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PHARMAC
Pharmaceutical Management Agency

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Statement of Performance Expectations

2017/18

New Zealand Government

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PHARMAC

Pharmaceutical Management Agency

Statement of Performance Expectations

2017–2018

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26 May 2017

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Our role and functions

PHARMAC is a Crown entity, with a statutory objective *"to secure for eligible people in need of pharmaceuticals[1], the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided".*[2]

To carry out our objective, PHARMAC's functions include:

Maintain and manage the Pharmaceutical Schedule	• The Schedule lists all the medicines and therapeutic products that are publicly funded for use in the community and in hospitals, as well as the contracts and agreements for some hospital medical devices. PHARMAC decides which products to list, and in some instances manages supply. The Schedule helps to achieve national consistency - so prescribers and patients can access the same medicines and medical devices no matter where they live.
Provide subsidies for patients in exceptional circumstances when a pharmaceutical isn't listed in the Schedule	• PHARMAC manages the process and makes decisions on funding unlisted treatments for individuals in Exceptional Circumstances (under the Named Patient Pharmaceutical Assessment policy).
Promote the responsible use of medicines	• PHARMAC works with health care professionals and consumers to ensure medicines are not overused, underused or misused. We have a range of education, information, decision support tools and seminars to help promote and support optimal use of medicines.
Engage in research as appropriate	• Within our operational budget, we undertake and commission research that helps us to achieve our objective.

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 Combined Pharmaceutical Budget (CPB). The Ministry of Health acts as the Minister's agent in monitoring PHARMAC's performance.

Governance

The Minister of Health 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

[1] 'Pharmaceuticals' are medicines, vaccines, therapeutic medical devices, related products or related things.
[2] Section 47(a) New Zealand Public Health and Disability Act 2000.

are 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) and its specialty subcommittees, and the Consumer Advisory Committee (CAC) – a committee of people experienced in consumer issues.[3] The Board also has an Audit and Forecast Committee and Health and Safety Committee (comprising of Board members), which provides 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, and reports to Parliament.

Output classes

The output classes below are the services we provide that are directly funded by the Crown. More detailed information about these can be found on page 6.

Output class	Description	Outputs
1. Making decisions about pharmaceuticals[4]	Work that leads to new medicines being funded and money being saved on older medicines.	1.1. Combined Pharmaceuticals[5] 1.2. Other Pharmaceuticals[6] 1.3. Special access panels 1.4. Named Patient Pharmaceutical Assessment
2. Influencing medicines access and use	Promoting access to and the optimal use of medicines and ensuring decisions are understood.	2.1. Sharing information/explaining decisions 2.2. Population health programmes 2.3. Supply management
3. Providing policy advice and support	Assisting the cohesiveness of the broader health sector.	3.1. Advice and support services to the health sector 3.2. Policy advice 3.3. Contracts and fund management

Government expectations

PHARMAC's Statement of Intent is guided by the Government's Enduring Letter of Expectations, issued in July 2012. The Statement of Performance Expectations is guided by the Minister of Health's Letter of Expectations to PHARMAC dated February 2017.

The Minister of Health expects us to:

- Clearly demonstrate linkages from our work to the New Zealand Health Strategy's five themes, and maintain a focus on health equity.
- Consider where we can make efficiency gains, make every dollar count, and demonstrate the difference we make.
- Improve our efficiency and effectiveness by working across the health and disability system, influence sector-wide results, and put the patient or client first.

