

# STATEMENT OF PERFORMANCE EXPECTATIONS 2019/20



**PHARMAC**  
TE PĀTAKA WHAIORANGA



**PHARMAC**

Pharmaceutical Management Agency

**Statement of Performance  
Expectations**

**2019/20**



**Steve Maharey**  
Chair  
31 May 2019



**Jan White**  
Deputy Chair  
31 May 2019

*Presented to the House of Representatives pursuant to Section 149L(3) of the Crown Entities Act 2004*

© Pharmaceutical Management Agency



ISSN 2382-0780 (Print)  
ISSN 2382-0799 (Online)

This work is licensed under the Creative Commons Attribution 4.0 International License. You are free to copy, distribute and adapt it, as long as you attribute the work to PHARMAC and abide by the other licence terms. To view a copy of this license, visit <http://creativecommons.org/licenses/by/4.0/>

# Table of contents

- Our role and functions ..... 1**
  - Accountability ..... 2
  - Governance ..... 2
  - Reporting ..... 2
  - Output classes ..... 2
- Minister’s expectations ..... 3**
- Fitting it all together – linking our outputs to impacts, health system outcomes and Government expectations ..... 5**
- PHARMAC’S ACTIVITIES ..... 6**
  - WHAT THE CLASSES OF OUTPUTS ARE INTENDED TO ACHIEVE ..... 6
  - OUTPUT CLASS 1 – MAKING DECISIONS ABOUT PHARMACEUTICALS ..... 6
    - Output 1.1 Combined pharmaceuticals ..... 7
    - Output 1.2 Hospital medical devices ..... 7
    - Output 1.3 Special access panels ..... 7
    - Output 1.4 Named Patient Pharmaceutical Assessment (NPPA) ..... 8
    - How the performance of output class 1 will be assessed: ..... 9
  - OUTPUT CLASS 2 – INFLUENCING PHARMACEUTICAL ACCESS AND USE ..... 10
    - Output 2.1 Sharing information/explaining decisions ..... 10
    - Output 2.2 Population health programmes ..... 11
    - Output 2.3 Equitable access to funded medicines ..... 11
    - Output 2.4 Supply management ..... 11
    - How the performance of output class 2 will be assessed: ..... 12
  - OUTPUT CLASS 3 – POLICY, ADVICE AND SUPPORT ..... 16
    - Output 3.1 Advice and support services to the health sector ..... 16
    - Output 3.2 Policy advice ..... 16
    - Output 3.3 Contracts and fund management ..... 16
    - How the performance of Output class 3 will be assessed: ..... 17
- PROSPECTIVE FINANCIAL INFORMATION ..... 18**
  - KEY ASSUMPTIONS ..... 18
  - PROSPECTIVE FINANCIAL STATEMENTS ..... 19
- APPENDIX 1 – STATEMENT OF ACCOUNTING POLICIES ..... 25**

## Our role and functions

PHARMAC is a Crown entity, with the statutory objective “to secure for eligible people in need of pharmaceuticals<sup>1</sup>, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided”.<sup>2</sup>

PHARMAC's role is to achieve the best health outcomes for New Zealanders by:

- making sure the medicines and devices already funded stay available, and
- deciding which new medicines have the highest priority for new funding.

To achieve our statutory objective, PHARMAC's functions are to:

- Maintain and manage medicines and medical devices consistently across New Zealand:

New Zealanders have access to a wide range of medicines and medical devices either free of charge or for only a small contribution towards their cost. At PHARMAC, our main role is to increase the access New Zealanders have to effective medicines, including all medicines prescribed to the public and dispensed from community pharmacies and those used in DHB hospitals. In future we will also decide what medical devices the Government funds. Prescribers and patients get the same access to the same medicines and devices, no matter where they live.

- Consider requests for medicines that aren't currently funded for patients in exceptional circumstances:

PHARMAC may approve funding a medicine to meet an individual's health needs, in exceptional circumstances. This might be because they need 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. In these circumstances the person's doctor can make an application to PHARMAC for a Named Patient Pharmaceutical Assessment (NPPA).

