumab	Pyoderma gangrenosum	Widened access	$88,000	12	12
Diazoxide oral liquid	Hypoglycaemia caused by hyperinsulinism	New listing (new presentation)	$14,000	17	17
Etanercept	Pyoderma gangrenosum	Widened access	$87,000	12	12
Hepatitis A vaccine	Prevent hepatitis A in high-risk patients	Widened access	$12,000	200	200
Meningococcal C vaccine	Prevent meningococcal C in high-risk patients	New listing (new presentation)	$27,000	1,000	1,000
Rotavirus vaccine	Prevent rotavirus in children	New listing	$5,616,000	54,000	54,000
Varicella vaccine	Prevent chickenpox in high-risk patients and household contacts	New listing	$190,000	3,500	3,500
August 2014					
Rifaximin	Hepatic encephalopathy	New listing	$220,000	30	30
September 2014					
Azacitidine	Myelodysplastic syndromes (MDS)	New listing	$4,550,000	111	166
Erythropoietin	Chronic renal failure	Widened access	$1,660,000	332	334
Lenalidomide	Multiple myeloma	New listing	$2,930,000	56	113
October 2014					
Adalimumab	Adult-onset Still's disease	Widened access	$162,000	10	10

Pharmaceutical (number of chemicals)	Used to treat	Decision type	Estimated # gross spending 2014/15	Estimated # new people in 2014/15	Estimated # new people in 2015/16
Benzydamine hydrochloride	Oral mucositis in cancer patients	Widened access	$33,750	1,047	1,047
Bicalutamide	Prostate cancer	Widened access	$2,000	60	60
Copper IUD	Contraceptive device	New listing (new presentation)	$480,000	5,700	7,600
Deferiprone	Acquired red-cell aplasia	Widened access	$49,000	3	8
Etanercept	Adult-onset Still's disease	Widened access	$86,000	10	10
Gabapentin	Chronic kidney disease-associated pruritis	Widened access	$26,000	500	500
Insulin pump	Cystic fibrosis-related diabetes	Widened access	$10,000	44	87
Insulin pump consumables	Cystic fibrosis-related diabetes	Widened access	$20,000	44	87
Isotretinoin	Nodulocystic acne	Widened access	$17,000	681	681
Macrogol 3350	Constipation	Widened access	$28,000	990	990
Midodrine	Orthostatic hypotension	Widened access	$9,000	18	18
Mycophenolate mofetil	Various	Widened access	$51,000	93	124
Nicorandil	Angina pectoris	Widened access	$3,000	8	8
Perhexilene maleate	Angina pectoris	Widened access	$8,000	61	61
November 2014					
Deferasirox	Iron overload	New listing	$340,000	11	12
Everolimus	Sub-ependymal giant cell astrocytoma (a type of brain tumour)	New listing	$300,000	4	6
Fingolimod, and Natalizumab (2)	Relapsing-remitting multiple sclerosis	New listings	$3,310,000	68	207
Glycopyrronium	Chronic obstructive pulmonary disorder	New listing	$850,000	1,435	3,028
Indacaterol	Chronic obstructive pulmonary disorder	New listing	$540,000	734	1,592
Nilotinib	Chronic myeloid leukaemia	New listing	$1,500,000	28	29
Omalizumab	Severe allergic asthma	New listing	$620,000	50	93

Pharmaceutical (number of chemicals)	Used to treat	Decision type	Estimated # gross spending 2014/15	Estimated # new people in 2014/15	Estimated # new people in 2015/16
Rivastigmine patches	Dementia	New listing	$490,000	664	1,077
Tobramycin	Cystic fibrosis	New listing (new presentation)	$760,000	80	80
February 2015					
Azathioprine	Auto-immune conditions, inflammatory bowel disease, arthritis, and to prevent transplant rejection	New listing (new presentation)	$10,000	900	900
Imiquimod	Warts	Widened access	$70,000	3,652	12,824
Zoledronic acid	Hypercalcaemia and cancer-related bone metastases	Widened access	$180,000	26	213
May 2015					
Glyceryl trinitrate	Angina	New listing (new presentation)	$4,000	700	3,000
Abiraterone	Advanced prostate cancer	New listing	$1,131,000	136	511
Total (unadjusted)			$26,484,000	77,027	94,247
Total (adjusted)*			$19,863,000	57,770	70,685

* The total figures are adjusted to align with historical performance compared with forecast.

Tables of hospital pharmaceutical funding decisions 2014/15

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 2014/15

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 2014		
Nicotine	Smoking cessation	Price changes
Iohexol	Contrast agent for x-ray and CT	Price changes
Iodixanol	Contrast agent for x-ray and CT	Price changes
Gadobutrol	Contrast agent for MRI	Price changes
August 2014		
Flecainide acetate	Supraventricular and ventricular arrhythmias	Price changes
Rifaximin	Hepatic encephalopathy	New listing
September 2014		
Erythropoietin	Chronic renal failure	Price changes
October 2014		
Benzydamine hydrochloride	Oral mucositis in cancer patients	Widened access
January 2015		
Infliximab	Various	Price changes
April 2015		
Ticarcillin with clavulanic acid	Bacterial infections	Price changes

Hospital medicines costs 2014/15

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 access to medicines that represent cost increases are shown below.

Pharmaceutical	Used to treat	Decision type
July 2014		
Tocilizumab	Rheumatoid arthritis and systemic juvenile idiopathic arthritis	Widened access
Meglumine gadopentetate	Contrast agent for MRI	Price changes
Meglumine diatrizoate with sodium amidotrizoate	Contrast agent for x-ray and CT	Price changes
Diazoxide	Hypoglycaemia caused by hyperinsulinism	New listing (new presentation)
August 2014		
Ferric carboxymaltose	Iron Deficient Anaemia	New listing
Presurgical Carbohydrate Feed	Pre-operative care	New listing
October 2014		
Tocilizumab	Adult-onset Still's disease	Widened access
November 2014		
Articaine hydrochloride	Test for allergy	New listing (new presentation)
Ceftaroline	Community-acquired pneumonia and complicated skin and soft tissue infections	New listing
January 2015		
Tocilizumab	Rheumatoid arthritis	Widened access
February 2015		
Azathioprine	Auto-immune conditions, inflammatory bowel disease, arthritis, and to prevent transplant rejection	New listing (new presentation)
Cyclophosphamide	Cancers and auto-immune diseases	Price changes
April 2015		
Ibuprofen injections	Patent ductus arteriosus in neonates and premature infants	Price changes
Fluconazole	Invasive candidiasis, and prophylaxis in immunocompromised patients	Price changes
Hospira price increases	Various	Price changes

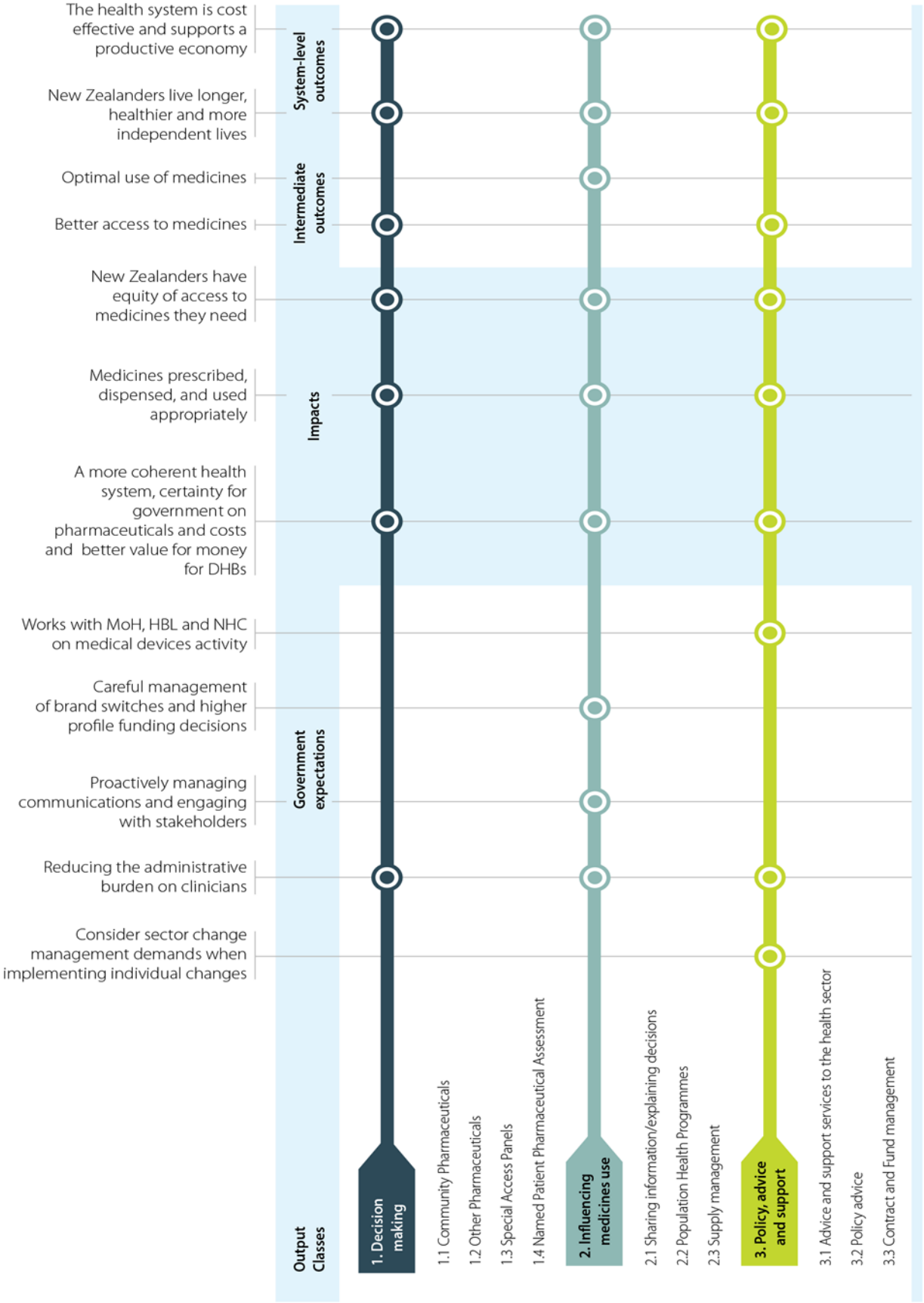
Pharmaceutical	Used to treat	Decision type
May 2015		
Multivitamin and mineral supplement	Burn patients	New listing
June 2015		
Nicardipine hydrochloride	Hypertensive infants and neonates undergoing cardiopulmonary bypass	New listing