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

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

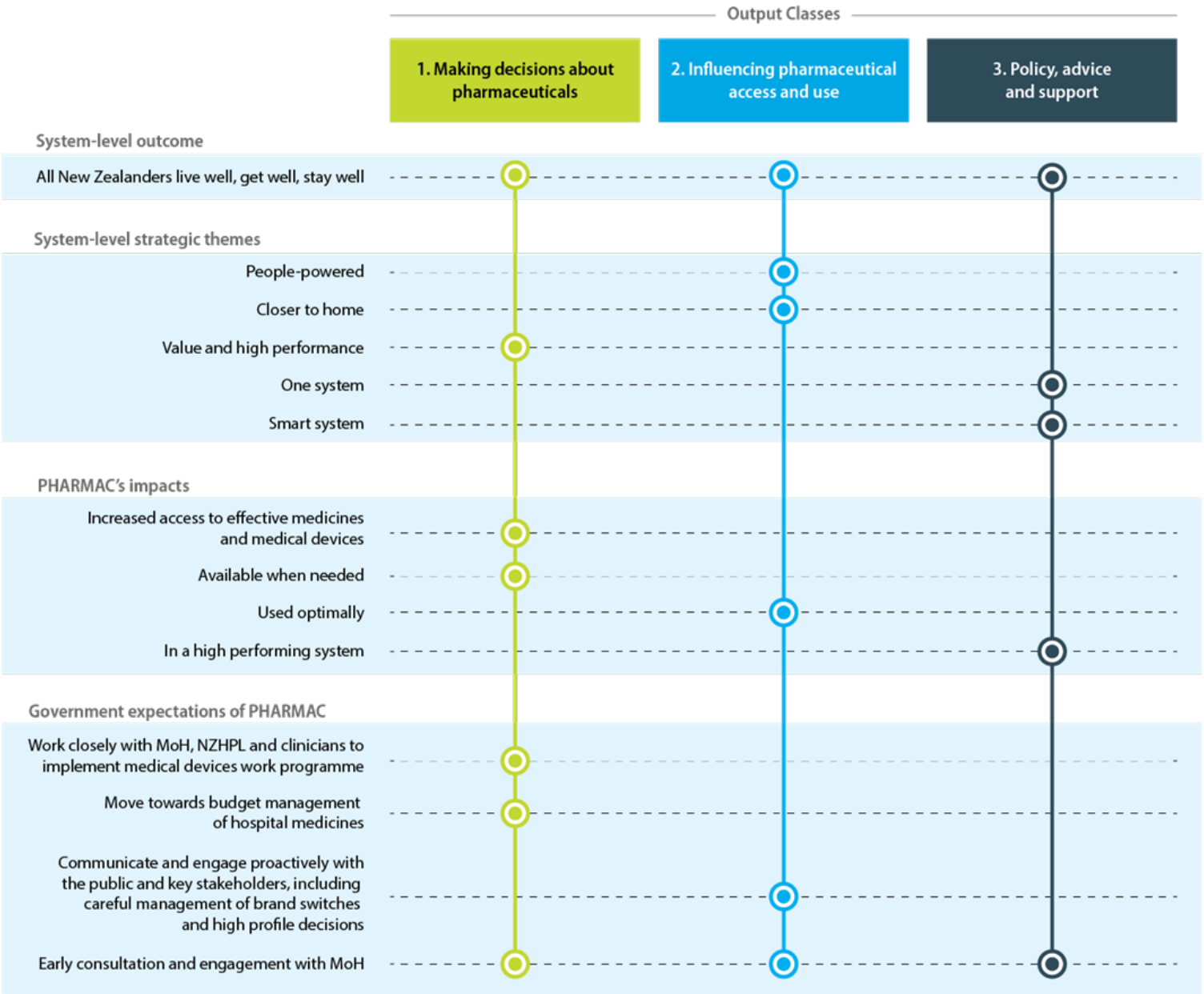
- Make use of performance or continuous improvement processes.
- Continue to publish non-sensitive performance information on our website, beyond the usual annual reporting requirements.

Specific priorities for PHARMAC, and the relevant outputs for each, are outlined below:

Expectation	Comment
Continue to work closely with the Ministry of Health, New Zealand Health Partnerships Limited and clinicians to implement the medical devices work programme.	We engage in a range of regular and ad hoc meetings with Ministry of Health staff. PHARMAC has established a Memorandum of Understanding with NZ Health Partnerships Ltd (NZHP) which clarifies how we will work together on matters on common interest. PHARMAC meets with NZHP regularly, and supports and participates in the DHBs' Joint Procurement Authority and Procurement Operations Advisory Group. We will continue to work with sector stakeholders including clinicians, DHB leaders and DHB agents to develop and implement medical devices management activity. *Output: 1.2* 
Continue to move towards budget management of hospital medicines.	We are working with DHBs on a range of activities to work toward budget management. Some hospital medicines are already under budget management due to their inclusion within the CPB and this transition will continue over time. Use of the Hospital and CPB Discretionary Pharmaceutical Funds (DPFs) are expected to facilitate this. A focus on working with DHB hospitals using the e-pharmacy system is expected to assist in developing enablers to support and monitor compliance with the Pharmaceutical Schedule. *Output: 1.2* 
Continue to communicate and engage proactively with the public and key stakeholders, and in particular, to manage brand switches and high profile funding decisions carefully.	Our work in hospital medicines, hospital medical devices and vaccines includes new partnerships and working relationships with other health Crown entities and the Ministry of Health to support action in areas of mutual interest. This will help to ensure alignment and avoid duplication. We are also identifying opportunities to work with other health sector stakeholders to support health sector and cross-government priorities. This includes working with DHBs and primary care to consider opportunities to shift administration services to community settings, and developing memoranda of agreement with Whānau Ora collectives. PHARMAC recognises the importance of engaging with the public and key stakeholders. Our routine

