

Pharmaceutical Management Agency
Te Pātaka Whaioranga

STATEMENT OF PERFORMANCE EXPECTATIONS

*Te Tauākī o Ngā Mahi Hei
Whakatutuki*

2020/21

PHARMAC
TE PĀTAKA WHAIORANGA



Hon Steve Maharey

Chair
10 June 2020



Jan White

Deputy Chair
10 June 2020

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Introduction

Kupu whakataki

This Annual Statement of Performance Expectations has been prepared in accordance with the Crown Entities Act 2004 and should be read in conjunction with the PHARMAC Statement of Intent 2020/21-2023/24 (SOI). It identifies for Parliament and the New Zealand public what PHARMAC intends to achieve in the 2020/21 financial year and how performance will be assessed to deliver on PHARMAC's strategy.

Ministerial Expectations for the 2020/21 Financial Year

This Statement of Performance Expectations is guided by the Minister of Health's annual Letter of Expectations² to PHARMAC dated 23 March 2020.

General expectations for 2020/21 set by the Minister of Health are to:

- Support achieving equity in health outcomes and ensure fairness in the access to and experience of health care.
- Effectively working with iwi and Māori communities to enable them to exercise their authority to improve their health and wellbeing.

- Work as a key player within the health and disability system to ensure the continued effective and efficient supply of medicines and medical devices.
- Further develop relationships and communication with the public and other stakeholders to improve transparency and timeliness of processes.
- Being clear about PHARMAC's role both as a health and disability system partner and leader, and working as an effective member of the wider health and disability system.
- Continue our work on: cancer management, responding to disease outbreaks, improving access to medicines for rare disorders and transitioning to the full management of hospital medical devices.

¹ <https://www.pharmac.govt.nz/about/accountability-documents/>

² <https://www.pharmac.govt.nz/assets/2020-21-PHARMAC-Letter-of-Expectation.pdf>



Who we are *Ko wai mātou*

Our purpose and what we do

Tō mātou kaupapa, ā mātou mahi

PHARMAC helps people to live better, healthier lives by deciding which medicines, and related products, are available to New Zealanders in a way that is affordable and accessible. Our purpose is to deliver the best health outcomes from New Zealand's investment in medicines and medical devices.

We are also becoming more involved in hospital medical devices through negotiating national contracts and managing spending within a fixed budget. In future we will decide which medical devices are available for people under the care of public hospitals and we are preparing for this change.

PHARMAC is a Government health agency and our identity in te reo Māori, Te Pātaka Whaioranga ('the storehouse of wellbeing'), sums up the part we play in managing and safeguarding something that is valuable to all New Zealanders.

What else does PHARMAC do?

We fund medicines for people with exceptional circumstances

PHARMAC may approve funding a medicine for an individual, in exceptional circumstances. For example, they may want to use a medicine that isn't funded at all, or that is funded for other uses but not for that person's particular health condition.

The main way we do this is through a process called a Named Patient Pharmaceutical Assessment (NPPA), where a person's doctor will make a funding application to PHARMAC.

We manage vaccines in New Zealand

We manage funding and distribution of all Government-funded vaccines in New Zealand.

This includes all vaccines on the National Immunisation Schedule which includes the childhood immunisation programme and the annual influenza vaccine³ which is free for eligible people.

³ PHARMAC manages the distribution and funding of flu vaccine differently from other vaccines. Please refer to our website for further information.

Vaccination is one of the areas where PHARMAC plays a major role in preventing illness from starting or spreading in our communities.

We work across the broader health system to do this - the Ministry of Health is responsible for overseeing promotion and implementation of the national immunisation programme, and monitoring vaccine preventable disease burden and risk in communities. The Ministry of Health, District Health Boards (DHBs) and PHARMAC work collaboratively on vaccine responses to local and national outbreaks of disease.

We promote medicines being used in the right way

We promote the responsible use of medicines in New Zealand. This means making sure funded medicines are not under-used, over-used or misused. We do this by providing information and educational material to both health professionals and the public. We are committed to ensuring equitable access to the treatments we fund and that everyone uses treatments in the best way so they get the health benefits they offer.

Research

PHARMAC has a statutory function to engage in research as appropriate. We are involved in supporting and/or initiating research which supports our core functions and aligns with our strategic priorities. PHARMAC collaborates with other agencies and organisations to contribute to research projects that are mutually beneficial including by providing funding and sharing data and information.

Our mandate

PHARMAC's legislative objective is set out in the New Zealand Public Health and Disability Act 2000 – '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'.



Accountability

Te noho haepapa

We are accountable to the Minister of Health, who, on behalf of the Crown, is accountable to Parliament for our performance. The Minister of Health sets out their expectation of us in the annual Letter of Expectations. The Minister also sets out the level of the Combined Pharmaceutical Budget (CPB) following the receipt of joint advice from PHARMAC and the 20 DHBs. The Ministry of Health acts as the Minister's agent in monitoring PHARMAC's performance.

Governance

Te rōpū whakahaere

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

In addition to the work undertaken by PHARMAC itself, the Board takes objective advice from two statutory advisory committees⁴: the Pharmacology and Therapeutics Advisory

Committee (PTAC), and the Consumer Advisory Committee (CAC) – a committee of people experienced in consumer issues.

The Board also has an Audit and Forecast Committee and Health and Safety Committee (both comprising of Board members), which provide assistance to the Board on relevant issues.

Reporting

Te tuku pūrongo

With specific parameters agreed with the Minister of Health, our reporting includes monthly reports, quarterly reporting, and ad hoc reports to the Minister as well as annual reports to Parliament. We are subject to Annual reviews by the Health Select Committee to check on the performance of PHARMAC over the previous year.

As the COVID-19 situation is continuing to evolve at the time of publication, there is uncertainty around what the impacts will be on the 2020/21 financial year. Therefore, the targets established in this SPE have been set based on historical levels of performance. Actual performance may differ from these targets, as PHARMAC continues to adapt approaches to best assist New Zealand's recovery.

⁴ PTAC members are independently appointed by the Director-General of Health. CAC members are appointed by the PHARMAC Board. PTAC seeks input as required from specialist subcommittees, whose members are also practising clinicians.

We will provide commentary on our activities, including any impacts of COVID-19 in our upcoming Annual Report.

During the 2019/2020 year we completed a review of our performance measures. This resulted in the introduction of several new measures, as well as changes in methodology for existing measures.⁵ Baseline data for these will be collected during 2020/21. Therefore, estimates for 2019/20 have not been included in our tables of performance indicators. We intend to include this information in our 2021/2022 SPE.

Our funding for 2020/21

Te pūtea o te tau 2020/21

The Minister of Health has determined that the level of the CPB for 2020/21 is \$1,045 million. The CPB is comprised of Government expenditure for community medicines, vaccines, haemophilia treatments and related products, and spending on all medicines that are given in public hospitals.

PHARMAC does not hold CPB funding, the CPB is distributed to DHBs using a population-based funding formula.

