Pharmaceutical Management Agency

Statement of Intent

2012/13 – 2014/15

New Zealand Government

PHARMAC
Pharmaceutical Management Agency

PHARMAC Statement of Intent 2012/13—2014/15

INTRODUCTION

PHARMAC has been successful in its core role of making decisions on behalf of District Health Boards (DHBs) about which medicines to fund, and in managing pharmaceutical funding on their behalf. This success has led to the Government giving PHARMAC an expanded role in managing all medicines used in DHB hospitals, and in preparation for the national management of medical devices. From the 2012/13 financial year PHARMAC will also manage the funding and assessment of vaccines funded by District Health Boards. This work will require PHARMAC to be adaptable, so that it changes its approach to effectively manage these new pieces of work and to deliver on Government's expectations in these areas. It is likely that PHARMAC in three years' time will look and act quite differently from PHARMAC in 2012.

We are smoothly integrating hospital medicines work into our core tasks. A milestone was reached in early 2012 with the first contract negotiated for a hospital only medicine (outside of our usual tender process). In addition, we will soon be consulting on a list of preferred medicines to be used in our public hospitals. PHARMAC has been resourced for this work and is keen to show we can make a positive difference in this area. This has involved a steep learning curve around hospital people and processes and we are very heartened with the support we have received from secondary care clinicians and hospital pharmacists.

PHARMAC has also been resourced to play a leading role in national assessment, prioritisation, standardisation and procurement of medical devices. We have considerable experience in doing so with pharmaceuticals, and while there are similarities between pharmaceuticals and devices, there are just as many differences. Our work in this area will be long-term. We have much to learn and will be listening to the views of DHBs, clinicians, pharmacists, patient groups and suppliers as we commence this work. We put our toes in the water in early 2012 with our consultation on the funding of insulin pumps for the first time. However, medical devices is a complex field and we will be working alongside other Government agencies to ensure a smooth and well-coordinated approach to national management.

In 2004/05 PHARMAC began nationally procuring the seasonal influenza vaccine. From 1 July 2012 this role will be expanded to encompass full management of all other vaccines, including the childhood immunisation schedule, hepatitis B, HPV and meningococcal vaccines. The Combined Pharmaceutical Budget will include funding for vaccines from this year, enabling PHARMAC to manage the existing immunisation schedule as well as assessment and prioritisation of future vaccines alongside other pharmaceuticals, and work with suppliers across the full product portfolios to obtain best value for New Zealanders.

We have identified four key strategic areas (outlined from Page 25) to help us focus on these extended functions. Better use of information technology and enhanced clinical leadership are essential to our future success. In addition, PHARMAC is mindful of the need to remain focused on delivering its key outputs.

The health sector is dynamic and subject to changes in Government policy and funding allocations. The outputs and impacts we are seeking to influence have been defined under policy and funding lines known at the time of writing. These are subject to change should policy or funding change.

At a time of challenging economic conditions, PHARMAC is well positioned to improve patients' access to medicines and ensure New Zealand continues to get good value for money from its spending on pharmaceuticals.

Stuart McLauchlan
Chair
29 June 2012

Dr David Kerr
Board Member
29 June 2012

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PART 1

PHARMAC – our role and contribution to health outcomes

The Pharmaceutical Management Agency (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 Combined Pharmaceutical Budget (CPB) which funds community and cancer medicines, and the Discretionary Pharmaceutical Fund. While PHARMAC manages the budget, the CPB 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, the list of subsidised pharmaceutical cancer treatments, the national immunisation schedule and the list of hospital medicines where there are terms of supply); or access to medicines for individuals seeking medicines not funded on the Pharmaceutical Schedule. 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.

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.

Our functions

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.

Since 2010 PHARMAC has had greater responsibility for managing pharmaceuticals used in DHB hospitals and medical devices. The Government's immunisation schedule, the list of vaccines that will now be funded by DHBs, is being added to the Pharmaceutical Schedule from the 2012/13 financial year. PHARMAC has also been resourced to lead work on national management of medical devices. This is complex and long-term work which will continue to develop in coming years.

PHARMAC is guided by relevant legislation (including the Public Health and Disability Act 2000 and the Crown Entities Act 2004), 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:

- New Zealanders live longer, healthier, more independent lives; and
- The health system is cost effective and supports a productive economy.

Our contribution is primarily through 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 – positively influencing people's ability to obtain medicines;
- Usage impacts – influencing people's use of medicines to ensure they aren't under-, over- or misused; and
- Economic and System impacts – helping the health system work more effectively, and improving value for money

See pages 10-15 for details on how we work to achieve these impacts.

Output Classes

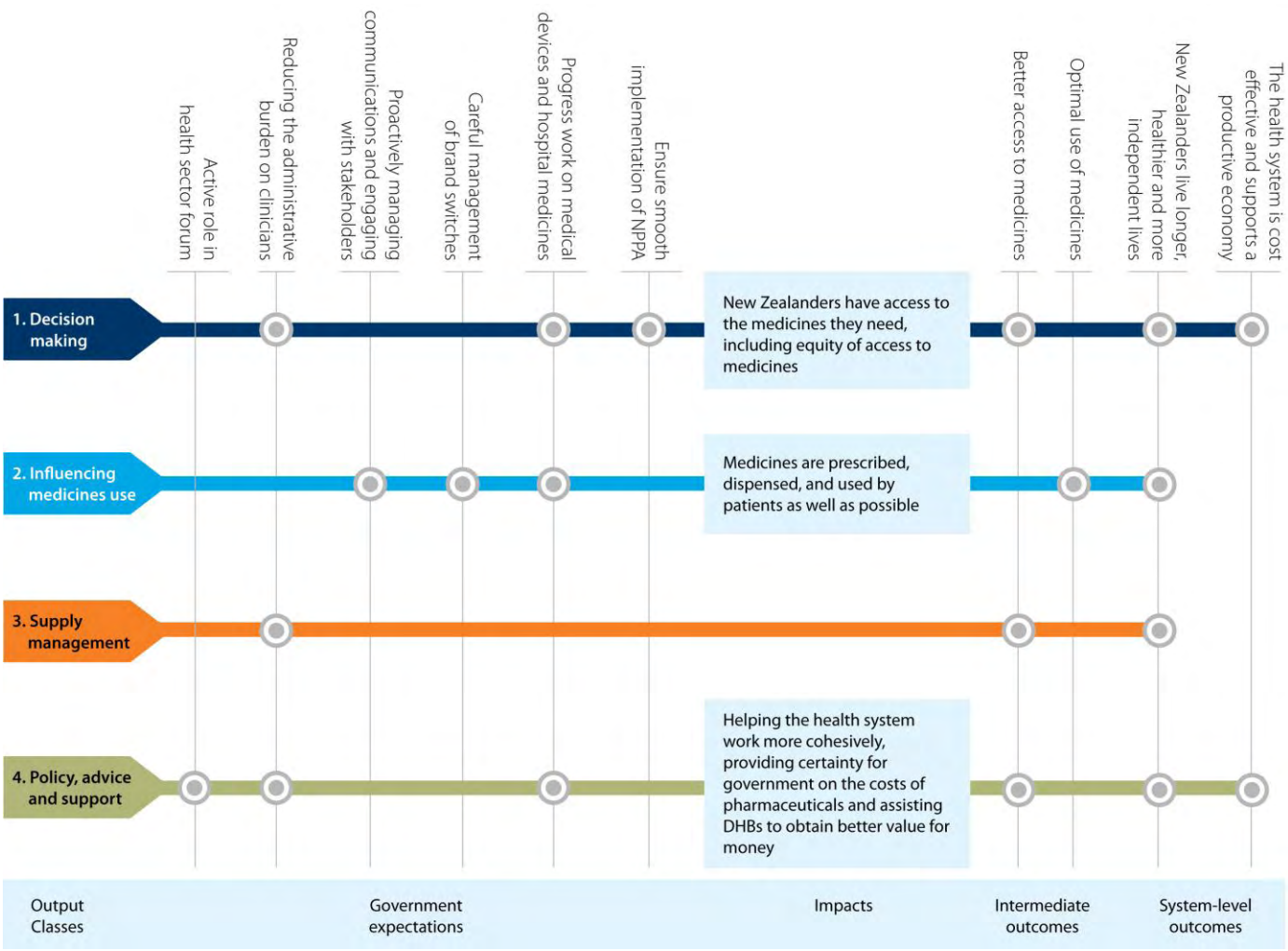
These impacts are made possible through the services we provide – our outputs – which are grouped under the following four categories (Output Classes):

