Pharmaceutical Management Agency

Statement of Intent

2011/12 - 2013/14

New Zealand Government

PHARMAC
Pharmaceutical Management Agency

TABLE OF CONTENTS

PART 1

PHARMAC – our role and contribution to health outcomes

PHARMAC is the New Zealand government agency that makes decisions, on behalf of District Health Boards (DHBs), on which medicines are publicly funded in New Zealand and to what level. The core of PHARMAC's role is making choices about how to spend taxpayers' money within a fixed budget: the Community Pharmaceutical Budget, and the Discretionary Pharmaceutical Fund. While PHARMAC manages the pharmaceutical budget, the funds continue to be held by DHBs and PHARMAC effectively acts as an agent, making funding and management decisions on behalf of DHBs. PHARMAC's decisions are informed by robust processes involving consultation, advisory groups, assessment and analysis. While PHARMAC is responsible for managing pharmaceutical spending, during its decision-making PHARMAC takes into account the impact its decisions will have across the health sector, including such factors as potential reductions in hospital admissions or reductions on the demand for hospital services as a result of pharmaceutical funding.

PHARMAC's decisions are far-reaching; they affect the lives of almost every New Zealander in terms of their access to medicines, whether through medicines listed on the Pharmaceutical Schedule (the list of Government-funded medicines prescribed and dispensed in the community and the list of subsidised pharmaceutical cancer treatments); or access to medicines for individuals experiencing exceptional circumstances. As such, these decisions attract high degrees of public and clinical scrutiny. We work to involve stakeholders in our decision-making processes and will continue to focus on stakeholder engagement in the near term.

Structure and roles

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

PHARMAC has oversight of the supply chain for products listed on the Pharmaceutical Schedule, arranges distribution of certain high-cost medicines and manages national contracts for some medicines and related products used in public hospitals. We also engage in research, policy work and support to others in the health sector.

During 2010, the Government gave PHARMAC greater responsibility to manage pharmaceuticals used in DHB hospitals and, eventually, medical devices. This is work we are currently engaged on and which will develop in coming years.

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

PHARMAC's contribution to Government and sector goals

PHARMAC contributes to the Government's goal of a growing, sustainable economy through being part of the New Zealand health and disability system. We contribute to system outcomes of 'supporting New Zealand's economic growth' and 'longer, healthier and more independent lives for New Zealanders' primarily through our contribution to the outcomes defined in *Medicines New Zealand* – the strategy for the medicines system.

Our work creates impacts (or intermediate outcomes) that contribute to the *Medicines New Zealand* outcomes. We have defined these impacts as:

- Access impacts – our influence over people's ability to obtain medicines;
- Usage impacts – how people use medicines; and
- Economic and System impacts – helping the health system work more effectively, and improving value for money

Output Classes

These impacts are made possible through the day to day work we do – our outputs – which are grouped under the following five categories (Output Classes):

Output class	Description	Outputs
1. Decision-making	Work that leads to new medicines being funded and money being saved on older medicines.	1.1. Community Pharmaceutical Schedule 1.2. Pharmaceutical Cancer Treatments 1.3. Hospital Schedule 1.4. Special access panels 1.5. Exceptional Circumstances Schemes 1.6. Schedule Rules 1.7. Medical devices
2. Influencing medicines use	Promoting the optimal use of medicines and ensuring decisions are understood.	2.1. Explaining decisions/ sharing information 2.2. Population Health Programmes
3. Supply management	Ensuring the medicines that are funded are available for patients when they need them.	3.1. Contract management, incl rebates collection 3.2. Supply vigilance 3.3. Direct distribution
4. Policy, advice and support	Assisting the cohesiveness of the broader health sector.	4.1. Advice and support services to the health sector 4.2. Policy advice
5. Fund management	Effective administration of funds either held on behalf of DHBs or for the purposes of pharmaceutical funding/ risk management	5.1. Discretionary Pharmaceutical fund. 5.2. Legal Risk Fund 5.3. Rebates distribution

Resources we require to help deliver our outputs include an appropriate level of funding, which we receive from the Ministry of Health and District Health Boards, high-calibre staff, office space and access to information.

Our core business processes are published on the PHARMAC website www.pharmac.govt.nz, These include our:

- Operating Policies and Procedures
- Prescription for Pharmacoeconomic Analysis
- Consultation and notification documents
- Minutes of the Board's two advisory committees.

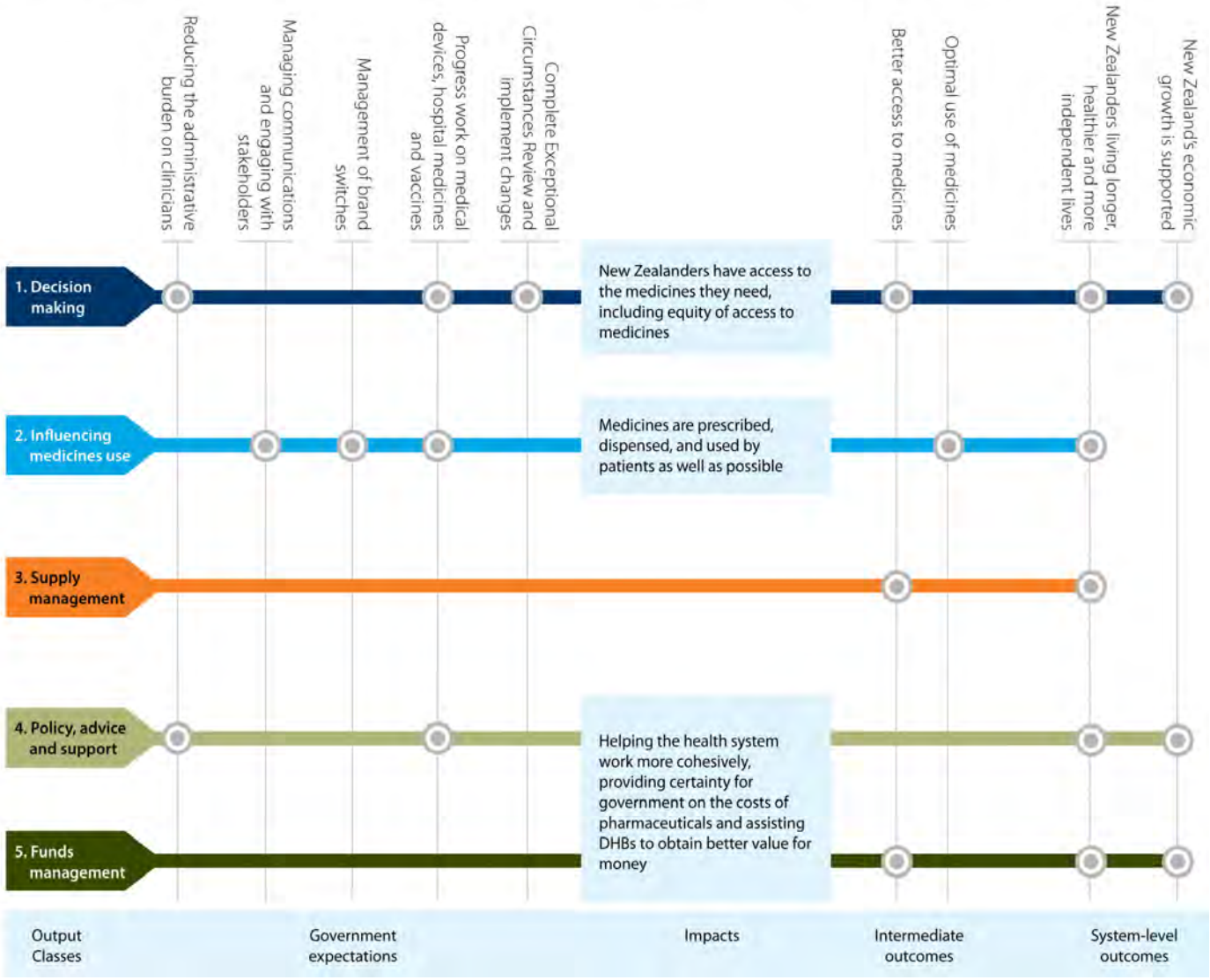
Information about pharmaceutical funding applications, including minutes of the clinical advisory committee PTAC, are available through our online Application Tracker.

