Pharmaceutical Management Agency

Statement of Intent

2009/10

PHARMAC
Pharmaceutical Management Agency

New Zealand Government

INTRODUCTION

PHARMAC continues to face a number of challenges in seeking to achieve, from its medicines funding decisions and other activity, the best health outcomes from available funding.

Generic medicines have an increasingly important role in New Zealand and internationally. Generics are off-patent versions of medicines that provide us the opportunity to make significant savings, freeing up funding for investment in other medicines. In the current economic climate, getting more for less through brand changes takes on even greater significance.

Already more than half of medicines dispensed in New Zealand are generics; a similar proportion used in other countries. However, we still need to focus on increasing public acceptance of generic medicines, and managing brand changes effectively.

Brand changes can be unsettling for people, and we take all concerns seriously. We think very carefully about the appropriateness of brand changes and seek expert clinical advice to inform those decisions. We are working harder to identify which brand changes require special attention, and working more effectively with others in the system to improve work in this area. A specific initiative will also seek to further increase public understanding about generic medicines.

Brand changes often come down to a judgement call about the level of benefits versus costs and risks. Should a change in pill colour, or a bigger pill, be avoided and forgo millions of dollars of savings that could be spent on other medicines? This is the typical dilemma PHARMAC faces.

A further budget management challenge is the increasing price of some new medicines, as some pharmaceutical companies seek to test the willingness of governments around the world to pay for new pharmaceuticals. It is PHARMAC's job, on behalf of New Zealanders, to apply scrutiny to these pricing proposals, and ensure good value-for-money when medicines are funded.

The Government's commitment to increase funding for medicines will further assist PHARMAC to contribute to the Government's policy goal of better access to medicines, sooner. The Community Pharmaceutical Budget for 2009/10 is $694 million. This is an increase of $41m (6.3%) over last year's budget ($653m), noting the increase also includes a funding shift from DHBs to have some products managed within the budget by PHARMAC instead of outside it. Some of the Government's funding increase for medicines is also being spent on cancer treatments.

In this Statement of Intent, we have outlined our major challenges for the coming years, the activities we will undertake in 2009/10, and how these will be measured. We have also developed a new 'outcomes framework' to help us focus on what really matters, and to better describe how PHARMAC's work contributes to overall medicines system outcomes.

Current global economic conditions bring an even sharper focus to our budget management. The pharmaceutical industry, which we rely on for products, will not be immune and we must therefore carefully monitor industry activity and manage our risks well.

We are always aware that we are just one part of a much bigger system. To do our job effectively, we need to work well with others, including the government sector, District Health Boards, the pharmaceutical industry, medical professionals and consumers. Our success in achieving health outcomes will only be maximised by working effectively with others.

Richard Waddel

Richard Waddel
Chair

24 June 2009

Gregor D Coster

Professor Gregor Coster
Deputy Chair

24 June 2009

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OVERVIEW OF PHARMAC

Medicines play an important part in most peoples' health. PHARMAC is the government agency that decides, on behalf of District Health Boards (DHBs), which medicines are publicly funded in New Zealand, and to what level. PHARMAC manages the $694 million Community Pharmaceutical Budget, and publishes the list of funded medicines, and terms of subsidy, in the Pharmaceutical Schedule. The presence of a pharmaceutical budget is what sets New Zealand apart from medicines funders overseas. We also assist DHBs with management of expenditure on hospital pharmaceuticals, including cancer medicines, and help them procure other pharmaceutical products used in hospitals. PHARMAC also promotes the responsible use of medicines ('optimal use'), and engages in research.

OUR CONTRIBUTION TO THE MEDICINES SYSTEM

There are many steps between manufacturing medicines and their use by patients. Our central role is to decide which medicines are subsidised using taxpayer funding. We refer to these as funded, listed or subsidised medicines. Our ultimate effectiveness depends significantly on the work of others. We need pharmaceutical companies to supply effective products; Medsafe to approve medicines for use; and we need optimal prescribing decisions, dispensing services and consumer use to get the best health outcomes from medicines.

The medicines system is guided by a strategy, *Medicines New Zealand* (Appendix 1). Our contributions to the principles of *Medicines New Zealand* include:

- *equity* – the Pharmaceutical Schedule applies consistently to eligible New Zealanders, regardless of their circumstances;
- *effectiveness* – we fund effective medicines and work with other health sector agencies and organisations to ensure medicines are used appropriately;
- *confidence* – we run impartial and robust processes, and we make considerable information available to promote public confidence in our activities;
- *value for money* – we conduct economic analysis and promote competition among suppliers to ensure value for money from medicines; and
- *affordability* – we manage the Community Pharmaceutical Budget and, given it is a fixed budget, the affordability of decisions is an important consideration. Decisions to fund medicines also make them more affordable for patients and consumers.

OUR FORM AND FUNCTIONS

Type of entity and role

PHARMAC is a Crown Entity, with a statutory objective to *"secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided"*.[1] Working toward this objective, and in addition to being able to engage in research, we have four main roles: [2]

[1] New Zealand Public Health and Disability Act, 2000
[2] For further information on PHARMAC's activities, PHARMAC's Information Sheets are available at www.pharmac.govt.nz.

- managing expenditure by DHBs on medicines used in the community and in hospitals (including pharmaceutical cancer treatments);
- promoting the responsible use of medicines (access and optimal use);
- assisting DHBs with national procurement initiatives; and
- managing the Exceptional Circumstances (EC) schemes, which allow for medicines not normally subsidised to be funded for rare and unusual clinical situations.

Accountability

PHARMAC is accountable to the Minister of Health who, on behalf of the Crown, is accountable to Parliament for our performance. The Minister also sets the level of the Community Pharmaceutical Budget. The Ministry of Health acts as the Minister's agent in monitoring PHARMAC's performance.

Governance

The Minister appoints PHARMAC's Board, which has all powers necessary for the governance and management of PHARMAC. All decisions about our operation are made by, or under the authority of, the Board. The Board is responsible for agreeing outputs with the Minister and ensuring expectations of PHARMAC are met.

In addition to the work undertaken by PHARMAC itself, the Board takes objective advice from two statutory advisory committees: the Pharmacology and Therapeutics Advisory Committee (PTAC – a committee of practicing clinicians) and the Consumer Advisory Committee (CAC – a committee of people experienced in consumer issues).[3] The Board also has an Audit Committee and a Forecast Committee (comprised of Board members), which provide assistance to the Board on relevant issues.

OUR WORKING ENVIRONMENT

Importance of working well with others

We must work effectively with a range of people and organisations, including patients and consumers; health professionals; Medsafe (the government body that registers medicines); the Centre for Adverse Reactions; pharmaceutical companies; District Health Boards; the Ministry of Health and other government agencies; and Minister of Health and Associate Ministers; and Members of Parliament. Many stakeholders have representative groups (e.g. NZ Medical Association, the Pharmacy Guild, and the Researched Medicines Association) who we also work with.

Ensuring the overall system works well

As PHARMAC is only one part of the medicines system, the work we do is very dependent on the work of others in the system, from good quality medicines being produced and supplied from pharmaceutical companies; to robust safety and efficacy assessments of Medsafe; through to optimal prescribing decisions by doctors, dispensing services by pharmacists, and appropriate use by consumers. We need to work effectively with, and think about the implications of our work for, other parts of the medicines system.