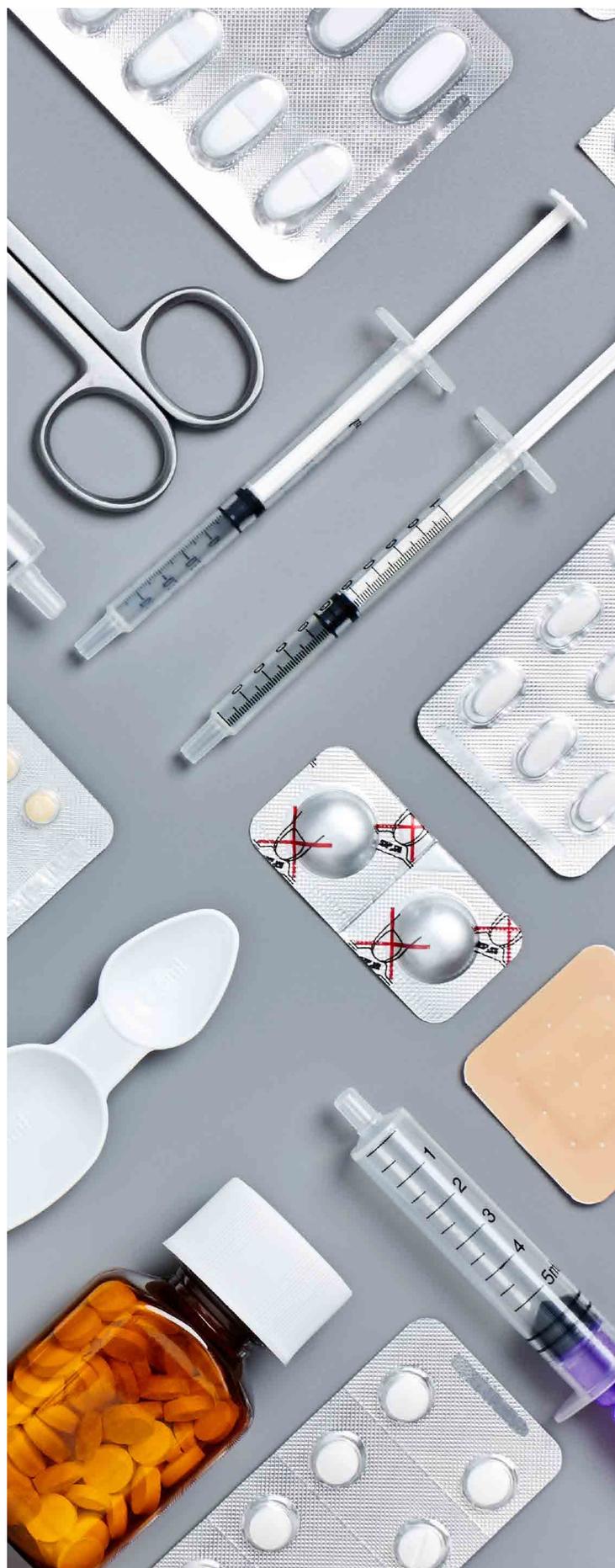
PHARMAC monitors DHBs' spending on medicines via community pharmacy reimbursement claims and DHB hospital spending. PHARMAC's role in relation to the CPB is to make decisions about which medicines, and related products are funded, monitor and forecast pharmaceutical expenditure, and then report the total of all DHB expenditure as the CPB.

PHARMAC does not hold any funds related to the CPB other than:

1. rebates, which are discounts negotiated by PHARMAC, that we collect from pharmaceutical suppliers on behalf of DHBs and then distribute to them, minus any agreed expenses; and
2. the Discretionary Pharmaceutical Fund, a special purpose reserve fund which serves as a budget management tool that allows PHARMAC to manage unexpected fluctuations in medicines expenditure or to make investment decisions that might otherwise be unaffordable within the relevant financial year.

⁵ Refer to PHARMAC's Statement of Intent 2020/21-2023/24 for the full suite of performance measures.

PHARMAC's operating budget is used to meet the day-to-day costs of running PHARMAC. This operating budget is separate to the CPB and PHARMAC cannot use CPB funding to meet its operational costs. PHARMAC also receives a contribution for some of its operating costs directly from DHBs and this is used to support our work to promote the responsible use of medicines in New Zealand.





Our Strategic Direction

Te Koronga Rautaki

PHARMAC contributes to the Government's priority of improving the wellbeing of New Zealanders and their families, through achieving our purpose to deliver the best health outcomes from New Zealand's investment in medicines and medical devices.

To be successful in achieving this purpose, we have set out a new strategic direction in our Statement of Intent 2020/21 – 2023/24 that identifies our enduring impact areas, our strategic priority areas and how we plan to build and strengthen our excellence as an organisation.

To support our work, PHARMAC has developed for the first time a People and Capability Strategy, as we know that in order to succeed in these priorities we need to develop different capabilities and get better at projecting our future capability needs.

At the same time we have refreshed Te Whaioranga, our Māori Responsiveness Strategy, which provides a cross-cutting lens through which we will plan and implement each priority – success will only be achieved in each area if we deliver it for and with Māori as Treaty partner.



HEALTH SYSTEM OUTCOMES

- People are living longer in good health
- People have an improved quality of life
- Health Equity for Māori and all other people

OUR PURPOSE

- To deliver the best health outcomes from New Zealand's investment in medicines and medical devices
- We uphold the articles of Te Tiriti, advancing Māori health and aspirations: Tino Rangatiratanga; Partnership; Active protection; Options and Equity

OUR IMPACT

- Our investment choices enhance wellbeing
- Medicines and medical devices are used appropriately, equitably and well
- We play a key role in an effective and equitable health system

OUR STRATEGIC PRIORITIES 2020-2024

<p>Enhance key functions We continuously improve the way we work to deliver maximum value to New Zealanders</p>	<p>Medical devices We drive better value and more consistent access to hospital medical devices</p>	<p>Equitable access and use We enable equitable access and use of medicines and related products through influencing availability, affordability, accessibility, acceptability and appropriateness</p>
<p>Data and analytics We measure health outcomes and make evidence-informed decisions, using and making available data and insights from a wide range of sources</p>	<p>Public understanding, trust and confidence We listen to the views of New Zealanders and we communicate clearly and simply</p>	<p>Relationships and partnerships We create strong and enduring partnerships across the health system and beyond</p>

ORGANISATIONAL EXCELLENCE

- Our people are engaged, supported and have the capabilities to do their work
- Our people are enabled with the right ICT tools and capability
- We are future focused and we systematically use performance information to adjust plans and deliver better results

WHAT WE DO

- Make choices and manage expenditure and supply
- Support and inform good decisions about access and use
- Influence through policy, research and insights

OUR VALUES

- Fresh Thinking
- Due Respect
- Can Do
- Within Our Means

Our Impacts

Ngā Hua



The section below shows the relationship between our enduring impact areas and our 2020/21 outcome indicator targets. Some of the impact area descriptions will not apply to hospital medical devices in 2020/21 as our role in that area is still growing.