Expectation	Comment
	engagement includes face-to-face meetings with clinical and consumer groups, attendance at conferences, and business relationships with pharmaceutical suppliers. We will continue to provide resources and evidence-based information to support brand changes and high-profile funding decisions. We have key roles in our corporate structure to ensure implementation of our funding decisions, including brand changes, is managed well. *Output: 2.1* 
Continue early consultation and engagement with the Ministry of Health, particularly on the content of policy work programmes and when proposed changes may have an impact on programme management and sector engagements.	We engage regularly with the Ministry of Health on a range of issues. *All output classes* 

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



PHARMAC'S ACTIVITIES

What the classes of outputs are intended to achieve

We set out our main activities for the financial year 1 July 2017 to 30 June 2018 below. These expenditure figures relate to spending from PHARMAC's operational budget and not the CPB.

The following classes of outputs relate to the impacts PHARMAC has, as shown in the diagram on page 5.

Output class 1 – Making decisions about pharmaceuticals

Making robust and fair pharmaceutical funding decisions are key to achieving our statutory objective. PHARMAC achieves this by:

- managing the national budget decided by the Minister of Health and set aside by District Health Boards (DHBs) for pharmaceuticals through the CPB;
- through expenditure management of hospital medicines; and
- making decisions about hospital medical devices.

PHARMAC does not hold these funds but rather, monitors spending to ensure that it does not exceed the agreed national budget. PHARMAC also has CPB and Hospital Discretionary Pharmaceutical Funds that enable us to achieve our statutory objective, supporting timely pharmaceutical decision making and smoother management across financial years.

PHARMAC's Operating Policies and Procedures (OPP) inform the way we work. Our processes need to be as efficient and effective as possible, because good quality processes increase the likelihood of making the best possible decisions. A focus on continuously improving our processes is therefore important. PHARMAC has a rolling review of the OPP. This has recently resulted in an Exceptional Circumstances framework that the Named Patient Pharmaceutical Assessment policy sits within, and a new decision-making framework, the Factors for Consideration, that replaced the previous Decision Criteria. A review of PHARMAC's Prescription for Pharmacoeconomic analysis (PFPA) is currently underway as part of the rolling review, as well as the continued development of policies and procedures related to our hospital medical devices work. Changes to the OPP that would come into effect when the Trans-Pacific Partnership comes into force for New Zealand have also been determined. PHARMAC's OPP and PFPA can be found on our website, www.pharmac.govt.nz.

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

One way to assess the quality of PHARMAC's decision making is to consider the average value for money of the choices we make compared with the average value of all available choices as described in PHARMAC's Statement of Intent 2017/18–2020/21, page 8. The process includes economic analysis, clinical advice from PTAC and specialist subcommittees as appropriate, negotiations with pharmaceutical suppliers and public consultation.

Transparency, where possible, is important and consumers, clinicians and industry representatives are able to contribute to consultations on our provisional funding agreements,

and track progress with funding applications for Schedule listings through our online Application Tracker on our website.

Output 1.1 Combined Pharmaceuticals

Sections B to I of the Schedule contain a list of medicines funded for all New Zealanders through the Combined Pharmaceutical Budget (CPB) and dispensed in the community. The Schedule also includes vaccines administered in primary care, haemophilia treatments, and Pharmaceutical Cancer Treatments provided through DHB cancer services. Sections B to I also include a small number of medical devices used in the community, such as blood glucose meters and intra-uterine devices.

Output 1.2 Other Pharmaceuticals

PHARMAC manages pharmaceutical expenditure for DHBs in areas outside of the community setting, including within hospitals. Medicines and medical devices listed in Section H of the Schedule are funded directly by DHB hospitals, so are not currently included in the CPB.