[3] PTAC members are independently appointed by the Director-General of the Ministry of Health. CAC members are appointed by the PHARMAC Board. PTAC also seeks input as required from specialist subcommittees, whose members are also practicing clinicians.

High public expectations of access to medicines

Most people accept the need for us to make funding choices, as there are always more choices of medicines to publicly fund than resources available to fund them. But that perspective can change if people personally face ill-health and a medicine is not funded. The internet has also made finding information about new medicines easier, sometimes before products are even for sale in New Zealand. This heightens expectations for the medicines system to move faster. While this pressure can be positive, it needs to be balanced against the fact that fast decisions are not always good ones, and not all new medicines live up to their marketing. We need to carefully examine claims made about new medicines.

Making choices inherently gives rise to tensions

Every decision to fund one medicine means another may not be funded, no matter how big the budget is. In that context, all New Zealanders have an interest in us making robust decisions. However, there are often tensions about what choices to make. Commercial incentives of pharmaceutical companies lead them to prefer higher prices, whereas we prefer lower prices. Consumer groups play an important role; but their incentives may also differ from ours if they are focussed on one particular health area (not health outcomes overall). Making difficult choices is a fundamental part of our job, and those choices can please some but disappoint others. We don't always expect people to agree with our decisions, but we always want to ensure our decisions are fully informed and, once made, well explained.

Funding risks are important to consider

We are often asked to fund medicines marketed as big medical breakthroughs. However, newer isn't always better. When we fund medicines, we pay for the benefits they provide and want to ensure those taking the medicine do benefit. This means we need to consider *how likely* the benefits are – now and in the future – and be sure the risk is acceptable to invest public money. Is fast, risky spending better or worse than slower, more certain spending? Is a risky bigger benefit a better choice than a more certain but modest benefit? It can also be difficult to stop funding medicines, so we must be confident about our initial decisions and their implications for spending in future. We manage risk in a number of ways, such as saying 'no' until better evidence emerges, targeting access to patient sub-groups where evidence of benefits is stronger, and controlling costs through commercial risk-sharing arrangements, such as rebates.

Impact of challenging economic conditions

Like most organisations, we are also affected by prevailing economic conditions. Exchange rate fluctuations and overseas events may, for example, cause suppliers to raise prices or threaten stock supply. We largely insulate New Zealand from day-to-day movements in prices through our contracting; however, we must carefully monitor international events. With tight economic conditions comes an increased public focus on getting value for money, and spending government funding carefully. This applies both to our management of the pharmaceutical budget, and what we spend to run PHARMAC as an organisation.

Changing industry activity and trends

Internationally, pharmaceutical companies are going through a renewed period of mergers and acquisitions to maintain critical mass and access to high-revenue products. Some companies are also expanding their reach into generic medicines markets, as so-called "blockbuster medicines" (big name high revenue products) come off patent. In addition, the price of new pharmaceuticals continues to be high, particularly the new-generation biologics and new niche medicines.

KEY EXPECTATIONS OF PHARMAC

The Government has increased funding for medicines by $40m – $31m in the Community Pharmaceutical Budget and $9m for cancer medicines. The Community Pharmaceutical Budget has also increased by $10m due to funding transfers from DHBs, a funding shift to have some products managed within the budget by PHARMAC instead of outside it. The total level of the Community Pharmaceutical Budget for 2009/10 is $694m, up $41m (6.3%) on last year's level of $653m.

Within the Government's aim of providing 'better access to medicines, sooner' – and in addition to the aims of *Medicines New Zealand* – the Minister expects PHARMAC to:[4]

- achieve better access to medicines, including contributing to the Government's commitment to investigate ways to improve access to high cost, highly specialised medicines;
- ensure stakeholders, including clinicians and consumers, have the opportunity to provide perspectives that will contribute to PHARMAC's decision-making processes;
- manage brand changes and high profile funding decisions in a way which enhances the confidence of consumers and clinicians; and
- improve the way it engages with the public and key stakeholders to build further confidence in PHARMAC's work.

These expectations are in addition to general expectations of Crown Entities, such as implementing a 'no surprises' policy in dealings with Ministers; ensuring value-for-money in government services; and adhering to expectations relating to public sector remuneration. The Ministry of Health has also released a new framework setting out the Ministry's priority outcomes and how they contribute to Government goals. We are mindful of all such relevant information in carrying out our work.

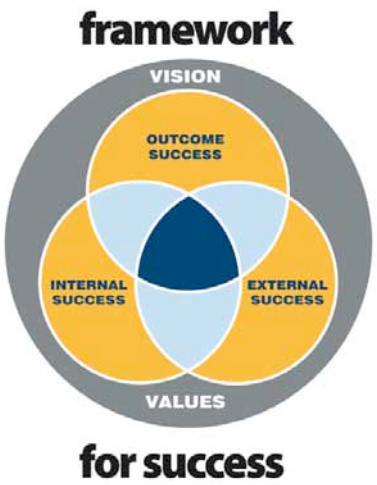
ENSURING A BALANCED APPROACH TO OUR WORK

Like most organisations, we must deliver outcomes, while building effective stakeholder relationships and providing an attractive place to work. Our 'framework for success' helps us keep a balanced focus across these dimensions.

Our vision is "leading edge medicines management", a goal that promotes our focus on continuous improvement in:

- how we conduct our medicines funding and other work – "outcome success";
- our understanding of stakeholder views and how we explain our own views, both critical elements of building public confidence in PHARMAC – "external success"; and
- attracting and retaining employees, PHARMAC's key asset – "internal success".

Guiding our work are organisational values relating to effective communication; prioritising our work; working well together and with others; and making things happen as quickly as we can.



[4] The Minister has set out the expectations of the Crown as owner of PHARMAC by way of a Letter of Expectations. This Statement of Intent is consistent with those expectations. However, to the extent of any inconsistency, the terms of the Minister's Expectations override this statement of intent.

UNDERSTANDING HOW WE CONTRIBUTE TO HEALTH OUTCOMES

Overview

To strengthen our focus on outcomes, not just the activities we undertake, and to further build understanding of what we do and why, we have developed a framework (displayed below) covering:

- *outcomes for the medicines system* – we contribute to outcomes (defined by *Medicines New Zealand*) but cannot control whether they are achieved given the role of many others;

- *specific outcomes PHARMAC influences* – we have more direct control over some outcomes particularly relevant to our activities, but not total control given the role of others; and

- *PHARMAC's activities* – this is the work we carry out (supported by our organisational capability), including the processes needed to make robust decisions. Our work for the year ahead, discussed further below, links to this level of the framework.

The framework is not a full reflection of all our work, rather key aspects that define our role. We will also seek to further improve the framework over time, including through discussing it with groups interested in our work.

In the explanation below, we have included measures to judge our performance. As health outcomes can occur for a variety of reasons, such as personal choices around exercise and nutrition, it is often not possible to determine the contribution we make. Many of our performance measures therefore relate to our outputs and activities. These measures, if achieved, would make outcomes *more likely* to be achieved, but they do not illustrate the full picture.

