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Pharmaceutical Management Agency

Annual Report

For the year ended 30 June 2018

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

PHARMAC
Pharmaceutical Management Agency

Annual Report of

Pharmaceutical Management Agency (PHARMAC)

for the year ended
30 June 2018

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

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Hon Steve Maharey
Chair

28 September 2018

Prof Jens Mueller
Board Member

28 September 2018

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CHAIR'S REPORT

PHARMAC plays a critical role in New Zealand's health and disability system and each year continues to make a positive impact on the health and well-being of many New Zealanders.

This year's Annual Report, the first based on the Statement of Intent 2017/18–2020/21, incorporates our refreshed organisational direction, ensuring we continue to achieve the best health outcomes for New Zealanders from funded pharmaceuticals.

This year saw the appointment of PHARMAC's new Chief Executive, Sarah Fitt, following Steffan Crausaz's departure. I congratulate Sarah, who brings a wealth of clinical and management experience to the role and thank Steffan for his significant contribution to PHARMAC and the New Zealand health sector.

Increasing access to medicines

Over the past year, PHARMAC made 52 investment decisions that benefitted approximately 331,700 people. Funding decisions included new treatments for cancer, eye implants for people with diabetes-related eye deterioration, and vaccines to prevent shingles and chickenpox. We also widened access to 39 more medicines, including a treatment to prevent HIV infection that will benefit up to 4000 people each year, and an early stage-breast cancer medication that will benefit up to 3000 women per annum.

This year we moved towards full budget management of hospital medicines. The Minister of Health authorised PHARMAC to take over management of hospital medicines funding via the Combined Pharmaceutical Budget from 1 July 2018. This marks a significant step towards PHARMAC's goal to create systems that enable the best investment choices for New Zealanders.

Hospital medical devices

PHARMAC continued to make gains in managing hospital medical devices. Our work has seen the Pharmaceutical Schedule expand to include over 75,000 hospital medical device line items from over 40 suppliers. These contracts cover approximately $179 million of annual expenditure. We aim to have all medical device categories under PHARMAC management by the end of 2019. Our next step will then be to create a list of medical devices funded by all DHBs, which PHARMAC will manage.

Strategic goals

Our vision is to be a critical part of the health system in delivering better health for all New Zealanders. We have adopted three bold goals to be achieved by 2025 that will make a significant impact on health outcomes for all New Zealanders. They are to eliminate inequities in access to medicines; generate $1 billion in savings from medical device management to reinvest back into the health sector; and create systems that enable the best investment choices to be implemented across all PHARMAC activities. We are making solid progress in advancing these goals, including by working with our sector partners and others. These goals are ambitious and designed to enable us to deliver the very best we can for New Zealand.

Consumer and sector engagement

We have started a review of how we seek and incorporate the consumers' voices into our work. This includes consumers' voices in our decision-making process for funding new medicines and medical devices. We consulted with people around New Zealand at community forums, had discussions with consumer advocacy groups, and used an online survey and discussion document to gain written feedback. The feedback will inform what changes we can make to better incorporate the voices of consumers in our work.

Our relationships with our sector partners continue to be critical to our ability to make an impact in communities across New Zealand. We work closely with DHB staff at all levels on a range of activities, including implementing funding decisions. We will continue to consult with DHB staff and work with specialist groups as we expand our activities in hospital medical devices.

We continue to progress the Te Whaioranga Māori Responsiveness strategy, reaching agreements with four more Whānau Ora Collectives. These partnerships will be even more important to us in the future as we strive to eliminate inequities in access to funded medicines. Meanwhile, PHARMAC's Pacific Responsiveness Strategy, which addresses medicines access for Pacific people, is also a key strand of our access equity programme. As a part of this PHARMAC supported the establishment of the Pacific Pharmacists Association, which was created in 2018.

25 years and counting

In 2018, PHARMAC marked 25 years since its establishment. Over this time, PHARMAC has made a significant contribution to the health of New Zealanders, while also saving our country billions of dollars and expanding the range of funded medicines. The PHARMAC model is a proven one, and our healthcare is in great hands as we look to navigate the years ahead.

Finally, this year saw the end of the tenure of my predecessor Stuart McLauchlan, who served as PHARMAC's Board Chair since 2010. I thank Stuart for his considerable contribution to PHARMAC in that role. Through his leadership and guidance, PHARMAC has been able to expand its activities and contribution to New Zealand, while continuing to fund more medicines for more people. I wish Stuart well for his future endeavours.

Steve Ma

Hon Steve Maharey
Chair

SUMMARY OF PHARMAC'S ACTIVITY FOR THE YEAR

Combined Pharmaceutical Budget 2017/18

- **$870.8 million** – DHBs' combined pharmaceutical expenditure (on budget)
- **45.8 million** – number of funded prescription items filled
- **3.68 million** – number of New Zealanders receiving funded medicines (2.2 percent increase)
- **$59 million** – amount of savings achieved
- **13** – number of new medicines funded
- **39** – number of medicines with access widened
- **331,700** – estimated number of additional patients benefitting from decisions

Hospital medicines 2017/18

- **$6.72 million** – full-year savings to DHB hospitals from hospital medicines decisions
- **$36.42 million** – savings over five years after costs of new investments
- **2** – number of new hospital medicines funded
- **2** – number of hospital medicines with access widened

Hospital medical devices 2017/18

- **31,000** – additional line items on the Pharmaceutical Schedule under national contracts
- **$15.63 million** – net savings over five years from contracts during the year
- **$55.41 million** – savings over five years from all contracting to date
- **$179 million** – total value of medical devices under PHARMAC contract

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 Board (DHBs) spending on vaccines, and medicines and medical devices used in the community and public hospitals.

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's work includes:

- managing and maintaining the Pharmaceutical Schedule – the list of prescription medicines and therapeutic products subsidised by the Government;
- managing the Combined Pharmaceutical Budget (CPB) – the funding decided by the Minister of Health for pharmaceuticals and managed by PHARMAC;
- managing the medicines and related products used in public hospitals;
- considering funding applications for people with exceptional clinical circumstances;
- promoting the responsible use of pharmaceuticals; and
- engaging in relevant research.

When making funding decisions, PHARMAC seeks expert advice, including from its primary clinical advisory committee, the Pharmacology and Therapeutics Advisory Committee (PTAC), and its expert subcommittees.

Our strategy

PHARMAC's strategy guides our work ahead to 2025. Our vision is to be critical to the health system in delivering better health for all New Zealanders. We want to get the best health outcomes from our investment in medicines and medical devices.

To drive our strategy, we have adopted three bold goals. They push beyond our everyday work to challenge us to deliver the very best we can for New Zealand. The goals we want to achieve by 2025 are to:

- *Eliminate inequities in access to medicines*

  This bold goal reflects a significantly expanded area of emphasis for PHARMAC. We have established a new team to lead work to better understand what barriers some under-served groups, including those facing inequities or health disparities, face in accessing and using medicine.

  Equity issues are at the heart of two of our strategies: Te Whaioranga, our Māori Responsiveness strategy, and our Pacific Responsiveness Strategy. These areas of focus involve close community and sector engagement and support.

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

  Reaching $1 billion of savings is a bold target but achieving it will help ensure funding for medicines and medical devices is spent as effectively as possible. We are on track to bring half the intended full scope of hospital medical devices under national contracts before the end of 2018 and the rest by the end of 2019, which we expect to enable some savings for DHBs.

Bringing hospital medical devices onto national contracts is a key first step towards realising significantly larger savings in future years and, eventually, full budget management of hospital devices expenditure.

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

  Longer-term, the ability to make the best possible investment decisions across all the different roles we hold will generate the best health outcomes for New Zealand. We need to consider a number of analytical, process and system design issues to generate more value from government funding of PHARMAC's work.

The performance framework on the following page shows what we do and the impact of our work. The impacts link to our three output classes outlined in our Statement of Performance Expectations, and which we report against.

HEALTH SYSTEM GOAL

ALL NEW ZEALANDERS LIVE WELL, STAY WELL, GET WELL

OUR MISSION

Best health outcomes from New Zealand's investment in medicines and medical devices

OUR GOALS BY 2025

- Eliminate inequities in access to medicines
- Generate $ 1 billion of savings from medical device management to reinvest in health outcomes for New Zealanders
- Create systems that enable the best investment choices to be implemented across all PHARMAC activities

THE IMPACT OF OUR WORK

Increased access to effective medicines and medical devices

Savings are created to reinvest

New medicines and medical devices are funded that are clinically effective and good value

Funding and any access criteria are targeted to achieve the best health outcomes

Available when needed

Funded products are available to people when and where needed

Used optimally

Patients have improved outcomes from medicines and medical devices being prescribed, dispensed, accessed and used optimally

In a high performing system

Ongoing improvement in the design and operation of the health system, including how the system works together

WHAT WE DO

Make choices and manage expenditure

Community — Manage the list of funded medicines and related products by ensuring total expenditure is within a fixed budget

Hospital — Decide on new medicines within available funding

Decide on contract arrangements and usage across all DHBs

Exceptional circumstances — Decide on funding of treatment for people in exceptional circumstances

Decide and monitor rules, or criteria for access to specific products and distribution arrangements

Manage product supply

Use contracting methods and other mechanisms to ensure continued supply

Monitor the continuity of supply of funded medicines and medical devices

Support good decisions and actions

Inform and support health professionals and consumers on the use of medicines and medical devices

Contribute to a high performing system

Work with stakeholders to help ensure the health system is well-designed and well-coordinated

Research and insights

Undertake research and analysis to support decision making and assist others in the health sector

OUR APPROACH

We make responsible choices for New Zealand resulting from:

- robust assessment and prioritisation
- advice from an extensive network of clinical experts
- wide-ranging stakeholder engagement and consultation
- purchasing strategies to promote competition between suppliers

INTERESTS OF DIRECTORS

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

MINISTERIAL DIRECTIONS

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

PHARMAC did not receive any new Ministerial directions in 2017/18. The following table outlines the directions and authorisations we have in place.