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

Section H also includes the contracts and agreements we've negotiated for hospital medical devices. These agreements cover approximately $80 million worth of DHB expenditure and provide savings of approximately $33 million. During 2017/18 we will continue to work on the national procurement of certain types of hospital medical devices and the implementation of market share agreements, ahead of transition to full medical device management for DHB hospitals. Eventually most medical devices used in DHB hospitals will be listed on the Pharmaceutical Schedule.

Output 1.3 Special access panels

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

- Cystic Fibrosis;
- Gaucher's Disease;
- Haemophilia treatments (in addition to the National Haemophilia Treaters' Group);
- Hepatitis C
- Multiple Sclerosis; and
- Pulmonary Arterial Hypertension.

Output 1.4 Named Patient Pharmaceutical Assessment (NPPA)

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

How the performance of output class 1 will be assessed:

Impact	Output	Measure	Rationale	2015/16 actual	2016/17 estimate	2017/18 target
Increased access to effective medicines and medical devices	1.1 Combined Pharma-ceuticals decisions	Savings are made to meet the cost of growth and to enable new investments	Savings need to be generated every year to meet the cost of growth in demand for funded pharmaceuticals. We also need to generate additional savings so that we can fund new medicines or provide funded medicines to more people.	$79 million full year savings made that supported future volume growth. Fifteen new medicines were funded and restrictions on funded access to 6 medicines was widened.	Savings are generated to meet the cost of future volume growth and allow for new investments.	Savings are generated to meet the cost of future volume growth and allow for new investments.
	1.2 Other pharma-ceutical decisions (including hospital medicines and medical devices)	Savings are made from hospital medicines to enable new investments	Hospital medicines are not yet managed within a fixed budget; however, we do manage the investment in new medicines used in a hospital setting. We need to generate savings every year from the medicines currently used in hospitals in order to reinvest in new hospital medicines.	$6.69 million full year savings made that allowed for 13 new medicines that can now be used in public hospitals.	Savings are generated to allow for new investments including widening access to existing treatments.	Savings are generated to allow for new investments including widening access to existing treatments.
		The total value and number of hospital medical devices under contract increases	We want to continue increasing the number of hospital medical devices under contract, and the amount of expenditure we have contracts for. This provides us with an indication of the growth of our work and an indication of the savings we will be able to generate to DHBs as our work progresses.	2,084 additional hospital medical devices under PHARMAC contract, equating to $12 million in expenditure.	The total value and number of hospital medical devices under contract increases.	The total value and number of hospital medical devices under contract increases.

Output class 2 – Influencing pharmaceutical access and use

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

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

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

PHARMAC works with other health sector agencies to improve the value of the responsible use programmes we develop. We also work closely with DHBs and their agents to support their uptake of national contracts for hospital medical devices. We are guided by our Māori Responsiveness Strategy, Te Whaioranga, and are working on implementing our Pacific Responsiveness Strategy that was launched in 2017.

Output 2.1 Sharing information/explaining decisions

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

To explain our decisions, we use notification letters, our website, information sent to health professionals and patients to help them adjust to the introduction of new medicines or brand changes, and communication to DHB procurement teams on the availability of national contracts for hospital medical devices. As well as notifying people about our decisions, we also work to implement our decisions in a way that supports both health professionals and patients to thoroughly understand the patient pathway. This can be through targeted provision of clinical advice, working closely with DHB implementation teams, or through more widespread provision of information about the changes.

Output 2.2 Population health programmes

Our population health programmes are developed in response to evidence-based analysis and identified unmet need, and aim to improve access and promote responsible use of medicines. Key projects to be advanced in 2017/18 are outlined in the box opposite. We will also be working to identify medicines that have access inequities, in order for us to then develop programmes to address and eliminate these inequities

Sometimes decision implementation is supported by information provided to health professionals and consumers through our health education programmes, such as He Rongoā Pai He Oranga Whānau, a programme that provides seminars to hauora Māori kaimahi, providing them with clinical information to pass on to whānau. We are exploring opportunities to develop this resource for use as an educational tool in a range of health and community settings.

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

Output 2.3 Supply management

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

Currently, PHARMAC also manages the direct distribution of some complex medicines to patients. This includes some of the medicines used to treat multiple sclerosis, hepatitis C and two types of cancer. PHARMAC has moved some medicine distribution into the regular supply chain, through community pharmacies. We have already initiated this change for people taking imatinib for conditions other than Gastro Intestinal Stromal Tumours (GIST), and for people receiving human growth hormone.