Hospital medical devices savings 2014/5

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
July 2014		
WM Bamford and Co, wound care products	Wounds	New listing
September 2014		
Covidien Surgical Suture, wound care products and disposable laparascopic devices	Wounds	New listing
Jackson Allison Medical & Surgical Limited, wound care products	Wounds	New listing
October 2014		
Smith & Nephew, low-lint towels	Wounds	Price changes
Various minor contract adjustments	Wounds	New listing
November 2014		
Bio-Excel	Cardiac problems	New listing
December 2014		
Medtronic	Interventional cardiology	New listing
February 2015		
Terumo Australia Pty Limited	Interventional cardiology	New listing
March 2015		
Stryker New Zealand Limited	Orthopaedic trauma, spine and CMF implants	New listing
May 2015		
Abbott Laboratories	Interventional cardiology	New listing

Fitting it all together – linking our outputs to impacts and health system outcomes



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 also supports the health system to be well informed about evidence-based medicines and assist DHBs to achieve better health outcomes by adding value to other procurement initiatives.

Pharmaceuticals make up a significant portion of public spending through Vote Health. PHARMAC's activity to manage this spend, while at the same time achieving best health outcomes, is important for ensuring the long-term sustainability of the health system. Since its inception, PHARMAC has managed to contain pharmaceutical expenditure to an average of 3 percent, while growing the range of pharmaceuticals available and widening access to them.

PHARMAC's original objective was to introduce price competition to a market where it had not previously existed. This meant New Zealand was able to get better value for medicines and achieve the best health outcomes from the public money spent on medicines. This objective remains central to PHARMAC's work and is now being applied to managing expenditure growth in hospital medicines and hospital medical devices.

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

Output class	Description	Outputs
1. Making decisions about pharmaceuticals[2]	Work that leads to new medicines being funded and money being saved on older medicines	1.1. Combined Pharmaceuticals[3] 1.2. Other Pharmaceuticals[4] 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 Performance (pages 37 to 44).

[2] 'Pharmaceuticals' are medicines, vaccines, medical devices, related products or related things.
[3] Includes vaccines, hospital pharmaceutical cancer treatments and some blood products.
[4] Includes hospital medicines and hospital medical devices listed in Section H of the Pharmaceutical Schedule.

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 subsidise medicines (including vaccines) mean they are available for all eligible people, regardless of a person's geographic location. Many medicines are expensive and would be priced outside people's reach without a subsidy. New technologies such as biologics (medicines that treat conditions such as auto-immune diseases and some forms of cancer) are particularly expensive. When PHARMAC fully funds a medicine, people typically pay only the co-payment set by the government. This reduces the cost barrier people experience accessing medicines.

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 national contracts which make medicines affordable. In addition, by managing funds we manage risk and optimise cash flows within the system.

Our work in managing contracts and keeping watch on the pharmaceutical supply chain helps ensure medicines and medical devices 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 will be subsidised if prescribed, or who can prescribe it. While these rules may be seen as an administrative hurdle for clinicians, they help target funding for medicines to people who will get the most benefit. This helps to ensure funded medicines are used cost-effectively.

In 2014/15 PHARMAC influenced access to medicines by:

- running commercial processes to extract value from currently funded medicines
- investing in new medicines (and widening access to medicines) where PHARMAC considered this led to improved health outcomes for New Zealanders.

Measuring our impact on access to medicines

We expect access to funded medicines to improve over time. PHARMAC manages funding to make savings and create 'headroom' for growth in funded prescription numbers. In this way, PHARMAC's savings and budget management work enables increased access to funded medicines.

Provided health system policy settings remain similar, PHARMAC expects an ongoing increase in the number of patients receiving funded medicines, and in the number of prescriptions per patient. PHARMAC influences this through ongoing savings activity, freeing up funding for further investment, and growth in the pharmaceutical budget also enables more new medicines to be funded. External factors like population growth, and demographic changes such as an ageing population (an older population is associated with higher medicines use), will also influence prescription growth over time.

We monitored prescription numbers for medicines used to treat priority health conditions. We focused on some medicines used to manage type 2 diabetes mellitus and cardiovascular disease. These long-term conditions affect hundreds of thousands of patients, and are current health priorities, and we know that health outcomes can be improved through early detection and treatment. Monitoring these medicines helps to identify any differences in access to these medicines for different population groups. It also identifies opportunities for PHARMAC or the wider health sector to target resources more effectively.

Access impact	Measure	Result	Rationale
New Zealanders have access to the medicines they need in the community	The number of prescriptions dispensed for high cholesterol statin medications monitored by age, gender, ethnicity and deprivation.	There has been a steady increase across all ethnicities, with the largest increase for Pacific peoples (8%) and Māori (7%) between 2013/14 and 2014/15. The most deprived areas (quintile 5) saw the largest increase in the number of high cholesterol statins at 7%, with a 5% increase across the other quintiles. Males have seen a greater increase in high cholesterol statins prescriptions (6%) than females (4%). Prescriptions increased in all age groups above 40. Prescriptions decreased in 10–19 year olds.	Long-term conditions including cardiovascular disease (CVD) and diabetes mellitus are a leading cause of morbidity in New Zealand. These conditions also disproportionately affect Māori, Pacific and South Asian peoples.[5] Funded medicines are available to help prevent or control CVD and diabetes mellitus. Monitoring prescription numbers for these medicines will help to identify whether access is equitable.
	The number of prescriptions dispensed for low-dose aspirin monitored by ethnicity and deprivation.	Low-dose aspirin prescriptions have increased each of the past 5 years for Māori and Pacific peoples. Other patients had a drop in prescription numbers in 2012/13 and 2013/14. Between 2013/14 and 2014/15 there was a 4% increase for Pacific peoples, a 3% increase in Māori and a 2% increase for non-Māori/non-Pacific peoples. 3% increase in prescriptions in the highest and lowest deprivation areas. 2% increase in deprivation quintile 3 and only 1% in deprivation quintile 4.	
	The number of prescriptions dispensed for oral hypoglycaemic medication (suphonylureas and biguanides) monitored by ethnicity and deprivation.	There has been a steady increase in the number of oral hypoglycaemic prescriptions for all ethnic groups over the last 5 years. Larger increase between 2013/14 and 2014/15 than previously. Between 2013/14 and 2014/15, 10% increase in Pacific peoples' scripts, 9% increase in Māori scripts, 8% increase in non-Māori, non-Pacific peoples' prescriptions. Increase in number of prescriptions for all deprivation	

[5] www.health.govt.nz/new-zealand-health-system/health-targets/about-health-targets/health-targets-more-heart-and-diabetes-checks.