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

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; and
- the 2017/18 Annual Report.

In the opinion of the Board, the Financial Statements and Statement of Performance for the year ended 30 June 2018 fairly reflect the financial position and operations of PHARMAC.

Hon Steve Maharey
Chair

28 September 2018

Prof Jens Mueller
Board member

28 September 2018

Independent Auditor's Report

To the readers of the Pharmaceutical Management Agency's financial statements and performance information for the year ended 30 June 2018

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

Opinion

We have audited:

- the financial statements of Pharmac on pages 39 to 60, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of Pharmac on pages 20 to 35.

In our opinion:

- the financial statements of Pharmac on pages 39 to 60:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Reporting Standards; and
- the performance information on pages 20 to 35:
  - presents fairly, in all material respects, Pharmac's performance for the year ended 30 June 2018, including:
    - for each class of reportable outputs:
      - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and

- its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and

- complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 28 September 2018. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Pharmac's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.

- We evaluate the appropriateness of the reported performance information within Pharmac's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Pharmac's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Pharmac to cease to continue as a going concern.

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages 4 to 10, 16 to 19, and 36 to 38 but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

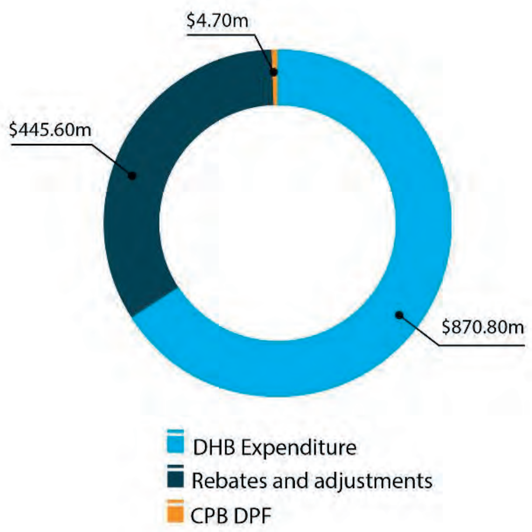
Kelly Rushton
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

PHARMACEUTICAL EXPENDITURE

Combined Pharmaceutical Budget in 2017/18

PHARMAC manages the Combined Pharmaceutical Budget (CPB), set by the Minister of Health. DHBs hold funding for the CPB, and PHARMAC works to ensure spending does not exceed the CPB. A small discretionary fund held by PHARMAC also helps manage this budget.

The total expenditure by DHBs this year was on budget at $870.80 million. This consisted of $875.50 million on combined pharmaceuticals (community pharmaceuticals, hospital pharmaceutical cancer treatments, vaccines and haemophilia treatments), less a transfer of $4.70 million from the CPB Discretionary Pharmaceutical Fund (CPB DPF) to DHBs. Gross expenditure for the year was $1321.10 million, with PHARMAC's commercial agreements with suppliers including $445.60 million of rebates and adjustments.



During the year, there was a 0.3 percent increase in the number of prescription items for medicines compared to the previous year. There was also an increase in the average cost of prescription items due to previous funding decisions adding more expensive medicines to the total pool of funded medicines. In addition to the growth in expenditure for medicines already funded, PHARMAC made 52 medicine investment decisions during the year (including decisions both to fund new medicines and widen access to existing ones).

To meet the cost of these new investments and other spending increases, PHARMAC generated full-year savings valued at $59 million ($53 million of which was available during the year due to the timing of when decisions were made).

CPB decisions 2009/10–2017/18

The following table highlights the number of medications we have funded or widened access to over the last nine years (including medicines prescribed by GPs, hospital cancer treatments and vaccines).

Year	New listings	Widened access	Total
2017/18	13	39	52
2016/17	18	8	26
2015/16	15	6	21
2014/15	21	20	41
2013/14	26	35	61
2012/13	20	40	60
2011/12	14	10	24
2010/11	39	43	82
2009/10	20	25	45

Summary of major CPB investments

In this financial year, PHARMAC funded a total of 13 new medicines and widened access criteria to 39 more. Some of the major investment decisions we made include:

- *Breast cancer treatment*

  Zoledronic acid, a treatment for post-menopausal women with early breast cancer that prevents the disease spreading into bones. Up to 3000 women per year could benefit from this decision.

- *HIV prevention*

  Emtricitabine with tenofovir disoproxil fumarate (Truvada) for people at high risk of contracting HIV. Approximately 4000 people are eligible for this treatment.

- *Treatment of a degenerative eye condition*

  Aflibercept (Eylea), a treatment used to treat degenerative eye conditions, benefitting around 900 people.

- *Treatment for blood clots and prevention of strokes*

  Rivaroxaban (Xarelto), an anticoagulant for preventing strokes and treating blood clots, benefitting up to 12,000 people.

- *Implants for treatments to help prevent blindness*

  Dexamethasone implants for people with diabetic macular oedema, a serious complication of type 1 and 2 diabetes that can cause blindness if untreated.

- *Shingles vaccine*

  The shingles vaccine Zostavax funded for people aged 65 years, with a catch-up programme for those aged 66–80, benefitting over 600,000 people.

- *Chickenpox vaccine*

  The varicella vaccine, which prevents chickenpox. Around 60,000 children are born in New Zealand each year and all are eligible for this vaccine.

- *Four-strain influenza vaccine*

  The quadrivalent vaccine – a four-strain vaccine providing additional protection against influenza.

Hospital medicines and medical devices in 2017/18

Hospital medicines

PHARMAC manages new investments in hospital medicines and also assesses the cost of named patient approvals for people with exceptional clinical circumstances, for medicines or indications not listed on the Pharmaceutical Schedule.

Funding for new investments comes from savings we make on products currently used in hospitals, as a result of an annual tender and other savings transactions. In 2017/18, $6.72 million of savings were generated. After investments, the net annualised saving was $5.53 million to Vote Health (with a 5-year saving of $36.42 million).

Our commercial agreements with suppliers can include rebates to help manage how much money is spent and ensure confidentiality of the reduced net effective prices. For 2017/18, the total value of these hospital rebates was $35.16 million (excluding GST).

Inclusion of hospital medicines spending in CPB

As part of Budget 2018, Cabinet decided to include hospital medicines in the CPB, with effect from 1 July 2018. This decision reflected a 2010 policy direction and had been widely discussed. Including hospital medicines in the CPB enables PHARMAC to ensure that funds are invested in the highest value medicines, regardless of setting.

The PHARMAC Board decided to advance the date of inclusion of hospital medicines in the CPB to 1 May 2018, as it considered this would be the next best investment option for available funding during 2017/18.

Hospital medicines decisions, 2013/14–2017/18

This table summarises the number of medications we have funded or widened access to for public hospitals (excluding hospital cancer treatments).

Year	New listings	Widened access	Total
2017/18	2	2	4
2016/17	4	2	6
2015/16	13	0	13
2014/15	9	2	11
2013/14	3	4	7

Hospital medical devices

During the year, PHARMAC added 31,791 hospital medical device line items to the Pharmaceutical Schedule, bringing the total number of items to around 77,698. The national contracts negotiated in 2017/18 will save a minimum of $15.63 million over five years based on current use patterns. If DHBs increased their use of nationally-contracted products, the savings will increase.

The value of savings over five years arising from all national contracts PHARMAC has already negotiated are estimated to be $55.41 million. The total value of hospital medical devices under contract as at 30 June 2018 is $179 million. All devices under contract are listed as an addendum to the Pharmaceutical Schedule.

Discretionary Pharmaceutical Funds

Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund (CPB DPF)

Since 2010/11 PHARMAC has held a fund called the Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund (CPB DPF). The CPB DPF is a budget management tool that serves two objectives:

1. to manage unexpected pharmaceutical expenditure that may result in over or under spending of the CPB budget; and

2. to allow PHARMAC to transfer funding across years to enable investment decisions to be made with a longer-term focus.

At the start of the 2017/18 financial year, the CPB DPF balance was $14,482,000. An amount of $4,769,000 was paid to DHBs from the CPB DPF on 30 June 2018 as a result of spending on subsidies being higher than budgeted. The closing balance of the CPB DPF on 30 June 2018 was $9,713,000 which is now available for future years.

Hospital Discretionary Pharmaceutical Fund (HDPF)

Since May 2016 PHARMAC has held a Hospital DPF (HDPF). The HDPF is an additional budget management tool which supports long-term management of DHB expenditure through the transfer of funding across years to enable strategic investment decisions.

At the start of the 2017/18 financial year, the HDPF balance was $4,450,000. PHARMAC entered into an agreement with NZ Health Partnerships Ltd for improvements to the Hospital Medical Devices Datahub, a DHB-managed data collection system of these purchases. This provides important expenditure information to support PHARMAC's management of hospital medical devices. The agreement is for payments spread over two years totalling $1,100,000. The closing balance of the HDPF on 30 June 2018 was $4,175,000.