How the performance of output class 2 will be assessed:

Impact	Output	Measure	Rationale	2015/16 result	2016/17 estimate	2017/18 target
Pharmaceuticals are used optimally	2.1 Explaining decisions and sharing information	DHB hospital engagement with PHARMAC compared with previous year.	Willingness of DHBs and their agents to engage with PHARMAC contributes to effective implementation of hospital medical devices contracts and hospital medicine changes.	16 DHBs engaged with PHARMAC for hospital medical devices. All hospital transplant services engaged to support the tacrolimus change. 75% of DHBs attended a workshop on medical devices (wound care changes). All DHBs have implemented significant changes for the funding of haemophilia treatments.	All DHBs or agents acting on their behalf engage with PHARMAC on implementing hospital medical device national contracts. All relevant DHB hospital services will engage with PHARMAC to support hospital medicine changes.	All DHBs or agents acting on their behalf engage with PHARMAC on implementing hospital medical device national contracts. All relevant DHB hospital services will engage with PHARMAC to support hospital medicine changes.
	2.2 Population health programmes	Survey of attendants at a PHARMAC Seminar show a positive professional change in optimal use behaviour as a result of attendance.	Assessing whether our PHARMAC Seminars have a positive effect in improving health professionals' knowledge and behaviour will help us to determine whether the Seminars continue to have an impact in the optimal use of pharmaceuticals.	N/a, new measure	N/a, new measure	Respondents to the survey show at least 75% have made positive changes as a result of attendance.

	2.2 Population health programmes	Medicines use community health programmes are delivered to a range of health and community workers.	Whānau Ora Collectives (WOC) are best-placed to assess the needs of their communities for knowledge of medicines relating to Māori health areas of focus.	The programme was unable to be delivered due to the need to redesign it from a two-day to a one-day wānanga to better suit the needs of our partners. We increased our agreements with Whānau Ora Collectives from five to six and are planning three workshops for 2016/17.	Community-based delivery of programmes will occur in half of all WOC partner areas.	Community-based delivery of programmes will occur in half of all WOC partner areas and the number of WOC partners increase.
Pharmaceuticals are available when needed	2.3 Supply management	Low medicine stock situations are identified and managed so that there are no clinically meaningful consequences to patients.	Ensuring we know and understand the impact of stock shortages so we can act to minimise disruption for patients and providers is important for achieving best health outcomes.	PHARMAC worked with suppliers to manage several stock events. A significant number required intervention management by PHARMAC staff; this resulted in continuity of supply to patients. Activities included sourcing alternative supply with suppliers and liaising with Medsafe, wholesalers and distributors.	We will respond to all low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.	We will respond to all low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.

Output class 3 – Policy, advice and support

Output 3.1 Advice and support services to the health sector

PHARMAC provides advice and support for other health sector agencies to improve the cost-effectiveness of health spending. This includes managing pharmaceutical spending in the community, providing advice to DHBs on a range of matters including community pharmacy contracting services and medicines distribution, and contributing to the development of a New Zealand Universal List of Medicines and the New Zealand Formulary, among other sector-wide initiatives including those that aim to reduce the administrative workload of clinicians. We have worked closely with DHBs and their agents to support the development of sector procurement strategies at a national level, particularly where this intersects with our extended function to manage hospital medical devices.

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

Output 3.2 Policy advice

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

Output 3.3 Contracts and fund management

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

PHARMAC also has access to a Legal Risk Fund, with a value of $7.5 million in 2017/18, which is used to meet litigation costs that are not otherwise met from our regular operational spending on legal services.

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

How the performance of Output class 3 will be assessed:

Impact	Output	Measure	Rationale	2015/16 result	2016/17 estimate	2017/18 target
In a high performing system	3.2 Policy advice	PHARMAC staff participate in and contribute to wider sector forums	Understanding whether our policy advice to the sector is sought after is an indication of the quality of advice and contributions we make.	N/a, new measure	PHARMAC staff participate in wider sector forums	PHARMAC staff participate in wider sector forums
	3.3 Contract and fund management	All rebates are collected and distributed to DHBs in accordance with PHARMAC policy.	Effective management of rebates provides certainty to DHBs.	All fund use was in accordance with PHARMAC policy.	All fund use will be in accordance with PHARMAC policy.	All fund use will be in accordance with PHARMAC policy.