Medicines system outcomes

Medicines New Zealand defines three main outcomes for the medicine system:

- *Quality medicines that are safe and effective* – primarily the role of Medsafe, this recognises the need for a strong regulatory framework that safeguards the needs of patients;

- *Access: New Zealanders have access to the medicines they need* – this recognises the various dimensions associated with people being able to access subsidised medicines; and

- *Optimal Use: medicines are used to their best effect* – this recognises the importance of medicines being prescribed, dispensed and used well by patients (including avoiding wastage).

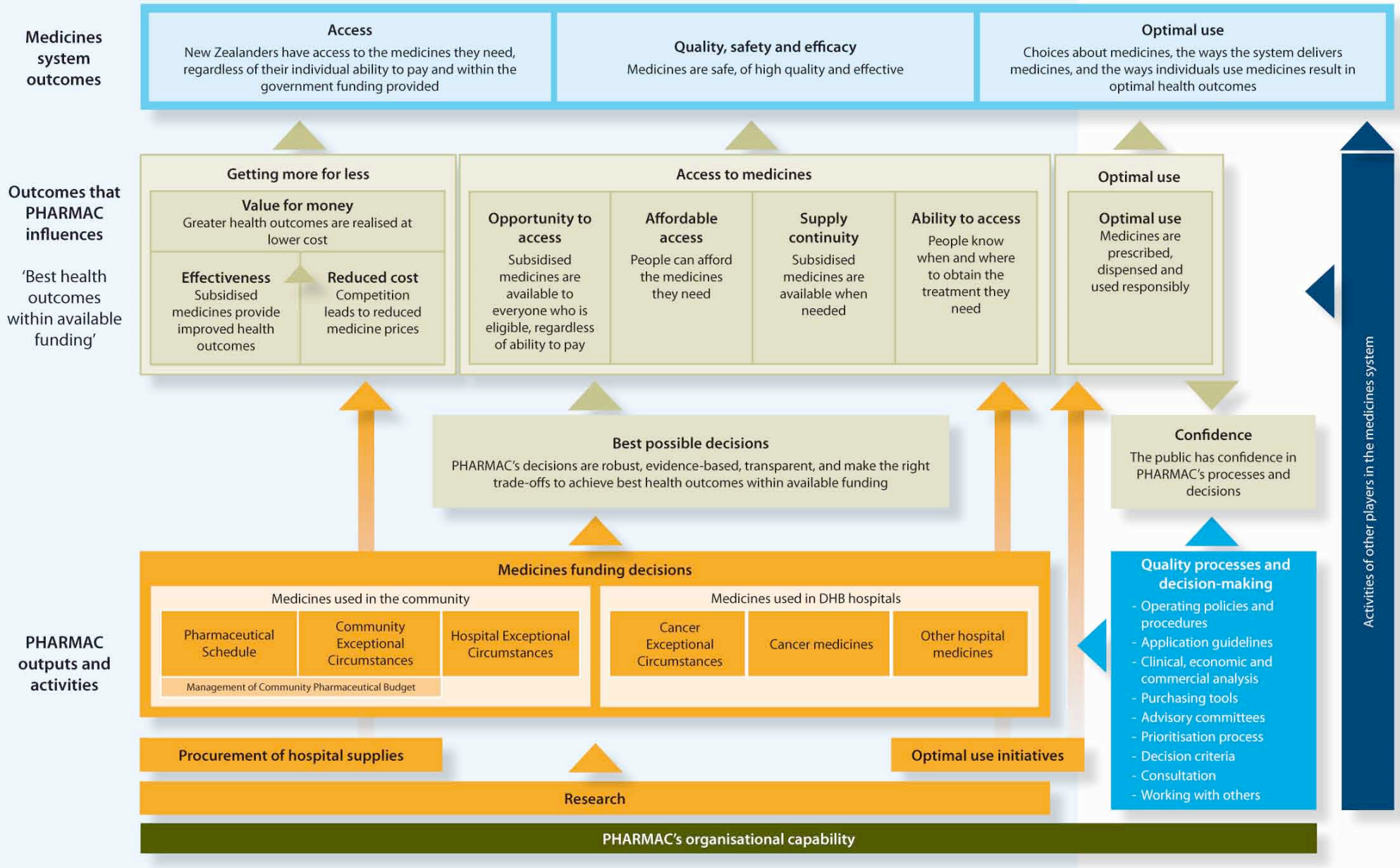
Outcomes we influence

Whatever the budget level is, we need to make difficult choices between different options. In seeking to do this, there are five outcome areas we can influence:

- getting more for less;
- access to medicines;
- optimal use;
- confidence; and
- best possible decisions.

'Best possible decisions' is discussed first because it is a prerequisite to other outcomes. We acknowledge it is not a true end outcome, as our decisions are only a possible means to an end. However, as our contribution to end outcomes is difficult to assess, a strong focus on making the best possible decisions is critical, increasing the *likelihood* that end outcomes will be achieved.

Linking PHARMAC's work to medicines system goals



Outcome 1 – Best possible decisions

What are we aiming to achieve?

We want to show we have made the best possible funding decisions among competing choices. Given that prioritising spending and making funding decisions is the essence of our work, and because other outcomes are very difficult to measure, we believe this is the best way to assess our overall performance.

How do we achieve the outcome?

The essence of our business is continually seeking areas to improve the value of our spending in two broad ways: (1) 'freeing up' funding by reducing the cost of medicines already funded (savings transactions); and (2) choosing the best new funding options (new investments).

How will we know if we're successful?

Our ability to improve the range of funded medicines depends on available funding – which either comes from budget increases or through making savings in current spending. In order to judge our performance, we need to assess the quality of our savings-related decisions; the quality of our investment decisions; and examine the funding options we didn't take to see whether anything was left out that should have ideally been funded.

Best Possible Decisions		
Measure	**Target**	**Comment**
Savings transactions	Observational. We will self-evaluate and report on significant savings transactions.	Our ability to effectively manage the budget significantly depends on our ability to make savings on currently funded medicines. This will include monitoring volume growth, and assessing what expenditure would have been if savings had not been made. A vigorous level of savings activity helps to drive our ability to invest in new medicines.
New investment decisions	Observational. We will self-evaluate and report on significant new investments.	As well as illustrating the number of investments, we can quantify the impact these funding decisions have on the health of New Zealanders.
Funding options not taken	Observational. We will report on the spending options PHARMAC had before it.	If people are to have a clear picture of the decisions we made, it's important to provide information on the funding options we *didn't* take. We will publish a table describing the medicine, what it's for, and likely patient population.

Outcome 2 – Getting more for less

What are we aiming to achieve?

We want to show that, over time, we get better value – improved health outcomes at a lower overall cost. When we talk about 'value', it does not necessarily mean the most health benefits, nor health benefits for the most people, nor that the most cost-effective medicines always get funded first. We use nine Decision Criteria to guide the difficult judgements about 'value'. For example, in a disease area with no subsidised treatments, patient need may mean a medicine gets funded, even if it is more expensive and less cost-effective than another option in an area with multiple treatments.

How do we achieve the outcome?