Changes to Outputs

In 2010/11 through the Output Agreement with the Minister of Health, PHARMAC established the Discretionary Pharmaceutical Fund. We have further reviewed our operations in light of current economic conditions and Government expectations, and identified efficiencies to make further savings. This includes reducing our printing costs (in part by moving to electronic distribution of the Pharmaceutical Schedule), and reviewing other operational expenses.

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

PHARMAC's outcomes framework, showing the relationship of Government expectations to PHARMAC's impacts (grey circles)



Mapping our outputs to the impacts we are seeking to have

Outputs	Access impacts	Usage impacts	Economic and system impacts
1.0 Decision-making			
1.1 Community Pharmaceutical Schedule	✓		✓
1.2 Pharmaceutical Cancer Treatments	✓		✓
1.3 Hospital Schedule	✓		✓
1.4 Special Access Panels	✓	✓	✓
1.5 Exceptional Circumstances Schemes	✓	✓	✓
1.6 Schedule Rules	✓	✓	✓
1.7 Medical devices	✓		✓
2.0 Influencing medicines use			
2.1 Explaining decisions/ sharing information	✓	✓	✓
2.2 Population Health Programmes	✓	✓	✓
3.0 Supply management			
3.1 Contract management	✓		✓
3.2 Supply vigilance	✓		✓
3.3 Direct distribution	✓	✓	✓
4.0 Policy, advice and support			
4.1 Advice and support services to the health sector			✓
4.2 Policy advice			✓
5.0 Fund management			
5.1 Discretionary Pharmaceutical Fund	✓		✓
5.2 Legal Risk Fund			✓
5.3 Rebates distribution			✓

Our Working Environment

PHARMAC works within an environment that is dynamic and challenging. Funds available for pharmaceuticals are limited – yet there are ongoing demands on funding that require choices to be made for how funding is allocated. PHARMAC's role in making those choices can lead to disagreements. Some of the factors affecting our work, and our view on them, are outlined below.

Challenging economic conditions

Like most organisations, we are affected by prevailing economic conditions. With tight economic conditions comes an increased public focus on getting value for money, and spending government funding carefully. This applies both to our pharmaceutical budget management, and what we spend to keep PHARMAC operating. Despite the challenging economic environment, the Minister of Health has secured continuing increases in the pharmaceutical budget.

Bedding in expanded functions

During 2010 PHARMAC's role expanded to encompass managing all hospital medicines and eventually, medical devices. This new work has resource implications for PHARMAC, and there is a challenge to continue business as usual activities while also expanding into wider roles.

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. Sometimes tensions arise from our funding decisions. We always want to ensure our decisions are fully informed and, once made, well explained.

Working 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 Monitoring; pharmaceutical companies; DHBs; the Ministry of Health and other government agencies (including the National Health Board and Health Benefits Ltd); the Minister of Health and Associate Ministers; and Members of Parliament. In addition, to support implementation of the PHARMAC Māori Responsiveness Strategy, PHARMAC works closely with a wide range of key Māori stakeholders. Many stakeholders have representative groups (e.g. NZ Medical Association, the Pharmaceutical Society, and Medicines New Zealand) with whom we also work.

Changing industry activity and trends

Internationally, pharmaceutical companies have gone through a 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" (large market, high revenue products) come off patent. In addition, the price of new pharmaceuticals continues to be high, particularly the new-generation biologics and medicines for small patient populations.

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 patients. It also includes a substantial dependency on health IT systems including those managed by the Ministry of Health and the private sector. We contribute substantially to the successful development of a wide range of IT-related initiatives. We need to work effectively with, and think about the implications of our work for, other parts of the medicines system.

Government expectations

The Government's general expectations of the public sector have been outlined in letters of expectations. Our performance and aims for the period of this SOI are guided by the Government's Enduring Letter of Expectations issued December 2008, and the Minister of Health's letter of expectations to PHARMAC, February 2011. Expectations include a continued focus on value for money, setting realistic pay and working conditions, being aware of public concerns over Government agencies' expenditure, being financially sustainable, and having a 'no surprises' approach to our communications with the Minister. Within the Government's aim of providing 'better access to medicines, sooner' – and in addition to the aims of *Medicines New Zealand* – the Minister has informed PHARMAC of these expectations as a priority.[1] Key expectations, and Output Classes related to each expectation, are outlined below.

Expectation	Comment
Improving access to high cost, highly specialised medicines. The Exceptional Circumstances review needs to be completed by the end of June 2011, and key actions need to be implemented in a timely way.	We anticipate the Exceptional Circumstances Review will be completed during 2011 and implementation of any changes will begin in the 2011/12 financial year. See page 15.
PHARMAC needs to work closely with [the minister], the Ministry of Health, and other key stakeholders to advance the medical devices, hospital pharmaceuticals and vaccines policy work flowing on from recent Cabinet decisions. [The minister] particularly expects PHARMAC to work closely with Health Benefits Limited and clinicians to manage transition risks and ensure the smooth progression of the medical devices work.	Work on these multi-year projects is progressing. More detailed information on our anticipated progress is outlined in the box on page 15.
Manage brand switches and high profile funding decisions in a way which enhances the confidence of consumers and clinicians.	We will continue to provide resources and evidence-based information to support brand switches and high profile funding decisions. See information on generics page 17.
Communications need to be handled proactively and you need to continue to engage with the public and key stakeholders including clinicians, in order to build confidence.	Key projects in 2011/12 will be the Space to Breathe asthma campaign and Antipsychotics in Dementia. More information is provided on page 17.
PHARMAC needs to look for opportunities to lower the administrative burden on clinicians.	We anticipate that the number of medicines requiring Special Authority approval will continue to fall over the next three years. This is supported by our Policy, Advice and Support output class, outlined on page 18.

[1] 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.