Impact Area	Why is this important?	What does success look like?	Outcome Indicators	2020/21 Target
<p>Our investment choices enhance wellbeing</p>	<p>Funding more clinically effective and good value medicines and medical devices helps New Zealanders live longer and healthier lives.</p> <p>We want to make sure that the choices we make contribute to better health outcomes for individuals and more equitable health outcomes for population groups, particularly for Māori.</p>	<ul style="list-style-type: none"> ● More medicines and medical devices are available for more New Zealanders. ● We make the best investment choices available to us, based on robust processes that reflect societal preferences, and consider improved wellbeing through prevention. ● Those who will benefit most from the medicines and medical devices we invest in receive them and we work with a range of partners across the health and disability system to achieve expected rates of uptake. ● We manage brand changes with care to minimise adverse health impacts and reduce the risk of non-adherence. ● Ultimately, PHARMAC’s work contributes to better health outcomes for New Zealanders. 	<p>1.1 Health outcomes from our investments.</p> <p>1.2 Uptake of medicines following key investments and brand changes.</p> <p>1.3 The average time from funding application being received to a decision on whether to fund is made.</p>	<p>Report progress for developing a method for measurement</p> <p>Methodology to be developed and tested</p> <p>Downward trend</p>

⁶ Performance measures for medical devices used in DHB hospitals are not currently captured in our indicators. Data and the availability of information on medical devices purchased by DHB hospitals is still under development and indicators will be included when possible.

⁷ Currently we measure these medicines: gout, cardiovascular disease and Type 2 diabetes. During 2020/21 we will look into what other conditions we can expand our measurement to.

Impact Area	Why is this important?	What does success look like?	Outcome Indicators	2020/21 Target
Medicines and medical devices ⁵ are used appropriately, equitably and well	<p>Patients will have improved health outcomes when medicines and medical devices are prescribed, dispensed, accessed and used optimally.</p> <p>PHARMAC helps ensure medicines and medical devices are used in the most responsible way so that they are used when they are needed, and not under or over-used. This includes a focus on optimal prescribing, dispensing, access and the way people use them.</p>	<ul style="list-style-type: none"> Medicines are not under, over or mis-used. Patients and prescribers are well informed about medicines so they can be used and prescribed appropriately. Barriers to equitable use of funded medicines and medical devices are eliminated. 	<p>2.1 Rates of adherence to funded medicines.</p> <p>2.2 Patient experience of medicines - Results from Primary Care Patient Experience Survey⁸</p> <ul style="list-style-type: none"> Was the purpose of the medication properly explained to you? Did you follow the instructions when you took the medicine? 	<p>New measure⁷ Upward trend</p> <p>Upward trend</p>

We play a key role in an effective and equitable health system	<p>PHARMAC cannot deliver best health outcomes from medicines and medical devices alone - we are part of the wider health and disability system and our planning and decision making must reflect that.</p> <p>Working with other agencies, health professionals and a range of other parties in a joined-up way is essential to ensuring the health and disability system as a whole is effective at getting funded medicines and medical devices to those who need them most.</p>	<ul style="list-style-type: none"> We work with health providers and funders to ensure our funding decisions are able to be implemented smoothly and consistently across the country. The supply of medicines (including vaccines), and medical devices is monitored and maintained to ensure health outcomes aren't affected by out of stock situations⁹. We are working collaboratively with the health sector on jointly agreed population health programmes to better meet the needs of New Zealanders. We are contributing to the health and disability system response to improve environmental sustainability. 	<p>3.1 Positive feedback from system stakeholders</p> <p>3.2 High levels of medicines supply are maintained.</p>	<p>New measure Upward trend</p> <p>Met</p>
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⁸ Survey data is provided to PHARMAC by a third party for these indicators. As such, if these survey questions are amended at any point in the future by the third party then PHARMAC will not be able to report on these specific questions. If this is the case then commentary will be provided in PHARMAC's Annual Report.

⁹ Following COVID-19 work is underway to strengthen supply chains in the health sector. Once this work is further progressed PHARMAC will look to refresh this indicator.

Our focus for 2020/21

Tā mātou aronga 2020/21

In 2020/21, our focus will be on continuing to ensure that more New Zealanders receive more medicines as well as progressing a range of actions that support the delivery of our strategic priorities. Cumulatively and over time, we expect delivery of our strategic priorities to help us achieve our desired impacts. Our focus for 2020/21 is outlined below for each of our strategic priority areas.

We also intend to progress implementation of Te Whaioranga, PHARMAC's Māori Responsiveness Strategy, which was refreshed in early 2020.

Implementing Te Whaioranga

Te Whakatinanatanga o Te Whaioranga

We understand and support whānau Māori to achieve best health and wellbeing through access to, and optimal use of, medicines and medical devices; and we uphold Te Tiriti o Waitangi.

What we want to achieve

Embedding Te Tiriti o Waitangi

Strengthening Māori Leadership

Strong working relationships with Māori

Building our Māori capability and removing bias

Accountability for delivering on Te Tiriti obligations

What we plan to deliver in 2020/21

- Identify measures for Te Tiriti compliance.
- Complete a review of PHARMAC's policies, leadership practices, systems, processes and professional development to ensure they align and reflect Te Tiriti o Waitangi.
- Establish a Māori Leadership position to advise the Kāhui Rangapū (Senior Leadership Team).
- Establish an external Māori Advisory Committee.
- Undertake capability building using Te Arawhiti guidelines for engagement with Māori.
- Work with our current Māori partners to agree a more strategic approach to working together.
- Commission a review on bias in our systems.
- Assign Te Tiriti o Waitangi accountabilities to Board and Kāhui Rangapū (Senior leadership).
- Include Te Tiriti o Waitangi accountabilities in all role descriptions.



Strategic Priority: Enhance Key Functions

Whāinga Tōmua: Te Whakapakari ake i Ngā Kawenga Matua

We continuously improve the way we work to deliver maximum value to New Zealanders.

What we want to achieve	What we plan to deliver in 2020/21
<p>Revise how we make funding and procurement decisions to ensure they reflect societal preferences, the Government’s focus on outcomes equity, wellbeing through prevention and our Treaty obligations</p>	<ul style="list-style-type: none"> ● Undertake work to better understand public preferences for investing in medicines. ● Implement changes to our competitive procurement processes to better accommodate the needs of individuals.
<p>Establish a more systematic approach to ensuring the optimal use of pharmaceuticals</p>	<ul style="list-style-type: none"> ● Plan and scope this work.
<p>Improve how we plan and execute our commercial activities</p>	<ul style="list-style-type: none"> ● Plan and scope this work.
<p>Improve our management of Pharmaceutical Schedule business risks and uncertainties</p>	<ul style="list-style-type: none"> ● Develop, and begin to implement, changes to increase our resilience to interruptions to the pharmaceutical supply chain. ● Develop emergency management planning to ensure we are better able to respond to consumer and health sector needs during civil defence and public health emergencies.
<p>Enhance key enabling information systems and funding mechanisms</p>	<ul style="list-style-type: none"> ● Complete planning and business case processes for upgrading key funding and procurement information systems.