Output class	Description	Outputs
1. Making decisions about pharmaceuticals	Work that leads to new medicines being funded and money being saved on older medicines.	1.1. Community Pharmaceutical Schedule 1.2. Hospital Schedule 1.3. Special access panels 1.4. Named Patient Pharmaceutical Assessment 1.5. Schedule Rules 1.6. 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. Managing supply of pharmaceuticals	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. Providing 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 4.3. Fund management

Changes to Outputs

PHARMAC has defined four output classes for its work, outlined above. From 2012/13 Output Class 4 (policy, advice and support) incorporates Fund Management as an activity. Fund Management was a separately defined output class in 2011/12.

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



Mapping our outputs to the impacts we are seeking to have

Outputs	Access impacts	Usage impacts	Economic and system impacts
1.0 Making decisions about pharmaceuticals			
1.1 Community Pharmaceutical Schedule	✓		✓
1.2 Hospital Schedule	✓		✓
1.3 Special Access Panels	✓	✓	✓
1.4 Named Patient Pharmaceutical Assessment	✓	✓	✓
1.5 Schedule Rules	✓	✓	✓
1.6 Medical devices	✓		✓
2.0 Influencing medicines use			
2.1 Explaining decisions/ sharing information	✓	✓	✓
2.2 Population Health Programmes	✓	✓	✓
3.0 Managing supply of pharmaceuticals			
3.1 Contract management	✓		✓
3.2 Supply vigilance	✓		✓
3.3 Direct distribution	✓	✓	✓
4.0 Providing policy advice and support			
4.1 Advice and support services to the health sector			✓
4.2 Policy advice			✓
4.3 Fund management	✓		✓

Mission

Our mission is the same as our legislative 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.*

"Pharmaceuticals" are medicines, vaccines, medical devices, related products, or related things.

Our Working Environment

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

Challenging economic conditions	There is 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.
Bedding in expanded functions	During 2010 PHARMAC's role expanded to encompass managing all hospital medicines and eventually, medical devices. PHARMAC is also beginning the management of existing vaccines, and assessment and prioritisation of future vaccines from 2012/13. 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	There are always more demands for medicines to be publicly funded than resources available to pay for them, so choices need to be made. 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. This pressure 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 carefully examine claims made about new medicines. 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, Health Benefits Ltd, the Health Quality and Safety Commission, and the National Health Committee); the Minister of Health and Associate Ministers; and Members of Parliament. In addition, PHARMAC works closely with a wide range of 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

PHARMAC forms one part of the medicines system, which includes good quality medicines being produced and supplied by pharmaceutical companies; robust safety and efficacy assessments by Medsafe; optimal prescribing decisions by clinicians, 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 actively 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

This SOI is guided by the Government's Enduring Letter of Expectations issued December 2008, and the Minister of Health's letter of expectations to PHARMAC, March 2012. 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. The Minister has already reiterated the Government's expectation that agencies should review their expenditure and identify areas that do not offer good value for money, and act on them. Key expectations, and the output related to each expectation, are outlined below.

Expectation	Comment
The new Named Patient Pharmaceutical Assessment (NPPA), which was scheduled to begin on 1 March 2012, needs to improve access to high cost, highly specialised medicines. PHARMAC will need to ensure a smooth transition between NPPA and the current Exceptional Circumstances scheme, including providing appropriate information on the changes to clinicians, patients and patient stakeholder groups. Please keep [the Minister] and Associate Minister of Health fully up to date as this new scheme progresses.	The NPPA was introduced on schedule on 1 March 2012. The introduction of NPPA was accompanied by communication with clinicians and patient groups, and information on the PHARMAC website and through the PHARMAC Forum. PHARMAC will continue to closely monitor the operation of the scheme and provide regular updates to Ministers. Relates to Output 1.4
PHARMAC needs to continue to work closely with the Ministry of Health, Health Benefits Ltd (HBL), the National Health Committee and clinicians, to plan the development of medical devices work. This work needs to advance more quickly in 2012, and [the Minister] expects PHARMAC to play a lead role in achieving this.	Work on this multi-year project is progressing. We have provided a high-level plan to the PHARMAC Board and are working closely with stakeholders to develop the project. Relates to Outputs 1.6, 2.1 and 4.1
[The Minister] also expects to see the hospital pharmaceuticals work progressed quickly and PHARMAC needs to keep the Minister and the Associate Minister of Health appraised as this work develops. PHARMAC should also continue to collaborate with the Ministry on any future vaccines work.	Our work on hospital pharmaceuticals is progressing. A milestone was reached in March 2012 with the listing of the first hospital medicine added to the Pharmaceutical Schedule. PHARMAC will assume management of Government-funded vaccines from 2012/13 (previously managed by the Ministry of Health). Relates to Outputs 1.2, 2.1 and 4.1

There is a continuing need to manage brand switches and high profile funding decisions carefully. There have been recent instances where this has not occurred, and particular care needs to be taken to ensure clinicians and patients are well informed about any new pharmaceuticals or brand switches.	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. Relates to Output 2.1
Communications and engagement with the public and key stakeholders, including clinicians, should be handled proactively to increase confidence. PHARMAC has steadily made progress in this area and [the Minister] expects this to continue to improve. It would be useful for Board members to continue attending key events and to meet with stakeholders as appropriate.	PHARMAC recognises the need to engage clinicians and stakeholders. In addition to our regular engagement with stakeholders (including face to face meetings with clinical and consumer groups, attendance at conferences and business relationships with pharmaceutical suppliers), the PHARMAC Forum is an important event to exchange views with our stakeholders. Relates to Output 2.1
Continue to make efforts to lower the administrative burden on clinicians.	We anticipate that the number of medicines requiring Special Authority approval will continue to fall in coming three years. This is supported by our Policy, Advice and Support output class, outlined on page 23. Relates to Outputs 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 3.2, 4.1
[The Minister] expects PHARMAC to play an active role as a member of the Health Sector Forum, as well as maintaining a clear overview of the interdependencies and intra-dependencies between its and other entities' major projects.	We have regular ongoing contact with sector agencies and will participate in major projects, such as those outlined above, as they progress. Relates to Output 4.1

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 pharmaceutical assessment, funding, procurement for DHBs and promoting the optimal use of medicines influence health and disability system outcomes both directly and indirectly (the linkages of how PHARMAC's work intersects and influences these outcomes is illustrated on page 5). These outcomes are:

- New Zealanders live longer, healthier, more independent lives; and
- The health system is cost effective and supports a productive economy.

PHARMAC's place in the health system

PHARMAC cannot do its job effectively without establishing positive working relationships across the health sector. Some of the key interactions PHARMAC has are with:

District Health Boards (DHBs)

DHBs hold the funding for most health services provided by the Government, including the Combined Pharmaceutical Budget. PHARMAC manages this budget on behalf of DHBs. DHBs also provide funding for some of the population health programmes managed by PHARMAC.