In line with the Minister's expectations, we are also continuing to work with Audit NZ to improve the performance measures and description of PHARMAC's contribution to sector outcomes, as outlined in PHARMAC's performance framework.

Outcomes: Health and disability system

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

- New Zealanders living longer, healthier and more independent lives; and
- New Zealand's economic growth is supported.

How PHARMAC's work intersects and influences these outcomes is illustrated in the diagram on P4.

Intermediate Outcomes: *Medicines New Zealand* strategy

As a medicine funder and decision-maker, PHARMAC also plays a role within a subset of the health system, which is defined as the New Zealand Medicines System. Our effectiveness depends significantly on the work of others. We need pharmaceutical companies to supply effective products; Medsafe to approve medicines for use; and we rely on optimal prescribing decisions, dispensing services and consumer use to get the best health outcomes from medicines.

Medicines New Zealand is the strategy for the medicines system. It defines three main outcomes for the medicine system, and we contribute to the first two through our output activities:

- Access: New Zealanders have access to the medicines they need, including equity of access to medicines;
- Optimal Use: medicines are used to their best effect; and
- Quality medicines that are safe and effective.

Our work in contributing to these outcomes is illustrated in the diagram on P4. The third of these outcomes is largely the responsibility of Medsafe, so is not included in the diagram.

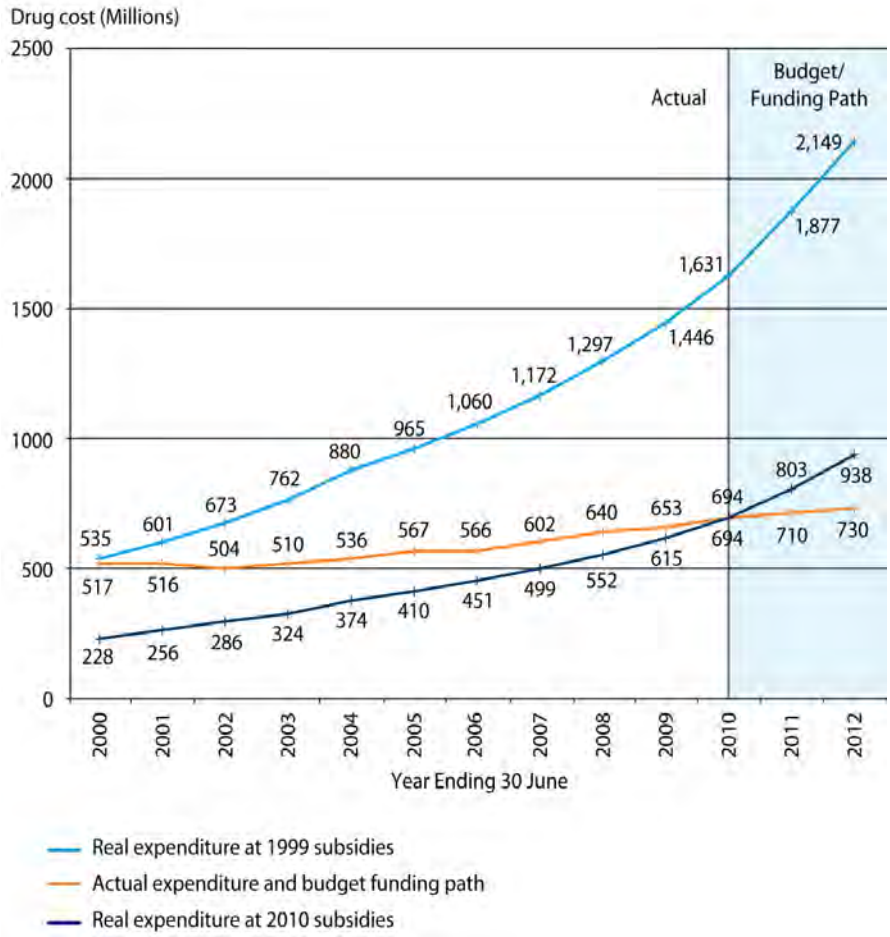
Impacts – the influence PHARMAC has

PHARMAC's work directly affects the lives of New Zealanders, many of whom rely on medicines to go about their daily lives. We also support others within the health sector to be well-informed about evidence-based medicines and we provide assistance to DHBs to achieve greater value for money in other procurement initiatives. These are the long-term impacts PHARMAC is working to achieve.

To understand PHARMAC's impact on health funding, it's useful to look back at its history. New Zealand has had a pharmaceutical management agency since 1993. During the 1980s medicines prices were increasing at a faster rate than other healthcare spending, and were one of the fastest growing items of Government expenditure. Growth of more than 20% each year meant medicine prices were threatening to crowd out other healthcare funding. A response was needed, and in 1993 the Pharmaceutical Management Agency (PHARMAC) was created[2] to actively manage Government spending on medicines. Since its inception, PHARMAC has managed pharmaceutical expenditure growth to an average 3%, while growing the range of pharmaceuticals available.

[2] PHARMAC existed as a Limited Liability Company until 1 January 2001 when it became a Crown entity under the NZ Public Health and Disability Act 2000.

PHARMAC's objective was to introduce price competition to a market where it had not previously existed. PHARMAC's role was, in effect, to get better value for medicines so that the best health outcomes could be achieved from the public money spent on medicines.



Our work has meant that, since 2000, PHARMAC's activities have saved District Health Boards a cumulative total of more than $4.7 billion. This estimate is based on pharmaceutical prices in 1999 mapped onto actual prescribing activity, and compares actual spending with what would have happened had PHARMAC taken no action. By 2010, the difference in that year alone was $937 million. If not for PHARMAC, this funding would have had to come from other areas of health spending.

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

Return on investment

Another way to look at PHARMAC's impact is to examine the value of its savings activity, compared to the cost of running PHARMAC. The savings PHARMAC makes from its negotiations on pharmaceutical prices far outstrip the amount it costs to run the organisation[3].

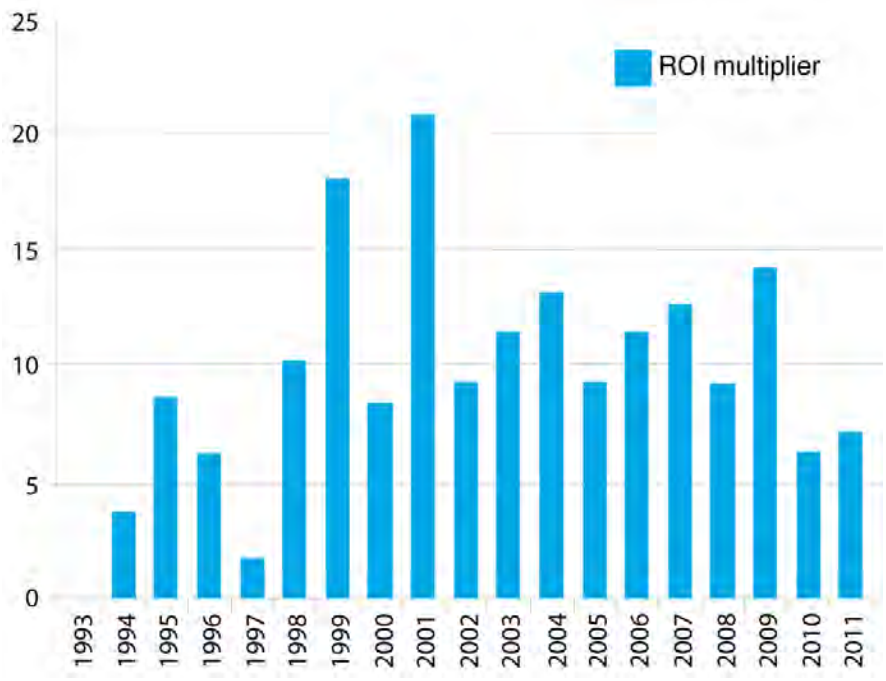
Over the past 10 years, PHARMAC has made annualised savings of up to 20 times the cost of running PHARMAC.[4]