Access impact	Measure	Result	Rationale
		quintiles. Larger increase in scripts between 2013/14 and 2014/15. Between 2013/14 and 2014/15, 8% increase in quintiles 1, 2, 3 - the least deprived areas; 7% increase in quintile 4 and 9% in highest deprived areas (quintile 5).	

PHARMAC's expanded role includes managing expenditure on the medicines used in DHB hospitals. Our main focus has been to drive national consistency in access to hospital medicines and manage new investment in hospital medicines within the expenditure agreed with DHBs. The introduction of a new Hospital Medicines List within the Schedule (Part II of Section H) in 2013 has standardised the medicines available in DHB hospitals. When new medicines are added to Section H, these are available on a nationally consistent basis. PHARMAC has focused on supporting DHBs to use Section H effectively and is developing an approach to begin managing hospital medicines within a fixed budget.

Access impact	Measure	Result	Rationale
A nationally consistent range of medicines is available for use in DHB hospital settings	The number of medicines listed in Section H expands within the expenditure range agreed with DHBs.	Achieved. 4 new listings and 7 widened access costing $3.38 million within savings expenditure range of $18.34 million.	Expanding the number of medicines available through DHB hospitals will increase access; however, it is important that new investment is managed sustainably.

PHARMAC's main focus for medical devices has been on increasing procurement activity from optional national contracts, which will provide a foundation for future national consistency and management within a fixed budget. The first contracts have been negotiated for selected categories (eg wound care products), with around 14,000 items now available through national contracts and listed in Part II of Section H.

Access impact	Measure	Result	Rationale
DHBs have access to a range of medical device contracts in selected categories	DHB uptake of PHARMAC-negotiated medical device contracts.	Data available indicates that all DHBs have taken up at least one PHARMAC-negotiated medical device contract.	Comprehensive DHB uptake of optional national contracts will ensure the potential benefits of these contracts are realised. Good uptake will give PHARMAC an indication of the acceptance of these contracts by DHBs.

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 medicines use

During 2014/15 PHARMAC worked to ensure health professionals are well informed about funded medicines and provided professional development services for clinicians about evidence-based medicine. These services included providing high-quality, evidence-based prescriber educational material and running the PHARMAC Seminar Series for health professionals.

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

Complex funding decisions, particularly where they involve a change in brand, often require an implementation plan to achieve best health outcomes and to realise the potential benefits of the decision. PHARMAC tailors implementation plans to the particular decision being made. It may involve working with consumer groups, specialist clinicians and other health professionals to develop resources or determine appropriate ways to communicate the change.

Our population health programmes and campaigns often include messages promoting access to, and the optimal use of, medicines. Each of these programmes has targets and measures to gauge the programme's success, and are evaluated to see whether those targets have been met.

PHARMAC is one of many health agencies that seek to improve health literacy – *"the capacity to obtain, process and understand basic health information and services in order to make informed and appropriate health decisions".*[6] This plays an important role in optimal medicines usage. The level of understanding an individual has about their health status and the role medicines might play in maintaining their health status, and the way information is provided to them by their health care professionals, can substantially influence whether the potential benefit of a medicine is realised. Medicines adherence – people taking their medicine as prescribed and obtaining the full benefit – helps ensure medicine subsidies are effective and obtain the desired health outcomes. PHARMAC has contracted two providers to develop and pilot electronic adherence tools to assist patients to manage their medicines effectively. These pilots are helping us identify the value of new technology in supporting medicines adherence.

Measuring our impact on medicines use

PHARMAC has some control over medicines use through defining access criteria for funded medicines, to help us secure the best health outcomes within available funding. The most widely used instrument is Special Authority, which requires clinicians to apply on the basis that their patient meets the access criteria for funding defined in the Pharmaceutical Schedule.

If we wanted to ensure all medicines were prescribed only to patients most likely to benefit, one option would be to restrict access to every medicine through use of a Special Authority. However, PHARMAC is aware that each Special Authority places an administrative burden on clinicians, which is a cost to the sector. We need to strike a careful balance between managing this burden and the benefit to be gained from targeting access in this way. PHARMAC also considers how applying a Special Authority restriction can contribute towards targeting patients with the greatest health need and assist in optimal prescribing.

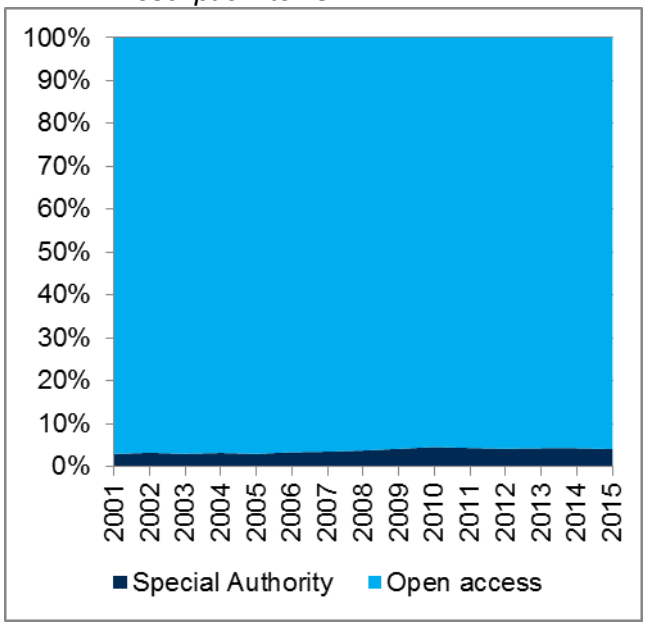
[6] www.moh.govt.nz/notebook/nbbooks.nsf/0/4559082D3B05C11FCC2576CE006835A1/$file/korero-marama.pdf.

The graphs below show that while the proportion of Special Authority medicines compared with open access medicines has grown over time, it remains very small. However, the drug cost for these medicines has grown from around 20 percent of the CPB in 2001 to almost 50 percent in 2014. This illustrates why Special Authorities are an important tool for managing medicines use, and therefore spending growth. This supports PHARMAC's legislative objective, because over-prescribing expensive medicines would limit our ability to use the pharmaceutical budget cost-effectively, reducing the opportunity to invest in new medicines.

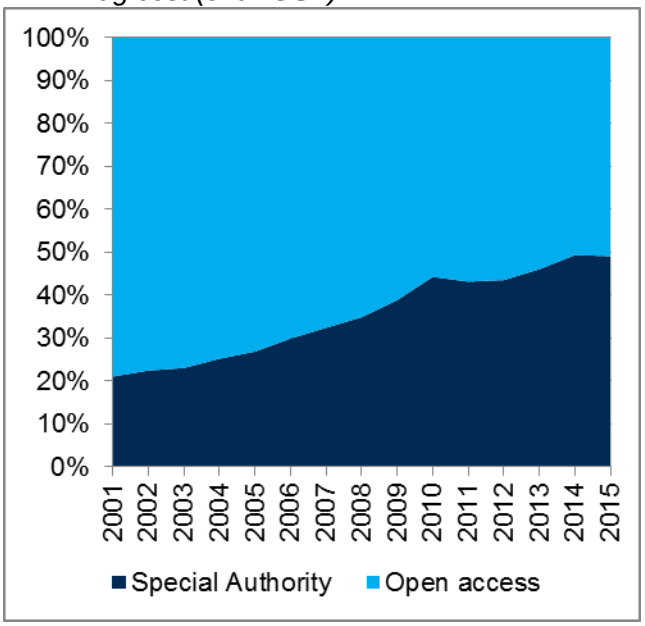
We anticipate ongoing gradual increases in spending on Special Authority medicines. We monitored the proportion of Special Authority prescriptions compared with open access prescriptions and the cost of these as a percentage of the CPB over time. However, we expect that as the cost of any particular Special Authority medicine declines we will, where appropriate, remove Special Authority restrictions.

Proportion of prescription items and drug cost for Special Authority medicines compared with open access medicines over time

Prescription items



Drug cost (excl. GST)



Usage impact	Measure	Result	Rationale
Funded medicines are targeted to those most likely to benefit	The proportion of Special Authority medicines to open access medicines is monitored over time.	Displayed in the chart above.	Special Authority approvals enable PHARMAC to provide funded access to certain medicines sooner for those patients most likely to benefit (particularly where the medicine is higher cost), while at the same time managing spending growth sustainably.
	The cost of Special Authority medicines as a percentage of the CPB is monitored over time.	Displayed in the chart above.	

When medicines are prescribed inappropriately (eg for those less likely to benefit or where potential harms exist), it is unlikely that the medicine will achieve best health outcomes for New Zealanders. Where PHARMAC identifies potential prescribing issues, we sometimes initiate programmes to assess the issue and identify options for addressing any practice gaps found. For example, we are currently undertaking a pilot to assess the extent of inappropriate prescribing of antipsychotics for behavioural and psychological symptoms of dementia in residential care facilities. The health of older people, including dementia care, is a priority for the health system, which makes PHARMAC's pilot programme timely. PHARMAC monitored trends in antipsychotic prescriptions dispensed to people over 65 over time.