PHARMAC has negotiated prices (and other supply terms) for some hospital medicines on behalf of District Health Boards since 2001. This role was expanded in 2010 to encompass all hospital medicines, so that in future PHARMAC will assess and negotiate nationwide supply terms for all hospital medicines.

Ministry of Health

The Ministry acts on behalf of the Minister, in monitoring PHARMAC's performance. It is also responsible for providing policy advice to the Minister and Associate Ministers.

Medsafe

Medsafe, part of the Ministry of Health, is the New Zealand medicines regulator. Medsafe decides which pharmaceuticals are safe and effective for New Zealanders to use, and also manages post-marketing surveillance through the Centre for Adverse Reactions Monitoring. PHARMAC works closely with Medsafe and usually only considers a medicine for subsidy after it has been approved by Medsafe.

Health Sector Forum

The Government has created new bodies to perform functions following recommendations in the 2010 Ministerial Review Group report. These and other organisations (including PHARMAC) are brought together by the Ministry of Health as the Health Sector Forum. PHARMAC has important inter-linkages with these organisations:

- **Health Benefits Ltd (HBL)** – HBL is a Crown-owned company established to reduce costs and deliver savings in administrative, support and procurement services for the health sector.
- **Health Quality and Safety Commission** – The Health Quality & Safety Commission is a Crown entity that works with clinicians and providers of health services to improve the quality and safety of health and disability services.
- **National Health Committee** – This is a national advisory committee on health and disability, to advise the Minister on the kinds, and relative priorities, of services that should be publicly funded. The advice to the Minister is formulated following consultation.
- **National Health Board** - The National Health Board was established in November 2009 as a business unit of the Ministry. Its role is to overcome the challenges facing our health system and improve the quality, safety and sustainability of health care, for New Zealanders.
- **IT Health Board** - The IT Health Board is part of the Ministry and provides leadership on the implementation and use of information systems across the Health and Disability Sector.

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, 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 outputs:

- 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 page 4. 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 the health sector to be well-informed about evidence-based medicines and we assist 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 medicine 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[1] 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.

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.

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1. Access impacts

We want to improve people's ability to have equitable access to medicines.

How we influence access to medicines

PHARMAC's decisions to subsidise medicines 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). When a medicine is fully funded by PHARMAC, patients will typically only pay the co-payment that is set by the Government. This reduces the cost factor which is the main barrier to people accessing medicines.

[1] 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 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 contracts that apply nationally and make medicines affordable. In addition, by managing funds we manage risk and optimise cashflows within the system.

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.

Measuring our impact on access to medicines

The data for the current year, and future year projections, indicate that we expect the number of people receiving funded medicines, the number of prescriptions funded (and the average number of prescriptions per patient) will all rise. PHARMAC will influence this by:

- Continuing to run commercial processes to extract value from currently-funded medicines; and
- Investing in new medicines (and widening access to medicines) where PHARMAC considers this leads to improved health outcomes for New Zealanders.

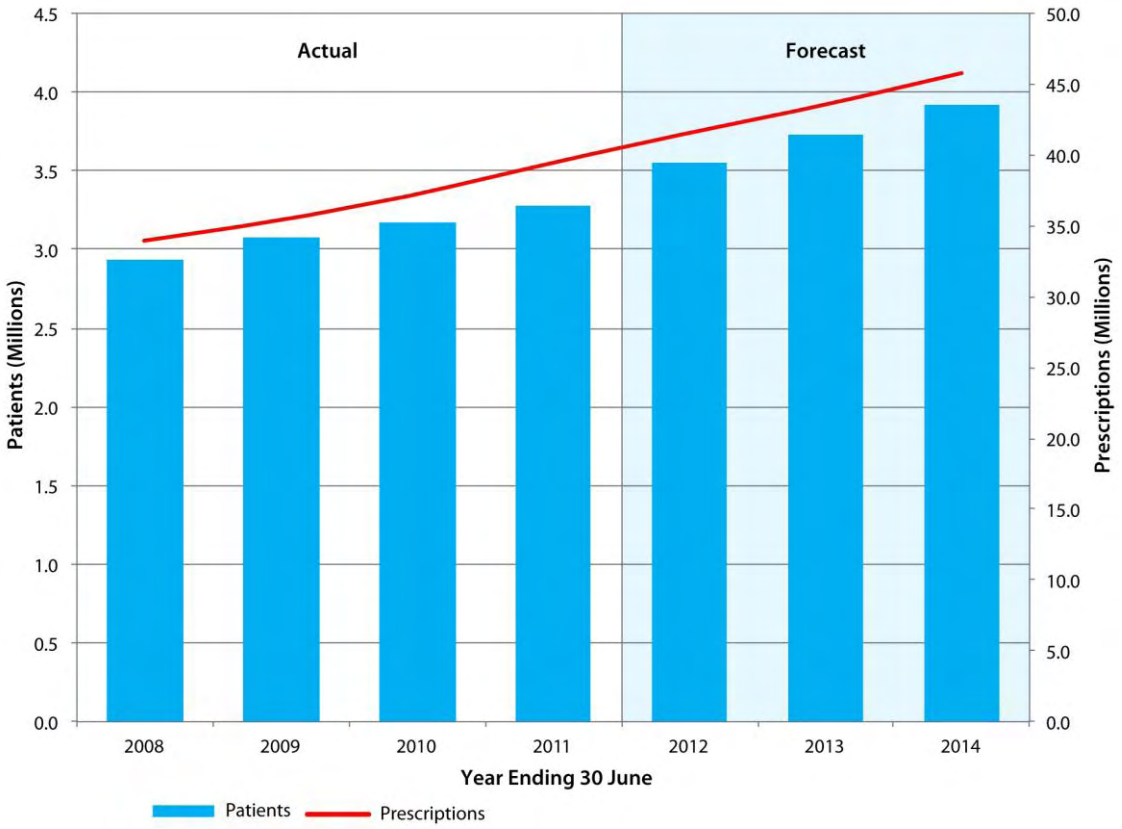
This is consistent with our desired impact of increasing people's ability to have equitable access to funded medicines.

Estimated target numbers; patients receiving subsidised medicines, number of subsidised prescriptions:

	2010/11 actual	2011/12 estimate	2012/13 projection	2013/14 projection
Patients	3.3 million	3.6 million	3.7 million	3.9 million
Prescriptions	39.7 million	41.5 million	43.61 million	45.81 million

The graph on P12 illustrates patient access to community medicines has increased (blue bars). The orange line shows the number of prescriptions rising at a steeper rate. This indicates that the average number of prescriptions per patient is rising. Note that this does not include the number of items per prescription, which varies depending on health need and to a certain extent, age.

Prescription numbers and patient numbers, actual and predicted 2008-2014



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 we evaluate them to see whether those targets have been met. By publishing the evaluations, we can demonstrate the effectiveness of our programmes.

Medicines adherence

There are two aspects to medicines adherence once a patient has a prescription…

- Patients collecting treatments that have been prescribed for them - access to pharmacies and the level of the pharmaceutical co-payment impact on this.

- Patients taking medicines according to prescriber instructions - a range of factors including individual patient characteristics (for example levels of health literacy, attitudes towards medicines) and the complexity of an individual's treatment regimen can impact on this.

...and poor medicines adherence is costly

- A survey of 452 New Zealanders undertaken by the University of Otago provides the following information on medicines adherence in New Zealand (summarised in a Nelson Bays PHO report):

  - 56% of respondents reported that they collect all of their prescribed medications from a pharmacy, even if they did not intend to take them.
  - Just over 25% of respondents said they collect all of their medication prescription repeats, even if the medicines are no longer needed.
  - Over 60% of respondents indicated that there were leftover or unwanted prescription medications present in their house, at the time of completing the questionnaire.