This ratio of operating budget to savings achieved is outlined as a `return on investment multiplier' in the graph below (the left-hand scale). It is a raw comparison of the cost of keeping PHARMAC operating (our operating expenditure) with the full-year impact of savings transactions from that year.

[3] Over time PHARMAC's functions and outputs have changed and the data includes savings across pharmaceutical distribution until 2000, community pharmaceuticals only until 2011. Cancer treatments will be included from 2012.
[4] Year cited is year at end of relevant financial year (i.e. 2011 is for financial year 2010/11).

The graph illustrates, for example, that during the 2010 financial year the savings achieved were nearly seven times the cost of operating PHARMAC.

Operating expenditure includes all PHARMAC activities including those not related to pharmaceutical funding (such as our Access and Optimal Use programmes). Savings figures are only for the first full year (not future years, which the savings continue into). If we were to account for these factors, the multiplier would be higher.



Measuring our impact – the QALY

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

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

* The numbers on the left-hand scale indicate the amount of savings achieved compared to the funding required to operate PHARMAC. For example, a blue bar at 10 would indicate that in that year, PHARMAC achieved savings worth 10 times the cost of operating PHARMAC.

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1. Access impacts

This is the influence PHARMAC has over people's ability to have equitable access to medicines.

How we influence access to medicines

PHARMAC's decisions to subsidise medicines mean they are equally affordable for people, regardless of their geographic location. Many medicines are expensive and priced outside people's reach. This is particularly the case for new technology medicines such as biologics (these are medicines that treat conditions such as auto-immune diseases and some forms of cancer). A public medicine funding scheme to provide people with affordable access to medicine is common in many countries, and in New Zealand this role is performed by PHARMAC. When a medicine is fully funded by PHARMAC, patients will typically only pay the $3 co-payment that is set by the Government. This reduces the cost factor which is the main barrier in enabling people to have access to medicines.

PHARMAC isn't the only agency that has an impact on access to medicines. The Government regulator Medsafe, DHB funders, doctors and pharmacists all have an impact on access. PHARMAC's particular impact is on negotiating national contracts that apply nationally and make medicines affordable. In addition, management of funds ensures risk is managed and cashflows within the system are optimised.

Our work in managing contracts and keeping watch on the pharmaceutical supply chain helps ensure medicines are available when people need them. Sometimes when a medicine is funded it is subject to subsidy rules. While these may be seen as an administrative hurdle for clinicians, they help ensure medicines are targeted to people who most need them. This helps to ensure funded medicines are used cost-effectively.

Information and population health programmes aim to improve people's knowledge of how to obtain funded medicines. One such programme we currently operate is the He Rongoa Pai, He Oranga Whanau programme.

Measuring our impact on access to medicines

Access Impact	Measure	2009/10 actual	2010/11 estimate	Aim/target by 2013/14
People have equitable access to medicines	The Pharmaceutical Schedule applies consistently throughout New Zealand.	We noted three instances of DHBs funding medicines outside the Schedule in 2009/10.	A list of all instances of District Health Boards funding medicines outside of Pharmaceutical Schedule rules is brought to the attention of DHBs to remedy.	All instances of District Health Boards funding medicines outside of Pharmaceutical Schedule rules are brought to the attention of the DHB to remedy.

2. Usage impacts

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

How we influence usage of medicines

We work to ensure health professionals are well informed about funded medicines and provide services to help clinicians become better informed about evidence-based medicine. This includes funding the provision of high quality evidence-based prescriber educational materials (currently provided via competitive tender by Best Practice Advocacy Centre ($BPAC_{nz}$)) and running the PHARMAC Seminar Series for health professionals.

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

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

Measuring our impact on usage of medicines

Usage impact	Measure	2009/10 actual	2010/11 estimate	Aim/target by 2013/14
People get optimal health benefit through appropriate medicines use.	Medicines are not misused, overused or underused.	Evaluations demonstrated population health programmes had positive impact on use of medicines.	Evaluations demonstrate population health programmes have positive impact on use of medicines.	All population health programmes show positive impact on use of medicines against programme targets.

3. Economic and system impacts

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

How we contribute to economic and system impacts

PHARMAC manages expenditure of community pharmaceutical funds held by DHBs, and through effective negotiations and procurement initiatives reduce their expenditure on pharmaceutical cancer treatments and some hospital medicines. Through our legislative role to manage spending within budget, PHARMAC gives Government and DHBs certainty that this area of spending will be effectively managed. In addition, PHARMAC's work in achieving efficiencies in DHB hospital spending gives DHBs spending options they wouldn't otherwise have. PHARMAC's economic impact supports the government's overall fiscal management through tight budgetary control. At a time of fiscal restraint and tight budgets, PHARMAC's contribution is increasingly important. A conservative estimate is that, since 2000, PHARMAC has secured savings to the New Zealand government, which in the current year are worth in excess of $900 million (see graph on page 9). At the same time, the number of new medicines and patients receiving them have both increased.

We estimate health gain in terms of Quality Adjusted Life Years (QALYs – see description on page 10). Each year PHARMAC is faced with a list of medicines seeking funding, and prioritises how best to spend the available funding in order to maximise health outcomes. Prioritisation is necessary because the demand for funding is always greater than the amount of available funding. We do this by using our decision criteria (box on page 13).

We can measure our decision-making effectiveness by calculating the average value of the funding options we had available (our prioritisation list), and comparing that figure with the average value of the funding decisions actually made. Value will be expressed in terms of the number of QALYs gained per million dollars spent. We will aim to out-perform the average value of the funding options available, and in so doing illustrate our performance in selecting the best-value funding options available to use during the year.

Measuring our contribution to economic and system impacts

Economic and System Impact	Measure	2009/10 actual	2010/11 estimate	Aim/target by 2013/14
Government has certainty over pharmaceutical expenditure	Pharmaceutical spending is effectively managed.	Community pharmaceutical expenditure was $693.8 million, within the agreed budget of $694 million.	We estimate 2010/11 expenditure will be within the $710m budget approved by the Minister of Health.	Community pharmaceutical expenditure is within the available budget.
DHBs get best value for money	Average value of funding decisions is greater than the average value of all opportunities.	Data not available.	We estimate that the average value of funding decisions made will be greater than the average value of funding opportunities we could have chosen during the year.	The average value of funding decisions is greater than the average value of funding opportunities we could have chosen during that year.