- Promote the responsible use of medicines:

PHARMAC promotes the responsible use of medicines in New Zealand, making sure 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 regularly hold seminars for health professionals and run public information campaigns.

- Undertake research:

PHARMAC wants to understand the difference our decisions make for New Zealanders, and one way we do this is through research. We do this utilising our own research, supporting and partnering with researchers and organisations, and funding others to undertake research.

---

<sup>1</sup> 'Pharmaceuticals' are medicines, vaccines, therapeutic medical devices, related products or related things.

<sup>2</sup> Section 47(a) New Zealand Public Health and Disability Act 2000.

## Accountability

PHARMAC is accountable to the Minister of Health, who, on behalf of the Crown, is accountable to Parliament for our performance. The Minister of Health sets the level of the Combined Pharmaceutical Budget (CPB) – the national budget for all medicines used in the community or in DHB hospitals. The Ministry of Health monitors PHARMAC’s performance on behalf of the Minister of Health.

## Governance

The Minister of Health appoints PHARMAC’s Board, which has all powers necessary for the governance and management of PHARMAC. All decisions about what we do are made by, or under the authority of, the Board. The Board is responsible for agreeing outputs with the Minister of Health and ensuring PHARMAC meets expectations.

In addition to the work undertaken by PHARMAC itself, the Board takes objective advice from two statutory advisory committees: the Pharmacology and Therapeutics Advisory Committee (PTAC) and its specialty subcommittees, and the Consumer Advisory Committee (CAC) – a committee of people experienced in consumer issues.<sup>3</sup> The Board also has an Audit and Forecast Committee and Health and Safety Committee (comprised of Board members), which assist the Board on relevant issues.

## Reporting

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

## Output classes

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

Output class	Description	Outputs
1. Making decisions about medicines and medical devices <sup>4</sup>	Work that leads to new medicines and medical devices being funded and money being saved on older medicines.	1.1. Combined pharmaceuticals <sup>5</sup> 1.2. Hospital medical devices 1.3. Special access panels 1.4. Named Patient Pharmaceutical Assessment
2. Influencing medicines access and use	Promoting access to and the optimal use of medicines and ensuring decisions are understood.	2.1. Sharing information/explaining decisions 2.2. Population health programmes 2.3. Equitable access to funded medicines 2.4. Supply management
3. Providing policy advice and support	Assisting the cohesiveness of the broader health sector.	3.1. Advice and support services to the health sector 3.2. Policy advice 3.3. Contracts and fund management 3.4. Research

<sup>3</sup> 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.

<sup>4</sup> i.e., 'Making decisions about pharmaceuticals' – 'Pharmaceuticals' are medicines, vaccines, medical devices, related products, or related things.

<sup>5</sup> Includes all medicines (whether dispensed in a hospital or community pharmacy), vaccines and some blood products.

## Minister's expectations

This Statement of Performance Expectations is guided by the Minister of Health's annual Letter of Expectations to PHARMAC dated 13 March 2019.