- Generally, PHARMAC's estimates of the benefits of medicines assume prescribed pharmaceuticals will be collected and used by those who need them, in accordance with the prescriber's instructions. If this doesn't occur, both the Government and patients lose as the maximum health outcomes achievable from funded medicines are not gained.

PHARMAC has a role in promoting medicines adherence...

…through the Schedule rules...

- PHARMAC (along with the Ministry of Health) is supporting DHB and pharmacy representative groups as they implement the new Community Pharmacy Services Agreement (CPSA) from July 2012. The CPSA has shifted its strategic focus from paying for dispensings to funding pharmacy to provide improved targeted patient-centric services that support medicine adherence and compliance. These services benefit those with high needs (assessed against a set of criteria).

- The Schedule Rules have been changed to support the CPSA through providing pharmacy with more flexibility in managing dispensing requirements to better meet patients' adherence and compliance needs and pharmacy business processes. The rule changes also reduce the administrative requirement on prescriptions, enabling pharmacists to focus on patient interactions rather than spending time ensuring prescriptions are correctly endorsed.

- The Schedule rules also provide flexibility to dispense Class B controlled drugs, tri-cyclic anti-depressants, antipsychotics, benzodiazepines, codeine (including combination products) and bupronorphenine with naloxone (Suboxone) more frequently (the rationale for which is related to patient safety as well as adherence). Medicines co-prescribed with the 'safety' medicines can now be dispensed at the same frequency, further improving patients' adherence and compliance.

…work to improve access to treatments…

PHARMAC is leading the Autonomous Service and Provision of pharmaceuticals project which aims to improve access to medicines for minor ailments through the provision of these by pharmacists. This work also involves DHBs, pharmacy representative groups and the Ministry of Health. The CPSA would be the vehicle to give effect to new services developed in this project.

…our population health programmes…

- All PHARMAC's population health programmes have an adherence-related component. Examples include:

  - He Rongoā Pai, He Oranga Whānau - which involves training community health workers and nurses in medicines related topics - including teaching patients correct medicines use.
  - Wise Use of Antibiotics - which promotes messages around appropriate use of antibiotics, including completing a prescribed course.

    - Space to Breathe - which is about adherence to appropriate pharmaceutical management and control options for asthma.

- The support PHARMAC provides to pharmacists and consumers around brand changes also encourages adherence through reducing concerns about generic medicines.

… directly distributing some expensive pharmaceuticals to specific patient groups…

- This process involves ensuring continuity of supply to patients through generating a prescription, and stock checks with patients to determine whether they are taking the medicine in accordance with instructions.

…and through providing best practice prescribing advice.

Through funding services to promote the responsible use of medicines ($bpac_{nz}$) and the Seminar Series.

...as do other sector stakeholders

The following list is not exhaustive but gives a sense of activity undertaken by other sector stakeholders.

- District Health Boards
    - specify pharmacy services through the CPSA
    - may contract pharmacists to undertake Medicines Use Reviews with patients
    - may contract for daily dispensing of methadone (for safety and adherence)
    - may fund local services to improve access to treatments for certain patient groups where individual prescriptions are not practicable.
    - may support regional developments (such as the Canterbury Clinical Network)
    - may undertake Disposal of Unwanted Medicines through Pharmacies (DUMP) campaigns and use information collected to inform adherence activities.

- Prescribers
    - determine who is eligible for Close Control.

- Pharmacists
    - may provide publicly funded support services including more frequent dispensing, and compliance packaging (as noted above).
    - may provide services in exchange for a fee paid by patients (e.g. repeat reminder services).

- The Ministry of Health
    - sets the pharmaceutical co-payment.

- The National IT Board
    - oversees the e-prescribing initiative which will provide information on medicines adherence (for example, the proportion of prescriptions provided to patients that are actually filled).

PHARMAC will work with stakeholders to seek out innovative ways to enhance patients' medicine adherence.

Measuring our impact on usage of medicines

PHARMAC has some control over medicine usage through the access criteria it defines for funded medicines. The most widely-used instrument is Special Authority, which requires clinicians to apply on the basis that their patient meets the criteria for funding specified in the Pharmaceutical Schedule.

Special Authority is a targeting mechanism to ensure expensive medicines are used by patients with the greatest health need. As such it is a way of ensuring patients with the greatest health need receive expensive medicines, while also controlling growth in prescribing and ensuring expensive medicines are used cost-effectively.

The graph shows that the use of Special Authority is associated with slower rates of prescribing growth than those medicines not covered by Special Authority criteria. This illustrates that Special Authority is an effective method of influencing the use of medicines, by limiting the over-prescribing of (mostly expensive) medicines. This is consistent with PHARMAC's legislative objective, as over-prescribing of expensive medicines would limit PHARMAC's ability to use the pharmaceutical budget cost-effectively by reducing its ability to invest in new medicines. At the same time, PHARMAC is cautious about inappropriate use of Special Authority as this can be perceived as an administrative burden for clinicians.

Anticipated future performance

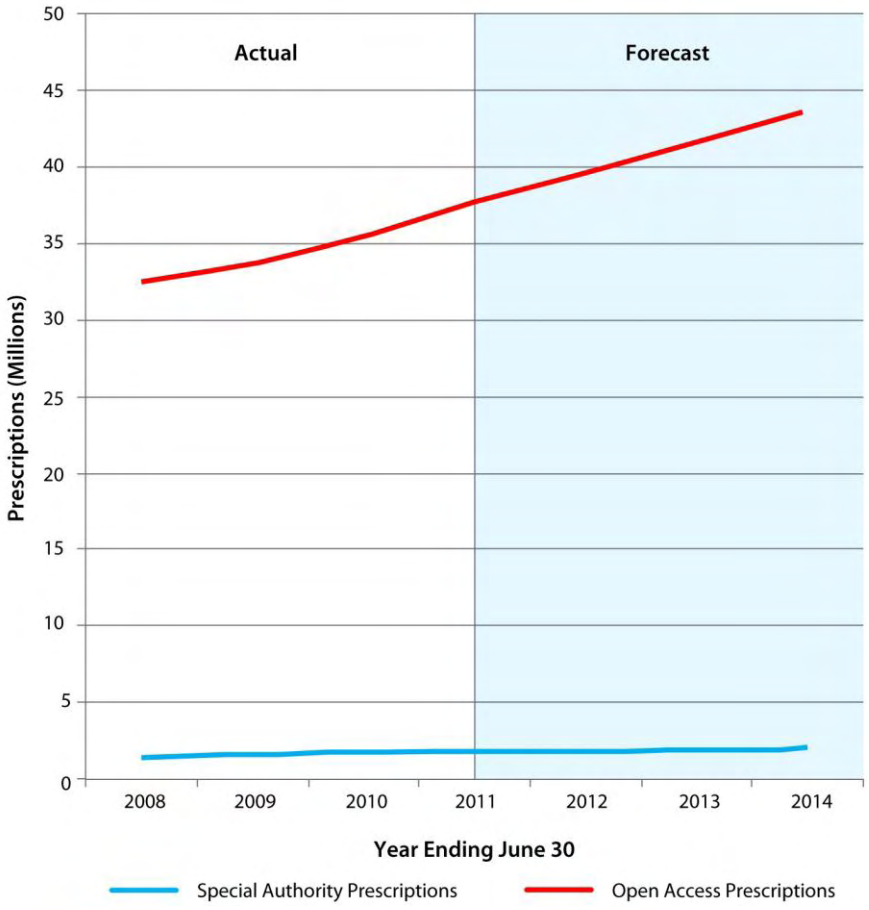
Given current policy settings and trends, we anticipate ongoing gradual increases in spending on Special Authority medicines. However, these are expected to increase at a slower rate than overall pharmaceutical spending.

Current performance, and expected future targets, are illustrated in the table below.