Strategic Priority: Medical Devices

Whāinga Tōmua: Ngā Pūrere Hauora

We drive better value and more consistent access to hospital medical devices.

What we want to achieve	What we plan to deliver in 2020/21
<p>Progress our work to build a national list of medical devices used in DHB hospitals</p> <p>A high level of transparency around our contracting decisions</p>	<ul style="list-style-type: none">● Continue to issue request for proposals for hospital medical device categories, aiming to get at least \$400 million of DHB spend under national contract by the end of the financial year.
<p>A clear pathway to necessary sector-wide IT solutions being in place</p>	<ul style="list-style-type: none">● Participate in health sector work on the Health Finance, Procurement and Information Management System and other associated systems.
<p>Over time, improved value for money from hospital medical devices spend in terms of patient benefit per dollar</p>	<ul style="list-style-type: none">● Monitor current market share procurement contracts.
<p>DHBs will be supported to manage growing expenditure on medical devices in a more sustainable way, with a greater focus on health benefits for patients</p>	<ul style="list-style-type: none">● In consultation with the health sector, develop processes and supporting capabilities for our assessment and decision-making about which new medical devices may be used by DHBs.● Plan for the transition to a nationally managed list of hospital medical devices.

Strategic Priority: Equitable Access and Use

Kia rite tahi te whai wāhi atu

We enable equitable access to medicines and related products by influencing availability, affordability, accessibility, acceptability and appropriateness.

What we want to achieve	What we plan to deliver in 2020/21
Build equity capability internally and among our clinical advisory committees	<ul style="list-style-type: none">● Undertake a needs assessment with our clinical advisory network.
Track and monitor equity gaps in medicines use and other contributing factors, to identify trends and gaps across the health and disability system	<ul style="list-style-type: none">● Continue the implementation of our medicine access equity monitoring and outcomes framework.● Disseminate baseline measures report against the framework.● Engage with the health sector on the findings from the report.
Use research and data effectively to inform and shape policy and practice	<ul style="list-style-type: none">● Scope this work - examining possible areas where information would assist in producing actionable insights for Māori and Pacific.● Share evaluation findings from the medicine access equity projects supported in 2019/20.● Disseminate the Arthritis NZ/PHARMAC Gout Management Programme Evaluation.
Partnering with others to develop, scale and spread evidence-based programmes to address inequitable access to medicines, with a particular focus on gout, diabetes, cardiovascular disease, asthma and chronic obstructive pulmonary disease (COPD)	<ul style="list-style-type: none">● Plan and implement the phase 2 action plan of PHARMAC's Pacific Responsiveness Strategy.● Evaluate existing partnerships with Health Quality and Safety Commission and Arthritis New Zealand and plan for the next stage of the partnerships.



Strategic Priority: Data and Analytics

Whāinga Tōmua: Ngā raraunga me ngā tātaringa

We measure health outcomes and make evidence-informed decisions, using and making available data and insights from a wide range of sources.

What we want to achieve

The data we have, and use will be well governed and managed as a shared asset across the organisation

Our data and information products will be timely, high quality and accurate

We will move from monitoring transactional outputs, to focusing on outcomes and equipping staff with the skills, tools and data to enable this. In particular, better information about outcomes of medicines usage and equitable access will be available

As a principle, we will treat data about Māori as a taonga, incorporate Te Ao Māori and Māori experts in sense-making of the data and insights and communicate findings appropriately to Māori

Our data and analytics systems will be best fit and enterprise-strength, trusted and secure

We will develop our capability in the data space to be better positioned for the future

What we plan to deliver in 2020/21

- Roll out a new visual analytics tool across the organisation.
- Develop a set of data dashboards for internal use.
- Progress rebuilding our system for calculating pharmaceutical expenditure forecasts.
- Assess how we can measure our contribution to achieving better health outcomes for New Zealanders.



Strategic Priority: Public Understanding, Trust and Confidence

Whāinga Tōmua: Kia Mārama, kia Whakapono, kia Tū Māia te Iwi Whānui

We listen to the views of New Zealanders and we communicate clearly and simply.

What we want to achieve

We communicate well and understand the information people need and when they need it

We share the contribution PHARMAC is making to the health sector and everyday New Zealanders - the PHARMAC model is well understood and receives a high-level of external endorsement and support

We hold ourselves to account and publicly front issues

We listen, understand and respond to the needs of New Zealanders

PHARMAC makes better informed decisions by incorporating consumer voices

PHARMAC demonstrates a better understanding of the needs of the community, whānau and individuals

New Zealanders have higher levels of trust and confidence in PHARMAC

What we plan to deliver in 2020/21

- A redesigned website, with enhanced functionality and updated content.
- Develop a social media strategy to increase our social media presence.
- New style and writing guide implemented.
- Develop and implement guidelines for translating PHARMAC publications and other information.
- Develop plain English training for all staff.
- Strengthen the role of our Consumer Advice Committee (CAC).



Strategic Priority: Relationships and Partnerships

Whāinga Tōmua: Ngā Hononga me ngā Pātuitanga

We create strong and enduring partnerships across the health system and beyond.

What we want to achieve

Build our organisational capability and capacity to support and develop our relationships and partnerships

Our external relationships and partnerships are strengthened and help us achieve our strategic priorities and expand our influence

We have a joined-up approach across the sector for investing in medicines and medical devices and implementing funding decisions

We are upholding the partnership article of Te Tiriti

What we plan to deliver in 2020/21

- Undertake stakeholder mapping and develop an engagement strategy.
- Implement a regular stakeholder engagement survey and report on results.

People and Capability Strategy

He Rautaki hei Hāpai i te Tangata me Āna Mahi

Our people are engaged, supported and have the capabilities they need.

What we want to achieve

What we plan to deliver in 2020/21

Strengthening our Leadership

- Conduct a leadership needs assessment.
- Source and integrate training programmes.
- Clear leadership development plan in place and all people leaders are upskilled and acquire new skills when identified.
- Introduce a succession planning approach for all leadership roles and other critical organisational roles.

Enhance Diversity and Inclusion

- Establish an internal Diversity and Inclusion committee.
- Engage with providers to look at Kawa and Tikanga training.
- Ensure internal policies, programmes, and work environment reflect, and are appropriate to, the needs of our diverse workforce.

Develop Organisational Capability

- Undertake an initial capability audit.
- Identify critical current and future capability needs.
- Develop a capability plan.
- Develop fit-for-purpose capability management and workforce planning tools.