Usage impact	Measure	Result	Rationale
Funded medicines are used responsibly	The trend in prescription numbers for antipsychotics dispensed to over 65s is monitored over time.	The number of prescriptions for antipsychotics dispensed to those aged over 65 has been increasing each year for the past five years, with a 3.7% increase in prescription numbers between the 2013/14 and 2014/15. This is consistent with the growth in prescriptions for antipsychotics, for those under 65 years of age, which grew 3.6% in the same period. The increase in prescription number between the 2013/14 and 2014/15, for those over 65 years, is also consistent with the growth across all prescriptions for that age group (2.8%) and in those aged under 65 years (2.2%) during the same period.	The health of older people is a Government and health system priority. Antipsychotic medications can be prescribed inappropriately to older people with dementia experiencing behavioural symptoms. These medicines can have unacceptable adverse effects in this patient group. Monitoring the trend will give PHARMAC and the wider health system insight into the extent of inappropriate use of these medicines, to inform any options for addressing practice gaps.

Te Whaioranga 2013–2023 responding to Māori health needs

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 best to 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
- enhance and enable internal expertise and capability in Te Āo Māori.

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 of its Operating Policies and Procedures was completed in early 2014. A particular focus was the proposed change to the current Decision Criterion 2: The particular needs of Māori and Pacific peoples.

We are also continuing to improve our responsiveness to Māori in other ways. 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.

In order to improve Māori community access to and knowledge on pharmaceuticals, we have signed Memoranda of Agreements with two Whānau Ora Collectives in the Bay of Plenty and an MoA with Ngā Kaitiaki o te Puna Rongoā ō Āotearoa – The Māori Pharmacists' Association.

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 and system impacts support the Government's overall fiscal management through tight budgetary control. This is particularly important at a time of fiscal restraint and tight budgets.

Each year, PHARMAC is faced with a list of pharmaceuticals seeking funding, and prioritises how best to spend the available funding in order to achieve the best health outcomes within the funding provided. Prioritisation is necessary because the demand for funding is always greater than the amount of available funding. We do this by using our nine decision criteria. We announced the changes to our decision-making criteria in 2014/15 and will begin implementing the new decision-making framework (using our Factors for Consideration) in 2015/16.

We estimate health gain in terms of quality-adjusted life years (QALYs – see box opposite). We can 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 can be expressed in terms of the number of QALYs gained per net million dollars spent by the health sector. We will aim to out-perform the average value of the funding options available, and in so doing illustrate our performance in selecting 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 the albeit small chance of premature death on average, they also may be more able to go about daily tasks such as walking the children to school or doing the housework. Such factors are all taken into account in the QALY measure.

Measuring our contribution to economic and system impacts

PHARMAC has applied its operations funding to achieve its statutory objective in meeting similar levels of performance to previous years, as well as significantly improving performance in its newly extended area of focus in DHB hospital expenditure. In 2014/15 PHARMAC's operating budget increased, and the Combined Pharmaceutical Budget (CPB) accommodated $18 million spent on new medicines and widened access to medicines (counting net cost (excluding offsets) for the first 12 months from the date of the investment). PHARMAC's management activity, including investing in new medicines and making savings on existing products, led to growth of 6–7 percent in the volume of medicines funded, and the number of new medicines also grew by 21. So through PHARMAC's activity, more New Zealanders received funded medicines and the range grew.

Our work has meant that, between 2004 and 2015, we have saved DHBs a cumulative total of $5.160 billion, including $1.199 billion in 2014/15. At the same time, the number of new medicines and patients receiving them has increased. This estimate is based on pharmaceutical prices in 2005 mapped to current prescribing activity, and compares actual spending with what would have happened had PHARMAC taken no action. Without PHARMAC, this funding would have had to come from other areas of health spending. PHARMAC's work gives DHBs funding choices they wouldn't otherwise have.

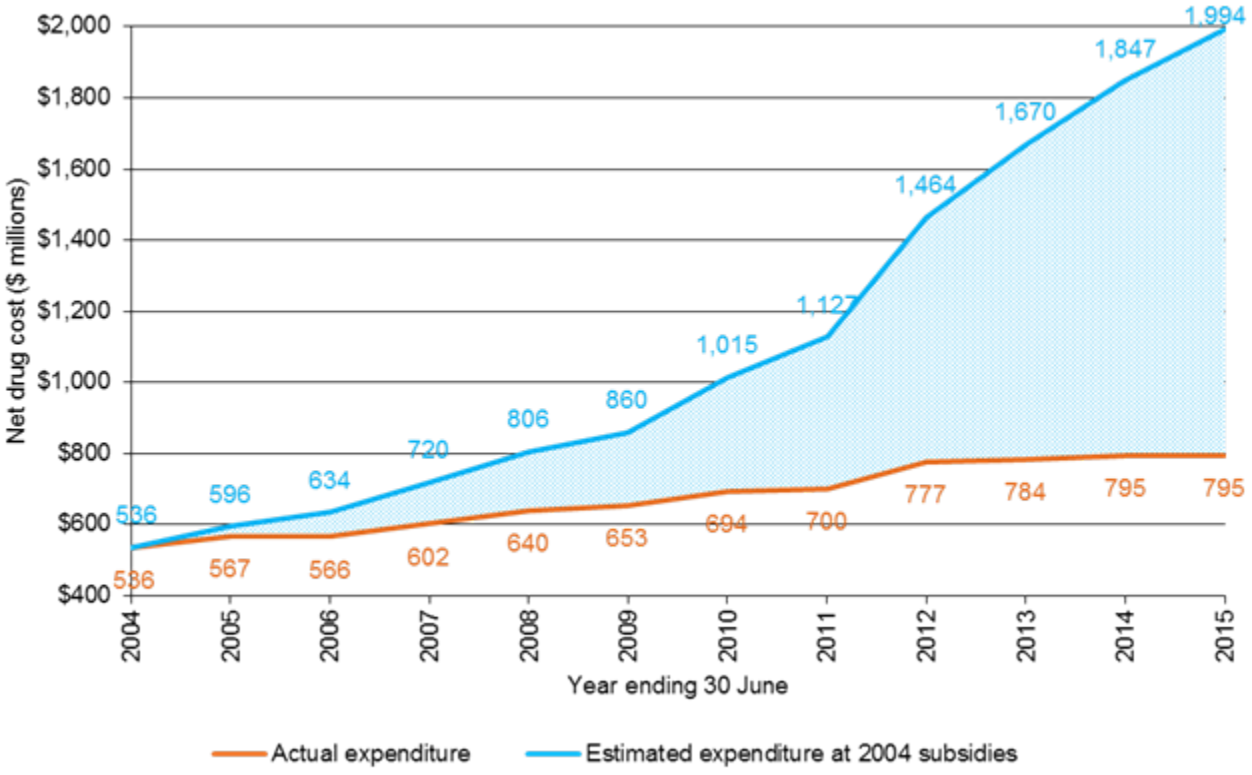
In 2014/15 PHARMAC:

- sought clinical advice through the Pharmacology and Therapeutics Advisory Committee (PTAC) and PTAC subcommittees on potential new pharmaceutical investments, resulting in 21 new listings in 2014/15
- reviewed (where appropriate) access to currently funded medicines and removed access barriers where possible, resulting in 20 listings with widened access in 2014/15
- 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)
- invested in 21 new listings (and widened access to 20 others) where PHARMAC considered this led to improved health outcomes for New Zealanders.

Economic and system impact	Measure	Result	Rationale
DHBs get best value for money	The average value of funding decisions within the CPB continues to be greater than the average value of all opportunities.	Achieved. Funded proposals in 2014/15 provided a weighted average of 61 QALYs per $1m net costs to the health sector, compared with an average of 32 QALYs per $1m from all proposals considered to have health gains.	To ensure our decisions are delivering "best health outcomes within the funding provided". Comparing the average QALYs per $1m from the decisions made with the possible QALYs per $1m from all proposals considered helps tell us whether the value we achieve for the system is contributing to PHARMAC's overall assessment of best health outcomes.

The graph overleaf shows PHARMAC's impact on drug expenditure in the CPB. PHARMAC's influence has been in negotiating lower prices for existing pharmaceuticals, while maintaining and widening access for New Zealand patients. Cost management of pharmaceuticals has been achieved through competition, which has led to price reductions, rather than by restricting access to medicines or limiting patient choice. Through this work, PHARMAC has managed funding at a lower level of growth than would otherwise have occurred.