Getting more for less is achieved in two interrelated ways:

- *increasing the value that medicines offer* ('effectiveness' in the diagram) – we want to increase the effectiveness of medicines, taking account of all Decision Criteria. This is mainly achieved through considering the most promising funding proposals ahead of others, and through targeting access; and

- *reducing the cost of medicines* ('reduced cost' in the diagram) – we want to promote competition between pharmaceutical suppliers to reduce pharmaceutical prices, much the same as competition generates benefits for consumers in other markets.

We often hear "PHARMAC is all about the money", but this isn't how we approach our work. Cost-effectiveness is the interaction of effectiveness and reduced cost. We are interested in the combined picture of both costs and benefits.

How will we know if we're successful?

We can measure 'getting more for less' through outlining the price reductions we achieve, and the improvement in health outcomes we generate.

Getting More for Less		
Measure	**Target**	**Comment**
Additional health gains from new funding decisions	Observational (as measured by quality-adjusted life years)	PHARMAC measures health gains in terms of incremental Quality-Adjusted Life Years (QALYs), an internationally-recognised measure that provides information on the gains in quality of life and/or survival associated with treatment. By illustrating the impact of new funding decisions in terms of QALY gains, PHARMAC can illustrate the impact it is having on improving overall health.
Reduced pharmaceutical prices	Observational (as measured by a pharmaceutical price index)	Historically, the cost of pharmaceuticals overall is going down. We can track movements via an index to indicate the trends in pharmaceutical prices over time.

Outcome 3 – Access to medicines

What are we aiming to achieve?

This outcome area focuses on how we contribute to ensuring New Zealanders have access to the medicines they need, when they need them. We aim for all New Zealanders to have the same opportunity to access subsidised medicines, regardless of their ability to pay or geographic location, and for them to know how to access subsidised medicines. There are four main components of access:

- *opportunity to access* – subsidised medicines are available to everyone who is eligible, regardless of ability to pay;
- *affordable access* – people can afford the medicines they need;
- *supply continuity* – medicines are available when needed; and
- *ability to access* – people know when & where to obtain medicines they need.

How do we achieve the outcome?

Opportunity to access

The Pharmaceutical Schedule applies consistently to all New Zealanders eligible for funded treatment, regardless of their location or ability to pay. Some medicines are restricted to a particular type of patient, or need to be prescribed by a specialist – helping us get `more for less' by targeting medicines to those most likely to benefit. We can improve access by, where appropriate, removing access restrictions. 'Opportunity to access' is also assisted by our Exceptional Circumstances Schemes, which make medicines not normally funded available in specific circumstances.

Affordable access

By subsidising medicines, the Government (through PHARMAC) incurs a large part of the cost of medicines, making them more affordable to the public. Other patient costs, which are outside our control, include the cost of doctor visits and the pharmacy co-payment. To keep co-payments at the minimum level, we aim to have a subsidised treatment for each therapeutic sub-group, though this is not always the case. We also weigh up whether to increase subsidies when suppliers increase prices. Generally, we try to keep subsidies paid to companies as low as possible, subject to providing the right level of access; not to do so would limit our ability to fund other medicines.

Supply continuity

Supply shortages are inevitable and may result from manufacturing shortages, increases in demand because of an epidemic, or changes in regulatory rules in other countries. We try to reduce our risk in various ways, such as getting routine updates about stock levels and making suppliers liable for the costs of finding alternative supplies. When a stock issue arises, we keep health professionals updated, and can use shorter dispensing periods to help manage stock where required. Public communication needs careful handling, balancing openness versus causing unnecessary alarm and exacerbating stock shortages.

Ability to access

We want to help people know where and when to obtain medicines they need. As well as publicising our decisions, we operate an 0800 line and respond to a large number of public queries. We analyse access challenges, many of which are complex and multi-faceted, including assessing medicines usage patterns. We run initiatives to promote access and optimal use of medicines, including initiatives to address disparities in access by Maori and Pacific Island peoples. We do sometimes restrict access to medicines, enabling us to spend elsewhere to get the best health outcomes. Access is sometimes widened over time as further evidence or improved cost-effectiveness data becomes available.

How will we know if we're successful?

We can measure access to medicines by, overall, observing increasing uptake of medicines, removal of impediments or barriers to access, and avoidance of any wastage in how medicines are prescribed, dispensed and used. PHARMAC has a statutory role in promoting access to medicines on a consistent national basis, making medicines as widely available as possible (taking into account other choices that may generate better health outcomes), and ensuring continued supply of subsidised medicines.

Access to Medicines		
Measure	**Target**	**Comment**
Absence of `post code prescribing' for Community medicines	Observational	The Pharmaceutical Schedule applies nationally, but there are sometimes instances where medicines are used outside the Schedule. This can lead to people in one area getting something not publicly available in another area; something most people find inequitable. PHARMAC's vigilance in this area can help ensure continued national consistency of access.
Number of part-funded medicines where there are no suitable fully funded alternatives	Observational	Our policy is to fully fund medicines where possible, but from time to time medicines become part-funded, either through PHARMAC decisions (such as reference pricing), or because of supplier pricing.
Number of out of stocks	Observational, including discussion of out of stocks management	Through our contract monitoring work, we try to avoid out of stocks occurring as much as possible. In a perfect world there would be no out of stocks. However, many of these situations are beyond PHARMAC's control, such as shipping & quarantine issues and international changes in production by suppliers. Early notification can help us take mitigating action, if necessary.

Outcome 4 – Optimal use

What are we aiming to achieve?

We want medicines to be prescribed, dispensed and used by patients as well as possible. If medicines are over-, under- or misused, health outcomes are foregone – missed opportunities to improve health that we ideally want to avoid. However, it would not be possible to avoid all such health losses, as initiatives in this area have their own costs. So we need a strong focus on the cost-effectiveness of optimal use initiatives as well.

How do we achieve the outcome?

We work closely with DHBs, health professionals and other organisations on optimal use campaigns and initiatives. We provide information to support new medicine subsidies and/or brand changes. We assist with promoting best practice prescribing. We run information campaigns to promote reduced appropriate use of medicines (such as the Wise Use of Antibiotics campaign) or increased appropriate use (such as the One Heart Many Lives campaign).

How will we know if we're successful?

We evaluate our campaigns to determine whether they are meeting their aims. An overall look at these evaluations can help us decide whether to continue with campaigns, or shift resources to another area.

Optimal Use of Medicines		
Measure	**Target**	**Comment**
Evaluation of individual campaigns	Alignment with campaign objectives	Campaigns are evaluated. When these are published, summaries can be provided as an indicator that they are meeting their objectives.

Optimal Use of Medicines		
Measure	**Target**	**Comment**
Overview of evaluations	Observational	By looking back at campaigns, we can determine whether we are working on the right things and making progress in meeting objectives.

Outcome 5 – Confidence

What are we aiming to achieve?

We know people don't always agree with our decisions, but we want our decisions to be seen as impartial, carefully considered and fair. Overall, we want the public to have confidence in our work. Some may view a decision they don't like as unfair; however, others may view the same decision as fair if the interests of those wanting other medicines have been taken into account. What we mean by 'fair' is that we make the best possible decisions to achieve the best health outcomes from available funding.

How do we achieve the outcome?