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.

There was $7,007 expenditure from the Legal Risk Fund for 2017/18 (2016/17: $173,305). PHARMAC's litigation budget is used to replenish the Legal Risk Fund at financial year end, in the event that funds remain in that budget. At 30 June 2018, $21,568 (2016/17: $57,289) remained in the litigation budget. The balance of the Legal Risk Fund at 30 June 2018 was $7,904,511.37.

Herceptin SOLD Trial Fund

The Herceptin Synergism Or Long Duration (SOLD) Study Trial Fund was an international research trial examining whether the nine-week or 12-month duration of Herceptin offered equivalent treatment. In 2007, PHARMAC contracted to contribute $3,200,000 over at least 10 years towards the trial costs. As the trial is now complete, no further expenditure is required and the fund is now closed.

Provisional results from the trial show that both short and long duration groups, treated with trastuzumab (Herceptin) for early HER 2-positive breast cancer, attained similar five-year survival rates of over 90 percent.

IMPACTS – PHARMAC'S INFLUENCE

PHARMAC is committed to:

- generating the best possible health outcomes from available funding (and managing pharmaceutical expenditure within budget);
- making high-quality funding decisions so that all New Zealanders have equal access to funded pharmaceuticals;
- promoting the responsible use of pharmaceuticals;
- assisting DHBs to achieve better health outcomes from other procurement initiatives; and
- addressing inequities in medicines access for Māori and populations with poor health outcomes.

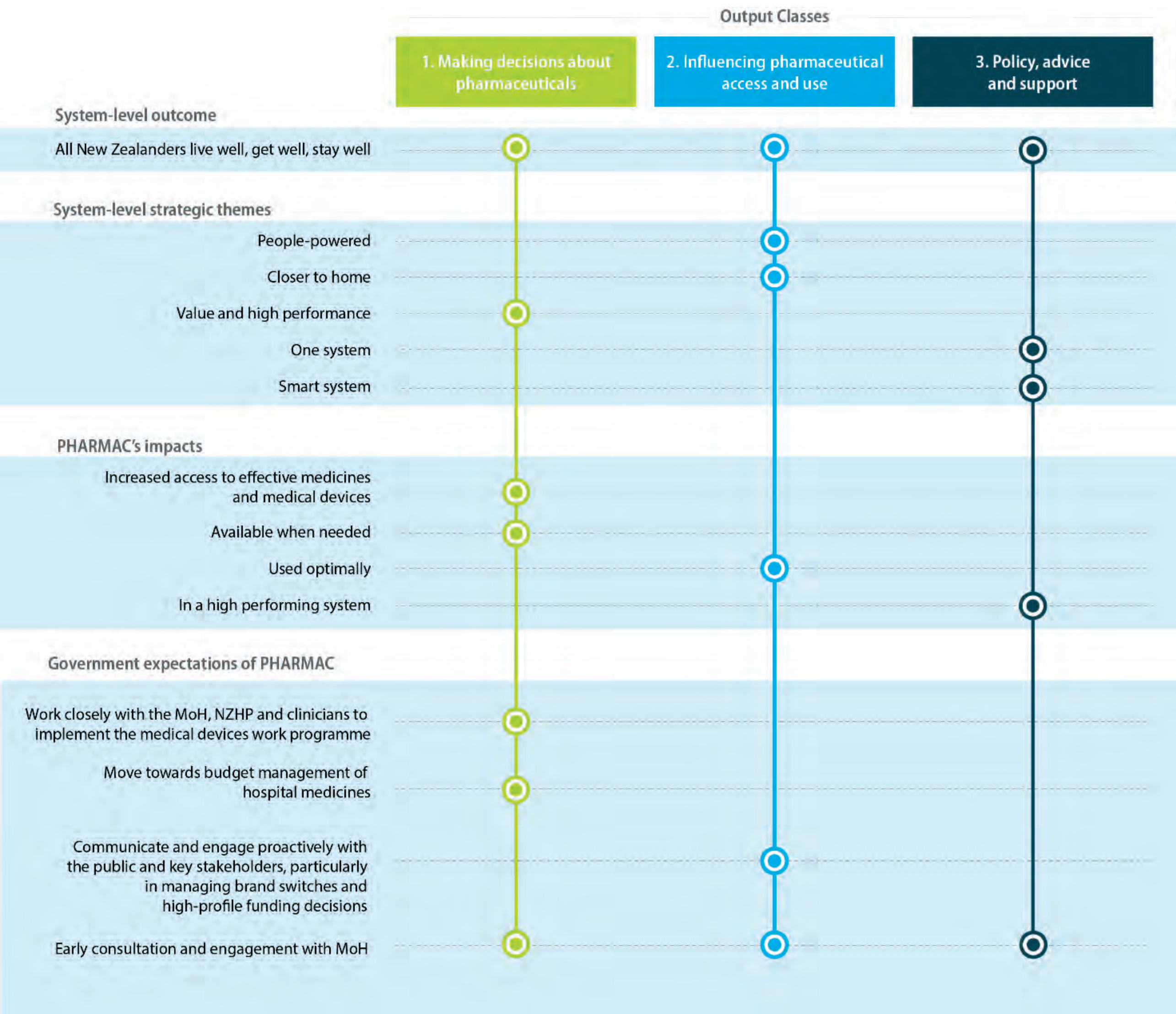
These impacts are made possible through the services we provide – our outputs:

Output class	Description	Outputs
1. Making decisions about pharmaceuticals[1]	Work that leads to new medicines being funded and money being saved on older medicines	1.1. Combined Pharmaceuticals[2] 1.2. Other pharmaceuticals 1.3. Special Access Panels 1.4. Named Patient Pharmaceutical Assessment
2. Influencing pharmaceuticals access and 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 contained in this annual report (pages 27 to 35).

[1] 'Pharmaceuticals' are medicines, vaccines, medical devices, related products or related things.
[2] Includes vaccines, hospital pharmaceutical cancer treatments and some blood products.

Linking our outputs to impacts, health system outcomes and Government expectations



*MoH is the Ministry of Health; NZHPL is New Zealand Health Partnerships Ltd.

IMPACT AREA 1

Increased access to effective medicines and medical devices

Why this is important

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

How we will get there

- For community – manage the list of funded medicines and related products by ensuring total expenditure is within the fixed budget.
- In hospitals – decide on new medicines within available funding and decide on contract arrangements and usage for medical devices across all DHBs.
- Decide and monitor rules, or criteria for access to specific products and distribution arrangements.
- Decide on funding medicines for people in exceptional circumstances.

Impact	Measure	Result	Rationale
Increased access to effective medicines and medical devices.	The price paid for medicines and related products in the CPB, reduces in real terms over time, while access to them increases.	Between 2008 and 2018, we saved DHBs a cumulative total of around $6.89 billion, including $1.63 billion in 2017/18. At the same time, the number of new medicines and people receiving them has increased.	In managing the CPB we want to, in effect, get more for less. We are always aiming to increase people's access to clinically effective, good value medicines by reducing prices. This is demonstrated by the Price, Volume Mix graph (page 24).
	The number of New Zealanders receiving funded medicines increases.	The number of New Zealanders receiving funded medicines (excluding vaccinations) increased by 2.2 percent to 3.68 million.	We want to see an increase in the number of New Zealanders receiving funded medicines. This would help to reflect the success of our work in: • funding more medicines • removing or widening clinical access criteria so more people can get funded medicines • reducing inequities in access to medicines.
	Total value and total number of hospital medical devices under contract increases.	We estimate the annualised spend on hospital medical devices under contract has increased by $77 million[3]. The total number of new medical devices under contract has increased by approximately 31,000 listings.	As we progress our work in hospital medical devices (for which we entered into our first contracts in February 2014) we expect to see an increase in the number of devices that we've secured contracts for. We also track our

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

Impact	Measure	Result	Rationale
			progress through the value of the contracts we've negotiated – demonstrating the extent of our work. This measure shows the growth of PHARMAC's medical devices work programme (and links to our bold goal to generate $1 billion of savings from medical device management to reinvest in health outcomes for New Zealanders).
	The average value of our funding decisions is higher than the average value of all investment proposals.	There were 238 quality-adjusted life-year (QALYs)[4] achieved per $1 million spent for funded proposals, compared to 42 QALYs per $1 million for all available investment options.	To get the best health outcomes – our overarching objective – we need to decide which funding applications represent the best health outcomes for us to progress and implement. This fundamentally means making the best of all choices available to us in any year. Combined with the integrity of our application process, including priority recommendations from PTAC, this measure helps us prove that the best choices were made.

Between 2008 and 2018, we saved DHBs a cumulative total of around $6.89 billion, including $1.63 billion in 2017/18. At the same time, the number of new medicines and people receiving them has increased. This estimate is based on pharmaceutical prices in 2008 mapped to current prescribing activity and compares actual spending with predictions of what would have happened had PHARMAC taken no action.