PROSPECTIVE FINANCIAL INFORMATION

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 Performance Expectations* is contingent on appropriate operating funding and depending on those funding decisions, PHARMAC's activities and associated measures for 2017/18 may change;
- *expenditure increases generally* – a number of budget lines have assumed cost increases due to changes in PHARMAC's functions;
- *operating model* – forecast revenue and expense are based on the current business model and policy settings;
- *personnel costs* – expenditure in personnel has been increased to deliver on PHARMAC's expanded role and to maintain consistency with other state sector organisations, given PHARMAC's personnel are its key asset;
- *prudential reserve* – the level of PHARMAC's prudential reserve of $5.0m;
- *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). Recruitment into the trial is now complete, actual future payments will depend on the requirement to make progress payments if achieved;
- *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);
- *CPB Discretionary Pharmaceutical Fund (CPBDPF)* – the balance of the CPB Discretionary Pharmaceutical Fund is based on the final estimate of pharmaceutical expenditure;
- *Hospital Discretionary Pharmaceutical Fund (HDPF)* – for planning purposes this includes investments in hospital medicine and medical device savings activity. The balance of the Hospital Discretionary Pharmaceutical Fund is based on the movements recorded during the year; and
- PHARMAC is currently exempt from the imposition of the Crown's capital charge.

Prospective Financial Statements

Statement of Forecast Comprehensive Income and Expense

For the year ended 30 June	Note	2017/18	2018/19	2019/20
	1	$000	$000	$000
Revenue				
Crown funding - Baseline		21,988	22,408	22,438
DHB - Operating funding	2	1,490	1,490	1,490
Other:				
Interest received - Operating		580	590	600
- Legal Risk Fund		300	300	300
Other revenue - Operating		131	140	140
Total Income		24,489	24,928	24,968
Expenditure				
Personnel Costs		14,215	14,641	14,788
Operating Costs		9,128	9,241	8,858
Herceptin SOLD trial administration		150	50	50
Depreciation & amortisation costs		675	675	950
CPB Discretionary Pharmaceutical Fund		5,448	0	0
Hospital Discretionary Pharmaceutical Fund		550	0	0
LRF expense		300	300	300
Finance Costs		21	21	22
Total expenditure		30,487	24,928	24,968
Net surplus/(deficit) for the period		(5,998)	0	0
Other comprehensive income		0	0	0
Total comprehensive income		**($5,998)**	**$0**	**$0**

1. The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
2. DHB Operating Funding is for activities that DHBs have requested PHARMAC provides, including optimal use of pharmaceuticals programmes and other miscellaneous national expenditure.

Statement of Forecast Financial Position

As at 30 June	Note	2017/18	2018/19	2019/20
	1	$000	$000	$000
PUBLIC EQUITY				
Contribution capital		1,856	1,856	1,856
Retained earnings and reserves		7,028	7,078	7,129
Herceptin SOLD Trial fund		169	119	69
CPBDPF	2	9,000	9,000	9,000
HDPF		3,900	3,900	3,900
Legal risk fund		7,502	7,502	7,502
TOTAL PUBLIC EQUITY		**$29,455**	**$29,455**	**$29,456**
Represented by:				
Current assets				
Cash and cash equivalents		2,292	1,679	757
Investments		19,000	19,000	19,000
CPBDPF monies into rebates account		9,000	9,000	9,000
Receivables		150	150	150
Prepayments		0	0	0
Total current assets		30,442	29,829	28,907
Non-current assets				
Property, plant and equipment		900	880	1,573
Intangible Assets		248	238	240
Total non-current assets		1,148	1,118	1,813
Total assets		**31,590**	**30,947**	**30,720**
Current liabilities				
Payables		1,500	836	657
GST Payable		170	170	100
Employee entitlements		100	100	100
Total current liabilities		1,770	1,106	857
Non-current liabilities				
Provisions		365	386	408
Total liabilities		**2,135**	**1,492**	**1,265**
NET ASSETS		**$29,455**	**$29,455**	**$29,455**