If people see that a robust process is used, and routinely followed, then they can have greater confidence in the decisions that flow from that process. The way PHARMAC communicates and explains its decisions is also central to public confidence. People are also influenced by what other groups, besides PHARMAC, say about the medicines system and PHARMAC's decisions.

How will we know if we're successful?

Public perceptions are difficult to measure, though a range of interim measures, such as positive/negative feedback around decisions, counting media clippings for positive/negative media stories, or frequency of complaints received on our 0800 line can be used. We will periodically conduct surveys to obtain information about attitudes towards us, and confidence in our decisions.

ENSURING WE HAVE THE CAPABILITY TO DELIVER

Our success depends on adequate capability in a number of areas. As people are our biggest asset (with about 60 staff in total), our ability to attract and retain skilled staff, be a good employer, and enhance our attractiveness as a place to work, are critically important.

Enhancing PHARMAC as a good employer

With public sector remuneration constrained, there is an even greater need to ensure other factors affecting employee engagement and satisfaction are well-managed. While the current economic climate may encourage job retention, balanced against this is the high-performing nature of our staff (and therefore increased employment prospects), and the need to develop and retain key capability in areas where particular skills are in short supply. We will continue to focus in key areas relevant to being a good employer, including:

- *leadership, accountability and culture* – we believe we have the necessary leadership capability, and treat our accountability requirements with high priority. Drawing on internal and external feedback, we continue to build an organisational culture fit for current and future challenges;

- *recruitment, selection and induction* – our recruitment process remains an important focus to fill vacancies quickly with appropriately skilled staff. Our induction programme covers all key aspects of our business for new recruits to quickly improve their understanding of our work;

- *employee development, promotion and exit* – our performance review process includes a focus on personal and career development. While our relatively flat organisational structure means vertical promotion opportunities are limited, we provide other opportunities such as projects outside routine work (including business improvement initiatives); study support; other training initiatives and, where appropriate, secondments. Our flat structure also means high levels of autonomy and responsibility for most employees, often associated with increased job satisfaction. Exit interviews are conducted for most finishers to learn how we can further improve as an employer;

- *flexibility and work design* – we have a flexible working policy that offers, as appropriate, flexibility in working conditions, including to meet personal and family commitments. This includes part-time work and remote working, provided business needs can be met;

- *remuneration, recognition & conditions* – remuneration is performance-based, using a 'total remuneration' policy with reference to external market benchmarks and remuneration expectations of the public sector;

- *harassment and bullying prevention* – we have policies in place to manage harassment and bullying, and such behaviour is not tolerated; and

- *safe and healthy environment* – the health and safety of our working environment is monitored, including workstation audits, business continuity planning and emergency preparedness.

Other important areas of capability focus

Capability in all areas needs to be monitored and, where necessary, improved. We have strengthened our focus on business improvement with dedicated internal processes related to identifying and addressing improvements. We have a strong focus in the following capability areas considered important for addressing current and future challenges:

- *governance* – PHARMAC has a strong focus on effective governance, including use of clear decision making criteria;

- *information systems and information technology* – we rely on timely and easy access to information, including through use of appropriate technology, both within and outside PHARMAC's office (with appropriate protections). PHARMAC's business can now operate without paper, increasing our efficiency and effectiveness; lowering other costs; and setting us up well for future compliance assessments against the Public Records Act;

- *risk management* – we operate in a high profile and risky area of government. Our operating environment generates many risks with the potential, if not identified in a timely way and appropriately managed, to undermine confidence in PHARMAC. Some risks, if realised, would delay our decisions or increase expenditure, losing health outcomes that would otherwise be possible. We operate a risk management framework requiring regular screening of risks and reporting to the Board;

- *communications and stakeholder engagement* – we continue to work on improving how we better understand stakeholder views, and better explain our own. While recognising other important relationships, including the pharmaceutical industry who we engage with extensively already, we have prioritised engagement with consumers, pharmacists and clinicians; and

- *advisory committees* – we take advice from clinical and consumer advisory committees. This advice is an important input to our decisions, and an important way to benefit – alongside other engagement and consultation – from expert clinical and consumer views. Committees must be appropriately resourced and well-managed to ensure we get quality advice in a timely way.

STRATEGIES TO MAKE A FUTURE DIFFERENCE

Our operating environment is always changing and challenging. An increased business improvement focus prepares us well for future changes, but we must also identify and implement key strategies to increase our chances of future success. We have four key strategies, further discussed below. We note that these strategies span the outcomes and activities in our performance framework, so are not linked to any specific outcome or activity. Looking ahead, we also note the indicative level of the Community Pharmaceutical Budget for 2010/11 ($714 million) and 2011/12 ($734 million).

Strategy 1 – Keeping the core strong

Our success has been built on robust, evidence-based assessment of funding options, and use of purchasing strategies that promote competition between pharmaceutical companies. This core activity is critically important to the health sector and, as such, we must never take our eye off it.

Key considerations	General description of future success
Ensuring integrity of the Schedule by monitoring risks of other 'schedules' Increase understanding of risks, and contingency plans, around economic conditions Better insights from improved analysis of pharmaceutical data (e.g. usage patterns) Development of a research strategy to guide research choices Working with the Ministry and DHBs, improving the budget setting process Continuing to improve PHARMAC as a good employer and attractive place to work	Ultimately, success would be maintaining PHARMAC's record of managing expenditure within budget, and continuing to improve the processes and assessment techniques we use to assess medicines for funding. Success would also be underpinned by increased stakeholder and public acceptance that the health system is investing the right amount of money in medicines, relative to other health interventions. We believe we have had the confidence of several governments in managing pharmaceutical expenditure, and maintaining this confidence around our core business also remains critical.

Strategy 2 – Ensuring sustainable value from generics

Funding generic (off-patent) medicines can create significant savings, but we know there are public concerns about generic medicines that we need to address. We have strengthened our focus on implementing individual brand changes effectively, but must do more to increase public understanding and acceptance of generic medicines.

Key considerations	General description of future success
Improving management and implementation of individual brand changes Improving public understanding and acceptance of generic medicines Better aligning system incentives (including pharmacy contracting) to assist brand changes Ensuring PHARMAC's policies and purchasing tools are optimised Monitoring pharmaceutical patents and, where appropriate, questioning or challenging them	Ultimately, and while difficult to measure, success would be increased public acceptance of generic medicines. This would include increased understanding of (a) the efficacy of generic medicines; and (b) their ability to help manage New Zealand's level of pharmaceutical expenditure. Important prerequisites to increased public acceptance are (a) improvement in how PHARMAC implements brand changes (including making careful choices of which brands change); and (b) the medicines system working better together (including our communications and engagement with health professionals).

Strategy 3 – Managing "new and innovative" medicines

Many new pharmaceuticals are "high cost" and marketed as a major breakthrough. We need to ensure our processes and assessment techniques robustly and fairly assess new medicines and, where appropriate, manage public expectations about public funding and medicines effectiveness. This is an area the Government has also importantly identified for policy work.

Key considerations	General description of future success
Providing input to government policy work on "high cost highly-specialised" medicines Ensuring new `high cost' medicine funding applications are robustly assessed, and funded where appropriate	This is an important area of work, but a difficult one. Ultimately, success will be increased public acceptance about how "high cost highly specialised" medicines are assessed (including adopting new assessment techniques if desirable), and increased understanding of issues relevant to their assessment.