	2010/11 actual	2011/12 estimate	2012/13 projection	2013/14 projection
Number of prescriptions for Special authority medicine	1.73 million	1.82 million	1.91 million	2.0 million
Number of prescriptions for medicines with open access	37.6 million	39.6 million	41.5 million	43.6 million

The expected trend is illustrated in the graph below (lines illustrate numbers of prescriptions for open access and special authority medicines)

Prescription trends actual and predicted – open access and Special Authority medicines



3. Economic and system impacts

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

How we contribute to economic and system impacts

PHARMAC's economic impact supports the government's overall fiscal management through tight budgetary control. This is particularly important at a time of fiscal restraint and tight budgets.

We estimate health gain in terms of Quality Adjusted Life Years (QALYs – see description in box opposite). 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 18).

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 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.

Measuring our contribution to economic and system impacts

In 2012/13 PHARMAC's operating budget will be flat, and the Combined Pharmaceutical Budget (CPB) will grow to accommodate the immunisation schedule. An efficiency dividend of $28.9 million is being returned to DHBs to be used to meet Government's health priorities. PHARMAC anticipates that the volume of medicines funded will continue to increase by 6-7%, and the number of new medicines will also grow. So more New Zealanders will receive funded medicines and the range will grow while overall less is spent.

Our work has meant that, since 2000, we have saved District Health Boards a cumulative total of $5.8 billion. At the same time, the number of new medicines and patients receiving them have increased. 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. 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.

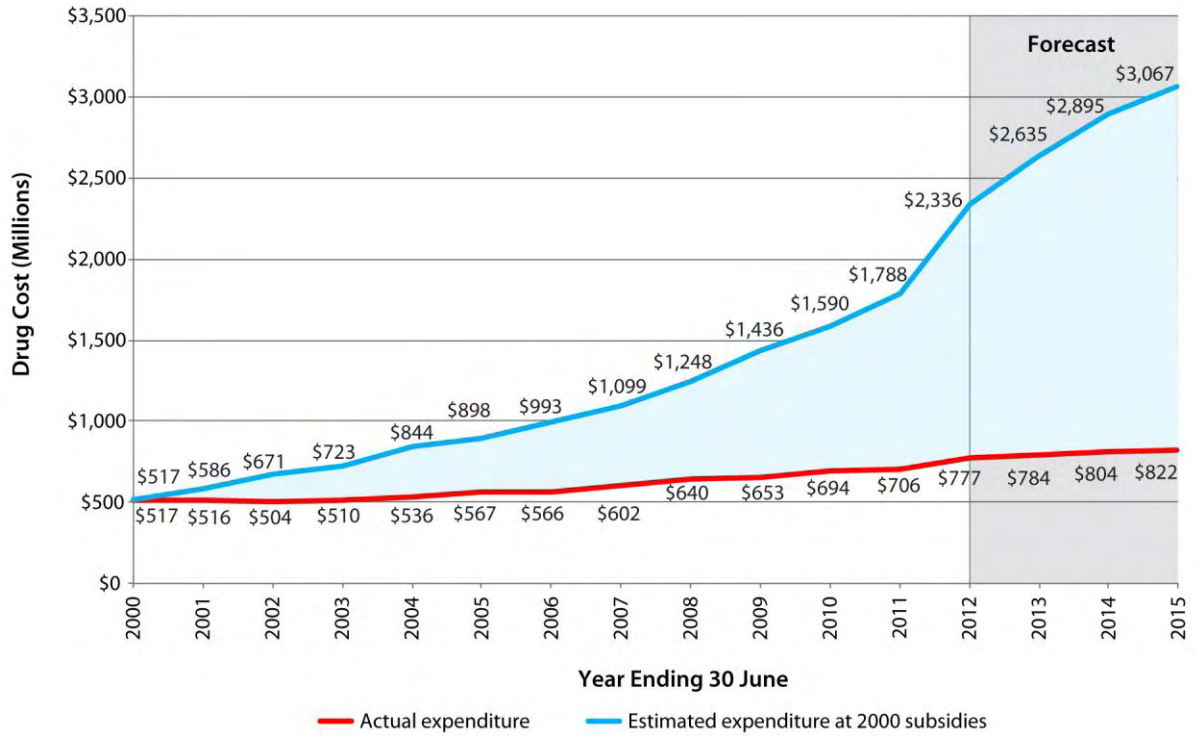
PHARMAC's activity will include:

- Seeking clinical advice on potential new pharmaceutical investments;
- Reviewing (where appropriate) access to currently funded medicines and removing access barriers where possible;
- Working with pharmaceutical suppliers to reach cost-effective and mutually acceptable agreements for new pharmaceuticals
- Continuing to run commercial processes to extract value from currently-funded medicines; and
- Investing in new medicines (and widening access to medicines) where PHARMAC considers this leads to improved health outcomes for New Zealanders.

Economic and System Impact	Measure	2010/11 actual	2011/12 estimate	Aim/target by 2014/15
DHBs get best value for money	Average value of funding decisions is greater than the average value of all opportunities.	Data not available for 2010/11.	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.

The graph below shows the impact of PHARMAC on drug expenditure in the Combined Pharmaceutical Budget.

Impact of PHARMAC on drug expenditure over time (actual and predicted 2000 to 2015)



The shaded area between the graph's lines indicates the total amount saved since 2000. This is the difference between estimated spending without savings, and actual spending.

Note: The value of the CPB includes pharmaceutical cancer treatments from 2011/12, and vaccines from 2012/13

Statement of Forecast Service Performance for 2012/13

Outputs – PHARMAC's activities

Our main activities for the financial year 1 July 2012 to 30 June 2013 are set out below. The output classifications align with those illustrated in the chart on page 5. 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 $783.6 million Combined Pharmaceutical Budget. Note that not all outputs are measured and reported on.

Output class 1 – Making decisions about pharmaceuticals $7.99 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 was met from within the expanded Combined Pharmaceutical Budget. From 2012/13, the CPB also includes funds for vaccines. 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.

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:

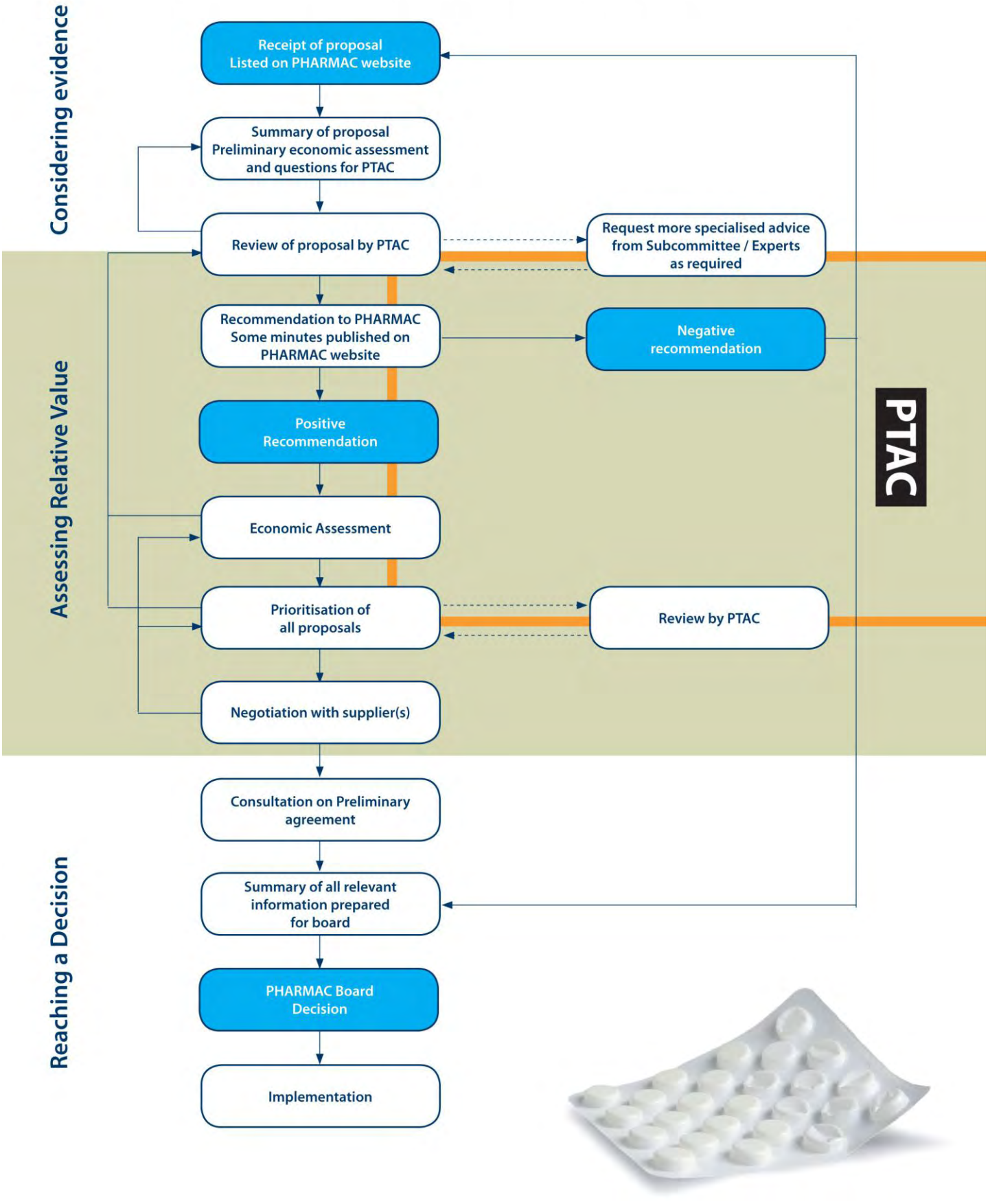
- The health needs of all eligible people;
- The particular health needs of Māori and Pacific peoples;
- The availability and suitability of existing medicines, therapeutic medical devices and related products and related things;
- The clinical benefits and risks of pharmaceuticals;
- The cost-effectiveness of meeting health needs by funding pharmaceuticals rather than using other publicly funded health & 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. A consultation process to review these is under way.

Output 1.1 Community Pharmaceutical Schedule

This is the list of medicines 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 19.

Output 1.2 Pharmaceutical Cancer Treatments (PCTs)

PCTs are listed in the Schedule and from 2011/12 are included in the Combined 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).

Around 4000 panel applications are received each year.

Output 1.5 Named Patient Pharmaceutical Assessment

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 introduced the NPPA in 2012 following a comprehensive review of the previous Exceptional Circumstances schemes for community, hospital, and cancer medicines. Expenditure for NPPA community and cancer treatments continue to be drawn from the CPB, while hospital pharmaceuticals in the community approvals are funded by individual DHB hospitals.

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 involving a staged approach to information-gathering and engagement with hospital clinicians, DHB managers, consumers and industry. 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) were cardiovascular, musculoskeletal (including arthritis); and infections.

Medical Devices

Government agencies are working to examine national management of medical devices. The Chairs and CEs of PHARMAC, Health Benefits Ltd and the National Health Committee have agreed to identify a small number of specific projects to work on in 2012/13 in order to develop how the three entities would work together.

The aim is to work towards completing a National Implementation Plan that would include establishing 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.

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 P20) and this work is likely to grow in consultation with other health sector agencies. PHARMAC undertook funding consideration of insulin pumps, a new medical device, in 2012.

Making decisions about pharmaceuticals output measures

Impact	Output		2010/11 actual	2011/12 estimate	2012/13 target
Access Economic and system	1.1	Community pharmaceutical Schedule decisions.	PHARMAC's clinical advisory committee PTAC met face to face on four occasions, with a further teleconference. PHARMAC completed 64 new or updated cost utility analyses.	We estimate that all funding decisions will be 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 were made on 85% of line items (excluding bids held open while awaiting Medsafe registration or patent expiry) within six months of the tender closing.	We estimate that decisions on >90% of line items (excluding bids held open while awaiting Medsafe registration) will be 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 $9.54 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. Medicine adherence – ensuring patients take the medicine prescribed for them in the way intended by their prescriber – is a further important component. Beyond providing information, this work includes workforce development, seeking community input, 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 2012/13 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 - 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 - 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 - aims to reduce the concerns people have about generic medicines, such as effectiveness, safety, side effects and country of manufacture.

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

Influencing medicines use output measures

Impact	Output		2010/11 actual	2011/12 estimate	2012/13 target
Access	2.2	Population health programmes.	Not reported in 2010/11	We estimate that demand for campaign materials will be equal to/ greater than previous year,	Amount of campaign materials distributed is greater than previous year.
Usage	2.2	Population health programmes	Not reported in 2010/11. Surveys from the five Seminar Series held in the first quarter of 2011/12 showed an average of 92.6% of respondents rated their satisfaction with the Series at least a 4 out of 5.	We estimate that Surveys of Seminar Series attendees will show minimum 90% of respondents rate their satisfaction with the Seminars at least four out of five (where 1 = poor, 5 = excellent)	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 – Managing supply of pharmaceuticals $1.49 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 enable us to be 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.

Managing supply of pharmaceuticals output measure

Impact	Output		2010/11 actual	2011/12 estimate	2012/13 target
Economic and system	3.1	Contract management.	Not reported in 2010/11	We anticipate that 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 – Providing policy advice and support $1.51 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 has 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.

Output 4.3 Fund management

PHARMAC manages pharmaceutical expenditure on behalf of DHBs within the amount approved by the Minister of Health. PHARMAC collects rebates from pharmaceutical suppliers and distributes these back to District Health Boards.

PHARMAC also has access to a legal risk fund, with a value of $6.3 million in 2012/13, which is used to meet litigation costs that are not otherwise met from PHARMAC's regular operational spending on legal services.

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

Providing policy advice and support output measure

Impact	Output		2010/11 actual	2011/12 estimate	2012/13 target
Economic and system	4.2	Policy advice.	A baseline survey of PHARMAC's policy requesters was conducted in June/July 2011. The results of the survey give PHARMAC an average, out of a possible score of 5, of: • 4.33 for timeliness of advice; • 4.78 for quality of analysis given; • 4.89 for relevance of the advice; • 4.56 for thoroughness; • 4.33 for clarity; and • 4.56 for informal policy support and availability.	We estimate an average survey score of at least 4 in each area.	An average survey score of at least 4.5 in each area.
Economic and system	4.3	Rebates distribution	All identified rebates due were collected and distributed to DHBs in a timely fashion	We estimate all identified rebates will be distributed 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. We have also identified four areas of strategic importance in coming years – these are described in detail below. Our people are our biggest asset (about 70 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 to enable us to continue to meet our legislative objective.

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. PHARMAC's expanded role in hospital medicines and medical devices will also require an increase in the number of employees with the appropriate specialised skill sets to enable them to perform their roles well. With skills in economic assessment and commercial procurement in the medical field already in short supply in New Zealand, this makes it even more critical that PHARMAC attracts and retains staff.

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. PHARMAC reviewed and republished its Vision, Mission and Values in 2011/12;

- *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 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 state 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;

- *communications and stakeholder engagement* – we continue to work on improving how we better understand stakeholder views, and better explain our own. The PHARMAC Forum, a face to face conference of leaders in the pharmaceutical sector, is now a regular event;

- *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.