Statement of Forecast Service Performance for 2011/12

Outputs – PHARMAC's activities

Our main activities for the financial year 1 July 2011 to 30 June 2012 are set out below. The output classifications align with those illustrated in the chart on page 4. We have also indicated the level of expenditure budgeted on each output class. Expenditure figures relate to spending from PHARMAC's operational budget, not the $777.4 million combined pharmaceutical budget. Note that not all outputs are measured and reported on.

Output class 1 - Decision-making $9.80 million

We want to ensure our processes are as efficient and effective as possible, because good quality processes increase the likelihood of making the best possible decisions. Our decisions follow a standard process that involves economic analysis, clinical advice from the Pharmacology and Therapeutics Advisory Committee (PTAC), negotiations with pharmaceutical suppliers and, often, public consultation. In making its decisions PHARMAC uses nine decision criteria (see box panel).

Our decisions around whether to fund medicines are a major component of our role in securing for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided. PHARMAC is tasked with managing the notional budget set aside by DHBs for community pharmaceuticals. From 2011/12 funding for pharmaceutical cancer treatments is met from within the expanded Community Pharmaceutical Budget. PHARMAC does not hold these funds – however, it monitors spending with the aim of ensuring that spending does not exceed that agreed notional budget. From 2010/11 PHARMAC established a Discretionary Pharmaceutical Fund that supports pharmaceutical decision-making (see Output Class 5).

Decisions involve choice. One of the ways in which PHARMAC's performance can be measured is in considering the average value for money of the choices it makes compared with the average value of all available choices. Assurance to the question, "is PHARMAC making good choices" is met through the robust inputs employed by PHARMAC to manage its decision-making processes.

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

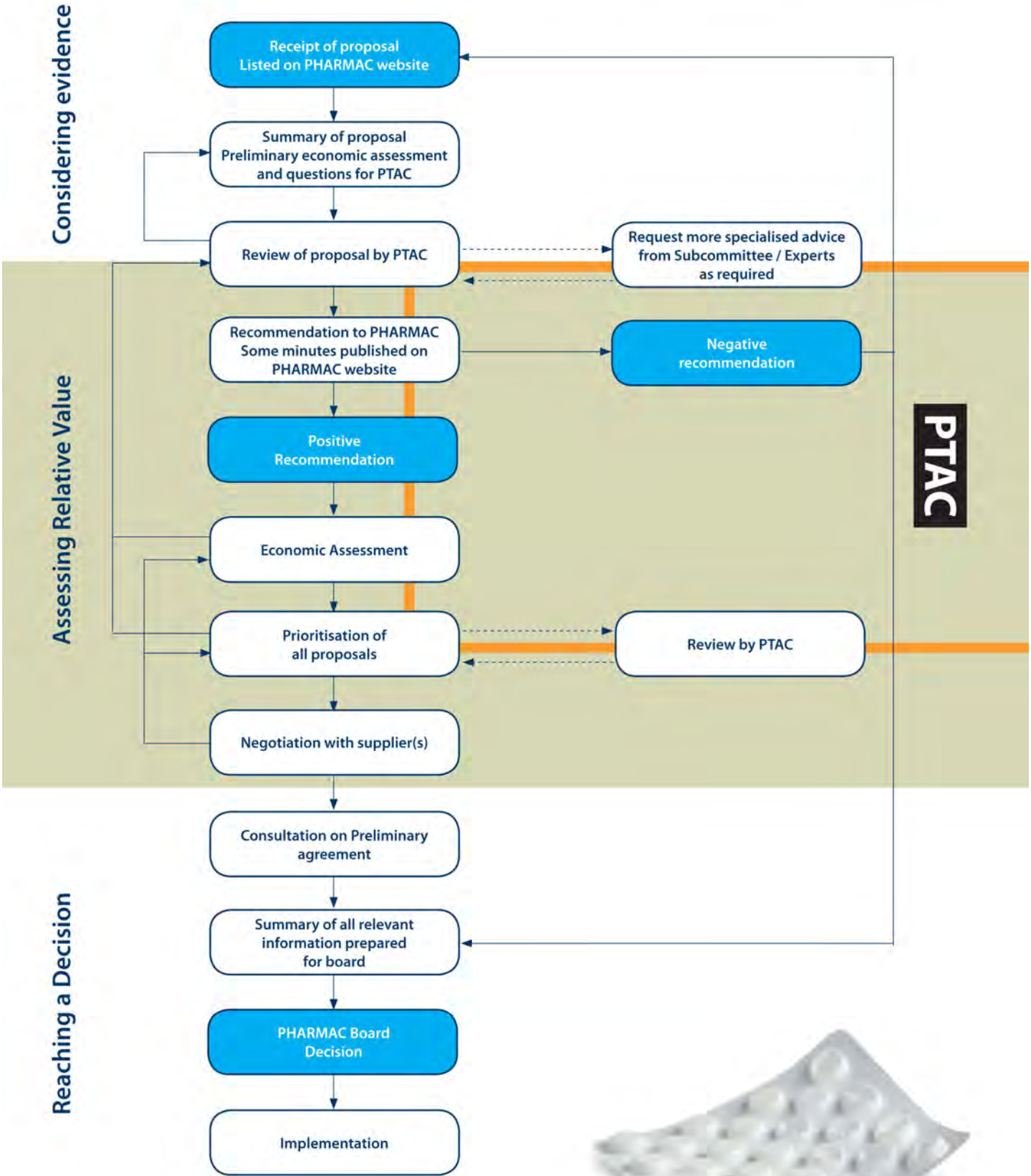
- The health needs of all eligible people;
- The particular health needs of Māori & Pacific peoples;
- The availability and suitability of existing medicines, therapeutic medical devices and related products and related things;
- The clinical benefits and risks of pharmaceuticals;
- The cost-effectiveness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

One of our activities in support of effective decision making involves monitoring pharmaceutical patents and, where appropriate, questioning or challenging them.

Not all of PHARMAC's decisions result in funding medicines – PHARMAC can also decline funding. These are decisions that also have impacts – for example, ensuring funding is available for other, more cost-effective medicines. An online Application Tracker on PHARMAC's website (www.pharmac.govt.nz) enables consumers, clinicians and industry representatives to track the progress of population-based funding applications.

Schedule decision making process

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



PHARMAC's decision-making framework is described in its Operating Policies and Procedures. PHARMAC will begin a review of this document during the 2011/12 financial year.

Output 1.1 Community Pharmaceutical Schedule

This is the list of medicines that are funded for all New Zealanders, and dispensed in the community. The Schedule is a comprehensive list of medicines covering the majority of New Zealanders' health needs. The Schedule decision-making process is outlined in the diagram on page 14.