Impact of PHARMAC on CPB drug expenditure over time (actual 2004–2015)



The shaded area between the graph's lines indicates the total amount saved since 2004. 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. The inclusion of these additional items makes predictions of future expenditure trends less certain. Expenditure beyond 2015 is estimated and actual figures are subject to change. Predictions of future expenditure do not take into account the possibility of further spending being included or of additional savings being made.

Potential savings to DHBs from PHARMAC's medical devices activity

In 2011/12 DHBs were spending around $880 million on medical devices, with cost growth estimated at around 11.5 percent per year in 2008/09. Cabinet expects PHARMAC will deliver savings to DHBs from the full management of 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. In September 2012 the Minister of Health announced PHARMAC would extend its successful management of medicines to include hospital medical devices over the next few years. This involves ensuring access is nationally consistent and that expenditure, including on the adoption of new technology, is managed within a fixed budget.

Eventually PHARMAC intends to take on responsibility for full budget management of hospital medical devices, although this is dependent on a full roll-out of the Financial Management Information System (FMIS) across 20 DHBs. The FMIS system will support compliance with Section H of the Pharmaceutical Schedule, which lists the 14,000 PHARMAC-negotiated medical device contracts DHBs can now take advantage of.

STATEMENT OF PERFORMANCE

This Statement of Performance records how PHARMAC has performed against targets outlined in its Statement of Performance Expectations 2014/15. PHARMAC defined three output classes for 2014/15. 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 CPB. The CPB includes funding for community pharmaceuticals and medical devices, pharmaceutical cancer treatments, and vaccines. PHARMAC does not hold these funds but monitors spending to ensure that it does not exceed the agreed notional budget. PHARMAC also has a Discretionary Pharmaceutical Fund, which enables timely pharmaceutical decision making and smoother management of the CPB across financial years. PHARMAC implements most of its decisions 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.

PHARMAC takes into account a broad range of factors important for making robust medicine-funding decisions in the New Zealand context. The affordability of decisions is essential since PHARMAC operates within a fixed budget. However, there are many other factors that PHARMAC considers when making decisions, including clinical risks and benefits, health needs including disease severity, the effect on addressing health disparities including those experienced by Māori and Pacific peoples, existing treatments' availability, treatments' suitability, and cost-effectiveness.

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.
- Such other criteria as PHARMAC thinks fit.

PHARMAC's Operating Policies and Procedures (OPPs) 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 OPPs, which began with a review of our nine decision criteria. The review was completed during 2014/15 and the new decision-making framework (Factors for Consideration) will be implemented in the 2015/16 financial year.

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.

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, better-value 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 (www.pharmac.govt.nz/patients/ApplicationTracker).

Output 1.1 Combined Pharmaceuticals
Sections B to I of the Schedule contain a list of medicines funded for all New Zealanders through the Combined Pharmaceutical Budget (CPB) and dispensed in the community. The Schedule also includes vaccines administered in primary care and Pharmaceutical Cancer Treatments provided through DHB cancer services. From 1 July 2013 PHARMAC also began managing haemophilia treatments for DHBs through the CPB.

Output 1.2 Other pharmaceuticals
PHARMAC manages pharmaceutical expenditure for DHBs in areas outside of the community setting, including an expanded role with hospitals. In July 2013 Section H of the Schedule was expanded to include the Hospital Medicines List (HML). Previously, Section H included a list of hospital medicines for which PHARMAC had negotiated national supply terms. The HML aims to increase national consistency in the medicines prescribed in hospitals and drive efficiencies for DHBs in hospital medicine expenditure.

PHARMAC is responsible for a small number of medical devices used in the community and DHB hospitals. During 2014/15 we continued to work on the national procurement of certain types of hospital medical devices ahead of transition to full medical device management for DHB hospitals. Eventually most medical devices used in DHB hospitals will be listed on the Pharmaceutical Schedule.

Medicines and medical devices listed in Section H are funded directly by DHB hospitals, so are not currently included in the CPB.

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 funded treatment.
Panels were maintained for:

- Cystic fibrosis
- Gaucher's disease
- Insulin pumps
- Multiple sclerosis
- Pulmonary arterial hypertension
- Treatments for gastrointestinal stromal tumours (imatinib, dasatinib) and chronic myeloid leukaemia (dasatinib)
- Haemophilia treatments (through the National Haemophilia Treaters' Group).

COMMUNITY 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
- urine testing for blood/protein.

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).

HOSPITAL MEDICAL DEVICES

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 2014/15 we worked with DHBs and their agents to support uptake of PHARMAC's national hospital medical device contracts.

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. Expenditure for NPPA community and cancer treatments continues to be drawn from the CPB, while approvals for hospital medicines are funded by individual DHB hospitals.

In the 2014/15 financial year PHARMAC completed a review of the NPPA policy as part of its ongoing review of its OPPs. The outcome of the review was the announcement of an Exceptional Circumstances Framework, which includes a revised NPPA policy. The revised NPPA policy has been simplified but the original intent has not changed. The new Exceptional Circumstances Framework will capture and make explicit other exceptional circumstances that fall outside the Pharmaceutical Schedule funding process. The new framework will come into effect in July 2015.

Making decisions about pharmaceutical output measures

Impact	Output	Measure	Rationale	2014/15 target	2014/15 results
Access Economic and system	1.1 Combined Pharma-ceuticals decisions	Percentage of funding decisions supported by evidence and made using PHARMAC's decision-making approach.	High-quality decision making needs to be informed by evidence. Confidence in our decision making requires us to follow the same approach consistently.	All funding decisions are supported by evidence and made using PHARMAC's decision-making approach.	Achieved (2013/14: Achieved). All funding decisions supported by evidence and made using PHARMAC's decision-making approach.
		Percentage of decisions on line items (excluding bids held open while awaiting Medsafe registration) made within six months of the tender closing.	Ensuring tender decisions are made in a timely way is important for good sector relationships and to provide certainty to potential suppliers.	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 (2013/14: Achieved). 100% of line items (excluding bids held open while awaiting Medsafe registration) completed by end of June 2015.
Access Economic and system	1.2 Other pharma-ceutical decisions (including hospital medicines and medical devices)	Savings returned to the health sector.	Returning savings to the health sector demonstrates the value PHARMAC adds as part of the health system. The savings we make for DHBs enable money to be redirected to other activity. Savings where there is no fixed budget are not readily forecast.	Hospital medical devices gross savings five-year NPV at least $4.74m.	Achieved. $6.8 million of gross savings five-year NPV.
		Expenditure managed for DHB hospitals.	Increasing the range of medicines available to use in DHB hospital pharmaceuticals needs to be managed sustainably.	New investments made in hospital pharmaceuticals within financial limits agreed with DHB. Funding decisions supported by evidence and made using PHARMAC's	Achieved (2013/14: Achieved). Value of investments made was lower than value of savings achieved. All funding decisions supported by evidence and made using PHARMAC's

Impact	Output	Measure	Rationale	2014/15 target	2014/15 results
				decision-making approach.	decision-making approach.

Output Class 2 – Influencing medicines use

Deciding to fund a medicine is only part of the pathway to medicines reaching New Zealanders who need them. PHARMAC has a legislative function to promote the responsible use of pharmaceuticals and this is an essential part of achieving best health outcomes. To do this, we communicate our decisions and provide information and support so medicines are prescribed and used well. Good communication helps people understand the reasons for decisions and contributes to realising the health outcomes sought through the funding decision. PHARMAC aims to support prescribers, pharmacists and patients so that medicines aren't over-, under- or mis-used. An important aspect of responsible use is medicines adherence (ensuring patients take the medicine prescribed for them in the way intended by their prescriber) along with broader actions to improve health literacy, workforce development and community engagement, and working with health professionals to deliver programmes so the medicines that are funded for people are used optimally. PHARMAC is one of many health sector agencies seeking to promote responsible use of medicines and we seek to work with other sector players to improve the value of the programmes we develop.

Output 2.1 Explaining decisions/sharing information

We consider feedback from prescribers and pharmacists on the practicality of Schedule changes and meet regularly with health professional groups to obtain input through our consultation processes. We also work alongside some health professional groups in developing our implementation and responsible use activities. We maintain regular contact with patient and consumer groups and welcome dialogue on medicine funding or other issues. To make sure we are asking the right questions of the right people, we take advice from our Consumer Advisory Committee on our engagement plans and practices and, from time to time, PHARMAC undertakes engagement and consultation activities with the community through regional and national forums.

We work to explain our decisions more 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. As well as notifying people about our decisions, we also 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

Our population health programmes are developed in response to evidence-based analysis and identified unmet need, and aim to improve access and promote responsible use of medicines. Key projects advanced in 2014/15 are outlined in the box (right).