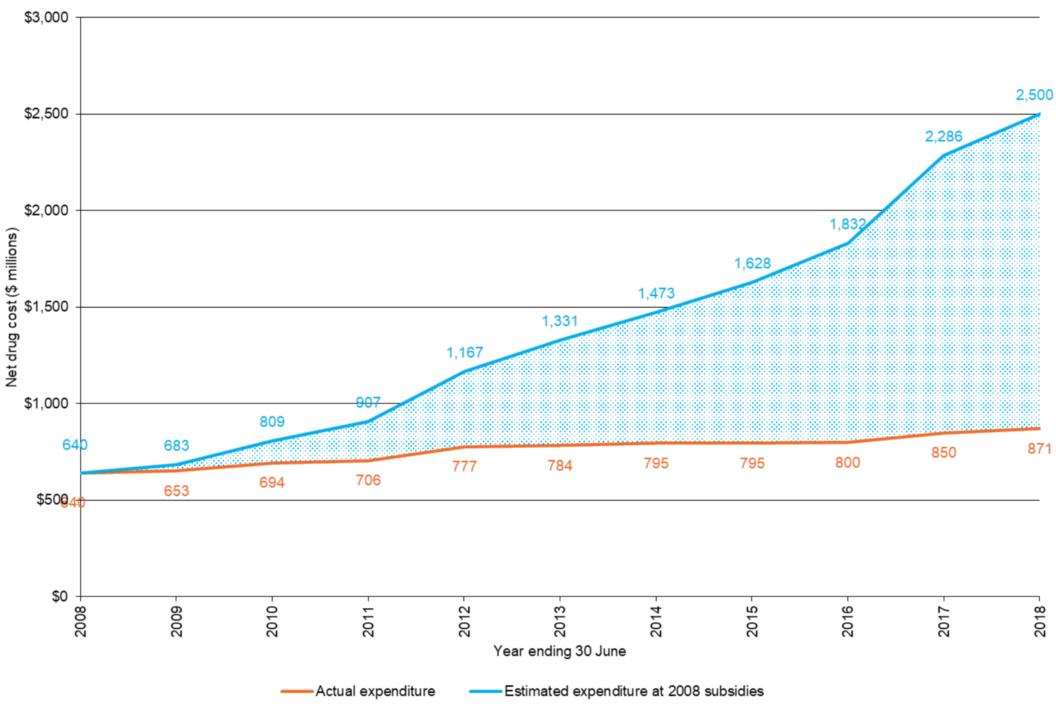
Without PHARMAC, this predicted gap in funding would have had to come from other areas of health spending. The following graph shows PHARMAC's impact on predicted CPB expenditure. Cost management of pharmaceuticals has been achieved through competition, which has led to price reductions.

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

Price, Volume, Mix

This is an index of pharmaceutical price, volume and mix. While the volume and mix of pharmaceuticals has gone up (grey and yellow), the subsidy paid (red line) has gone down. Meanwhile the amount spent (cost, the blue line) is gradually rising. This shows how PHARMAC is getting more medicines for New Zealanders through reducing prices, rather than by restricting access.

Impact of PHARMAC on predicted CPB drug expenditure over time (actual 2008–2018)



Note: the shaded area between the graph's lines indicates the total amount saved since 2008. This is the difference between estimated spending without savings, and actual spending – around $6.89 billion.

IMPACT AREA 2

Funded medicines and medical devices are available when needed

Why this is important

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

How we will get there

- Use contracting methods and other mechanisms to ensure continued supply.
- Monitor the continuity of supply of funded medicines and medical devices.

Impact	Measure	Result	Rationale
Funded medicines and medical devices are available when needed.	No supply situations result in patients losing access to a suitable funded medicine that they need.	We are not aware of any clinically significant impacts on patients as a result of supply situations.	Supply issues arise for various and often uncontrollable reasons. We undertake a considerable amount of work to monitor and manage potential stock outages, such as sole-provider contracts, stock management tools and sourcing suitable alternatives. We do not want any situations where New Zealanders cannot access medicines they need.

IMPACT AREA 3

Medicines and medical devices are used optimally

Why this is important

The debate about access to medicines is often focused on new medicines. But getting the best out of what's already in the medicines 'toolbox' is just as important. Patients will have improved health outcomes when medicines and medical devices are prescribed, dispensed, accessed and used optimally. PHARMAC helps ensure medicines and hospital medical devices are used in the most responsible way so that they are used when they are needed, and not under or over used.

We manage the implementation of our funding decisions, liaising with others to determine and put into effect an appropriate implementation approach. Sometimes, our funding decisions allow new groups of health professionals to prescribe funded products. Supporting new prescribers is important in ensuring the optimal use of products along with improving access for more New Zealanders.

How we will get there

Inform and support health professionals and consumers on the use of medicines and medical devices.

Impact	Measure	Result	Rationale
Medicines and medical devices are used optimally.	The objectives of PHARMAC's projects to improve the optimal use of medicines, are met.	No projects to improve the optimal use of medicines have been completed, and therefore evaluated. We have two projects underway where evaluation activities are incorporated into delivery: a medication adherence pilot for people with Type 2 diabetes (results anticipated late 2018); and appropriate use of antibiotics consumer-facing awareness activities. We have been working with the University of Auckland on a survey about perceptions of generic medicines and brand changes – results from this survey will help inform our future work to support brand changes, and therefore optimal use of medicines.	We want to demonstrate that the information and education activities we undertake have a positive effect on the optimal use of pharmaceuticals.
	Undertake research to identify medicines with gaps in equitable access and then develop targeted programmes to address these gaps.	PHARMAC has published updated research examining variation in access to medicines for Māori versus non-Māori. Key areas of inequity identified include medicines for cardiovascular disorders, infections, some mental health conditions, asthma and chronic obstructive pulmonary disease. We also launched a partnership with the Health Quality Safety Commission to support three community-led quality improvement projects focusing on improving equitable access to medicines in the community.	This measure relates to our goal of eliminating inequities in access to medicines. The first step in achieving this goal is identifying what particular medicines have access inequities, and for which groups of people. We will then be able to develop specific programmes to address and eliminate these inequities. Partnership with other health sector agencies will be essential.

		In 2018/19, we will be considering opportunities for measuring the impact and outcomes in addressing equitable access to medicines.	

IMPACT AREA 4

PHARMAC's impacts in a high-performing health system

Why this is important

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

How we will get there

Work with stakeholders to help ensure the health system is well-designed and well-coordinated.

Impact	Measure	Result	Rationale
In a high-performing health system.	There is an improved perception of PHARMAC by health sector agencies that we work with.	We have started scoping work to develop a reporting mechanism for this measure.	An effective and joined up health system relies on strong engagement and collaboration. We want to understand whether we are working effectively with stakeholders, so we can continue to improve our contribution.

STATEMENT OF PERFORMANCE

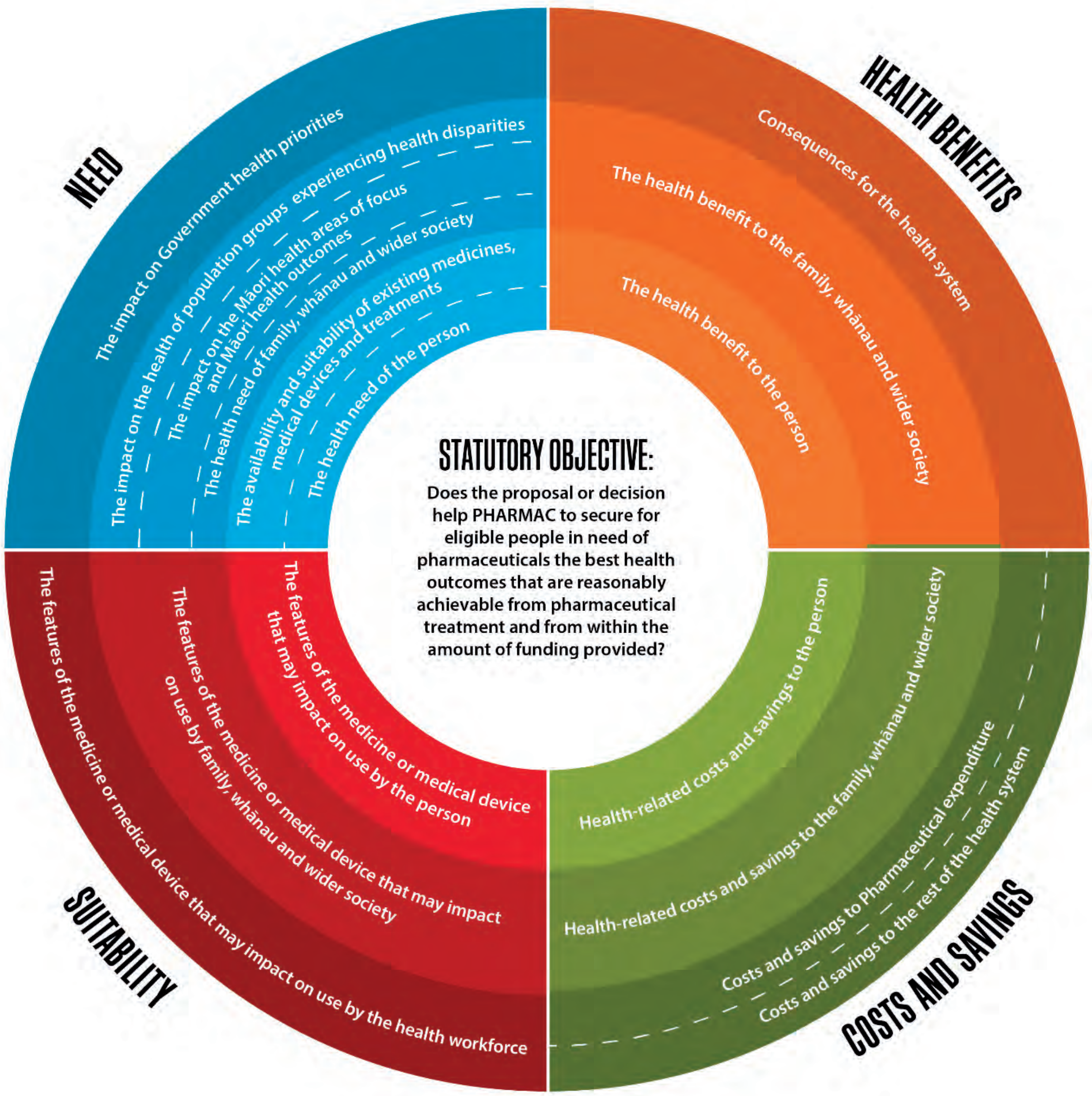
This Statement of Performance[5] records how PHARMAC has performed against targets outlined in its Statement of Performance Expectations 2017/18. The following classes of outputs relate to PHARMAC's impacts areas.