Build Employee Engagement

- Review PHARMAC's organisational values.
- Run pulse checks at 6 monthly intervals to measure current climate, employee engagement and identify any potential areas of concern.
- Review our Employee Value Proposition (EVP) activity, for example learning and development opportunities and flexible working practices etc.

Health and Wellbeing

- Continue to research, plan, organise, implement, and evaluate initiatives to enhance employee wellbeing, awareness, and engagement.
- Move to the SafePlus health and safety framework, that Worksafe has rolled out across government as best practice.
- Incorporate Te Ao Māori into our Health and Wellbeing programme by using the Te Whare Tapa Wha model to inform new Wellbeing initiatives.

Statement of performance expectations by output

Ngā putanga o te tauākī mō ngā mahi hei whakatutuki



This section sets out the outputs we are funded to provide. Outputs are the services we provide that are directly funded by the Crown.¹⁰ The information includes:

- the link between our impacts and our outputs;
- a brief explanation of what is intended to be achieved within each output; and
- an explanation of how performance under each output will be assessed, including the direction of the trend we are wanting to target.

Linking impacts to outputs

Performing our output activities well contributes to achieving our impacts. There is a ‘many to many’ relationship between the outputs we produce and our impact areas and not all aspects will apply equally to medicines and medical devices for 2020/21, however, the most direct relationships are highlighted below:

Impact area	Output	Linkage
Our investment choices enhance wellbeing	Making choices and managing expenditure and supply	We want to make the best investment choices so that New Zealanders can get the most health gain from the money we spend on their behalf. ¹¹ The savings we make are all reinvested to fund more medicines and medical devices, to enhance wellbeing for New Zealanders overall.
Medicines and medical devices are used appropriately, equitably and well	Support and inform good decisions and access and use	Funding medicines and medical devices is only one part of the story; we also need to make sure that New Zealanders get the best use out of those that are available. This means supporting clinicians to prescribe and dispense medicines and medical devices appropriately and working to improve patient knowledge of using them. It also means working with a range of partners to ensure that funded medicines are able to be accessed and used equitably, particularly for Māori, our partner under Te Tiriti.
We play a key role in an effective and equitable health system	Influence through policy, research and insights	Our policy work, research activities and provision of data and other insights support overall improvements in the cost-effectiveness of health spending and optimal use of medicines and medical devices across the health sector. We also contribute to the health system-level priority of achieving health equity.

Output 1: Making choices and managing expenditure and supply

What this output is intended to achieve

Making robust and fair pharmaceutical funding decisions, and related activities is key to achieving our statutory objective. PHARMAC achieves this by:

- managing the national budget decided by the Minister of Health, in consultation with DHBs, for all medicines use (whether in DHB hospitals or the community) through the CPB. This includes making funding decisions using the Factors for Consideration (FFC)¹² on new medicines, widening access, and making savings on existing medicines for reinvestment;
- making decisions about DHB hospital medical devices;
- managing funded access to a small range of treatments via panels of expert clinicians;
- managing the process to assess applications for individual patients to receive funded medicines that are not otherwise funded through the Pharmaceutical Schedule (exceptional circumstances);
- contracting with pharmaceutical suppliers; and
- taking action to mitigate medicines and medical devices supply issues.

How we will monitor our performance

Indicator	As measured by	Why is this important?	Target / trend 2020/21
Timeliness of funding decisions	Average time to assess and rank new applications	Efficiency measures for our core decision-making function. Contributes to Impacts: <i>Our investment choices enhance wellbeing and Medicines and medical devices are used appropriately, equitably, and well.</i>	↓
Timeliness of Exceptional Circumstances decisions	Percentage of decisions made within target of 10 working days		↑
Timeliness of PTAC and sub-committee records	Average time to publish the record		↓
Hitting the CPB	Meeting the CPB target	Measures our ability to manage the budget effectively. Contributes to Impacts: <i>Our investment choices enhance wellbeing and We play a key role in an effective and equitable health system.</i>	Yes/no

¹⁰ The Crown Entities Act 2004 requires PHARMAC to identify each reportable class of outputs for the financial year. No exemptions from reporting have been received from the Minister of Finance.

¹¹ We do not expect to start making funding decisions for hospital medical devices until after 2020/21, therefore our output activities in 2020/21 mainly focus on medicines.

¹² <https://www.pharmac.govt.nz/medicines/how-medicines-are-funded/factors-for-consideration/>

¹³ Please refer to page 8 for a detailed explanation of what the CPB is.



Indicator	As measured by	Why is this important?	Target / trend 2020/21
Anticipated value of our funding decisions	The average projected quality-adjusted-life-years (QALYs) per \$1 million for funding decisions we made during the year is higher than the average projected QALY per \$1 million for all remaining open applications	Indicates that we have invested in medicines that represent the best likely health outcomes.	Yes/no
Access to medicines compared to subsidy	Price, Volume, Mix index	Monitors the relationship between the number and variety of medicines funded, the total cost of medicines and the subsidies paid.	Volume and mix go up relative to the cost, while subsidies paid decline
Savings over time	Estimated savings on medicines spending (last 10 year's prices as baseline)	Estimates the value that PHARMAC has delivered for DHBs through its work.	
Environmental sustainability of pharmaceutical contracting approaches	Specific measure to be developed	Responds to Ministerial expectations of environmental sustainability and progression of actions that mitigate and adapt to the impacts of climate change.	New measure

Output 2: Support and inform good decisions and access and use

What this output is intended to achieve

PHARMAC has a legislative function to promote the responsible use of medicines - this is an essential part of achieving best health outcomes from the pharmaceuticals we invest in. We help to ensure that medicines are used when they are needed and not under- or over-used. To do this, we:

- consult on, communicate and explain our funding decisions;
- implement our funding decisions in a way that supports health professionals and patients to thoroughly understand the patient pathway; and
- implement population health programmes to improve equitable access and responsible use of medicines.



How we will monitor our performance

Indicator	As measured by	Why is this important?	Target / trend 2020/21
Consultations undertaken	Proportion of key pharmaceutical decisions consulted on for new proposals	Quantity measure that indicates how often we consult on key decisions.	100%
Reach and use of responsible use activities	Specific metrics to be developed during contract negotiation process with new responsible use provider	Quality measure for our flagship responsible use activity.	New measure