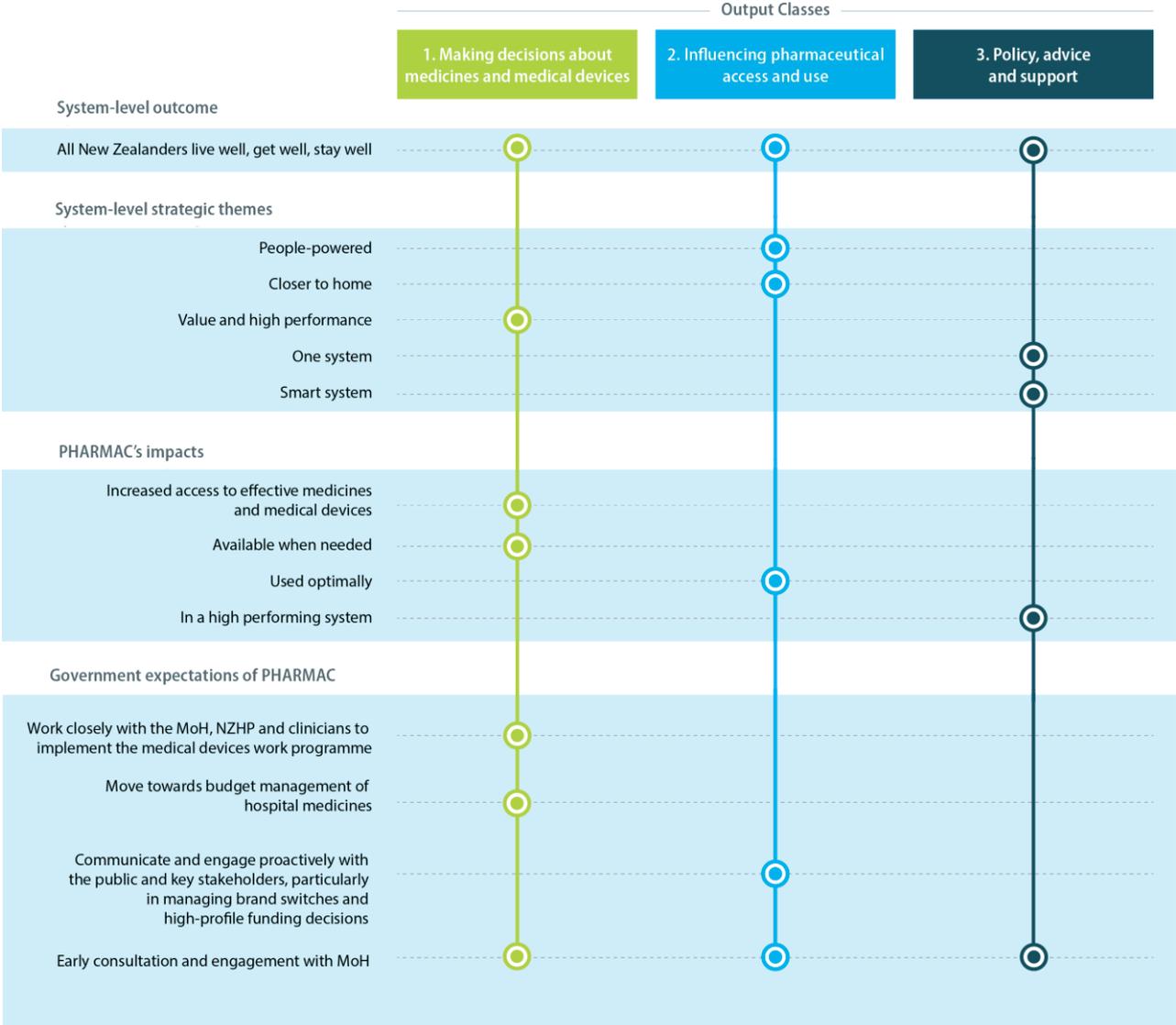
General expectations for 2019/20 set by the Minister of Health are to:

- focus on achieving equity for Māori and meeting Treaty of Waitangi obligations;
- progress towards achieving equity with regards to the supply of medicines, and to consider its implications for access, especially for Māori, Pacific peoples, and other population groups experiencing poorer health outcomes;
- ensure the Board is highly engaged and that the Chief Executive and Management is held to account for improved performance, particularly in relation to improving equity;
- continue to support DHBs by achieving value for money in the purchasing of medicines and medical devices; and
- work closely with the Ministry of Health on improving the system level understanding of demographic change, the demand for services, and an evidence base for health system decisions.