Our Strategies for Future Success

PHARMAC has strategic priorities to ensure its continued focus on achieving its objectives.

Improved Clinical Leadership

Our ability to gather the right information from the right people, make good decisions and obtain buy-in substantially depends on our performance in the area of clinical leadership. Part of our work in improving how we interact with stakeholders generally, ensuring that we have the right networks and advice across each activity, and communicating or implementing our decisions is essential.

Our extended functions in the area of secondary care (hospital medicines and medical devices) require us to ensure that we are appropriately resourced in this area.

We will work to:

- develop relationships and networks with secondary care clinicians;
- maintain existing clinical relationships and networks; and
- understand and contribute to policy development around primary care 'clinical extenders' such as pharmacy prescribing and clinical services initiatives.

Developing these areas will ensure that:

- PHARMAC is able to predict issues, and seek advice and contributions from secondary care on areas of relevance to them;
- clinician perspectives are well-understood and integrated within decision-making and implementation processes; and
- PHARMAC's perspective is sought on policy initiatives relating to the role of pharmacy and other extensions of primary care.

Enhancing E-Influence

Opportunities exist through the better use of technology to obtain (and create) knowledge, more smoothly implement PHARMAC's activities, and communicate more broadly. Opportunities exist to maximise benefits through connecting in with sector IT initiatives including data systems, and developing and delivering our own solutions.

A key enabler for success is connectedness in IT and Information Management strategy within the organisation and between PHARMAC and the wider sector.

We will work to:

- support and influence sector IT initiatives including data systems;
- develop and maintain effective networks with private software vendors, health IT, DHB systems providers;
- participate in Steering Groups and working groups for NZMT, NZULM, e-prescribing and other related initiatives;
- develop and maintain PHARMAC's Information Systems Strategic Plan and Information Management Strategy; and
- ensure human resources strategy is aligned with seeking, retaining and developing staff with information management skills (see above re good employer and capability work).

Developing these areas will ensure that:

- health sector IT developments work seamlessly with pharmaceutical-related systems;
- PHARMAC's perspective is sought on health IT-related policy and process;
- integration of data related to PHARMAC's extended roles in medical devices and hospital medicines is seamless;
- PHARMAC's internal systems and processes are robust and able to respond to changes in sector health IT parameters; and
- staff and stakeholders are able to access high-quality information in usable formats in a timely manner.

Core Strength

Value is created through PHARMAC's management of medicines. In evaluating opportunities for change and improvement we must ensure continued delivery of the best health outcomes, combined with budget management. Gains can be made through developing improved ways of measuring our performance, and communicating this to interested parties in relevant ways.

Enhancing our capability and good employer work, as outlined above, is also important to achieving this strategy. In order to deliver on its strategies in a manner consistent with its organisational values PHARMAC often requires people with relatively rare skill sets and approach to work.

We will work to:

- continue to improve PHARMAC as a good employer and attractive place to work;
- embed the PHARMAC values and core competency within the performance planning framework; and
- develop and implement a research/publication strategy.

Developing these areas will ensure that:

- PHARMAC is able to integrate extended functions into the organisation without loss of culture or values;
- new staff are a good fit, and understand PHARMAC's values and core competency. Existing staff buy-in to the new identity statements and demonstrate the behaviours outlined in the revised Framework for Success;
- quality of PHARMAC analysis and decisions continue to lead to greater health gains than the alternative; and
- "The PHARMAC model" continues to be referenced in external reviews as best-practice within the sector.

Value from Extended Functions

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

In line with Government expectations, we need to move with a sense of urgency in relation to these new areas, and in particular with medical devices.

There are many barriers to action across different market segments for medical devices. However, in terms of PHARMAC's activity the barrier relates to prioritising this uncertain gain against benefits from medicine management, and from some lack of technical expertise and proper networks in respect of these. In order to enable the required action (and protect the core activity from distraction), we need to build a small establishment team with the requisite capabilities, including medical, programme management and analytical capabilities.

We will work to:

- obtain quick wins from new activities; and
- ensure a robust process for management is developed between responsible agencies.

Developing these areas will ensure that:

- quality of PHARMAC analysis and decisions mirrors that seen for medicines;
- real sector value can be observed and is reported to stakeholders; and
- improved management of technology adoption occurs.

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"*.[2]

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 advisory committees.

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

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. The Ministry of Health acts as the Minister's agent in monitoring PHARMAC's performance.

Governance

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

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

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.

[2] New Zealand Public Health and Disability Act, 2000
[3] PTAC members are independently appointed by the Director-General of the Ministry of Health. CAC members are appointed by the PHARMAC Board. PTAC also seeks input as required from specialist subcommittees, whose members are also practicing clinicians.

PART 3

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 Forecast Service Performance* is contingent on appropriate funding and depending on funding decisions, PHARMAC's activities and associated measures for 2012/2013 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;

- *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 2012 to 30 June 2013	For the period of 1 July 2013 to 30 June 2014	For the period of 1 July 2014 to 30 June 2015
	1	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Revenue				
Crown contribution		15,135	15,135	15,135
DHB Contribution		3,312	3,372	3,427
Discretionary Pharmaceutical Fund (DPF)		0	0	0
Other Revenue		189	315	215
Interest Revenue		130	140	140
Legal Risk Fund (LRF) Interest Revenue	2	200	200	200
Total revenue		**18,966**	**19,162**	**19,117**
Expenditure				
Personnel Costs		8,260	8,393	8,527
Operating Costs		10,384	10,494	10,607
Herceptin Sold Trial		574	519	150
Depreciation		528	528	528
DPF payments to DHBs	3	578	0	0
LRF payments for litigation costs		200	200	200
Finance costs		9	12	12
Total Expenditure		**20,533**	**20,146**	**20,024**
Net Surplus/(deficit)		**(1,567)**	**(984)**	**(907)**
Other Comprehensive Income		0	0	0
Total Comprehensive Income		**$(1,567)**	**$(984)**	**$(907)**

1. The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
2. LRF interest rate calculation 3.17% on an average balance $6,300k.
3. DPF forecast is linked to CPB forecast

Prospective Statement of Financial Position

	Note	For the period of 1 July 2012 to 30 June 2013	For the period of 1 July 2013 to 30 June 2014	For the period of 1 July 2014 to 30 June 2015
	1	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
PUBLIC EQUITY				
Retained Earnings & Reserves		2,822	2,357	1,600
Herceptin Sold Trial Reserve		809	290	140
Discretionary Pharmaceutical Fund (DPF)	2	14,969	14,969	14,969
Legal Risk Fund		6,343	6,343	6,343
TOTAL PUBLIC EQUITY		**24,943**	**23,959**	**23,052**
Represented by:				
Current Assets				
Cash and bank		26,943	25,959	25,052
Receivables and prepayments		100	100	100
Total current assets		27,043	26,059	25,152
Non-current assets				
Property, Plant and Equipment		700	700	700
Intangible assets		200	200	200
Total non-current assets		900	900	900
Total assets		**27,943**	**26,959**	**26,052**
Current Liabilities				
Creditors and other payables		2,500	2,500	2,500
Employee entitlements		500	500	500
Total current liabilities		3,000	3,000	3,000
NET ASSETS		**24,943**	**23,959**	**23,052**

Note:
1. The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
2. Discretionary Pharmaceutical Fund forecast is linked to CPB forecast.