Our population health programmes

Generic medicines – aims to reduce the concerns people have about generic medicines, such as effectiveness, safety, side effects and country of manufacture.

Antipsychotics in dementia – 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.

Sometimes decision implementation is supported by information provided to health professionals and consumers through our health education programmes, such as He Rongoā Pai He Oranga Whānau, a programme that provides seminars to Māori community health workers and primary care nurses. We are currently refreshing He Rongoā Pai He Oranga Whānau to ensure it remains relevant. We have explored opportunities to develop this resource for use as an education tool in a range of health and community settings.

We also shared information and promoted evidence-based prescribing to health professionals through the PHARMAC Seminar Series and by contracting services to promote appropriate prescribing through high-quality educational resources.

Adherence programmes
Medicines adherence plays an important role in ensuring the benefits from PHARMAC's funding decisions are realised. Supporting medicines adherence is a key element in promoting responsible use. Medicines adherence programmes contribute to ensuring medicines are prescribed and used as intended. Following a Request for Proposals in 2013, PHARMAC contracted two providers to develop and pilot technology-based medicines adherence tools and programmes. The pilots will be evaluated to assess their wider applicability. It is important to note that, while adherence tools may support people to achieve better medicines adherence, tools should be seen in a context of wider support. The role of health providers should not be underestimated.

Output 2.3 Supply management

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

Currently, PHARMAC also manages the direct distribution of some complex medicines to patients. This includes some medicines used to treat multiple sclerosis and enzyme deficiency disorders. PHARMAC is gradually moving distribution into the regular supply chain, through community pharmacies. We have already initiated this change for people taking imatinib for conditions other than gastrointestinal stromal tumours (GIST), and for people receiving human growth hormone. We are currently developing Special Authority criteria for accessing funded growth hormone.

Influencing medicines use output measures

Impact	Output	Measure	Rationale	2014/15 target	2014/15 results
Access Usage	2.1 Explaining decisions and sharing information	Amount of campaign materials distributed compared with previous year.	Demand for resources provides an indication of whether the material we produce is effective for explaining our decisions and the way we work.	Amount of campaign materials distributed is greater than previous year.	Not achieved (2013/14: Not achieved). 681 campaign materials with an average of 2.8 products per order distributed through www.pharmacoline.co.nz compared with 1056 with an average of 2.6 products per order in 2013/14.
	2.2 Population health programmes	Surveys of Seminar Series attendees showing respondents' satisfaction with the Seminars out of 5 (1 = poor, 5 = excellent).	Surveying Seminar attendees helps us to determine whether these continue to meet the needs of health professionals.	Surveys of attendees show at least 90% rate their satisfaction with the Seminars at least 4 out of 5.	Achieved. (2013/14: Achieved 94%). Surveys of attendees show at least 93% rate their satisfaction with the Seminars at least 4 out of 5.
	2.2 Population health programmes	He Rongoā Pai He Oranga Whānau is delivered to a	He Rongoā Pai He Oranga Whānau increases knowledge of	RFP completed and six presentations delivered through contracted	Not achieved. The RFP was withdrawn. A change in approach to delivering services

Impact	Output	Measure	Rationale	2014/15 target	2014/15 results
		range of health and community workers.	medicines and is consistent with Te Whaioranga.	partner to four different provider groups.	through Memoranda of Agreement with whānau ora collectives was initiated, along with a decision to refresh the course content.
Access Usage	2.3 Supply management	Low medicine stock situations are identified and managed.	Ensuring we know and understand the impact of stock shortages so we can act to minimise disruption for patients and providers is important for achieving best health outcomes.	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 managing pharmaceutical spending in the community, providing advice to DHBs on a range of matters including pharmacy contracting and medicines distribution, and contributing to the development of a New Zealand Universal List of Medicines and the New Zealand Formulary. Other sector-wide initiatives include those that aim to reduce the administrative workload of clinicians.

We also undertake work to assist health sector procurement where it fits with PHARMAC's skills. For example, we assisted with procuring some blood products for a number of years before taking on a greater responsibility for these during 2013/14.

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. PHARMAC has dedicated contract management resources that enable us to collect rebates from pharmaceutical suppliers. These are distributed back to DHBs.

PHARMAC also has access to a Legal Risk Fund, with a value of $6,713 million in 2014/15, which is used to meet litigation costs that are not otherwise met from our regular operational spending on legal services.

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

Providing policy advice and support output measures

Impact	Output	Measure	Rationale	2014/15 target	2014/15 results
Economic and system	3.2 Policy advice	Survey of policy requesters indicates satisfaction with timeliness and quality of PHARMAC's policy advice, out of 5 (1 = poor, 5 = excellent).	Understanding whether our policy advice to other agencies meets expectations enables PHARMAC to continually improve the quality of that advice.	An average survey score of at least 4.5 in each area.	Partially achieved (2013/14: Not achieved). PHARMAC surveyed policy requesters in July 2015. The following scores are an average score out of 5: • 4.17 (2013/14: 3.91) for timeliness of advice • 4.5 (2013/14: 4.5) for relevance of the advice • 4.5 (2013/14: 3.82) for thoroughness • 4.33 (2013/14: 3.45) for clarity • 4.33 (2013/14: 4.1) for the quality of the analysis • 4.67 (2013/14: 3.64) for informal policy support and availability.
Economic and system	3.3 Rebates distribution	All rebates are collected and distributed to DHBs in accordance with PHARMAC policy.	Effective management of rebates provides certainty to DHBs.	All fund use is in accordance with PHARMAC policy.	Achieved (2013/14: 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.

	2015 $000	2014 $000
Opening Balance 1 July	86,850	78,792
Receipts from third-party suppliers	199,739	156,465
Interest received	1,094	1,071
Total collected	200,833	157,536
Payments on behalf of third parties	38,155	79,969
Distributions to third parties	135,757	69,509
Total distributed	173,912	149,478
Closing Balance 30 June	**$113,771**	**$86,850**

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 $nil was spent from the Legal Risk Fund (2014: $70,327). Last year 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 subsequently been 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. At 30 June 2015 no funds remained in the litigation budget. The balance of the Legal Risk Fund at 30 June 2015 was $7,228,000.

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 2014/15 financial year, the DPF balance was $1,235,427. DHBs were required to pay $8,764,573 to bring the required DPF minimum balance to $10,000,000. An amount of $7,032,017 was paid to DHBs from the DPF on 26 June 2015. The closing balance of the DPF on 30 June 2015 was $2,967,983.

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 $3,200,000 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 2015, spending from the Herceptin SOLD Trial Fund was $418,274.

The balance of the fund stands at $319,069 at year end. The patient recruitment is complete and final payments relate to publication and administration costs.

STATEMENT OF ACCOUNTING POLICIES

Reporting entity

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

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

The financial statements of PHARMAC are for the year ended 30 June 2015. The financial statements were approved by the Board of PHARMAC on 25 September 2015.

Basis of preparation

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

Statement of compliance

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

The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

The financial statements comply with PBE accounting standards.

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards. There has been no material impact on transition to the new PBE accounting standards.

Presentation currency and rounding

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

Standards issued and not yet effective and not early adopted

In May 2013 the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. PHARMAC has applied these standards in preparing the 30 June 2015 financial statements.

In October 2014 the PBE suite of accounting standards was updated to incorporate requirements and guidance for the not-for-profit sector. These updated standards apply to PBEs with reporting periods beginning on or after 1 April 2015. PHARMAC will apply these updated standards in preparing its 30 June 2016 financial statements. PHARMAC expects there will be minimal or no change in applying these updated accounting standards.

SIGNIFICANT ACCOUNTING POLICIES

Revenue

All PHARMAC revenue is non-exchange.

Funding from the Crown

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

Funding from DHBs

Operating funding is recognised for agreed expenses to be provided by PHARMAC to 20 DHBs, the Discretionary Pharmaceutical Fund payments reflect expenses incurred under the Discretionary

Pharmaceutical Fund Policy, and additional contributions are made to support implementation of PHARMAC's hospital medical devices activity.

Interest revenue

Interest revenue is recognised using the effective interest method.

Capital charge

The capital charge is recognised as an expense in the financial year to which the charge relates.

Cash and cash equivalents

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

Receivables

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

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

Investments

Bank term deposits

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

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

Property, plant and equipment

Property, plant and equipment consist of leasehold improvements, 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.

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

Disposals

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

Subsequent costs

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

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

Depreciation

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

Item	Estimated useful life	Depreciation rate
Leasehold Improvements	5 years	20%
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 depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter.

The residual value and useful life of an asset 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 financial year is recognised in the surplus or deficit.