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

Expectation	Comment
<p>Work closely with the Ministry of Health and DHBs to support the successful delivery of the National Health Finance, Procurement and Information Management System (FPIM) business case. Continue to contribute to the overall success of the programme should Cabinet decide to proceed with it.</p>	<p>PHARMAC is involved in the cross-sector governance and operational groups for FPIM and will continue to work with the Ministry of Health and DHBs to support delivery of the programme.</p> <p><i>Output class 3</i> </p>
<p>Prioritise planned internal work on improving the transparency of our processes, and development of our communication with the public and stakeholders.</p>	<p>PHARMAC has a work plan for 2019/20 aimed at delivering faster, simpler and clearer decisions, and improving how we engage with, and include, consumers in these processes.</p> <p><i>Output class 2</i> </p>
<p>Continue work to improve access to medicines for people with rare disorders and be responsive and considered in this area.</p>	<p>PHARMAC will continue its work programme for medicines for rare disorders, following on from the introduction of dedicated policy settings in 2018, and the commercial process run in 2018/19. We continue to develop and build our engagement with consumer groups, and suppliers of medicines for rare disorders.</p> <p><i>Output class 1</i> </p>
<p>Actively engage with the Ministry of Health on the development of a new Cancer Action Plan; specifically ensuring the plan is informed by an excellent understanding of the challenges and opportunities within cancer medicines.</p>	<p>PHARMAC will collaborate with the Ministry of Health on the development of the new Cancer Action Plan. PHARMAC is aware of the importance of considering the funding and delivery of cancer medicines as part of the broader health system and will apply this lens to our work with the Ministry of Health.</p> <p><i>Output class 3</i> </p>
<p>Continue to contribute to the Government's priority to improve environmental sustainability and undertake further work that leads to specific actions. Work collectively with the Ministry of Health in this area.</p>	<p>PHARMAC will continue to develop our position on environmental sustainability, and specifically sustainable procurement. We will work collectively with the Ministry of Health as we progress this work.</p> <p><i>Output class 3</i> </p>

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



# PHARMAC'S ACTIVITIES

## What the classes of outputs are intended to achieve

Our main activities for the financial year 1 July 2019 to 30 June 2020 are set out below. The output classes below relate to PHARMAC's impacts, as determined by PHARMAC's Statement of Intent 2017/18 – 2020/21. Expenditure relating to the output classes is from PHARMAC's operational budget, not the CPB.

Each output class has a series of outputs. Not all outputs have associated measures (as detailed in the tables on subsequent pages) reported through the SPE. Measures are not required where the class of outputs is not funded (in whole or part) by the Crown, or through other mechanisms as outlined in section 136(1) of the Crown Entities Act.<sup>6</sup>

## Output class 1 – Making decisions about medicines and medical devices

Making robust and fair funding decisions 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 the community or DHB hospitals) through the CPB; and
- making decisions about hospital medical devices.

PHARMAC's Operating Policies and Procedures (OPP) inform the way we work. Our processes need to be as efficient and effective as possible, because good quality processes increase the likelihood of making the best possible decisions.

PHARMAC takes into account a broad range of factors to make robust funding decisions in the New Zealand context. PHARMAC's decision-making framework, which is used throughout the assessment process, is called the Factors for Consideration (The Factors). The Factors set out the things we take into account when making pharmaceutical funding decisions.

The Factors cover four dimensions: need, health benefits, costs and savings, and suitability. Within each of these we consider impacts of the decision on the person, their family, whānau and wider society, and the health system (including the health workforce). PHARMAC staff can compare potential pharmaceutical investments against one another using the Factors, to determine which will ultimately result in best health outcomes.

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

---

<sup>6</sup> Reportable class of outputs is defined in section 136(1) as a class of outputs that the Crown entity proposes to supply in the financial year and that is directly funded (in whole or in part) by the Crown in accordance with an appropriation for the purpose, or by grants distributed under any Act, or by levies, fees, or charges prescribed by or under any Act and which has not been exempted from reporting for the financial year by the Minister of Finance under section 149F of the CE act.