Output Class 1 – Making decisions about pharmaceuticals

PHARMAC takes into account a broad range of factors important for making robust funding decisions in the New Zealand context. The affordability of decisions is essential since we operate within a fixed budget. However, there are many other factors that PHARMAC considers when making decisions and these are outlined in the Factors for Consideration.

[5] PHARMAC's Statement of Performance has been prepared in accordance with section 153 of the Crown Entities Act.

Factors for Consideration



Transparency is important. We consult with consumers, clinicians and industry representatives on our provisional funding agreements. These stakeholders can also track the progress of funding applications for Pharmaceutical Schedule listings through the Application Tracker on our website.

Output 1.1 Combined Pharmaceuticals

Sections B to I of the Pharmaceutical Schedule contain a list of medicines funded for all New Zealanders through the CPB. As of 1 July 2018, when PHARMAC started managing public expenditure in hospitals, this list includes Section H, Part II. The Schedule includes medicines prescribed and dispensed in the community, vaccines administered in primary care, pharmaceutical cancer treatments provided through DHB cancer services, and haemophilia treatments. It also includes a small number of medical devices used in the community, such as blood glucose meters and intra-uterine devices.

Output 1.2 Other pharmaceuticals

Section H includes the list of hospital medicines that are available for use in DHB hospitals. This list aims to increase national consistency in the medicines prescribed in hospitals and drive efficiencies for DHBs in hospital medicine expenditure.

Section H also includes the contracts and agreements we've negotiated for hospital medical devices. These agreements cover approximately $179 million worth of annual DHB expenditure. During 2017/18, we continued to work on the national procurement of certain types of hospital medical devices and the implementation of market share agreements, ahead of transitioning to full medical device management for DHB hospitals. Eventually most medical devices used in DHB hospitals will be listed on the Pharmaceutical Schedule.

Output 1.3 Special access panels

Some medicines are very expensive. To help ensure these are appropriately targeted, PHARMAC manages panels of expert clinicians to provide advice on exceptional circumstances applications or to apply the Special Authority criteria on which patients can access funded treatments. Panels are currently maintained for the treatments of:

- Cystic fibrosis;
- Gaucher disease;
- Haemophilia;
- Hepatitis C;
- Multiple sclerosis; and
- Pulmonary arterial hypertension treatments.

Output 1.4 Named Patient Pharmaceutical Assessment (NPPA)

This is the mechanism that PHARMAC uses to assess applications for individual patients to receive funded medicines that are not otherwise funded through the Pharmaceutical Schedule. PHARMAC seeks clinical advice on applications from a panel of doctors (the NPPA Advisory Panel) and from individual clinical experts in particular specialities. Expenditure for NPPA community and cancer treatments continues to be drawn from the CPB. Meanwhile, PHARMAC approvals for hospital medicines were funded by individual DHB hospitals, prior to PHARMAC incorporating hospital medicine spending within the CPB.

Making decisions about pharmaceuticals – output measures

Impact	Output	Measure	Rationale	2017/18 Target	2017/18 Results
Increased access to effective medicines and medical devices.	1.1 Combined Pharmaceutical decisions.	Savings are made to meet cost of growth and to enable new investments.	Savings need to be generated every year so that we can fund new medicines or provide funded medicines to more people. We also need to generate additional savings so that we can fund new medicines or provide funded medicines to more people.	Savings will be generated to meet the cost of future volume growth and allow for new investments.	*Achieved* $59 million in savings were generated to meet the cost of future volume growth and allow for new investments. (New measure for 2017/18)
	1.2 Other pharmaceutical decisions (including hospital medicines and medical devices).	Savings are made from hospital medicines to enable new investments.	Hospital medicines are not managed within a fixed budget.[6] However, we do manage the investment in new medicines used in a hospital setting. We need to generate savings every year from the medicines currently used in hospitals in order to reinvest in new hospital medicines.	Savings will be generated to allow for new investments including widening access to existing treatments.	*Achieved* 3-year average of savings on hospital medicines is $7.62 million. (New measure for 2017/18)
		The total value and number of hospital medical devices under	We want to continue increasing the number of hospital medical devices under contract, and the amount of	The total value and number of hospital medical devices under contract will increase.	*Achieved* We estimate the annual spend on hospital medical devices under contract has

[6] From 1 July 2018, PHARMAC started managing all public expenditure on medicines – whether used in the community or in hospital.

Impact	Output	Measure	Rationale	2017/18 Target	2017/18 Results
		contract increases.	expenditure we have contracts for. This provides us with an indication of the growth of our work and an indication of the savings we will be able to generate to DHBs as our work progresses.		increased by $77 million[7]. We listed 31,791 new medical devices in 2017/18. The total number of medical devices listed is 77,698. (New measure for 2017/18)

Output Class 2 – Influencing pharmaceuticals access and use

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

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

PHARMAC aims to support prescribers, pharmacists and patients on optimal prescribing, dispensing and medicines adherence (ensuring patients take the medicine prescribed for them in the way intended by their prescriber). To ensure the medicines that are funded for people are used optimally we take actions to improve health literacy, workforce development and community engagement, and work with health professionals to deliver programmes.

PHARMAC works with other health sector agencies to improve the reach and impact of the responsible use programmes we develop. We also work closely with DHBs and their agents to support their uptake of national contracts for hospital medical devices. We are guided by our Māori Responsiveness Strategy, Te Whaioranga, and our Pacific Responsiveness Strategy that was launched in 2017. This is part of our broader work to eliminate inequities in access to medicines.

Output 2.1 Sharing information/explaining decisions

We consider feedback from prescribers and pharmacists on the practicality of Pharmaceutical Schedule changes and regularly seek input from health professional groups 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, hospital medical devices and other aspects of our work.

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

To make sure we are asking the right questions of the right people, we take advice from our statutory committee, the Consumer Advisory Committee, on our engagement plans and practices and, from time to time, PHARMAC undertakes engagement and consultation activities with DHBs and the community through regional and national forums. To explain our decisions, we use notification letters, our website, information sent to health professionals and patients to help them adjust to the introduction of new medicines or brand changes, and communication to DHB procurement teams on the availability of national contracts for hospital medical devices.

We also work to implement our decisions in a way that supports both health professionals and patients to thoroughly understand the patient pathway. This can be through targeted provision of clinical advice, working closely with DHB implementation teams, or through more widespread provision of information about the changes.

Output 2.2 Population health programmes

Our population health programmes are developed in response to evidence-based analysis and identified unmet need, and aim to improve access and promote responsible use of medicines. We will also be working to identify medicines that have access inequities, before developing programmes to address and eliminate these inequities.

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 hauora Māori kaimahi, providing them with clinical information to pass on to whānau. We are exploring opportunities to develop this resource for use as an educational tool in a range of health and community settings.

We also share information and promote evidence-based prescribing to health professionals through PHARMAC seminars and by contracting services to promote appropriate prescribing through educational resources, such as those provided by bpac^{nz} and the Goodfellow Unit.

Output 2.3 Supply management

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

Currently, PHARMAC also manages the direct distribution of some complex medicines to patients. This includes some of the medicines used to treat multiple sclerosis, hepatitis C and two types of cancer. PHARMAC has moved some medicine distribution into the regular supply chain, through community pharmacies.

Influencing pharmaceutical access and use – output measures

Impact	Output	Measure	Rationale	2017/18 Target	2017/18 Results
Pharmac-euticals are used optimally.	2.1 Sharing information/ explaining decisions.	DHB hospital engagement with PHARMAC compared with previous year.	Willingness of DHBs and their agents to engage with PHARMAC contributes to effective implementation of hospital medical devices contracts and hospital medicine changes.	All DHBs or agents acting on their behalf will engage with PHARMAC on implementing hospital medical device contracts. All relevant DHB hospital services will engage with PHARMAC to support hospital medicine changes.	*Achieved* All DHBs working in medical device procurement and implementation for wound care participated via either a workshop, survey and/or interview on a review of the move to market share contracts for these products. Results from this post-implementation review were shared with DHBs in late June 2018. All DHBs affected by changes to approximately 80 intravenous fluids and irrigation solutions (bulk fluids) were provided with resources to support the changes including spreadsheets of product codes and supplier information, listings dates, and product information summaries including photos of the new products. (2016/17: Achieved)
	2.2 Population health programmes.	Survey of attendants at a PHARMAC seminar show a positive professional change in optimal use behaviour as a result of attendance.	Assessing whether our PHARMAC seminars have a positive effect in improving health professionals' knowledge and behaviour will help us to determine whether the seminars continue to have an impact in the optimal	Respondents to the survey show at least 75 percent have made positive changes as a result of attendance.	*Achieved* Two seminars for the last 2017/18 quarter have been surveyed. An average of 87.5 percent of survey respondents have made changes as a result of attending PHARMAC seminars.