Strategy 4 – Better connecting with people

We need to ensure we clearly understand stakeholder views and clearly explain our own. In addition to improving our communications capability generally, we will focus on improved engagement with prescribers and pharmacists, and with consumers.

Key considerations	General description of future success
Improving communication and engagement, and better meeting information needs of clinicians, pharmacists and consumers Reducing system frustrations for health professionals (e.g. optimising Special Authorities) Improving connections and engagement with DHBs, at various levels Improving communications and stakeholder engagement capability generally	Ultimately, success would be increased public confidence in PHARMAC, reflected by surveying public perceptions. In our view, and because our decisions don't please everyone, increased confidence relates to understanding and acceptance of the processes and techniques we use. In some cases, people may disagree with government policy settings or our statutory role, but these are factors outside our control. We are particularly keen on increasing the confidence of consumers and health professionals (and representative groups), ultimately reflected by how well the system performs as a whole, and the public comments made about our work.

OUR ACTIVITIES FOR THE YEAR AHEAD

Our main activities are set out below, constituting our Statement of Service Performance for 2009/10).[5] The grouping of activities links directly to our performance framework at the "*PHARMAC outputs and activities*" level. Given the nature of our work, it is not straight forward to link activities to system outcomes, as our activities typically contribute to all outcomes. We also note that our Statement of Service Performance is contingent on funding outlined in our financial statements.

[5] In terms of government funding appropriations, PHARMAC has only one Output Class, "securing the best achievable health outcomes from pharmaceutical treatment, within the amount of funding provided. However, PHARMAC considers it more meaningful to define its activities using an output/activity breakdown.

Medicines used in the community

Our core business continues to be management of community pharmaceutical expenditure on behalf of DHBs. We will ensure that the Pharmaceutical Schedule is managed in a way that ensures treatments are appropriately prioritised, and decisions made that maximise health outcomes from available funding. This includes undertaking robust analysis, getting appropriate clinical advice and using purchasing tools that promote competition among pharmaceutical suppliers.

Key output / activity		Key measures
1.1	Manage community pharmaceutical expenditure	a) Expenditure managed within $694 million as at 30 June 2010
		b) Make decisions on >90% of line items (excluding bids held open while awaiting Medsafe registration) within 6 months of the tender closing
1.2	Produce and distribute the Community Pharmaceutical Schedule	a) Produce and distribute the Community Schedule in August 2009, December 2009, and April 2010
		b) Publish and distribute monthly updates to the Pharmaceutical Schedule
		c) Provide real-time electronic access to the Schedule via the PHARMAC website
1.3	Management of Exceptional Circumstances schemes	Applications for Exceptional Circumstances funding are processed in a timely manner

Medicines used in DHB hospitals

Related to the work outlined above, activities in this area will help ensure medicines used in hospitals are cost-effective and secure savings for hospital budgets while maintaining overall health outcomes.

Key output / activity		Key measures
2.1	Produce and distribute the Hospital Pharmaceutical Schedule	Produce and distribute the Hospital Schedule in July 2009, November 2009 and March 2010
2.2	Monitor DHB hospital compliance with restricted brand contracts	Provide a report to DHBs and pharmaceutical suppliers by 31 December 2009
2.3	Manage (some) expenditure on pharmaceutical cancer treatments (PCTs)	a) Achieve savings of 5% on PCTs treatments expenditure
		b) Make new investments in PCTs, with costs in 2009/10 up to an amount agreed with DHBs, plus the value of any savings achieved
2.4	Undertake procurement activity for pharmaceuticals, on behalf of DHB hospitals	a) Issue a multi-product tender for hospital pharmaceuticals and make decisions on >90% of line items (excluding bids held open while awaiting Medsafe registration) within 6 months of the tender closing
		b) Complete a procurement process for volatile anaesthetics by 30 June 2010
		c) Complete a procurement process for radiological contrast media by 30 June 2010

Procurement of DHB hospital supplies

As agreed with DHBs, we will assist in the procurement of hospital supplies where consistent with our statutory functions. Our role will be to assess procurement opportunities, make procurement recommendations to DHBs, and focus on continual service improvement to DHBs (including information sharing and communication of cost savings).

Key output / activity		Key measures
3.1	Management of national procurement contracts	Monitor compliance of Hospital only contracts requiring sales data to be provided to PHARMAC by suppliers
3.2	Continue work in assisting DHBs to procure products used in DHB hospitals	Conduct further work on national procurement as agreed with DHBs or Ministry of Health

Optimal Use initiatives

We will conduct work that promotes optimal prescribing, dispensing and use of medicines. These activities will align with other health sector activity, particularly in relation to the management of chronic conditions. We will also work to promote the appropriate use of pharmaceuticals by disadvantaged populations, including Maori, and to reduce health disparities.

Key output / activity		Key measures
4.1	Communication of brand changes	Produce information for patients and/or health professionals to assist with the implementation of pharmaceutical funding decisions
4.2	Wise Use of Antibiotics campaign	Deliver the annual Wise Use of Antibiotics campaign by 31 September 2009
4.3	One Heart Many Lives campaign	a) Support the continued implementation of the One Heart Many Lives campaign in Northland and Lakes DHB regions
		b) Develop the One Heart Many Lives campaign nationally
4.4	Space to Breathe campaign	Pilot the early childhood education programme by December 2009
4.5	Providing information for prescribers on the optimal use of medicines	a) Work with bpac^{NZ} to promote the responsible use of pharmaceuticals through continuing medical education programmes
		b) Work with DHBs through the Safe and Quality Use of Medicines group, the DHB Safe Medication Management Programme and PHARMAC-DHB Joint Working Group
4.6	Improving access to medicines by reducing inequalities, including implementation of PHARMAC's Maori Responsiveness Strategy	Continue the national roll out of He Rongoa Pai, He Oranga Whanau training programme and resources
4.7	Information on generic medicines	a) Conduct and analyse a survey of consumers on understanding of and attitudes about generic medicines
		b) Undertake actions as appropriate arising from the analysis of the consumer survey on generic medicines

Research

We will manage funding to support research to generate further information on the optimal duration of Herceptin therapy.

Key output / activity		Key measures
5.1	Manage funding for support of the SOLD clinical trial	As per contract milestones

Quality processes and Decisions

We always want to ensure our processes are efficient and as effective as possible, as good quality processes increase the likelihood of making the best possible decisions. For example, receiving objective advice from PTAC – our committee of expert clinical advisors – is essential to our decision-making, as is having clear guidelines for funding applications and transparent guidance on how we approach our pharmacoeconomic analysis.

We also want to further improve how we work with others, including the effectiveness of our communications. Our work in this area is not readily conducive to specifying performance measures (other than relevant measures below), as the desired improvement largely relates to ongoing development of an organisational culture that values improving communications and engagement. We believe our communications and stakeholder engagement have significantly improved in recent years, but remain focussed on ongoing improvement.