Output 1.2 Pharmaceutical Cancer Treatments (PCTs)

PCTs are listed in the Schedule and from 2011/12 are included in the Community Pharmaceutical budget. PHARMAC is also helping fund a multi-year international clinical trial to assess the relative efficacy of short or long duration (SOLD) treatment with the breast cancer medicine trastuzumab (Herceptin).

Output 1.3 Section H, Hospital Schedule

In addition to the Community Pharmaceutical Schedule, PHARMAC also manages Section H, a list of hospital medicines for which PHARMAC has negotiated national supply terms. Section H medicines are funded through DHB hospitals, so are not included in the CPB. In 2010 Government tasked PHARMAC with managing all hospital pharmaceuticals (see box panel).

Output 1.4 Special Access Panels

Some medicines are very expensive, and to help ensure these are appropriately targeted PHARMAC manages panels of expert doctors to apply the criteria on which patients can access treatment. Panels are maintained for:

- Cystic Fibrosis;
- Gaucher's Disease;
- Multiple Sclerosis;
- Pulmonary Arterial Hypertension;
- Human Growth Hormone (children and adult); and
- Treatments for chronic myeloid leukaemia (imatinib, dasatinib).

Approximately 4000 panel applications are received each year.

Output 1.5 Exceptional Circumstances (EC) Schemes

This is the mechanism that gives individual patients access to medicines that are not otherwise funded through the Pharmaceutical Schedule or through DHB Hospitals. PHARMAC administers three Exceptional Circumstances schemes: for community (CEC), hospital (HEC), and cancer (CaEC) medicines. More than 3000 applications are received each year.

HOSPITAL MEDICINES AND MEDICAL DEVICES

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

Hospital Medicines

There is variation in the hospital medicines each DHB funds for its patients. The hospital medicines project aims to construct a list of medicines that every DHB funds, with changes made on a nationally-consistent basis. This aims to eliminate the phenomenon known as postcode prescribing, and may also create greater efficiencies through using a central agency (PHARMAC).

This is a multi-year project that will involve a staged approach to information-gathering and engagement with hospital clinicians, DHB managers, consumers and industry will take place. PHARMAC will conduct therapeutic group reviews to construct a nationally binding hospital medicines schedule. The first three therapeutic groups to be reviewed (beginning in 2011) cardiovascular, musculoskeletal (including arthritis); and infections

Medical Devices

The Government has asked for work to begin examining national management of medical devices, and this work is being shared between PHARMAC, the Ministry of Health and the Health Benefits Limited.

This work is likely to develop further in 2011/12 with work towards completing a National Implementation Plan that would include establishment of a national catalogue of devices, in consultation with clinicians, consumers, DHB managers and industry. This will feed into future decisions to be made by Cabinet.

An assessment of insulin pumps began in 2011 and decisions are expected in the 2011/12 financial year.

The EC schemes were subject of an extensive review in 2010/11 and changes are possible from the 2011/12 year onwards.

Output 1.6 Schedule Rules

Once a medicine is listed, it may be prescribed for a patient within the Schedule rules. Community pharmaceuticals are dispensed by pharmacists, who are contracted by their DHBs to provide services. Pharmacy claims are paid by Ministry of Health Sector Services, on behalf of DHBs.

Output 1.7 Medical devices

We are responsible for a small number of medical devices. In the community these include:

- Pregnancy test kits;
- Blood glucose testing and management (i.e. test strips/meters and insulin needles/syringes);
- Asthma management (Peak flow meters, spacers, masks);
- Contraception/IUDs; and
- Urine testing for blood/protein.

In DHB Hospitals we administer contracts for volatile anaesthetic agents which require a vaporiser device (Sevoflurane, Isoflurane, Desflurane). The device is supplied under the contract for the anaesthetic agent. We also procure radiological contrast media. During 2010/11 PHARMAC was given greater responsibility to begin assuming responsibility for purchasing medical devices (see box panel P16).

Decision-making output measures

Impact	Output		2010/11 estimate	2011/12 target
Access Economic and system	1.1	Community pharmaceutical Schedule decisions.	All funding decisions are supported by evidence and made using PHARMAC's nine decision criteria.	All funding decisions are supported by evidence and made using PHARMAC's nine decision criteria.
			Decisions on >90% of line items (excluding bids held open while awaiting Medsafe registration) made within 6 months of the tender closing.	Decisions on >90% of line items (excluding bids held open while awaiting Medsafe registration) made within 6 months of the tender closing.

Output class 2 - Influencing medicines use $9.44 million

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

Output 2.1 Explaining decisions/ sharing information

We work to better explain our decisions through our notification letters, the PHARMAC website and information sent to health professionals and patients to help them adjust to the introduction of new medicines or brand changes. Our Consumer Advisory Committee provides advice to PHARMAC from a patient or consumer point of view on obtaining consumer views, communicating and engaging with them.

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 optimal use of medicines. Key projects to be advanced in 2010/11 are outlined in the box opposite.

Sometimes decision implementation is supported by information provided to health professionals and consumers through our health education programmes, such as He Rongoā Pai He Oranga Whānau, a programme that provides seminars to Māori Community Health Workers and Primary Care Nurses.

We also work to share information and promote evidence-based prescribing to health professionals through our management of the PHARMAC Seminar Series and the work of bpac[nz)] who currently provide (following a competitive tender) services to promote appropriate prescribing through high-quality educational materials and resources.

Our Population Health Programmes

One Heart Many Lives - This campaign aims to increase awareness of cardiovascular risk and provide tools for reduction of cardiovascular risk, particularly among Māori and Pacific men aged over 35.

Space to Breathe - This campaign aims to reduce hospitalisations among Māori and Pacific children with asthma through education and the use of preventer medication and self management plans.

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

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

Influencing medicines use output measure

Impact	Output		2010/11 estimate	2011/12 target
Access Usage	2.2	Population health programmes.	Demand for campaign materials is equal to/ greater than previous year Surveys of Seminar Series attendees show minimum 90% of respondents rate their satisfaction with the Seminars at least four out of five (where 1 = poor, 5 = excellent)	Amount of campaign materials distributed is greater than previous year. Surveys of Seminar Series attendees show minimum 90% of respondents rate their satisfaction with the Seminars at least four out of five (where 1 = poor, 5 = excellent).

Output class 3 - Supply management $0.87 million

When a medicine is funded, this usually results in a supply contract that is negotiated between PHARMAC and the supplier.

Output 3.1 Contract management

PHARMAC has dedicated contract management resources which have led to benefits such as being more aware of when supply shortages might arise, and taking action to mitigate them. Better contract management has also enabled PHARMAC to more effectively manage rebate payments from pharmaceutical suppliers.

Output 3.2 Supply vigilance

We're also aware that medicines not on contract are important to patients and need to be monitored. This requires ongoing vigilance of the supply chain to ensure adequate supplies between pharmaceutical companies, wholesalers, pharmacists and patients.