Impact	Output	Measure	Rationale	2017/18 Target	2017/18 Results
			use of medicines.		(New measure for 2017/18)
	2.2 Population health programmes.	Medicines use community health programmes are delivered to a range of health and community workers.	Whānau Ora Collectives (WOC) are best-placed to assess the needs of their communities for knowledge of medicines relating to Māori health areas of focus.	Community-based delivery of programmes will occur in two-thirds of all WOC partner areas and the number of WOC partners will increase.	*Achieved* Community-based delivery of programmes has occurred in over two-thirds of our Whānau Ora Collective (WOC) partner areas. The number of WOC-PHARMAC partners has increased from 11 to 15. (2016/17: Achieved)
Pharma-ceuticals are available when needed.	2.3 Supply management.	Low medicine stock situations are identified and managed so that there are no clinically meaningful consequences to patients.	Ensuring we know and understand the impact of stock shortages so we can act to minimise disruption for patients and providers is important for achieving best health outcomes.	We will respond to all 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 stock events. A significant number required PHARMAC to take action; this resulted in continuity of supply to patients Activities included sourcing alternative supply with suppliers and liaising with Medsafe, wholesalers and distributors. (2016/17: Achieved)

Output Class 3 – 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 community pharmacy contracting services and medicines distribution. It also includes contributing to the development of a New Zealand Universal List of Medicines and the New Zealand Formulary, among other sector-wide initiatives including those that aim to reduce the administrative workload of clinicians. We have worked closely with DHBs and their agents to support the development of sector procurement strategies at a national level, particularly where this intersects with our extended function to manage hospital medical devices.

Output 3.2 Policy advice

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. The rebates are distributed back to DHBs.

PHARMAC has access to a Legal Risk Fund, with a value of around $7.9 million in 2017/18, which is used to meet litigation costs that are not otherwise met from our regular operational spending on legal services.

We also manage the CPB and Hospital Discretionary Pharmaceutical Funds. These funding mechanisms broaden PHARMAC's options in delivering on our statutory objectives. They support long-term management of DHB expenditure and increase PHARMAC's ability to make efficient budgeting decisions by providing the ability to manage investments across both financial years and Vote Health.

Policy, advice and support – output measures

Impact	Output	Measure	Rationale	2017/18 Target	2017/18 Results
In a high performing system.	3.2 Policy advice.	PHARMAC staff participate in and contribute to wider sector forums.	Understanding whether our policy advice to the sector is sought after is an indication of the quality of advice and contributions we make.	PHARMAC staff participate in wider sector forums.	*Achieved* PHARMAC staff participated and contributed to various wider sector forums. Examples include the Social Investment Panel, Healthcare Associated Infections Governance Group and the Ministry of Business, Innovation and Employment Procurement Functional Leadership group. (New measure for 2017/18)
	3.3 Contract and fund management.	All rebates are collected and distributed to DHBs in accordance with PHARMAC policy.	Effective management of rebates provides certainty to DHBs.	All fund use will be in accordance with PHARMAC policy.	*Achieved* All fund use is in accordance with PHARMAC policy. (2016/17: Achieved)

OUR CAPABILITY

Overview of key capability

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

Key capability areas include:

- *Governance*

  Board members are appointed by the Minister of Health. A Governance Manual guides the Board's operations and sets out legal obligations, relevant procedures and the delegations framework for PHARMAC's decision making.

- *Critical appraisal and evidence-based medicine*

  Clinical evidence is a fundamental part of PHARMAC's decision-making. We have a strong focus on continual development of critical-appraisal skills; monitoring international developments in evidence-based medicine and providing effective support to PHARMAC's clinical advisory committees.

- *Procurement and contracting*

  An important part of PHARMAC's work is the negotiation of commercial contracts. In addition to ongoing development of negotiation and contracting skills, PHARMAC has a well-developed set of purchasing strategies and tools and systems to support procurement and contracting work. We also have a strong focus on managing contracts once in place.

- *Policies and procedures*

  PHARMAC has in place a wide set of corporate and operational policies and procedures to ensure work is carried out in the best possible way, including to ensure probity and integrity across PHARMAC's operations. Policies and procedures are regularly reviewed. Operational policies and procedures are also regularly updated.

- *Risk management*

  PHARMAC operates a risk management framework with a regular focus on risks and their management by both management and the Board.

- *Stakeholder relationships*

  PHARMAC places high value in effective stakeholder relationships, to understand stakeholder issues and views, and to ensure a good understanding of PHARMAC's work and the decisions that are made.

Enhancing PHARMAC as a good employer

PHARMAC's success requires the right people in the right roles, so high importance is attached to recruiting and retaining high-performing employees. We have several initiatives in place guided by sound principles of being a good employer. PHARMAC makes all the policies mentioned below available to its employees.

- *Leadership, accountability and culture*

  We have a strong focus on developing effective individual and organisational leadership. We expect all staff members to act with respect, integrity and accountability. We invest in programmes and activities that support leadership development and, where possible, staff advancement and promotion. Our values are reinforced through various initiatives to build an organisational culture that supports high performance. We encourage openness in the workplace, including by providing regular opportunities for staff to contribute to and be actively involved in PHARMAC decisions. Policies and procedures are regularly reviewed to ensure they are fit for purpose.

- *Recruitment, selection and induction*

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

- *Employee development, promotion and exit*

  We provide and encourage development opportunities for staff to grow their skills, abilities and careers. These opportunities include taking on more senior roles, undertaking external training and development, receiving support for formal study, and secondment opportunities. We also offer regular training to directly support our Māori Responsiveness strategy, including Te Reo Māori classes.

  We have offered cultural awareness sessions to support Pacific Responsiveness and are currently reviewing our internal equity in support of our bold goal to eliminate inequities in access to medicines by 2025. Our performance management system includes individual and team goals that link to organisational strategies and focuses on individual professional development. Employees leaving are offered exit interviews – in 2018, the survey was automated online, improving our ability to monitor and communicate reasons for people leaving the organisation.

- *Flexibility and work design*

  PHARMAC recognises that supporting employees to balance their work and family commitments will, over time, have a positive impact on work quality, productivity and employee well-being. This includes ensuring staff who work remotely are provided with appropriate technology and communication solutions to enable seamless and flexible working arrangements. We offer generous parental leave entitlements in addition to legal entitlements.

- *Remuneration, recognition and conditions*

  We use independent job evaluation and market remuneration information to set salary ranges for positions. We aim to provide fairness and equity through reviewing and managing pay disparities. Remuneration reviews take performance into consideration and are reviewed annually against market changes and Government expectations. High performers are recognised with internal promotions and development opportunities. We create work conditions that enable staff to feel comfortable and supported, including those who identify as LGBTQI and those with disabilities.

- *Harassment, discrimination and bullying prevention*

  We do not tolerate any bullying, discrimination or harassment. Conduct and behaviour expectations are clearly communicated through our bullying, harassment and discrimination policy, and during new employee inductions. Existing staff are regularly reminded about policies and expectations including specific workshops for managers on this topic.

- *Safe and healthy environment*

  We support employees' health, safety and wellness by providing a range of resources and opportunities. Our health and safety committee includes employee representatives, management and the Chief Executive. Additionally, the Board Health and Safety Committee provides leadership and sets policy to discharge its health and safety management responsibilities within the organisation. Clear expectations relating to health and safety have been set for all staff. We monitor the health and safety of our working environment and undertake business continuity planning and emergency preparedness. In 2018, we established a Wellness Working Group, a sub group of the Health and Safety Committee, to review existing and develop new wellness initiatives.

Staffing

At 30 June 2018, we had a total of 126 staff – 120 permanent employees, plus six fixed-term employees. We also had seven vacancies. We anticipate overall staff to continue to grow, but at a slower rate than previous years. In 2017/18, a higher percentage of staff resigned than in 2016/17 – 13 percent of permanent staff resigned this year, compared with nine percent of permanent staff last year. Two employees went on parental leave during the year.

We have a relatively high number of part-time staff – 10 percent at 30 June 2018 – to retain valuable skills and competencies and provide for work-life balance. We are also currently supporting staff with disabilities, and a disability register is held in case of emergency.

Staff numbers by ethnicity	
Australian	4
Chinese	8
German	1
Indian	6
Canadian	1
NZ European/Pākehā	67
Samoan	1
NZ/Māori	5
UK/British/Irish	3
Other European	4
Unknown/Undisclosed	26
Total	**126**

Staff numbers by age (years)	
Under 20	0
20–29	19
30–39	38
40–49	24
50–59	16
60–69	5
70-79	1
Undeclared	23
Total	**126**

Gender	Part-time	Full-time	Total
Permanent employees			
Men	5	41	46
Women	5	69	74
Total	**10**	**110**	**120**
Fixed-term employees			
Men		1	1
Women	2	3	5
Total			**6**
Grand Total			**126**

STATEMENT OF ACCOUNTING POLICIES

Reporting entity

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

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

The financial statements of PHARMAC are for the year ended 30 June 2018. The financial statements were approved by the Board of PHARMAC on 28 September 2018.

Basis of preparation

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

Statement of compliance

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

Presentation currency and rounding

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

Standards issued and not yet effective and not early adopted

Financial instruments

In January 2017, the External Reporting Board issued PBE IFRS 9 Financial Instruments. This replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost;
- a new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses; and
- Revised hedge accounting requirements to better reflect the management of risks.