Stakeholder voices are important. Consumers, clinicians and industry representatives are able to track progress of funding applications being considered through PHARMAC's assessment process through our online Application Tracker and contribute to consultations on proposed changes to funded pharmaceuticals (i.e., new listings or widened access). In 2019 improvements are being made to our Application Tracker to make it easier to track progress of current funding applications and to provide more information through this mechanism. PHARMAC is also continuing work to improve how consumer voices are incorporated into our funding processes.

### ***Output 1.1 Combined pharmaceuticals***

Sections B to I of the Pharmaceutical Schedule (the Schedule) contain a list of medicines funded through the CPB that all New Zealanders can access, via DHB hospitals and in the community. The Schedule also includes vaccines, haemophilia treatments, and a small number of medical devices used in the community, such as blood glucose meters and intra-uterine devices.

PHARMAC makes savings to the ongoing cost of funded medicines to enable future volume growth and new medicines or widened access to currently subsidised medicines (and some devices) to be funded.

### ***Output 1.2 Hospital medical devices***

Section H of the Schedule also includes the contracts and agreements we've negotiated for hospital medical devices. As of 1 June 2019, these agreements cover approximately \$238 million worth of annual DHB expenditure. During 2019/20, we will continue to work on the national procurement of hospital medical devices (where DHBs remain free to choose whether or not to use those contracted suppliers) and the implementation of market share agreements (where for some products DHBs can only choose suppliers from within a closed list) ahead of transition to full medical device management for DHB hospitals. By mid 2020, most medical devices used in DHB hospitals will be included in the Schedule. PHARMAC will be undertaking consultation with DHBs and other sector stakeholders on the transition to full medical device management during 2019.

### ***Output 1.3 Special access panels***

Some pharmaceuticals are expensive or require nationally consistent assessment of clinical criteria to determine funded access and to help ensure they are appropriately targeted. PHARMAC manages panels of expert clinicians who help determine whether or not patients meet the clinical criteria for funding (set by PHARMAC). Panels are currently maintained for managing treatments of:

- Cystic fibrosis;
- Gaucher disease;
- Haemophilia (only for exceptional circumstances brands; Panel proposed for disestablishment);
- Hepatitis C (only for exceptions to the open listed brand);
- Multiple sclerosis; and
- Pulmonary arterial hypertension.

### ***Output 1.4 Named Patient Pharmaceutical Assessment (NPPA)***

The NPPA Policy sits within PHARMAC's broader Exceptional Circumstances Framework. The Exceptional Circumstances Framework provides a pathway for making funding decisions for individuals that fall outside of the Pharmaceutical Schedule funding process. The Named Patient Pharmaceutical Assessment (NPPA) Policy is the main part of the Framework and is accessed when a prescriber wants to use a treatment that is not on the Pharmaceutical Schedule (either at all or for their patient's clinical circumstances).

The NPPA Policy has three core principles that must be met for an application to be considered for funding:

1. Provides a pathway to consider those whose clinical circumstances cannot be met through the Pharmaceutical Schedule at a given point in time.
2. Complements the Pharmaceutical Schedule and the Schedule decision-making process.
3. Is designed for individual assessment.

Each application is assessed against the Factors for Consideration, once PHARMAC considers the principles to have been met.

The Exceptional Circumstances Framework also includes Special Authority waivers and Hospital Medicine restriction waivers. Some pharmaceuticals listed in the Pharmaceutical Schedule require conditions to be met before funded access will be granted. These conditions generally ensure that funded access is available to those patients who would benefit most from treatment. The waivers are applied at PHARMAC's discretion, where a person's clinical circumstances may meet the spirit or intent of the conditions within the Schedule, but not meet the technical requirements.