Output 3: Influence through policy, research and insights

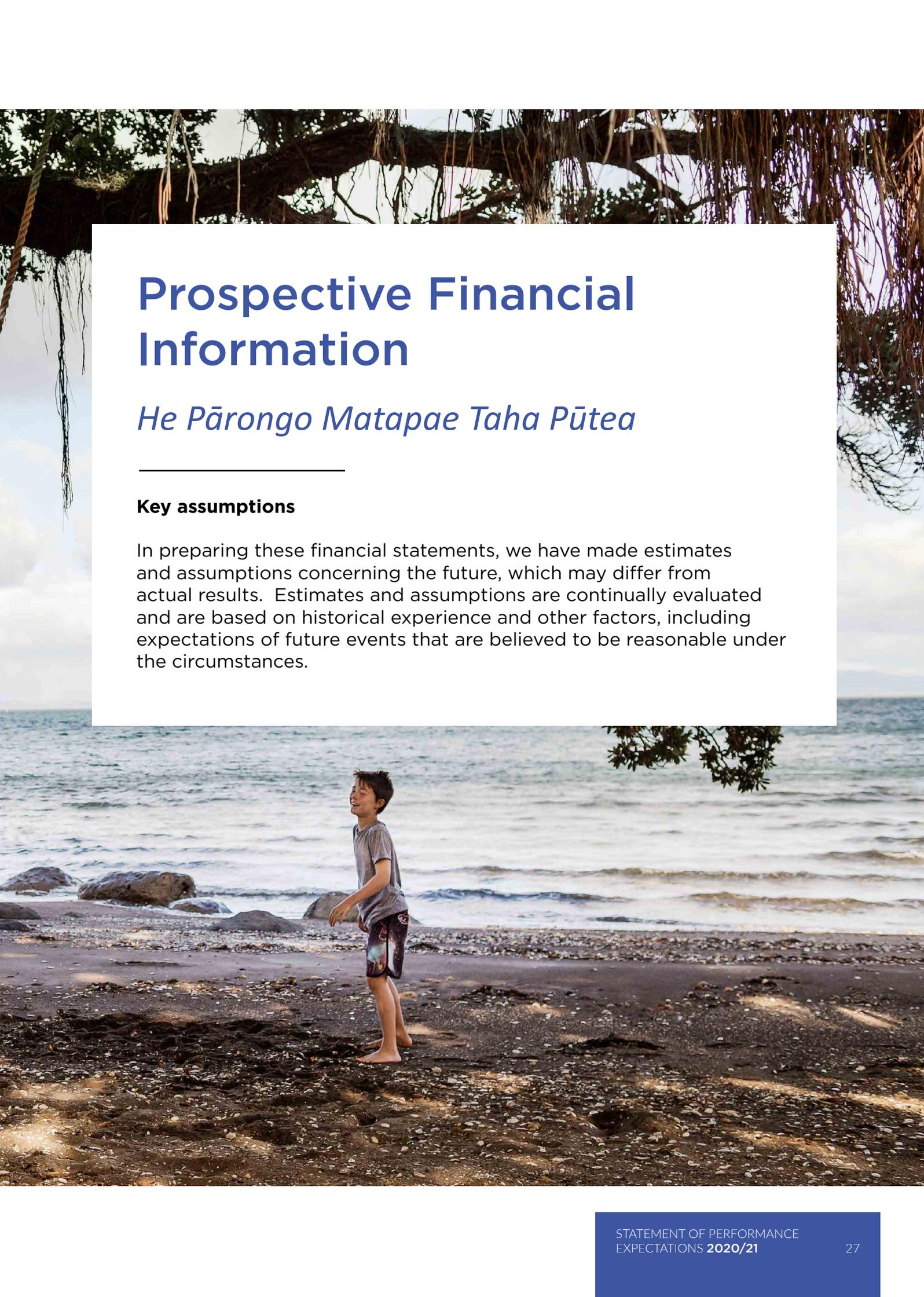
What we want to achieve

We provide specialist operational policy advice to Ministers and officials from a range of government agencies. We provide data on pharmaceutical use and expenditure to a range of parties including DHBs and we are working towards implementing reporting on equitable access to medicines. We are involved in supporting and undertaking research which supports our core function and aligns with our strategic priorities.

How we will monitor our performance

Indicator	As measured by	Why is this important?	Target / trend 2020/21
Quality of policy advice	Quality score from an independent Policy Quality benchmark	Enables benchmarking and quality improvement for our policy advice.	New measure
Contribution to research activities which support PHARMAC's core activities and strategic priorities participated in	Number and description of research projects funded and/or published (external and internal)	Quantity measure.	At least one research project





Prospective Financial Information

He Pārongo Matapae Taha Pūtea

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:

- Operating model – forecast revenue and expense are based on the current business operating model and policy settings.
- Operating revenue – forecast operating revenue is based on current Crown funding arrangements and reasonable assumptions about continued funding from DHBs at agreed levels, interest received at expected rates, secondment recoveries, and other miscellaneous recoveries.
- Expenditure increases generally – a number of expenditure budget lines have assumed cost increases primarily based on Cost Price Index (CPI) and due to changes in PHARMAC's functions including longer term activity to support the SOI as described earlier in this document.
- Personnel costs – expenditure on personnel has been increased by additional staffing and to address some inequities in pay rates. This is to enable PHARMAC to deliver on its expanded role and to maintain consistency with other state sector organisations, given PHARMAC's personnel are its key asset.
- Operating costs – as one-off expenditure on new software implementation has now ceased, material increases in operating costs are not expected in 2020/21.
- Capital expenditure – PHARMAC expects data and information costs to increasingly move to operating expenditure resulting in lower capital expenditure in future periods based on a replacement programme. Facility costs are based on current occupancy forecast and lease agreements.
- Prudential reserve – the level of PHARMAC's prudential reserve of \$5 million.
- Legal Risk Fund (LRF) – the balance of the LRF is assumed to remain the same in out-years based on an assumption that fund use is offset by replenishment (interest and transfer of any unspent litigation money in the operating budget).
- CPB Discretionary Pharmaceutical Fund (CPBDPF) – the CPBDPF refers to a dedicated reserve fund and associated processes that have a primary objective of managing the risk

associated with forecast variance (unpredictable CPB expenditure). A secondary objective is to enable funds to be retained across financial years, when available, to enable future investment decisions and so that any underspent funds are not lost to investment in pharmaceuticals. If the CPB is overspent by DHBs, the CPBDPF is used to make an offsetting payment to DHBs; if DHBs underspend the CPB, DHBs pay the CPBDPF the difference to replenish the CPBDPF. As a result, CPBDPF movements are presented in this document based on the forecast overall CPB expenditure variance to budget.

- Hospital Discretionary Pharmaceutical Fund (HDPF) - the objective of the HDPF is to support long-term management of DHB hospital expenditure and increase PHARMAC's capacity to make efficient budgeting decisions. The HDPF provides the ability to manage investments over financial years, and across Vote Health, for the overall benefit of the health and disability system.
- Capital charge - PHARMAC is currently exempt from the imposition of the Crown's capital charge.