Key output / activity		Key measures
6.1	Improve stakeholder engagement	Hold a PHARMAC Forum by 31 December 2009
6.2	Optimal performance of advisory committees	a) Consult on changes to the Terms of Reference for the Consumer Advisory Committee by 31 December 2009
		b) Implement any changes to the Terms of Reference as required
6.3	Improve engagement with DHBs	Agree a Memorandum of Understanding with DHBs by 30 June 2010

REPORTING

With specific parameters agreed with the Minister of Health, our reporting includes monthly reports; quarterly reporting; ad hoc reports on issues of the day; and reports to Parliament.

FINANCIAL INFORMATION

Declaration by the Board

The Board acknowledges its responsibility for the information contained in PHARMAC's forecast financial statements. The financial statements should also be read in conjunction with the statement of accounting policies set out in Appendix 2.

Key assumptions

In preparing these financial statements, we have made estimates and assumptions concerning the future, which may differ from 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. Key assumptions are:

- *2009/10 operating costs not approved* – at the time of publication, our expenditure and funding for 2009/10 had not been approved by the Ministry of Health and is subject to change. As earlier noted, our Statement of Service Performance is contingent on appropriate funding and, depending on funding outcomes, PHARMAC's activities and associated measures for 2009/10 may change;

- *expenditure decreases generally* – a number of budget lines have assumed cost decreases (or forgone increases that would normally apply given inflationary pressures) to generate expenditure savings; however, the exact extent of savings in practice is uncertain;

- *personnel costs* – there is a risk that an expenditure reduction in training and development, and no increase in salary costs, are unsustainable given PHARMAC's personnel are its key asset;

- *future costs* – out-year costs in the operating budget are generally based on an inflationary adjustment, without detailed line-by-line assessment;

- *future funding not agreed* – the financial forecasts are dependent on the outcome of future negotiations for out-year funding (yet to be conducted);

- *prudential reserve* – the level of PHARMAC's prudential reserve of $1.6m;

- *Herceptin SOLD trial* – a best estimate of the spreading of PHARMAC's contribution to the administration costs of an international Herceptin trial (the SOLD trial) – as the timing and extent of recruitment in to the trial is uncertain, actual payments will likely differ in practice; and

- *Legal Risk Fund* – the balance of the Legal Risk Fund is assumed to remain the same in out-years based on an assumption that fund use is offset by replenishment (interest and transfer of any unspent litigation money in the operating budget).

Financial Statements

Our financial statements follow and conclude this SOI.

Projected Statement of Financial Performance

	For the period 1 July 2009 to 30 June 2010	For the period 1 July 2010 to 30 June 2011	For the period 1 July 2011 to 30 June 2012
	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Revenue			
Crown:			
Operating	10,560	11,369	11,665
Responsible use of pharmaceuticals	3,197	3,296	3,406
DHB Contribution	2,820	2,908	3,004
Interest Received	120	90	90
Other revenue	94	97	99
Total Revenue	**16,791**	**17,760**	**18,264**

Operating Expenditure	For the period 1 July 2009 to 30 June 2010	For the period 1 July 2010 to 30 June 2011	For the period 1 July 2011 to 30 June 2012
Operating costs	3,339	3,451	3,819
Salaries and related costs	6,558	6,761	6,985
Audit fees	28	28	29
Directors fees	129	129	129
Depreciation	467	482	498
Rentals and leases	461	475	491
High cost medicines administration	175	180	186
Herceptin trial administration costs	778	792	484
Responsible use of pharmaceuticals	5,297	5,462	5,643
Total Expenditure	**17,232**	**17,760**	**18,264**
Net surplus/(deficit)	**(441)**	**0**	**0**

Note: The above statement should be read in conjunction with the accounting policies set out in Appendix 2.

Projected Statement of Financial Position

	For the period 1 July 2009 to 30 June 2010	For the period 1 July 2010 to 30 June 2011	For the period 1 July 2011 to 30 June 2012
	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
PUBLIC EQUITY			
Retained Earnings & Reserves	1,600	1,600	1,600
Legal Risk Fund	4,600	4,600	4,600
TOTAL PUBLIC EQUITY	**6,200**	**6,200**	**6,200**
Represented by:			
Current Assets			
Cash and bank	7,759	7,759	7,759
Receivables and prepayments	100	100	100
Total current assets	7,859	7,859	7,859
Non-current assets			
Property, Plant and Equipment	580	580	580
Intangible assets	520	520	520
Total non-current assets	1,100	1,100	1,100
Total assets	**8,959**	**8,959**	**8,959**
Current Liabilities			
Creditors and other payables	2,389	2,389	2,389
Employee entitlements	370	370	370
Total current liabilities	2,759	2,759	2,759
NET ASSETS	**6,200**	**6,200**	**6,200**

Note: The above statement should be read in conjunction with the accounting policies set out in Appendix 2.

Projected Cash Flow Statement

	For the period of 1 July 2009 to 30 June 2010	For the period of 1 July 2010 to 30 June 2011	For the period of 1 July 2011 to 30 June 2012
	$000 (GST incl)	$000 (GST incl)	$000 (GST incl)
Cash flows – Operating activities			
Cash was provided from:			
- Ministry of Health	13,757	14,665	15,071
- Interest Received	120	90	90
- DHB Contribution	2,820	2,908	3,004
	16,697	17,663	18,165
Cash was disbursed to:			
- Cash outflow to suppliers and employees	(16,271)	(16,781)	(17,269)
- Net GST	(400)	(400)	(400)
	(16,671)	(17,181)	(17,669)
Net cash flow from operating activities	**26**	**482**	**496**
Cash flows – Investing activities			
Cash was disbursed to:			
- Purchase of fixed assets	(467)	(482)	(496)
Net cash flow from investing activities	**(467)**	**(482)**	**(496)**
Cash flows – Financing activities			
Net cash flow from financing activities	-	-	-
Net increase/(decrease) in cash held	(441)	-	-
Add opening cash brought forward	8,200	7,759	7,759
Closing cash balance	**7,759**	**7,759**	**7,759**

Note: The above statement should be read in conjunction with the accounting policies set out in Appendix 2.

Projected Movement in Equity

	For the period of 1 July 2009 to 30 June 2010	For the period of 1 July 2010 to 30 June 2011	For the period of 1 July 2011 to 30 June 2012
	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Public equity at the beginning of the period	2,041	1,600	1,600
Net surplus/(deficit)	(441)	-	-
Public equity as at the end of the period	**$1,600**	**$1,600**	**$1,600**