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

Payables

Short-term payables are recorded at their fair value.

Employment entitlements

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

Superannuation schemes

Defined contribution schemes

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

Provisions

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

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

Equity

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

- Contribution capital.
- Retained earnings and reserves.
- Herceptin SOLD Trial Fund.
- Discretionary Pharmaceutical Fund.
- Legal Risk Fund.

Goods and services tax (GST)

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

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 accounting policies for the period ended 30 June 2015.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2015

	Note	Actual 2015 $000	SPE Budget 2015 $000	Actual 2014 $000
Non exchange revenue				
Crown funding		15,780	15,779	15,135
DHB - Operating funding		3,360	3,400	3,395
DHB - Discretionary Pharmaceutical Fund	4	8,764	2,050	0
DHB - Additional Contribution		2,000	2,000	5,650
Other:				
Interest received - Operating		523	200	342
- Legal Risk Fund		313	280	272
Other revenue - Operating		382	181	272
Total Income		31,122	23,890	25,066
Expenditure				
Operating costs		5,574	6,979	4,850
Personnel costs	1	11,735	13,250	11,370
Audit Fees		42	42	42
Depreciation & amortisation costs	8&9	536	400	433
Director Fees		146	162	148
Discretionary Pharmaceutical Fund	4	7,032	2,050	11,905
Finance Costs	2	18	10	13
Herceptin SOLD trial administration		418	368	372
Legal Risk Fund		0	280	70
Occupancy costs		622	640	421
Implementation projects		2,625	3,474	3,164
Total expenditure		28,748	27,655	32,788
Net surplus/(deficit) for the period		2,374	(3,765)	(7,722)
Other comprehensive income		0	0	0
Total comprehensive revenue and expense		**$2,374**	**$(3,765)**	**$(7,722)**

Explanations of significant variances against budget are detailed in note 22.
The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

	Note	Actual 2015	SOI Budget 2015	Actual 2014
		$000	$000	$000
Balance at 1 July		18,235	23,019	25,957
Total Comprehensive Income		2,374	(3,765)	(7,722)
Balance at 30 June	3	**$20,609**	**$19,254**	**$18,235**

Explanations of significant variances against budget are detailed in note 22.
The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	Actual 2015	SOI Budget 2015	Actual 2014
		$000	$000	$000
PUBLIC EQUITY				
Contribution capital	3	1,856	1,856	1,856
Retained earnings and reserves	3	8,239	2,387	7,492
Herceptin SOLD Trial fund	3	319	348	737
Discretionary Pharmaceutical Fund	3	2,967	7,950	1,235
Legal Risk Fund	3	7,228	6,713	6,915
TOTAL PUBLIC EQUITY		**$20,609**	**$19,254**	**$18,235**
Represented by:				
Current assets				
Cash and cash equivalents		2,282	6,598	4,107
Investments	6	15,618	6,035	10,748
DPF monies deposited into rebates account	5	1,912	7,950	1,235
Debtors and other receivables	7	776	100	2,364
Prepayments		178	26	108
GST Receivable		930	0	1,683
Total current assets		21,696	20,709	20,245
Non-current assets				
Property, plant and equipment	8	1,089	1,665	834
Intangible Assets	9	203	85	93
Total non-current assets		1,292	1,750	927
Total assets		22,988	22,459	21,172
Current liabilities				
Creditors and other payables	10	1,171	2,115	1,309
Employee entitlements	11	905	700	1,343
GST Payable		0	90	0
Total current liabilities		2,076	2,905	2,652
Non-current liabilities				
Make Good Provision	12	303	300	285
Total liabilities		2,379	3,205	2,937
NET ASSETS		**$20,609**	**$19,254**	**$18,235**

Explanations of significant variances against budget are detailed in note 22.
The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

	Note	Actual 2015	SPE Budget 2015	Actual 2014
		$000	$000	$000
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Crown		15,780	15,779	15,135
- DHBs Operating		3,360	3,400	3,395
- Additional Sector Contribution		1,500	2,000	5,133
- Interest Operating		483	200	277
- Interest Legal Risk Fund		282	280	235
- Other Operating		180	181	252
- Discretionary Pharmaceutical Fund top up		7,032	0	0
- Discretionary Pharmaceutcal Fund release from rebates bank account		8,087	2,050	11,905
- Goods and services tax (net)		753	0	0
		37,457	23,890	36,332
Cash was disbursed to:				
- Legal Risk Fund expenses		(33)	0	(70)
- Discretionary Pharmaceutical Fund expenses		(7,032)	0	(11,905)
- Discretionary Pharmaceutical Fund deposited in rebates bank account		(8,764)	0	0
- Payments to suppliers and employees		(17,664)	(26,855)	(20,523)
- Goods and services tax (net)		0	(400)	(1,485)
		(33,493)	(27,255)	(33,983)
Net cash flow from operating activities	13	3,964	(3,365)	2,349
CASH FLOWS – INVESTING ACTIVITIES				
- Purchase of property, plant and equipment		(695)	(320)	(502)
- Purchase of intangible assets		(224)	(80)	(50)
- Purchase of investments		(4,870)	0	(4,713)
Net cash flow from investing activities		(5,789)	(400)	(5,265)
Net increase/(decrease) in cash		(1,825)	(3,765)	(2,916)
Cash at the beginning of the year		4,107	10,363	7,023
Cash at the end of the year		2,282	6,598	4,107

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 22.
The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE BY OUTPUT CLASS

For the year ended 30 June 2015

Output Actual 2014/15	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	8,784	11,284	585	(15,987)	4,666
Influencing Medicine Use	4,729	2,840	349	(8,626)	(708)
Policy Advice and support	2,267	0	284	(4,135)	(1,584)
Total	**15,780**	**14,124**	**1,218**	**(28,748)**	**2,373**

Output SPE Budget 2014/15	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	7,258	4,088	2,229	(11,892)	1,683
Influencing Medicine Use	6,312	1,090	266	(11,615)	(3,947)
Policy Advice and support	2,209	272	166	(4,148)	(1,501)
Total	**15,779**	**5,450**	**2,661**	**(27,655)**	**(3,765)**

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)**

End-of-year performance information

The following information is provided in order to comply with PHARMAC's end of year performance information responsibilities under the Public Finance Act 1989 in respect of that portion of the "National Contracted Services – Other" appropriation funded through the Crown Vote Health and allocated to PHARMAC (PHARMAC being one service provider receiving Crown funding through that appropriation).

Comparison of actual and forecast expenses for appropriation

Appropriation	Actual 2014/15 ($)	Budget 2014/15* ($)
National Contracted Services – Others (PHARMAC service provider allocation only) (Vote Health, Non-Departmental Output Expenses)	15,780,000	15,450,000

* Total allocated to PHARMAC through the 2014/15 Estimates of Appropriations as subsequently updated through the 2014/15 Supplementary Estimates of Appropriations to add the additional amount allocated to PHARMAC.

Assessment of what has been achieved with the appropriation in the financial year

PHARMAC's assessment of what has been achieved in the 2014/15 financial year with that portion of the "National Contracted Services – Other" appropriation activities allocated to PHARMAC, is set out in this Annual Report, including in the section that sets out PHARMAC's Statement Performance. PHARMAC's Statement of Performance assesses PHARMAC's performance against its Statement of Performance Expectations for 2014/15. This Annual Report also assesses PHARMAC's progress against the strategic intentions set out in its most recent Statement of Intent. PHARMAC's Statement of Intent sets out the performance measures against which PHARMAC's performance will be measured.

STATEMENT OF COMMITMENTS

As at 30 June 2015

Operating leases as lessee.

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

	Actual 2015 $000	Actual 2014 $000
Capital commitments approved and contracted	0	307
Operating commitments approved and contracted		
Not later than one year	606	623
Later than one year and not later than five years	1,272	1,878
Total commitments	**$1,878**	**$2,808**

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

PHARMAC has recognised a make good provision of $303,000 (2014: $285,000).

STATEMENT OF CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2015

PHARMAC had no contingent assets at 30 June 2015 (2014: $nil).

PHARMAC had no contingent liabilities at 30 June 2015 (2014: $nil).