Prospective Financial Statements

He Tauākī Matapae Taha Pūtea



Statement of Forecast Comprehensive Revenue and Expense

	Note	2020/21	2021/22	2022/23	2023/24
	1	\$000	\$000	\$000	\$000
Revenue					
Crown funding - baseline		25,262	25,262	25,262	25,262
DHB - Operating funding	2	1,990	1,990	1,990	1,990
DHB - DPF	3	-	-	-	-
Other					
Interest received - Operating		363	325	312	280
Interest received - Legal Risk Fund		206	205	205	205
Other revenue - Operating		130	130	130	130
Total revenue		27,951	27,912	27,899	27,867
Expenditure					
Personnel costs		16,080	15,963	16,190	16,558
Operating costs		12,378	10,809	10,985	12,229
Depreciation and amortisation costs		348	351	367	316
CPB Discretionary Pharmaceutical Fund		-	-	-	-
Hospital Discretionary Pharmaceutical Fund		-	-	-	-
Legal Risk Fund expense		250	250	250	250
Finance costs		-	-	-	-
Total expenditure		29,056	27,373	27,792	29,353
Net surplus / (deficit) for the period		(1,105)	539	107	(1,486)
Other comprehensive revenue		-	-	-	-
Total comprehensive revenue and expense		(1,105)	539	107	(1,486)

1. The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
2. DHB Operating Funding is for activities that DHBs have requested PHARMAC provide, including optimal use of pharmaceutical programmes and other miscellaneous national expenditure.
3. For 2020/21, we are forecasting that DHBs would not need to make a payment to replenish the CPBDPF.

Statement of Forecast Financial Position

	Note	2020/21	2021/22	2022/23	2023/24
	1	\$000	\$000	\$000	\$000
Public Equity					
Contribution capital		1,856	1,856	1,856	1,856
Retained earnings and reserves		7,891	8,475	8,627	7,185
Restricted reserves					
CPBDPF	2	19,492	19,492	19,492	19,492
HDPF		2,700	1,500	300	300
Legal Risk Fund		8,392	8,347	8,302	8,257
TOTAL PUBLIC EQUITY		40,331	39,670	38,577	37,090
Represented by:					
Current assets					
Cash and cash equivalents		1,047	927	891	911
Investments		10,200	11,000	11,300	9,900
Debtors and other receivables		170	170	170	170
Prepayments		300	300	300	300
Current assets associated with Restricted reserves					
Cash and cash equivalents - Legal Risk Fund		242	197	152	107
Investments - Legal Risk Fund		8,150	8,150	8,150	8,150
Investments - HDPF		2,700	1,500	300	300
CPBDPF monies into rebates account		19,492	19,492	19,492	19,492
Total current assets		42,301	41,736	40,755	39,330
Non-current assets					
Property, plant and equipment		648	560	452	390
Intangible Assets		60	52	48	48
Total non-current assets		708	612	500	438
Total assets		43,009	42,348	41,255	39,768
Current liabilities					
Creditors and other payables		1,200	1,200	1,200	1,200
Employee entitlements		980	980	980	980
Make Good Provision		-	-	-	328
GST Payable		170	170	170	170
Total current liabilities		2,350	2,350	2,350	2,678
Non - current liabilities					
Make Good Provision		328	328	328	-
Total liabilities		2,678	2,678	2,678	2,678
Net Assets		40,331	39,670	38,577	37,090

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

2. The CPBDPF forecast is linked to the CPB forecast.

Statement of Forecast Cash Flows

	Note	2020/21	2021/22	2022/23	2023/24
	1	\$000	\$000	\$000	\$000
CASH FLOWS - OPERATING ACTIVITIES					
Cash was provided from:					
Receipts from the Crown		25,262	25,262	25,262	25,262
DHBs Operating		1,990	1,990	1,990	1,990
DHB Discretionary Pharmaceutical Fund		-	-	-	-
Interest Operating		363	325	312	280
Interest Legal Risk Fund		206	205	205	205
Other Operating		130	130	130	130
		27,951	27,912	27,899	27,867
Cash was disbursed to:					
Legal Risk Fund expenses		(250)	(250)	(250)	(250)
CPBDPF expenses		-	-	-	-
CPBDPF deposited in rebates bank account		-	-	-	-
HDPF expenses		(1,200)	(1,200)	(1,200)	-
Payments to suppliers and employees		(28,458)	(26,772)	(27,175)	(28,787)
Goods and services tax (net)		-	-	-	-
		(29,908)	(28,222)	(28,625)	(29,037)
Net cash flows from operating activities		(1,957)	(310)	(726)	(1,170)
CASH FLOWS - OPERATING ACTIVITIES					
Purchase of property, plant and equipment		(215)	(215)	(215)	(215)
Purchase of intangible assets		(40)	(40)	(40)	(40)
Proceeds from the redemption of investments		2,354	400	900	1,400
Purchase of investments		-	-	-	-
Net cash flows from investing activities		2,099	145	645	1,145
Net increase/(decrease) in cash		142	(165)	(81)	(25)
Cash at the beginning of the year		1,147	1,289	1,124	1,043
Cash at the end of the year		1,289	1,124	1,043	1,018

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

Statement of Forecast Changes in Equity

	Note	2020/21	2021/22	2022/23	2023/24
	1	\$000	\$000	\$000	\$000
CONTRIBUTION CAPITAL					
Balance at 1 July		1,856	1,856	1,856	1,856
Balance at 30 June		1,856	1,856	1,856	1,856
RETAINED EARNINGS AND RESERVES					
Balance at 1 July		8,952	7,891	8,475	8,626
Net surplus/(deficit)		(1,105)	539	107	(1,486)
Net transfer from/(to) CPBDPF		-	-	-	-
Net transfer from/(to) HDPF		-	-	-	-
Net transfer from/(to) Legal Risk fund		44	45	45	45
Balance at 30 June		7,891	8,475	8,627	7,185
CPBDPF					
Balance at 1 July		19,492	19,492	19,492	19,492
Add: Revenue received transferred from retained earnings		-	-	-	-
Less: Pharmaceutical expenses transferred to retained earnings		-	-	-	-
Balance at 30 June		19,492	19,492	19,492	19,492
HDPF					
Balance at 1 July		3,900	2,700	1,500	300
Add: Revenue received transferred from retained earnings		-	-	-	-
Less: Hospital expenses incurred		(1,200)	(1,200)	(1,200)	-
Balance at 30 June		2,700	1,500	300	300
LEGAL RISK FUND					
Balance at 1 July		8,436	8,392	8,347	8,302
Add: Revenue received transferred from retained earnings and unused litigation budget		206	205	205	205
Less: Litigation expenses transferred to retained earnings		(250)	(250)	(250)	(250)
Balance at 30 June		8,392	8,347	8,302	8,257
TOTAL PUBLIC EQUITY		40,331	39,670	38,577	37,090