**How the performance of output class 1 will be assessed:**

Impact	Output	Measure	Rationale	2017/18 result	2018/19 estimate	2019/20 target
Increased access to effective medicines and medical devices	1.1 Combined pharmaceuticals decisions	Savings are made to meet cost of growth and to enable new investments.	Savings need to be generated every year to meet the cost of growth in demand for funded pharmaceuticals. We also need to generate additional savings so that we can fund new medicines or provide funded medicines to more people by widening access to currently subsidised medicines.	\$59 million in savings was generated to meet the cost of future volume growth and allow for new investments.	Savings are generated to meet the cost of volume growth and allow for new investments. PHARMAC will make investment decisions that will add new medicines to the Pharmaceutical Schedule and will widen access to currently subsidised medicines.	Savings are generated to meet the cost of future volume growth and allow for new investments. PHARMAC will make new investments, meaning funding new medicines and/or widening access to currently subsidised medicines.
	1.2 Hospital medical devices	The total value and number of hospital medical devices under national contracts increases.	We want to continue increasing the number of hospital medical devices under contract, and the amount of expenditure we have contracts for. This provides an indication of our progress towards full budget management and an indication of the savings to DHBs we will be able to generate as our work progresses.	The annual spend on hospital medical devices under contract has increased by an estimated \$77 million. We listed 31,791 new medical devices in 2017/18. The total number of hospital medical devices listed is 77,698.	The total value and number of hospital medical devices under contract increases.	The total value and number of hospital medical devices under contract increases.

## **Output class 2 – Influencing medicines access and use**

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

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

PHARMAC recognises that Māori communities, and some other sections of society, are not currently achieving equitable access to medicines and that this has an impact on their overall health outcomes. PHARMAC is committed to meeting our obligations under the Treaty of Waitangi and to improving health outcomes for Māori. PHARMAC's Māori responsiveness strategy, Te Whaioranga, and our medicines access equity work programme are key ways in which we meet our Treaty obligations. Under Te Whaioranga we deliver a range of community-based programmes with Māori health partners to support Māori to improve access to and use of medicines. We include Māori world views in our work through the Hauora Arotahi - the PHARMAC Māori health areas of focus. Our access equity work has a particularly strong focus on addressing the variation in medicines access between Maori and others.

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

PHARMAC works with other health sector agencies to maximise the value of the responsible use programmes we develop. We also work closely with DHBs and their agents to support their uptake of national contracts for hospital medical devices.

### ***Output 2.1 Sharing information/explaining decisions***

We consider feedback from prescribers and pharmacists on potential Schedule changes through our consultation processes and regularly meet with health professional groups to obtain their input. We also work alongside health professional groups and consumer groups to help implement funding decisions and support other responsible use activities, where appropriate. A responsible use advisory group also provides advice to PHARMAC on the direction and content of materials produced under PHARMAC's responsible use contracts to promote the responsible use of pharmaceuticals.

We maintain regular contact with patient and consumer groups and engage in dialogue on medicine funding, hospital medical devices, and other issues. To make sure we are asking the right questions of the right people, we seek advice from our statutory committee, the Consumer Advisory Committee. From time to time, PHARMAC also undertakes engagement and consultation activities with DHBs and the community through a range of measures including regional and national forums, online and social media.

To explain our decisions, we send information to health professionals to assist them in supporting patients with the introduction of new medicines or brand changes. For consumers, we provide information on our website, and we respond to queries through various channels including our 0800 line, and email and social media channels. We communicate with DHB procurement teams on the availability of national contracts for hospital medical devices.

As well as notifying people about our decisions, we work to implement our decisions in a way that supports both health professionals and patients. This can be through targeted provision of clinical advice, working closely with DHB implementation teams, or through more widespread provision of information about the changes.

### ***Output 2.2 Population health programmes***

Our population health programmes are developed in response to evidence-based analysis and identified unmet need and aim to improve access and promote responsible use of medicines. We are working to better understand the barriers that create inequitable access to, and uptake of medicines. This will allow us to develop programmes alongside health sector partners to address and eliminate these inequities and meet our obligations as a Treaty partner.