The timing of PHARMAC adopting PBE IFRS 9 will be guided by the Treasury's decision on when the Financial Statements of Government will adopt PBE IFRS 9. PHARMAC has not yet assessed the effects of the new standard.

Summary of Significant Accounting Policies

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

Revenue

Funding from the Crown

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

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

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

Funding from DHBs

Operating funding includes agreed expenses to be provided by PHARMAC 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.

Funding is recognised as revenue when it becomes receivable.

Interest revenue

Interest revenue is recognised using the effective interest method.

Cash and cash equivalents

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

Receivables

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

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

Investments

Bank term deposits

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

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

Property, plant and equipment

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

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

Additions

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

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

Disposals

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

Subsequent costs

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

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

Depreciation

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

Item	Estimated useful life	Depreciation rate
Leasehold Improvements	5 years	20%
Office Equipment	2.5–5 years	20%–40%
EDP Equipment	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 is reviewed, and adjusted if applicable, at each financial year end.

Intangible assets

Software acquisition and development

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

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

Staff training costs are recognised as an expense when incurred.

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

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

Amortisation

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

For computer software (the only identified intangible asset), the useful life is estimated as 2–5 years with a corresponding depreciation rate of 20%–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 at-risk provisions where it is contractually bound to pay them.

Superannuation schemes

Defined contribution schemes

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

Provisions

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

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

Equity

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

- Contribution capital;
- Retained earnings and reserves;
- CPB Discretionary Pharmaceutical Fund;
- Hospital Discretionary Pharmaceutical Fund; and
- Legal Risk Fund.

Goods and services tax (GST)

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Budget figures

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

Cost allocation

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

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

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

Critical accounting estimates and assumptions

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

- The value of PHARMAC's CPB Discretionary Pharmaceutical Fund is dependent on the value of the final estimate of the District Health Boards' 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 2018.

FINANCIAL STATEMENTS

Statement of comprehensive revenue and expense

For the year ended 30 June 2018

	Note	Actual 2018 $000	SPE Budget 2018 $000	Actual 2017 $000
Non exchange revenue				
Crown funding		21,988	21,988	21,988
DHB - Operating funding		1,390	1,490	1,390
Combined Pharmaceutical Budget Discretionary Pharmaceutical fund (CPBDPF)	4	0	0	8,334
Exchange revenue; other				
Interest received - Operating		622	580	585
- Legal Risk Fund		274	300	251
Other revenue - Operating		172	131	213
Total Revenue		24,446	24,489	32,761
Expense				
Operating costs		5,941	6,258	6,331
Personnel costs	1	13,935	14,215	13,525
Audit Fees		51	50	49
CPBDPF	4	4,769	5,448	0
Depreciation & amortisation costs	8&9	632	675	717
Director Fees		144	144	146
Finance Costs	2	21	21	20
Hospital Discretionary Pharmaceutical Fund (HDPF)	3	275	550	550
Herceptin SOLD trial administration		319	150	0
Implementation projects		1,907	2,040	1,858
Legal Risk Fund payments for litigation		7	300	173
Occupancy costs		636	636	636
Total expense		28,637	30,487	24,005
Net surplus/(deficit) for the period		(4,191)	(5,998)	8,756
Other comprehensive revenue		0	0	0
Total comprehensive revenue and expense		**(4,191)**	**(5,998)**	**8,756**

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 2018

	Note	Actual 2018	SPE Budget 2018	Actual 2017
		$000	**$000**	**$000**
Balance at 1 July		36,111	35,453	27,355
Total Comprehensive Revenue		(4,191)	(5,998)	8,756
Balance at 30 June	3	**31,920**	**29,455**	**36,111**

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 2018

	Note	Actual 2018	SPE Budget 2018	Actual 2017
		$000	$000	$000
PUBLIC EQUITY				
Contribution capital	3	1,856	1,856	1,856
Retained earnings and reserves	3	8,272	7,028	7,424
CPBDPF	3	9,713	9,000	14,482
HDPF	3	4,175	3,900	4,450
Legal Risk Fund	3	7,904	7,502	7,580
Herceptin SOLD Trial fund	3	0	169	319
TOTAL PUBLIC EQUITY		**31,920**	**29,455**	**36,111**
Represented by:				
Current assets				
Cash and cash equivalents		1,252	2,292	2,505
Investments	6	22,840	19,000	21,630
CPBDPF monies deposited into rebates account	5	8,997	9,000	14,482
Debtors and other receivables	7	361	150	254
Prepayments		444	0	118
GST Receivable		581	0	0
Total current assets		34,475	30,442	38,989
Non-current assets				
Property, plant and equipment	8	365	900	701
Intangible Assets	9	93	248	262
Total non-current assets		458	1,148	963
Total assets		34,933	31,590	39,952
Current liabilities				
Creditors and other payables	10	1,663	1,500	1,219
Employee entitlements	11	987	100	892
Make Good Provision	12	182	0	0
GST Payable		0	170	1,388
Total current liabilities		2,832	1,770	3,499
Non-current liabilities				
Make Good Provision	12	181	365	342
Total liabilities		3,013	2,135	3,841
NET ASSETS		**31,920**	**29,455**	**36,111**

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 2018

	Note	Actual 2018 $000	SPE Budget 2018 $000	Actual 2017 $000
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Receipts from the Crown		21,988	21,988	21,988
- DHBs Operating		1,390	1,490	1,390
- Interest Operating		479	580	753
- Interest Legal Risk Fund		252	300	154
- Other Operating		231	131	212
- CPBDPF top up		0	0	8,334
- CPBDPF release from rebates bank account		5,485	0	0
- Goods and services tax (net)		0	155	1,785
		29,825	24,644	34,616
Cash was disbursed to:				
- Legal Risk Fund expenses		(7)	(300)	(173)
- CPBDPF expenses		(4,769)	0	(3,852)
- CPBDPF deposited in rebates bank account		0	0	0
- HDPF expenses		(275)	0	(550)
- Payments to suppliers and employees		(22,721)	(23,424)	(27,402)
- Goods and services tax (net)		(1,968)	0	0
		(29,740)	(23,724)	(31,977)
Net cash flow from operating activities	13	85	920	2,639
CASH FLOWS – INVESTING ACTIVITIES				
- Purchase of property, plant and equipment		(129)	(220)	(149)
- Purchase of intangible assets		0	(233)	(237)
- Proceeds from the redemption of investments		34,554	(1,272)	32,355
- Purchase of investments		(35,763)	0	(34,554)
Net cash flow from investing activities		(1,338)	(1,725)	(2,585)
Net increase/(decrease) in cash		(1,253)	(805)	54
Cash at the beginning of the year		2,505	3,097	2,451
Cash at the end of the year		1,252	2,292	2,505

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 2018

	$000	$000	$000	$000	$000
Output Actual 2017/18	**Funding MOH**	**Funding DHB**	**Funding Other**	**Output expenditure**	**Net surplus/(deficit)**
Decision Making	10,995	0	0	(14,311)	(3,316)
Influencing Medicine Access and Use	8,795	1,390	0	(9,952)	233
Policy Advice and support	2,198	0	1,068	(4,374)	(1,108)
Total	**21,988**	**1,390**	**1,068**	**(28,637)**	**(4,191)**
Output SPE Budget 2017/18	**Funding MOH**	**Funding DHB**	**Funding Other**	**Output expenditure**	**Net surplus/(deficit)**
Decision Making	10,994	0	655	(16,176)	(4,527)
Influencing Medicine Access and Use	7,696	1,490	356	(10,733)	(1,191)
Policy Advice and support	3,298	0	0	(3,578)	(280)
Total	**21,988**	**1,490**	**1,011**	**(30,487)**	**(5,998)**
Output Actual 2016/17	**Funding MOH**	**Funding DHB**	**Funding Other**	**Output expenditure**	**Net surplus/(deficit)**
Decision Making	10,994	8,334	0	(9,836)	9,492
Influencing Medicine Access and Use	8,795	1,390	0	(9,691)	494
Policy Advice and support	2,199	0	1,049	(4,478)	(1,230)
Total	**21,988**	**9,724**	**1,049**	**(24,005)**	**8,756**

Statement of commitments

As at 30 June 2018

Non-cancellable operating lease commitments

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

	Actual 2018 $000	Actual 2017 $000
Capital commitments approved and contracted	0	0
Operating commitments approved and contracted		
Not later than one year	829	636
Later than one year and not later than five years	3,367	42
Later than five years and not later than ten years	896	0
Total commitments	**5,052**	**678**

The rental lease was varied during the financial year and extended to 31 July 2024. PHARMAC has recognised a make good provision of $361,922 (2017: $342,000).

Statement of contingent assets and liabilities

As at 30 June 2018

PHARMAC had no contingent assets at 30 June 2018 (2017: $nil).