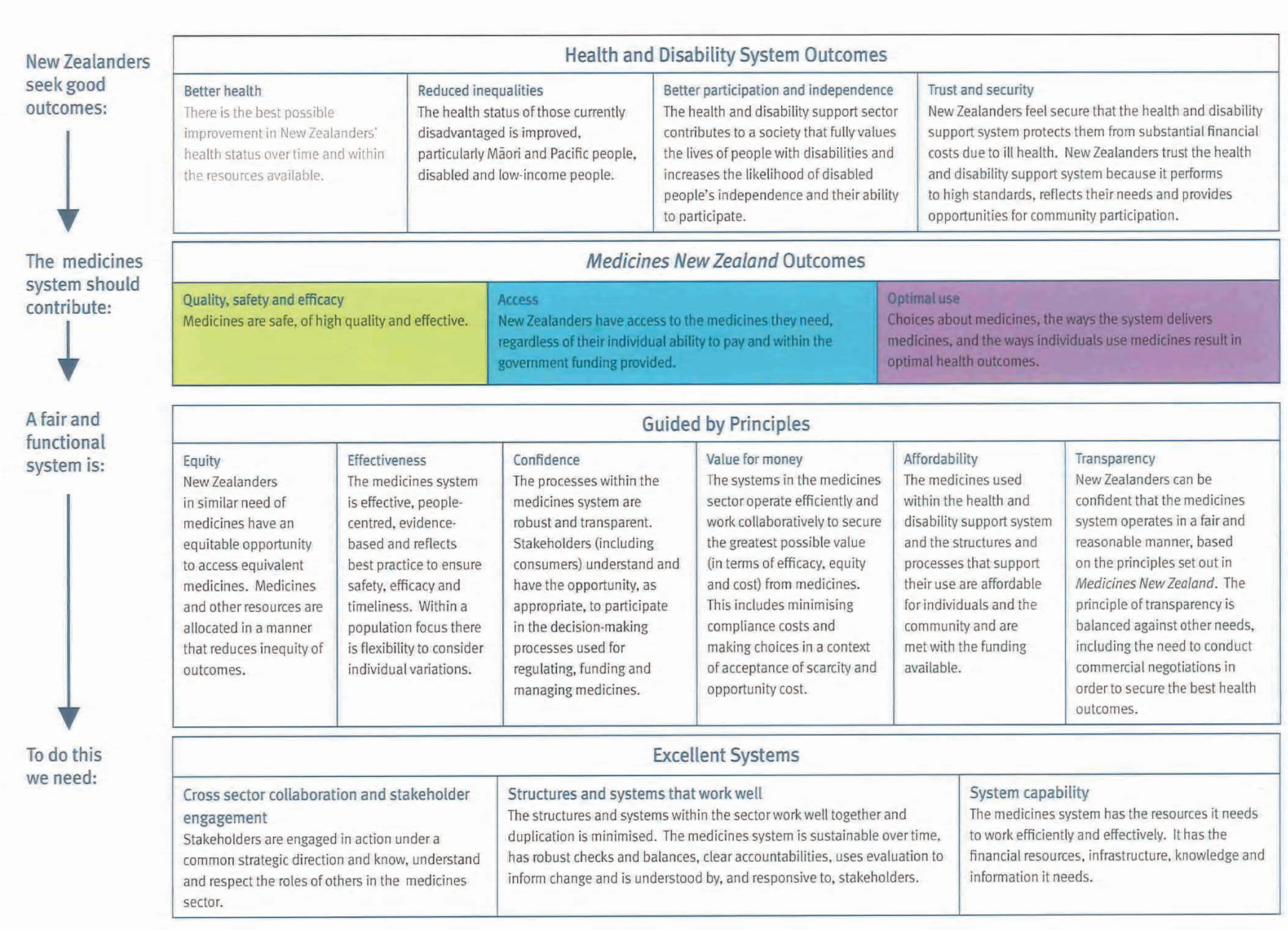
Note: The above statement should be read in conjunction with the accounting policies set out in Appendix 2.

Reconciliation of Net Surplus to Cash Flow from Operating Activities

	For the period of 1 July 2009 to 30 June 2010	For the period of 1 July 2010 to 30 June 2011	For the period of 1 July 2011 to 30 June 2012
	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Net operating surplus (deficit)	**(441)**	**-**	**-**
Add non-cash items:			
Depreciation	467	482	496
Total	**26**	**482**	**496**
Add/(less) working capital movements:			
Decrease (increase) in receivables	-	-	-
Increase (decrease) in payables	-	-	
Working Capital Movement – net	-	-	-
Net cash flow from operating activities	**26**	**482**	**496**

Note: The above statement should be read in conjunction with the accounting policies set out in Appendix 2.

APPENDIX 1 – OVERVIEW OF MEDICINES NEW ZEALAND



APPENDIX 2 – STATEMENT OF ACCOUNTING POLICIES

Reporting entity

We act as a Crown agent to meet our obligations in relation to the operation and development of a national Pharmaceutical Schedule. PHARMAC has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS").

Basis of preparation

Our financial statements have been prepared in accordance with New Zealand generally accepted accounting practices (NZ GAAP), the requirements of the Crown Entities Act 2004, and the New Zealand Public Health and Disability Act 2000. These financial statements have been prepared in accordance with, and comply with, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit entities.

Standards etc

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted – the financial statements have been prepared on an historical cost basis. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000).

Revenue

Revenue is measured at the fair value of consideration received. Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned. Interest income is recognised using the effective interest method.

Leases

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

Financial instruments

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

Cash and cash equivalents

Cash includes cash on hand and funds on deposit with banks.

Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Impairment of a receivable is established when there is objective evidence that PHARMAC will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, and default in payments are considered objective evidence of impairment. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the statement of financial performance. Overdue receivables that are renegotiated are reclassified as current.

Property, plant and equipment

Property, plant and equipment consist of leasehold improvements, furniture and office equipment. Property, plant and equipment are shown at cost less accumulated depreciation and impairment losses. All property, plant and equipment, or groups of assets forming part of a network which are material in aggregate, are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the statement of financial performance.

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

- *Disposals* – gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal are included in the statement of financial performance.

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

Depreciation

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

Item	Estimated useful life	Depreciation rate
Leasehold Improvements	5 years	20%
Office Equipment	2.5 - 5 years	20%-40%
Software	2-5 years	20%-50%
EDP Equipment	2.5 years	40%
Furniture and Fittings	5 years	20%

Leasehold improvements are capitalised and depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, which ever is shorter. Capital work in progress is not depreciated. The total cost of a project is transferred to the asset class on its completion and then depreciated. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Creditors and other payables

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

Employment entitlements

Employee entitlements that PHARMAC expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued to balance date, and annual leave earned but not yet taken at balance date expected to be settled within 12 months, and sick leave. PHARMAC recognises a liability and an expense for bonuses where it is contractually bound to pay them, or where there is a past practice that has created a constructive obligation. PHARMAC recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that PHARMAC anticipates it will be used by staff to cover their future absences.

Provisions

PHARMAC recognises a provision for future expenditure on uncertain amount or timing where there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

Public equity

Public equity is the Crown's investment in PHARMAC and is measured as the difference between total assets and total liabilities. Public equity is classified as general funds and legal risk fund.

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations. Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the value of that penalty or exit cost.

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as an input tax, then it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of the receivables or payables in the statement of financial position. The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

Income Tax

PHARMAC is a public authority in terms of the Income Tax Act 2004 and consequently is exempt from income tax. Accordingly no charge for income tax has been provided for.

Pharmaceutical Management Agency
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Freephone Information line (9am-5pm weekdays) 0800 66 00 50

PHARMAC is the Government agency responsible for deciding which medicines are subsidised for New Zealanders.
It manages spending on pharmaceuticals for the District Health Boards, and ensures that a comprehensive list of medicines (the Pharmaceutical Schedule) is subsidised for New Zealanders, and that the list of medicines continues to grow to meet the needs of patients.