Output 3.3 Direct distribution

PHARMAC also manages direct distribution of some high cost medicines directly to patients. This includes some medicines used to treat leukaemia, multiple sclerosis and enzyme deficiency disorders. In these cases, PHARMAC's active management helps ensure patients have timely access to the medicines they need, and that wastage of these expensive medicines is kept to a minimum. This helps ensure public funding for these medicines is used efficiently. In addition, PHARMAC helps manage ordering and distribution of nicotine replacement therapies to providers contracted by the Ministry of Health.

Supply management output measure

Impact	Output		2010/11 estimate	2011/12 target
Economic and system	3.1	Contract management.	All low medicine stock situations are identified and managed.	Respond to low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.

Output class 4 – Policy, Advice and Support $1.25 million

Output 4.1 Advice and support services to the health sector

PHARMAC provides advice and support work for other health sector agencies to improve the cost effectiveness of health spending. This includes management of pharmaceutical spending in the community, advice and support to DHBs on a range of matters including pharmacy contracting and medicines distribution, and contribution to the development of a NZ Universal List of Medicines and National Formulary, amongst other sector-wide initiatives including those that seek to reduce the administrative workload of clinicians.

We undertake work to assist health sector procurement where it fits with PHARMAC's skills, for example with the influenza vaccine and some blood products. Government-commissioned reports have identified further potential value-for-money initiatives that PHARMAC can contribute to – either through its activities or through providing advice and support to DHBs or the Ministry of Health.

Output 4.2 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.

Policy, advice and support output measure

Impact	Output		2010/11 estimate	2011/12 target
Economic and system	4.2	Policy advice.	Provide comment within agreed timeframe on all relevant policies and papers as requested by sector agencies.	Survey of policy requesters indicates satisfaction with timeliness and quality of PHARMAC's policy advice.

Output class 5 – Fund Management $0.07 million

PHARMAC manages pharmaceutical expenditure on behalf of DHBs within the amount approved by the Minister of Health. From 2010/11 PHARMAC established a funding mechanism to enable more effective use of the pharmaceutical budget across years.

Output 5.1 Discretionary Pharmaceutical Fund

In 2010/11 the Minister of Health approved a Discretionary Pharmaceutical Fund (DPF) for PHARMAC to hold in addition to managing DHB funding on pharmaceuticals. The DPF, which has an initial value of $10 million, aims to smooth out spending over multiple years and enable PHARMAC to take a long-term view of pharmaceutical funding decisions. The DPF is held and managed by PHARMAC, supplemented by DHB underspends in any financial year up to an agreed maximum and used to reimburse DHBs if there is any overspend in the pharmaceutical budget.

Output 5.2 Legal Risk Fund

PHARMAC has access to a legal risk fund to help meet the costs of expensive litigation (which can be initiated by PHARMAC or by other parties). The fund, with a value of $6.1 million in 2011/12, is used to meet litigation costs that are not otherwise met from PHARMAC's regular operational spending on legal services.

Output 5.3 Rebates distribution

PHARMAC administers the funds collected on behalf of DHBs through the contract management output. These funds must be accounted for, reported on, banked and distributed to DHBs in an efficient and timely manner, maximising cashflows for DHBs.

Fund management output measure

Impact	Output		2010/11 estimate	2011/12 target
Economic and system	5.3	Rebates distribution	Distribute all collected rebates by the end of the quarter following.	All fund use is in accordance with PHARMAC policy.

Our Capability

Our success depends on adequate capability in a number of areas. PHARMAC's unique skill lies in our ability to synthesise and create unique knowledge to help us achieve our legislative objective. Our people are our biggest asset (about 60 staff in total), so 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 general fiscal restraint, 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 on 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. 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 flexible working conditions. 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 consider the following capability areas are priorities to enable us to meet current and future challenges:

- *governance* – PHARMAC has a strong focus on effective governance, including use of clear decision making criteria. In the past year, the PHARMAC Board has completed work on a Governance Manual;

- *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 with whom we engage extensively, we have prioritised engagement with clinicians, pharmacists and consumers;

- *advisory committees* – we take advice from clinical and consumer advisory committees. The advice from our clinical committees is an important input to our decisions, and an important way to benefit from expert clinical views. The advice from our Consumer Advisory Committee ensures our consultation and communications activities are appropriate and relevant;

- *Māori responsiveness* – as a Government agency PHARMAC has a commitment to upholding the principles of the Treaty of Waitangi. PHARMAC's Māori Responsiveness Strategy provides a framework for ensuring that PHARMAC is aware of, and responding to, the needs of Māori in relation to pharmaceuticals;

- *Pacific responsiveness* – PHARMAC has developed a Pacific Responsiveness Strategy to guide its internal and external engagement and operations affecting Pacific peoples;

- *risk management* – our operating environment generates many risks. Some of these could, if not identified early and appropriately managed, 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; and

- *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. 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.

PART 2

Technical information about PHARMAC

Our form and functions

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"*.[5]

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).[6] The Board also has an Audit Committee and a Forecast Committee (comprised of Board members), which provide assistance to the Board on relevant issues.

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.

[5] New Zealand Public Health and Disability Act, 2000

[6] 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.

PART 3

Prospective Financial Information

Declaration by the Board

The Board acknowledges its responsibility for the information contained in PHARMAC's prospective financial statements. The prospective financial statements have been prepared in accordance with section 142 of the Crown Entities Act 2004. The financial statements should also be read in conjunction with the statement of accounting policies set out in Appendix 1.

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:

- *Our Statement of Forecast Service Performance* is contingent on appropriate funding and depending on funding decisions, PHARMAC's activities and associated measures for 2011/2012 may change;
- *expenditure increases generally* – a number of budget lines have assumed cost increases due to changes in PHARMAC's functions;
- *personnel costs* – expenditure in personnel has been increased to maintain consistency with other state sector organisations, given PHARMAC's personnel are its key asset;
- *future costs* – out-year costs in the operating budget more generally are based on a general inflationary adjustment ;
- *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 of recruitment in to the trial is based on estimates, actual payments will likely differ in practice;
- *Legal Risk Fund (LRF)* – 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); and
- *Discretionary Pharmaceutical Fund (DPF)* – the balance of the Discretionary Pharmaceutical Fund is based on the forecast of pharmaceutical expenditure.

Prospective Financial Statements

Prospective Statement of Comprehensive Income

	Note	For the period of 1 July 2011 to 30 June 2012	For the period of 1 July 2012 to 30 June 2013	For the period of 1 July 2013 to 30 June 2014
	1	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Revenue				
Crown Contribution		14,187	14,187	14,187
Crown Additional Funding	2	0	554	554
Discretionary Pharmaceutical Fund (DPF)	3	2,570	2,570	2,570
DHB Contribution		3,170	3,415	3,415
Other Revenue		365	315	315
Interest Revenue		130	140	140
Legal Risk Fund (LRF)-Interest Revenue	4	280	280	280
Total Revenue		**20,702**	**21,461**	**21,461**
Expenditure				
Personnel Costs	5	7,348	7,479	7,610
Operating Costs		10,128	10,227	10,295
Herceptin Sold Trial		683	805	736
Depreciation		417	417	417
DPF payments to DHBs	2	2,570	2,570	2,570
LRF payments for litigation costs		280	280	280
Finance costs		9	9	10
Total Expenditure		**21,435**	**21,787**	**21,918**
Net Surplus/(deficit)		**(733)**	**(326)**	**(457)**
Other Comprehensive Income		0	0	0
Total Comprehensive Income		**(733)**	**(326)**	**(457)**

Note

1. The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
2. Subject to approval by Minister.
3. DPF is forecast to maintain its value at its mid-point.
4. LRF interest rate calculation 4.59% on an average balance $6,100,000.
5. Personnel cost movements due to new staff positions and a provision for remuneration movement as there has been no change in remuneration since July 2008.