1. The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
2. CPBDPF forecast is linked to CPB forecast.

Statement of Forecast Cash Flow

	Note	2017/18 $000	2018/19 $000	2019/20 $000
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Receipts from the Crown		21,988	22,408	22,438
- Receipts from DHBs		1,490	1,490	1,490
- DHBs Discretionary Pharmaceutical Fund		0	0	0
- Hospital Discretionary Pharmaceutical Fund		0	0	0
- Interest Operating received		580	590	600
- Interest Legal Risk Fund received		300	300	300
- Receipts from other revenue		131	140	140
		24,489	24,928	24,968
Cash was disbursed to:				
- Legal Risk Fund expenses		(300)	(300)	(300)
- CPBDPF expensed from rebates bank account		0	0	0
- HDPF		0	0	0
- Payments to suppliers and employees		(23,424)	(24,441)	(23,790)
- Goods and services tax (net)		155	(155)	(155)
		(23,569)	(24,896)	(24,245)
Net cash flow from operating activities		**$920**	**$32**	**$723**
CASH FLOWS – INVESTING ACTIVITIES				
- Purchase of property, plant and equipment		(220)	(320)	(1,320)
- Purchase of intangible assets		(233)	(325)	(325)
- Receipts from sale of investments		(1,272)	0	0
Net cash flow from investing activities		(1,725)	(645)	(1,645)
Net increase/(decrease) in cash		(805)	(613)	(922)
Cash at the beginning of the year		3,097	2,292	1,679
Cash at the end of the year		**$2,292**	**$1,679**	**$757**

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

Statement of Forecast Changes in Equity

	Note	2017/18	2018/19	2019/20
RETAINED EARNINGS	**1**	**$000**	**$000**	**$000**
Balance at 1 July		6,878	7,028	7,078
Net surplus/(deficit)		(5,998)	0	0
Net transfer from/(to) Herceptin SOLD trial fund		150	50	50
Net transfer from/(to) CPBDPF		5,448	0	0
Net transfer from/(to) HDPF		550	0	0
Net transfer from/(to) legal risk fund		0	0	0
Balance at 30 June		**7,028**	**7,078**	**7,129**
CONTRIBUTION CAPITAL		$000	$000	$000
Balance at 1 July		1,856	1,856	1,856
Add: Net transfer from/(to) retained earnings		0	0	0
Balance at 30 June		**1,856**	**1,856**	**1,856**
HERCEPTIN SOLD TRIAL FUND		$000	$000	$000
Balance at 1 July		319	169	119
Add: Net transfer from/(to) retained earnings		(150)	(50)	(50)
Balance at 30 June		**169**	**119**	**69**
CPBDPF		$000	$000	$000
Balance at 1 July		14,448	9,000	9,000
Add: Income received transferred from/(to) retained earnings		0	0	0
Less: Pharmaceutical expenses transferred from/(to) retained earnings		(5,448)	0	0
Balance at 30 June		**9,000**	**9,000**	**9,000**
HDPF		$000	$000	$000
Balance at 1 July		4,450	3,900	3,900
Add: Income received transferred from/(to) retained earnings		0	0	0
Less: Pharmaceutical expenses transferred from/(to) retained earnings		(550)	0	0
Balance at 30 June		**3,900**	**3,900**	**3,900**
LEGAL RISK FUND		$000	$000	$000
Balance at 1 July		7,502	7,502	7,502
Add: Income received transferred from/(to) retained earnings		300	300	300
Less: Litigation expenses transferred from/(to) retained earnings		(300)	(300)	(300)
Balance at 30 June		**7,502**	**7,502**	**7,502**
TOTAL PUBLIC EQUITY		**$29,455**	**$29,455**	**$29,456**

1. 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

	Note	2017/18	2018/19	2019/20
	1	$000	$000	$000
Net operating surplus/(deficit)		(5,998)	0	0
Add non-cash items:				
Depreciation		675	675	950
Total		**($5,323)**	**$675**	**$950**
Add/(less) working capital movements:				
Decrease/(increase) in receivables		0	0	0
Decrease/(increase) in prepayments		0	0	0
(Decrease)/increase in payables		774	(664)	(179)
(Decrease)/increase in make good provision		21	21	22
(Decrease)/increase in employee entitlements		0	0	0
(Decrease)/increase in net GST		0	0	(70)
Net movements in working capital items		**$795**	**($643)**	**($227)**
Other movements				
DPF monies (deposited in)/withdrawn from rebates bank account		$5,448	$0	$0
Net cash flow from operating activities		**$920**	**$32**	**$723**