PHARMAC had no contingent liabilities at 30 June 2018 (2017: $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 2018 $000	Actual 2017 $000
Salaries and related costs	13,195	12,816
Employer contributions to defined contribution plans	294	292
Other personnel costs	446	417
Total personnel costs	**13,935**	**13,525**

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

Note 2: Finance costs

	Actual 2018 $000	Actual 2017 $000
Discount unwind on provisions (note 12)	**21**	**20**

Note 3: Public equity

RETAINED EARNINGS	Actual 2018 $000	Actual 2017 $000
Balance at 1 July	7,424	6,530
Net surplus/(deficit)	(4,191)	8,756
Net transfer from/(to) CPBDPF	4,769	(8,334)
Net transfer from/(to) HDPF	275	550
Net transfer from/(to) Legal Risk fund	(324)	(78)
Net transfer from/(to) SOLD Trial Fund	319	0
Balance at 30 June	**8,272**	**7,424**
CONTRIBUTION CAPITAL		
Balance at 1 July	1,856	1,856
Balance at 30 June	**1,856**	**1,856**
CPBDPF		
Balance at 1 July	14,482	6,148
Add: Revenue received transferred from/(to) retained earnings	0	8,334
Less: Pharmaceutical expenses transferred from/(to) retained earnings	(4,769)	0
Balance at 30 June	**9,713**	**14,482**
HDPF		
Balance at 1 July	4,450	5,000
Add: Transfer from retained earnings	0	0
Less: Expenses transferred from/(to) retained earnings	(275)	(550)
Balance at 30 June	**4,175**	**4,450**
LEGAL RISK FUND		
Balance at 1 July	7,580	7,502
Add: Interest received transferred from/(to) retained earnings	274	251
Add: Unused litigation from PHARMAC budget 2016/17	57	0
Less: Litigation expenses transferred from/(to) retained earnings	(7)	(173)
Balance at 30 June	**7,904**	**7,580**
HERCEPTIN SOLD TRIAL FUND		
Balance at 1 July	319	319
Less: Final expense for SOLD Trial	(319)	0
Balance at 30 June	**0**	**319**
TOTAL PUBLIC EQUITY	**31,920**	**36,111**

Note 4: CPBDPF

The revenue in 2018 of $nil: (2017: $8.334 million) relates to the purpose of the DPF, which is to manage unexpected expenditure and enable PHARMAC to take advantage of investment opportunities that might not otherwise be funded in that year. The expenditure in 2018 of $4.769 million (2017: $nil) relates to disbursements to DHBs so that the CPB expenditure does not exceed the CPB budget of $870.800 million.

Note 5: CPBDPF monies

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

Note 6: Investments

	Actual 2018 $000	**Actual 2017** $000
Current portion		
Term Deposits	22,840	21,630
Total Investments	**22,840**	**21,630**

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: Debtors and other receivables

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

	2018			**2017**		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due	361	0	361	254	0	254
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	**361**	**0**	**361**	**254**	**0**	**254**

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

Note 8: Property, plant and equipment

	Cost at beginning of year	Additions during the year	Disposals during the year	Accumulated Depreciation beginning of the year	Depreciation for the year	Elimination on disposals	Net Carrying Amount as at 30 June
	$000	$000	$000	$000	$000	$000	$000
2017							
Furniture and fittings	417	8	0	274	54	0	97
EDP equipment	1,748	138	263	1,356	240	263	290
Office equipment	396	3	0	321	45	3	36
Leasehold improvements	1,560	0	0	1,090	192	0	278
Total PPE Assets	**4,121**	**149**	**263**	**3,041**	**531**	**266**	**701**
2018							
Furniture and fittings	425	28	0	328	50	0	75
EDP equipment	1,623	101	884	1,333	247	879	139
Office equipment	399	0	253	363	16	255	22
Leasehold improvements	1,560	0	9	1,282	150	10	129
Total PPE Assets	**4,007**	**129**	**1,146**	**3,306**	**463**	**1,144**	**365**

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
2017							
Total Intangible Assets	**859**	**237**	**9**	**648**	**186**	**9**	**262**
2018							
Total Intangible Assets	**1,087**	**0**	**346**	**825**	**169**	**346**	**93**

Note 10: Creditors and other payables

	Actual 2018	Actual 2017
	$000	$000
Creditors	1024	938
Accrued expenses	639	281
Total payables	**1,663**	**1,219**

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 2018 $000	Actual 2017 $000
Annual leave entitlement	679	642
Accrued salaries and wages	308	250
Total employee entitlements	**987**	**892**

Note 12: Provisions

	Actual 2018 $000	Actual 2017 $000
Current provisions are represented by:		
Lease make good	363	0
Total current provisions	**363**	**0**

	Actual 2018 $000	Actual 2017 $000
Non-current provisions are represented by:		
Lease make good	0	342
Total non-current provisions	**0**	**342**

Movement for 'make good' provision

	2018 $000	2017 $000
Balance at 1 July	342	322
Additional provisions made	0	0
Amount used	0	0
Unused amounts reversed	0	0
Discount unwind	21	20
Balance at 30 June	**363**	**342**

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

	2018 $000	2017 $000
Net surplus/(deficit)	(4,191)	8,756
Discount on unwind provision	21	20
Depreciation and amortisation	632	717
Total non-cash items	653	737
Add (less) movements in working capital items:		
Decrease/(increase) in debtors and other receivables	(107)	70
Decrease/(increase) in prepayments	(326)	(14)
(Decrease)/Increase in payables	444	(4,210)
(Decrease)/Increase in employee entitlements	95	(3)
(Decrease)/Increase in make good provision	182	0
Decrease/(Increase) in net GST	(1,968)	1,785
Net movements in working capital	(1,680)	(2,372)
Other movements		
CPBDPF monies released from/(deposited in) rebates bank account	5,485	(4,482)
Non current make good provision	(182)	0
	5,303	(4,482)
Net cash flow from operating activities	85	2,639

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 2018	Actual 2017
Board members		
Remuneration	$144,000	$146,000
Full time equivalent members	5.00	5.00
Leadership Team		
Remuneration	$1,632,000	$1,576,000
Full-time equivalent members	5.83	5.75
Total key management personnel compensation	**$1,776,000**	**$1,722,000**
Total full-time equivalent personnel	**10.83**	**10.75**

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	
	2018	**2017**
	$000	$000
Stuart McLauchlan (Chair, 2010–2018)	48	48
Nicole Anderson	24	24
Dr David Kerr	0	8
Prof Ross Lawrenson	24	18
Prof Jens Mueller	24	24
Dr Jan White	24	24
Total Board member remuneration	**144**	**146**

There have been payments of $432,000 (2017: $380,000) made to committee members appointed by the Director-General of Health or the Board who are not Board members during the financial year.

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

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

No Board members or committee members received compensation or other benefits in relation to cessation (2017: $nil).

Note 16: Employee remuneration

Total remuneration paid or payable	Actual	
$000	**2018**	**2017**
100 – 110	8	6
110 – 120	10	11
120 – 130	8	7
130 – 140	4	7
140 – 150	1	2
150 – 160	4	2
160 – 170	3	3
170 – 180	1	1
190 – 200	0	1
200 – 210	0	1
210 – 220	1	0
220 – 230	1	1
230 – 240	1	0
240 – 250	0	1
250 – 260	0	2
290 – 300	1	0
340 – 350	1	0
410 – 420	0	1

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.

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.

	2018	**2017**
	Less than 6 months	Less than 6 months
	$000	$000
Creditors and other payables	**1,663**	**1,219**

Fair value

The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2018 and 30 June 2017 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 2018**	**Actual 2017**
	$000	$000
Cash at bank and term deposits		
A+	0	0
A	17,100	16,504
AA-	15,988	22,113
Total cash at bank and term deposits	**33,088**	**38,617**

Counterparties with credit ratings	**Actual 2018**	**Actual 2017**
	$000	$000
Debtors and other receivables	361	254
Total financial liabilities at amortised cost	**361**	**254**

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 (2017: $0).

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 and expense

The net surplus (deficit) for the year ended 30 June 2018 of ($4,191,000) is $1,807,000 less than the SPE budgeted deficit of ($5,998,000).
The main differences in operating expense arise from under-expense of $679,000 for the CPBDPF, $275,000 for the HDPF, $280,000 personnel costs owing to delay in positions being filled as compared with planned, $133,000 implementation projects costs due to reduced activity, $293,000 for the Legal Risk fund, $317,000 general operating costs. There was an over-expense of ($169,000) for the SOLD trial administration.

Statement of financial position

The increase in current assets of $4,033,000 arises from a decrease in cash equivalents and investments of $2,800,000 and an increase receivables and prepayments of $1,236,000 of which there is a GST receivable variance of $581,000 and other sundry movements.
The decrease in non current assets is ($690,000) due to movement towards cloud based hosting of information technology services. The increase in current liabilities of ($1,062,000) relates mainly to an increased ($987,000) employee entitlement and Increased ($182,000) movement from non-current to current liability of "make good" provision, which decreases the non-current liability by $182,000.
The increase in public equity of $2,465,000 also reflects the movements above.

PHARMAC DIRECTORY

As at 30 June 2018

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Board Members Hon Steve Maharey – Chair (from August 2018) Stuart McLauchlan – Chair (to July 2018) Prof Jens Mueller – Chair, Audit and Forecast Committee Dr Jan White – Chair, Health and Safety Committee Nicole Anderson Prof Ross Lawrenson	**Chief Executive** Steffan Crausaz (to December 2018) Sarah Fitt (from January 2018)
Pharmacology & Therapeutics Advisory Committee Prof Mark Weatherall - Chair	**Consumer Advisory Committee** David Lui – Chair
Auditors Audit New Zealand Limited	**Bankers** ASB Bank Limited
Solicitors Bell Gully	**Insurers** Lumley General Insurance (N.Z.) Limited AIG Insurance New Zealand Limited QBE Insurance (International) Pty Limited

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