Our health education programmes, such as He Rongoā Pai He Oranga Whānau, support responsible use of medicines, and sometimes implementation of specific medicines decisions, by providing hauora Māori kaimahi with clinical information to pass on to whānau. We also promote responsible medicines use directly to population groups through public events such as Pasifika Fest and Te Matatini Kapa Haka Festival.

We share information and promote evidence-based prescribing to health professionals through our PHARMAC seminar series and by contracting for the provision of high-quality educational resources to promote appropriate prescribing.

### ***Output 2.3 Equitable access to funded medicines***

PHARMAC has a bold goal to eliminate inequities in access to medicines by 2025. PHARMAC's immediate focus is on understanding the underlying reasons that result in inequitable access to funded medicines, starting with population groups that we know face health inequities. PHARMAC is developing an outcomes framework that will include tangible measures to track our progress and will guide our access equity work programme. This will be incorporated into our new performance framework and Statement of Intent from 2020. Some baseline measures are currently being developed.

### ***Output 2.4 Supply management***

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

Currently, PHARMAC also manages the direct distribution of some medicines to patients. PHARMAC regularly considers whether medicines it distributes can be moved into the regular supply chain, through community pharmacies or primary care.

**How the performance of output class 2 will be assessed:**

Impact	Output	Measure	Rationale	2017/18 result	2018/19 estimate	2019/20 target
<p>Medicines and medical devices are used optimally</p>	<p>2.1 Sharing information and explaining decisions</p>	<p>PHARMAC's engagement with DHB hospitals contributes to effective implementation of changes to hospital medicines and medical devices, and the optimal use of these pharmaceuticals.</p>	<p>Effective engagement with DHBs on changes to medicines and medical devices in DHB hospitals contributes to PHARMAC's function of ensuring pharmaceuticals are used optimally.</p>	<p>All DHBs working in medical device procurement and implementation for wound care participated via either a workshop, survey and/or interview on a review of the move to market share contracts for these products. Results from this post-implementation review were shared with DHBs in late June 2018.</p> <p>All DHBs affected by changes to approximately 80 intravenous fluids and irrigation solution (bulk fluids) were provided with resources to support the changes including spreadsheets of product codes and supplier information, listings dates, and product information summaries including photos of the new products.</p>	<p>PHARMAC engages with all DHBs or agents acting on their behalf on implementing hospital medical device national contracts. Feedback from the engagement contributes to implementation activity as appropriate.</p> <p>PHARMAC engages all relevant DHB hospital services to support hospital medicine changes. Feedback from the engagement contributes to implementation activity as appropriate.</p> <p>[measure revised from 2018/19]</p>	<p>PHARMAC engages with all DHBs or agents acting on their behalf on implementing hospital medical device national contracts. Feedback from the engagement contributes to implementation activity as appropriate.</p> <p>PHARMAC engages all relevant DHB hospital services to support hospital medicine changes. Feedback from the engagement contributes to implementation activity as appropriate.</p>

Impact	Output	Measure	Rationale	2017/18 result	2018/19 estimate	2019/20 target
		<p>Survey shows primary care organisations and primary care representative bodies value their relationships with PHARMAC.</p> <p>Relationships with primary care organisations have supported PHARMAC in our optimal use activity.</p>	<p>Ensuring PHARMAC continues to develop and establish relationships that provide value-add to PHARMAC and primary care, will support our transactional and responsible use activity.</p>	[new measure for 2019/20]	[new measure for 2019/20]	<p>Primary care organisations will value their relationship with PHARMAC as evident from the results of the survey completed with primary care stakeholders before the end of the financial year.</p> <p>PHARMAC will have a number of examples of where relationships with primary care has effectively supported our optimal use activity.</p>
		<p>Improvements to the transparency of PHARMAC's processes, including how PHARMAC receives and communicates information about medicine funding applications.</p>	<p>It is important that the public understand our processes and how we make decisions. We recognise the importance of providing opportunities and support for consumers to make submissions on funding applications and to engage with our decision-making processes.</p> <p>We also consider it important to provide better certainty to people about what medicines may or may not be funded, by undertaking a process, including consultation with interested parties, to close medicine funding applications that aren't being actively considered.</p> <p>PHARMAC has taken steps to reduce the time taken for records of clinical advisory meetings to be published. This is an important element of becoming more transparent and open. Over time, we expect to improve this timing further.</p>	[new measure for 2019/20]	[new measure for 2019/20]	<p>PHARMAC will roll out a new online application and tracking tool, enabling people to more easily track progress of medicine funding applications.</p> <p>PHARMAC will seek feedback and input from stakeholders on the development of the new application tool and take this feedback into account.</p> <p>PHARMAC will complete the initial round of decisions on medicine funding applications that aren't being actively considered and will establish an ongoing process for this work.</p> <p>PHARMAC will publish records for 70% of clinical advisory committees within 14 weeks of the meetings.</p>