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

Prospective Statement of Comprehensive Income, by Output Class

2017/18	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Making decisions about pharmaceuticals	10,994	0	655	(16,176)	**(4,527)**
Influencing pharmaceutical access and use	7,696	1,490	356	(10,733)	**(1,192)**
Providing policy advice and support	3,298	0	0	(3,578)	**(280)**
Total	**$21,988**	**$1,490**	**$1,011**	**($30,487)**	**($5,998)**

2018/19	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Making decisions about pharmaceuticals	10,084	0	556	(10,969)	**(330)**
Influencing pharmaceutical access and use	8,964	1,490	364	(10,470)	**348**
Providing policy advice and support	3,361	0	110	(3,489)	**(18)**
Total	**$22,408**	**$1,490**	**$1,030**	**($24,928)**	**$0**

2019/20	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Making decisions about pharmaceuticals	10,097	0	670	(10,985)	**(218)**
Influencing pharmaceutical access and use	8,975	1,490	296	(10,487)	**274**
Providing policy advice and support	3,366	0	74	(3,496)	**(56)**
Total	**$22,438**	**$1,490**	**$1,040**	**($24,968)**	**$0**

1. 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

Pharmaceutical Management Agency (PHARMAC) is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled and operates in New Zealand. The relevant legislation governing PHARMAC's operations includes the Crown Entities Act 2004 and the New Zealand Public Health and Disability Act 2000. PHARMAC's ultimate parent is the New Zealand Crown.

PHARMAC's primary objective is to provide services to the New Zealand public by deciding which medicines, medical devices and related products are subsidised to secure the best health outcomes reasonably achievable from pharmaceutical treatment. PHARMAC does not operate to make a financial return.

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

Basis of preparation

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

Statement of compliance

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

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

These financial statements comply with PBE accounting standards.

Presentation currency and rounding

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue

The specific accounting policies for significant revenues items are explained below:

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

PHARMAC considers there are no conditions attached to the funding and it is recognised as revenue at the point of entitlement.

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

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 forecast comprehensive income.

Cash and cash equivalents

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

Receivables

Short term receivables are recorded at their fair value, less any provision for impairment. A receivable is considered impaired when there is evidence that PHARMAC will not be able to collect the amount due. The amount of the impairment is the difference between the carrying of the receivable and the present value of the amounts expected to be collected.

Investments

Bank term deposits

Investments in bank term deposits are initially measured at the amount invested. After initial recognition, investments in bank deposits are measured at amortized cost using the effective interest method, less any provision for impairment.

Property, plant and equipment

Property, plant and equipment also consist of leasehold improvements, furniture and office equipment. Property, plant and equipment are shown at cost less accumulated depreciation and impairment losses. Any write-down of an item to its recoverable amount is recognised in the statement of forecast comprehensive income.

- *Additions* – the cost of item of property, plant and equipment, leasehold improvement, furniture and office equipment is recognised as an asset 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.
  Work in progress is recognised at cost less impairment and it is not depreciated.
- *Disposals* – gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.
- *Subsequent costs* – Costs incurred subsequent to initial acquisition are capitalized only when it is probable that future economic benefits or service potential associated with the item will flow to PHARMAC and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

Depreciation is provided on a straight-line basis on all property, plant and equipment, leasehold improvements, furniture and office 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, whichever is shorter. Capital work in progress is not depreciated. The total cost of a project is transferred to the asset class on its completion and then depreciated. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Intangible assets

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

Costs that are directly associated with the development of software for internal use are recognised as an intangible asset.

Item	Estimated useful life	Depreciation rate
Intangible assets	2-5 years	20%-50%

Payables

Short term payables are recorded at their face value.

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.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when 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 and is included in “finance” costs.

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 contribution capital, retained earnings and reserves, SOLD trial fund, Legal Risk Fund and Discretionary Pharmaceutical Fund.

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, except for receivables and payables, which are stated on a GST-inclusive basis. Where GST is not recoverable as 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 forecast 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 forecast cash flows.

Income Tax

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

Cost Allocation

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

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

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

Critical accounting estimates and assumptions

In preparing these financial statements PHARMAC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The value of PHARMAC's Discretionary Pharmaceutical Fund is dependent on the value on the final estimate of the District Health Boards' Combined Pharmaceutical Budget.

Critical judgments in applying PHARMAC's accounting policies

Management has not exercised any critical judgments in applying PHARMAC's accounting policies for the years ended 30 June 2018 - 30 June 2020.

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If you are interested in working for PHARMAC
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