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

Reconciliation of Forecast Net Surplus to Cash Flow from Operating Activities

Note	2020/21	2021/22	2022/23	2023/24
1	\$000	\$000	\$000	\$000
Net operating surplus/(deficit)	(1,105)	539	107	(1,486)
Add non-cash items				
Make good provision - discounted value recognised as expense	-	-	-	-
Depreciation and amortisation	348	351	367	316
Total non-cash items	348	351	367	316
Add/(less) movements in working capital items:				
Decrease/(increase) in debtors and other receivables	-	-	-	-
Decrease/(increase) in prepayments	-	-	-	-
Increase/(decrease) in creditors and other payables	-	-	-	-
Increase/(decrease) in employee entitlements	-	-	-	-
Increase/(decrease) in make good provision	-	-	-	328
Decrease/(increase) in net GST	-	-	-	-
Net movements in working capital	-	-	-	328
Other movements				
CPBDPF monies released from/(deposited in) rebates bank account	-	-	-	-
HDPF expenses incurred	(1,200)	(1,200)	(1,200)	-
Increase/(decrease) in non-current make good provision	-	-	-	(328)
Total other movements	(1,200)	(1,200)	(1,200)	(328)
Net cash flows from operating activities	(1,957)	(310)	(726)	(1,170)

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

Statement of Forecast Comprehensive Revenue and Expense, by Output Class

	Funding MOH \$000	Funding DHB \$000	Funding Other \$000	Output expenditure \$000	Net surplus/ (deficit) \$000
2020/21					
Making choices and managing expenditure and supply	12,631	-	262	(12,211)	682
Support and inform good decisions and access and use	8,842	1,990	225	(11,050)	7
Influence through policy, research and insights	3,789	-	212	(5,795)	(1,794)
Total	25,262	1,990	699	(29,056)	(1,105)
2021/22					
Making choices and managing expenditure and supply	12,631	-	245	(11,994)	882
Support and inform good decisions and access and use	8,842	1,990	209	(9,598)	1,443
Influence through policy, research and insights	3,789	-	206	(5,781)	(1,786)
Total	25,262	1,990	660	(27,373)	539
2022/23					
Making choices and managing expenditure and supply	12,631	-	239	(12,034)	836
Support and inform good decisions and access and use	8,842	1,990	204	(9,787)	1,249
Influence through policy, research and insights	3,789	-	204	(5,971)	(1,978)
Total	25,262	1,990	647	(27,792)	107
2023/24					
Making choices and managing expenditure and supply	12,631	-	224	(12,091)	764
Support and inform good decisions and access and use	8,842	1,990	192	(11,252)	(228)
Influence through policy, research and insights	3,789	-	199	(6,010)	(2,022)
Total	25,262	1,990	615	(29,353)	(1,486)

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

Appendix One:

Statement of Accounting Policies

Reporting entity

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

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

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

Basis of preparation

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

Statement of compliance

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

Presentation currency and rounding

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

Summary of significant accounting policies

Revenue

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

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

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

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

Financial instruments

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

Cash and cash equivalents

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

Receivables

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

Investments

Bank term deposits

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

Property, plant and equipment

Property, plant and equipment consists of leasehold improvements, Electronic Data Processing (EDP) equipment, and furniture and office equipment. Property, plant and equipment are shown at cost less accumulated depreciation and impairment losses. Any write-down of an item to its recoverable amount is recognised in the statement of forecast comprehensive revenue and expense.

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

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

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

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



Intangible assets

- *Software acquisition and development* – Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

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

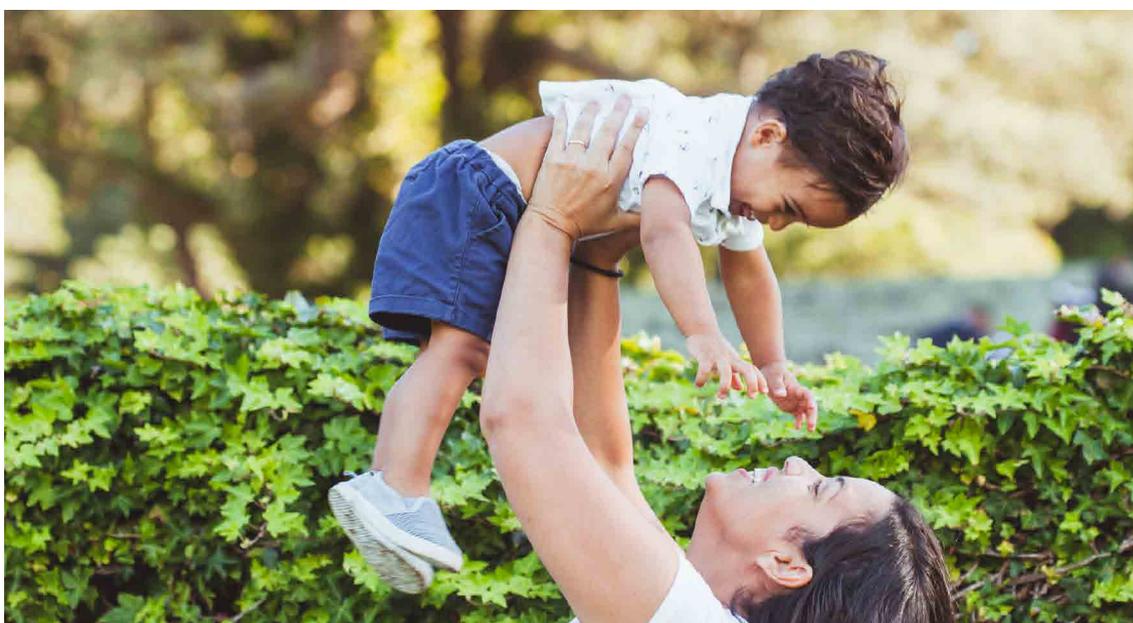
Staff training costs are recognised as an expense when incurred. Costs associated with maintaining computer software are recognised as an expense when incurred. Costs associated with the development and maintenance of PHARMAC's website are recognised as an expense when incurred.

- *Amortisation* – The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit. The useful life of software (the only identified intangible asset) and associated depreciation rate have been estimated as follows:

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

Payables

- Short term payables are recorded at their face value.





Employment entitlements

Employee entitlements that are due to be settled within 12 months, after the end of the period in which the employee renders the related service are measured, based on accrued entitlements at current rates of pay. These include salaries and wages accrued to balance date, and annual leave earned but not yet taken at balance date expected to be settled within 12 months. PHARMAC recognises a liability and an expense for at-risk provisions where it is contractually bound to pay them.

Superannuation schemes

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

Provisions

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

Public equity

Public equity is the Crown’s investment in PHARMAC and is measured as the difference between total assets and total liabilities. Public equity is classified as contribution capital, retained earnings and reserves, Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund, Hospital Discretionary Pharmaceutical Fund, and Legal Risk Fund.

Goods and Services Tax (GST)

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

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

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

Income Tax

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

Cost Allocation

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

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

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

Critical accounting estimates and assumptions

In preparing these financial statements PHARMAC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are that the value of PHARMAC's Discretionary Pharmaceutical Fund is dependent on the value on the final estimate of the DHBs' Combined Pharmaceutical Budget.

Critical judgements in applying PHARMAC's accounting policies

Management has not exercised any critical judgements in applying PHARMAC's accounting policies for the years ended 30 June 2020 – 30 June 2024.





PHARMAC
TE PĀTAKA WHAIORANGA

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