Prospective Statement of Comprehensive Income, by Output Class

Output Expenditure Budget 2011/2012	Funding MOH	Funding DHB	Funding Other	Output Expenditure	Net surplus/ (deficit)
Decision-making	8,571	296	550	(9,808)	(391)
Influencing medicine use	6,778	2,280	100	(9,441)	(283)
Supply management	609	130	100	(866)	(27)
Policy advice and support	769	434	20	(1,255)	(32)
Fund management	30	30	5	(65)	0
Total Expenditure	**16,757**	**3,170**	**775**	**(21,435)**	**(733)**

Output Expenditure Budget 2012/2013	Funding MOH	Funding DHB	Funding Other	Output Expenditure	Net surplus/ (deficit)
Decision-making	8,296	347	533	(10,107)	(931)
Influencing medicine use	7,534	2,436	90	(9,468)	592
Supply management	635	139	90	(875)	(11)
Policy advice and support	816	463	15	(1,270)	24
Fund management	30	30	7	(67)	0
Total Expenditure	**17,311**	**3,415**	**735**	**(21,787)**	**(326)**

Output Expenditure Budget 2013/2014	Funding MOH	Funding DHB	Funding Other	Output Expenditure	Net surplus/ (deficit)
Decision-making	8,296	347	533	(10,171)	(995)
Influencing medicine use	7,534	2,436	90	(9,506)	554
Supply management	635	139	90	(886)	(22)
Policy advice and support	816	463	15	(1,288)	6
Fund management	30	30	7	(67)	0
Total Expenditure	**17,311**	**3,415**	**735**	**(21,918)**	**(457)**

Prospective Statement of Financial Position

	Note	For the period of 1 July 2011 to 30 June 2012	For the period of 1 July 2012 to 2013	For the period of 1 July 2013 to 30 June 2014
	1	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
PUBLIC EQUITY				
Retained Earnings & Reserves		1,600	1,600	1,600
Herceptin Sold Trial Reserve		1,187	861	404
Discretionary Pharmaceutical Fund	2	7,430	7,430	7,430
Legal Risk Fund		6,100	6,100	6,100
TOTAL PUBLIC EQUITY		**16,317**	**15,991**	**15,534**
Represented by:				
Current Assets				
Cash and bank		17,584	17,258	16,801
Receivables and prepayments		100	100	100
Total current assets		17,684	17,358	16,901
Non-current assets				
Property, Plant and Equipment		450	450	450
Intangible assets		483	483	483
Total non-current assets		933	933	933
Total assets		**18,617**	**18,291**	**17,834**
Current Liabilities				
Creditors and other payables		1,800	1,800	1,800
Employee entitlements		500	500	500
Total current liabilities		2,300	2,300	2,300
NET ASSETS		**16,317**	**15,991**	**15,534**

Note:
1. The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
2. Discretionary Pharmaceutical Fund is forecast to maintain its value at its mid-point.

Prospective Cash Flow Statement

	For the period of 1 July 2011 to 30 June 2012	For the period of 1 July 2012 to 30 June 2013	For the period of 1 July 2013 to 30 June 2014
	$000 (GST incl)	$000 (GST incl)	$000 (GST incl)
Cash flows – Operating activities			
Cash was provided from:			
- Crown Contribution	14,187	14,741	14,741
- DPF Funding from DHBs	2,570	2,570	2,570
- DHB Contribution	3,170	3,415	3,415
- Interest Revenue	130	140	140
- LRF Interest revenue	280	280	280
- Other Income	365	315	315
	20,702	21,461	21,461
Cash was disbursed to:			
- Cash outflow to suppliers and employees	(20,618)	(20,970)	(21,101)
- Net GST	(400)	(400)	(400)
	(21,018)	(21,370)	(21,501)
Net cash flow from operating activities	**(316)**	**91**	**(40)**
Cash flows – Investing activities			
Cash was disbursed to:			
- Purchase of fixed assets	(600)	(417)	(417)
Net cash flow from investing activities	**(600)**	**(417)**	**(417)**
Cash flows – Financing activities	0	0	0
Net cash flow from financing activities	**0**	**0**	**0**
Net increase/(decrease) in cash held	(916)	(326)	(457)
Add opening cash brought forward	18,500	17,584	17,258
Closing cash balance	**17,584**	**17,258**	**16,801**

Note: The above statement should be read in conjunction with the accounting policies set out in Appendix 1.

Prospective Movement in Equity

	For the period of 1 July 2011 to 30 June 2012	For the period of 1 July 2012 to 30 June 2013	For the period of 1 July 2013 to 30 June 2014
	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Retained Earnings			
Balance 1 July	1,600	1,600	1,600
Net surplus/(deficit)	0	0	0
Balance at 30 June	1,600	1,600	1,600
Herceptin SOLD Trial fund			
Balance 1 July	1,920	1,187	861
Net surplus/(deficit)	(733)	(326)	(457)
Balance at 30 June	1,187	861	404
Legal Risk fund			
Balance 1 July	6,100	6,100	6,100
Add:Interest received	280	280	280
Less:Litigation expenses	(280)	(280)	(280)
Balance at 30 June	6,100	6,100	6,100
Discretionary Pharmaceutical Fund			
Balance 1 July	7,430	7,430	7,430
Add: Funding received	2,570	2,570	2,570
Less DPF payments to DHBs	(2,570)	(2,570)	(2,570)
Balance 30 June	7,430	7,430	7,430
Public equity as at the end of the period	**16,317**	**15,991**	**15,534**

Note: The above statement should be read in conjunction with the accounting policies set out in Appendix 1.

Reconciliation of Net Surplus to Cash Flow from Operating Activities

	For the period of 1 July 2011 to 30 June 2012	For the period of 1 July 2012 to 30 June 2013	For the period of 1 July 2013 to 30 June 2014
	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Net operating surplus/(deficit)	**(733)**	**(326)**	**(457)**
Add non-cash items:			
Depreciation	417	417	417
Total	**(316)**	**91**	**(40)**
Add/(less) working capital movements:			
Decrease (increase) in receivables	0	0	0
Increase (decrease) in payables	0	0	0
Working Capital Movement – net	0	0	0
Net cash flow from operating activities	**(316)**	**91**	**(40)**

Note: The above statement should be read in conjunction with the accounting policies set out in Appendix 1.

APPENDIX 1 – 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.

ISSN 1179-3737 (Print)
ISSN 1179-3740 (Online)

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