Explanations of significant variances against budget are detailed in note 22.
The accompanying accounting policies and notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Personnel costs

	Actual 2015 $000	Actual 2014 $000
Salaries and related costs	11,486	9,947
Employer contributions to defined contribution plans	275	244
Increase/(decrease) in employee entitlements	(438)	151
Other personnel costs	412	1,028
Total personnel costs	**$11,735**	**$11,370**

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

Note 2: Finance costs

	Actual 2015 $000	Actual 2014 $000
Discount unwind on provisions (note 12)	**$18**	**$13**

Note 3: Public equity

RETAINED EARNINGS	Actual 2015 $000	Actual 2014 $000
Balance at 1 July	7,492	3,139
Net surplus/(deficit)	2,374	(7,722)
Net transfer from/(to) Herceptin SOLD trial fund	418	372
Net transfer from/(to) discretionary pharmaceutical fund	(1,732)	11,905
Net transfer from/(to) legal risk fund	(313)	(202)
Balance at 30 June	**$8,239**	**$7,492**
CONTRIBUTION CAPITAL		
Balance at 1 July	1,856	1,856
Balance at 30 June	**$1,856**	**$1,856**
HERCEPTIN SOLD TRIAL FUND		
Balance at 1 July	737	1,109
Add:Net transfer from/(to) retained earnings	(418)	(372)
Balance at 1 July	**$319**	**$737**
LEGAL RISK FUND		
Balance at 1 July	6,915	6,713
Add: Interest received transferred from/(to) retained earnings	313	272
Less: Litigation expenses transferred from/(to) retained earnings	0	(70)
Balance at 30 June	**$7,228**	**$6,915**
DISCRETIONARY PHARMACEUTICAL FUND		
Balance at 1 July	1,235	13,140
Add: Income received transferred from/(to) retained earnings	8,764	0
Less: Pharmaceutical expenses transferred from/(to) retained earnings	(7,032)	(11,905)
Balance at 30 June	**$2,967**	**$1,235**
TOTAL PUBLIC EQUITY	**$20,609**	**$18,235**

Note 4: Discretionary Pharmaceutical Fund (DPF)

The revenue in 2015 of ($8,764,000): (2014: $0) 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 2015 of $7,032,000 (2014: $11,905,000) relates to payouts to DHBs so that the CPB expenditure does not exceed the CPB budget of $795.0m.

Note 5: Discretionary Pharmaceutical Fund (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 2015 $000	**Actual 2014** $000
Current Portion		
Term Deposits	$15,618	$10,748
Total Investments	**$15,618**	**$10,748**

There is no impairment provision for investments.
The carrying amounts of term deposits with maturities less than 12 months approximate their fair value.

Note 7: Receivables

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

	2015			**2014**		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due	776	0	776	2,364	0	2,364
Past due 30-60 days	0	0	0	0	0	0
Past due 61-90 days	0	0	0	0	0	0
Past due > 91 days	0	0	0	0	0	0
Total	**$776**	**$0**	**$776**	**$2,364**	**$0**	**$2,364**

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 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
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**
2015							
Furniture and fittings	527	174	0	465	50	0	186
EDP equipment	1,951	51	0	1,677	177	0	148
Office equipment	524	63	0	459	29	0	99
Leasehold improvements	1,282	427	0	849	204	0	656
Total PPE Assets	**$4,284**	**$715**	**$0**	**$3,450**	**$460**	**$0**	**$1,089**

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
2014							
Total Intangible Assets	$1,234	$50	$0	$1,110	$81	0	$93
2015							
Total Intangible Assets	$1,284	$203	$0	$1,191	$93	0	$203

Note 10: Payables

All payables are non-exchange transactions.

	Actual 2015 $000	Actual 2014 $000
Creditors	942	832
Accrued expenses	229	477
Total payables	**$1,171**	**$1,309**

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

Note 11: Employee entitlements

	Actual 2015 $000	Actual 2014 $000
Annual leave entitlement	585	536
Accrued salaries and wages	320	807
Total employee entitlements	**$905**	**$1,343**

Note 12: Provisions

	Actual 2015 $000	Actual 2014 $000
Non-current provisions are represented by:		
Lease make good	303	285
Total provisions	**$303**	**$285**

Movement for 'make good' provision

	2015 $000	2014 $000
Balance at 1 July	285	197
Additional provisions made	0	75
Amount used	0	0
Unused amounts reversed	0	0
Discount unwind	18	13
Balance at 30 June	**$303**	**$285**

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

	2015	2014
Net surplus/(deficit)	2,374	-7,722
Discount on unwind provision	18	12
Depreciation and amortisation	536	433
Total non-cash items	554	445
Add (less) movements in working capital items:		
Decrease/(increase) in debtors and other receivables	1,588	-719
Decrease/(increase) in prepayments	-70	-71
(Decrease)/increase in payables	-138	-323
(Decrease)/increase in make good provision	18	88
(Decrease)/increase in employee entitlements	-438	151
Decrease/(increase) in net GST	753	-1,405
Net movements in working capital	1,713	-2,279
Other movements		
DPF monies released from/(deposited in) rebates bank account	-677	11,905
Net cash flow from operating activities	3,964	2,349

Note 14: Related party transactions

PHARMAC is a wholly owned entity of the Crown.

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

Key management personnel compensation

	Actual 2015	Actual 2014
Board members		
Remuneration	$146,000	$148,000
Full time equivalent members	5.08	5.16
Leadership Team		
Remuneration	$1,299,106	$1,640.000
Full-time equivalent members	5.00	6.08
Total key management personnel compensation	**$1,445,106**	**$1,788,000**
Total full-time equivalent personnel	**10.08**	**11.24**

The full-time equivalent for Board members has been determined based on their period of appointment for this financial year.

Note 15: Board members' remuneration

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

Member	Fees	
	2015	2014
	$000	$000
Stuart McLauchlan (Chair)	48	48
Nicole Anderson	24	2
Kura Denness	2	24
Dr David Kerr	24	24
Anne Kolbe	0	2
Prof Jens Mueller	24	24
Dr Jan White	24	24
Total Board member remuneration	**$146**	**$148**

There have been payments of $376,000 (2014: $337,000) made to committee members appointed by the Board who are not Board members during the financial year.

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

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

No Board members received compensation or other benefits in relation to cessation (2014: $nil).

Note 16: Employee remuneration

Total remuneration paid or payable	Actual	
$000	2015	2014
100 – 110	7	6
110 – 120	12	9
120 – 130	5	3
130 – 140	3	4
140 – 150	4	2
150 – 160	3	2
160 – 170	2	2
170 – 180	1	1
180 – 190	1	2
210 – 220	0	1
220 – 230	1	1
230 – 240	2	0
340 – 350	0	1
370 – 380	1	0

Note 17: Events after the balance sheet date

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

Note 18: Financial instrument risks

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

Fair value interest rate risk
Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

PHARMAC's exposure to fair value interest rate risk is limited to its bank deposits which are held at fixed rates of interest.

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

PHARMAC does not have significant concentration of credit risk.

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.

	2015 Less than 6 months $000	2014 Less than 6 months $000
Creditors and other payables	**$1,171**	**$1,309**

Fair value
The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2015 and 30 June 2014 approximate their fair values.

Note 19: Categories of financial instruments

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

Counterparties with credit ratings	**Actual 2015** $000	**Actual 2014** $000
Cash at bank and term deposits		
A+	9,128	5,448
AA-	10,684	10,642
Total cash at bank and term deposits	**$19,812**	**$16,090**

Counterparties with credit ratings	**Actual 2015** $000	**Actual 2014** $000
Debtors and other receivables	776	2,364
Total financial liabilities at amortised cost	**$776**	**$2,364**

Note 20: 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 21: Cessation payments

This information is presented in accordance with section 152(1)(d) of the Crown Entities Act 2004. Cessation payments include payments that the person is entitled to under contract on cessation such as retirement payment, redundancy and gratuities. PHARMAC made no payments to former employees during the financial year $0 (2014: $750).

Note 22: Explanation of major variances against budget

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

Statement of comprehensive income
The net surplus for the year ended 30 June 2015 of $2,336,000 is $6,101,000 less than the SPE budgeted deficit of $3,765,000.

The main difference in revenue is $7,232,000 where the SPE budget allowed for a top-up of the Discretionary Pharmaceutical Fund (DPF) for $2,050,000 but the actual was $8,764,000.

The main differences in operating expenditure arise from over-expenditure of $4,982,000 of the DPF, and an under-expenditure of $1,515,000 personnel costs owing to delay in positions being filled as compared with planned, $510,000 information management due to reduction in contractor costs and $849,000 implementation projects due to reduced activity.

Statement of financial position
The decrease in cash and cash equivalents of $5,371,000 arises from an increase in investments of $9,583,000, increase in GST receivable of $1,020,000, and a decrease of DPF deposit into the rebates account $4,983,000 and other sundry movements. The increase in public equity of $1,317,000 also reflects the movements above.

Note 23: Adjustments arising on transition to the new PBE accounting standards

Reclassification adjustments
There have been no reclassifications on the face of the financial statements in adopting the new PBE accounting standards.

Recognition and measurement of adjustments
There have been no adjustments to the 30 June 2014 comparative information resulting from the transition to the new PBE accounting standards.

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New Zealand Government

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