Prospective Cash Flow Statement

	For the period of 1 July 2012 to 30 June 2013	For the period of 1 July 2013 to 30 June 2014	For the period of 1 July 2014 to 30 June 2015
	$000 (GST incl)	$000 (GST incl)	$000 (GST incl)
Cash flows – Operating activities			
Cash was provided from:			
- Crown Contribution	15,135	15,135	15,135
- DHB Contribution	3,312	3,372	3,427
- Interest Revenue	130	140	140
- LRF Interest revenue	200	200	200
- Other Income	189	315	215
	18,966	19,162	19,117
Cash was disbursed to:			
- Cash outflow to suppliers and employees	(19,105)	(19,218)	(19,096)
- Net GST	(400)	(400)	(400)
	(19,505)	(19,618)	(19,496)
Net cash flow from operating activities	**(539)**	**(456)**	**(379)**
Cash flows – Investing activities			
Cash was disbursed to:			
- Purchase of fixed assets	(528)	(528)	(528)
Net cash flow from investing activities	**(528)**	**(528)**	**(528)**
Cash flows – Financing activities	0	0	0
Net cash flow from financing activities	**0**	**0**	**0**
Net increase/(decrease) in cash held	(1,067)	(984)	(907)
Add opening cash brought forward	28,010	26,943	25,959
Closing cash balance	**26,943**	**25,959**	**25,052**

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 1 July 2012 to 30 June 2013	For the period 1 July 2013 to 30 June 2014	For the period 1 July 2014 to 30 June 2015
	$000 (GST incl)	$000 (GST incl)	$000 (GST incl)
RETAINED EARNINGS			
Balance at 1 July	3,237	2,822	2,357
Net surplus/(deficit)	(1,567)	(984)	(907)
Net transfer from/(to) Herceptin SOLD trial fund	574	519	150
Net transfer from/(to) discretionary pharmaceutical fund	578	0	0
Net transfer from/(to) legal risk fund	0	0	0
Balance at 30 June	**$2,822**	**$2,357**	**$1,600**
HERCEPTIN SOLD TRIAL FUND			
Balance at 1 July	1,383	809	290
Add: Net transfer from/(to) retained earnings	(574)	(519)	(150)
Balance at 30 June	**$809**	**$290**	**$140**
DISCRETIONARY PHARMACEUTICAL FUND			
Balance at 1 July	15,547	14,969	14,969
Add: Income received transferred from/(to) retained earnings	0	0	0
Less: Pharmaceutical expenses transferred from/(to) retained earnings	(578)	0	0
Balance at 30 June	**$14,969**	**$14,969**	**$14,969**
LEGAL RISK FUND			
Balance at 1 July	6,343	6,343	6,343
Add: Interest received transferred from/(to) retained earnings	200	200	200
Add: Other Income received transferred from/(to) retained earnings	0	0	0
Less: Litigation expenses transferred from/(to) retained earnings	(200)	(200)	(200)
Balance at 30 June	**$6,343**	**$6,343**	**$6,343**
TOTAL PUBLIC EQUITY	**$24,943**	**$23,959**	**$23,052**

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 2012 to 30 June 2013	For the period of 1 July 2013 to 30 June 2014	For the period of 1 July 2014 to 30 June 2015
	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Net operating surplus/(deficit)	**(1,567)**	**(984)**	**(907)**
Add non-cash items:			
Depreciation	528	528	528
Total	**(1,039)**	**(456)**	**(379)**
Add/(less) working capital movements:			
Decrease (increase) in receivables	0	0	0
Increase (decrease) in payables	500	0	0
Working Capital Movement – net	500	0	0
Net cash flow from operating activities	**(539)**	**(456)**	**(379)**

Note: 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

Output Expenditure Budget 2012/13	Funding MOH	Funding DHB	Funding Other	Output Expenditure	Net surplus/ (deficit)
Decision-making	7,010	150	0	(7,992)	(832)
Influencing medicine use	6,042	2,342	500	(9,536)	(652)
Supply management	1,090	300	19	(1,494)	(85)
Policy advice and support	993	520	0	(1,511)	2
Total Expenditure	**15,135**	**3,312**	**519**	**(20,533)**	**(1567)**

Output Expenditure Budget 2013/2014	Funding MOH	Funding DHB	Funding Other	Output Expenditure	Net surplus/ (deficit)
Decision-making	7,010	1,005	0	(8,405)	(390)
Influencing medicine use	6,042	1,547	500	(8,736)	(647)
Supply management	1,090	300	155	(1,494)	51
Policy advice and support	993	520	0	(1,511)	2
Total Expenditure	**15,135**	**3,372**	**655**	**(20,146)**	**(984)**

Output Expenditure Budget 2014/2015	Funding MOH	Funding DHB	Funding Other	Output Expenditure	Net surplus/ (deficit)
Decision-making	7,010	1,005	0	(8,405)	(390)
Influencing medicine use	6,042	1,547	500	(8,636)	(547)
Supply management	1,090	355	55	(1,472)	28
Policy advice and support	993	520	0	(1,511)	2
Total Expenditure	**15,135**	**3,427**	**555**	**(20,024)**	**(907)**

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, 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.

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.

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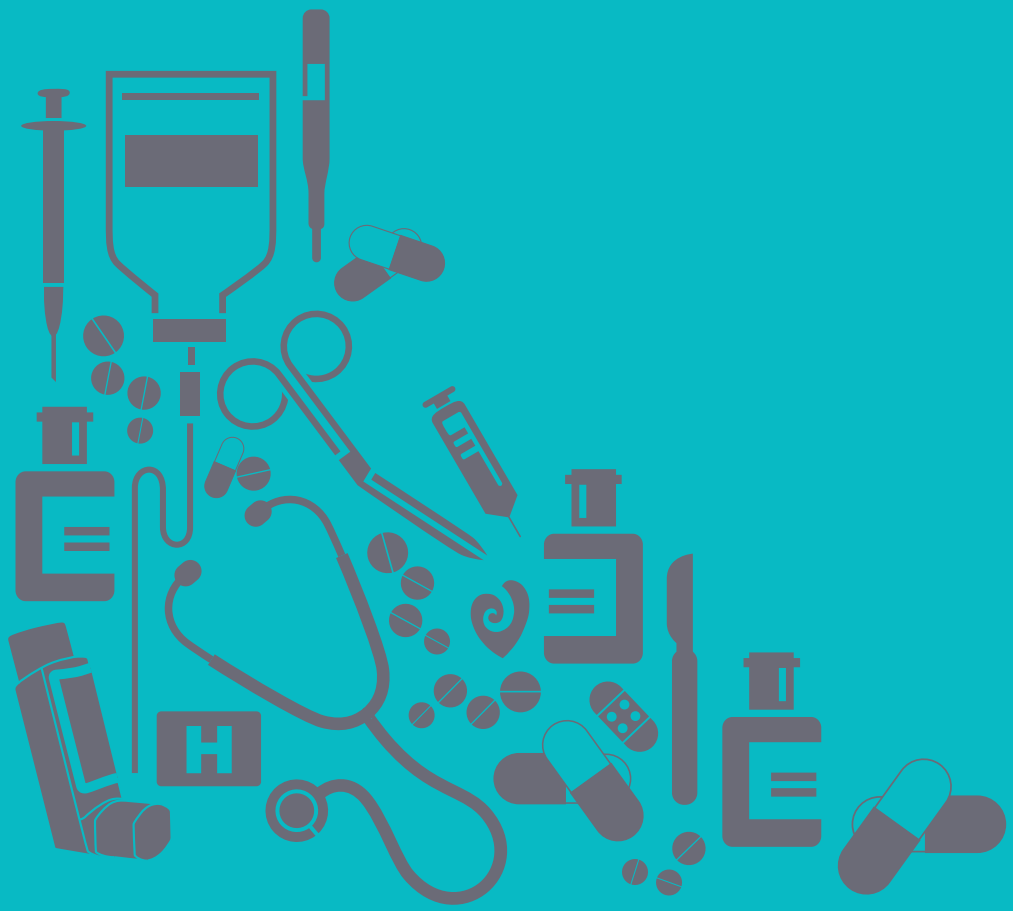

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