Impact	Output	Measure	Rationale	2017/18 result	2018/19 estimate	2019/20 target
		Survey of attendees at a PHARMAC seminar show a positive professional change in optimal use behaviour as a result of attendance.	Assessing whether our PHARMAC seminars have a positive effect in improving health professionals' knowledge and behaviour will help us to determine whether the seminars continue to have an impact in the optimal use of pharmaceuticals.	Two seminars for the last 2017/18 quarter have been surveyed. An average of 87.5 percent of survey respondents had made changes as a result of attending PHARMAC seminars.	Responses to the survey show at least 80 percent have made positive changes as a result of attendance.	Responses to the survey show at least 80 percent have made positive changes as a result of attendance.
	2.2 Population health programmes	Medicines use community health programmes are delivered to a range of health and community workers, particularly focusing on areas where health need is high.	Whānau Ora Collectives (WOCs) and Māori community health networks are best-placed to assess the needs of their communities for knowledge of medicines relating to Hauora Arotahi - the PHARMAC Māori health areas of focus.  WOCs and Māori community health networks run the He Rongoā Pai, He Oranga Whānau <sup>7</sup> programme (HRPHOW) on behalf of PHARMAC.	Community based delivery of programmes has occurred in over two-thirds of all WOC partner areas. The number of WOC-PHARMAC partners has increased from 11 to 15.	Community-based delivery of programmes will occur in three-quarters (12) of all WOC partner areas and the number of WOC partners increases.  WOC led HRPHOW programmes will be facilitated in geographical areas where there are high levels of health need.	Community-based delivery of programmes will occur in all WOC partner areas. WOC led HRPHOW programmes will be facilitated in geographical areas where there are high levels of health need.
		Engagement by primary health care professionals with responsible use materials developed by PHARMAC service providers.	PHARMAC contracts for the delivery of responsible use materials that focus on key priority areas as identified by PHARMAC and primary care representatives.	[new measure for 2019/20]	PHARMAC will engage with service providers to embed reporting requirements for current responsible use contracts to measure engagement with materials by primary care providers.	Baseline measure of uptake of responsible use materials by primary care providers.

<sup>7</sup> He Rongoā Pai, He Oranga Whānau is a one-day wānanga run by whānau ora collectives to improve understanding of the use of medicines in their communities. PHARMAC promotes, supports and assists in funding the wānanga.

Impact	Output	Measure	Rationale	2017/18 result	2018/19 estimate	2019/20 target
		A framework for measuring and monitoring equitable access to medicines.	We need a consistent way of measuring changes in equity of access to medicines.	[new output and measure for 2019/20]	[new output and measure for 2019/20]	Establish a baseline for existing indicators, develop new indicators, and set future targets.
	2.3 Equitable access to funded medicines	The rate of medicines dispensed to Māori compared to non-Māori, adjusted for age structure and the relative burden of disease, for a specific condition.	PHARMAC has a bold goal to eliminate inequities in access to medicines by 2025. This measure provides an initial indicator of one element of access equity, to measure PHARMAC's progress toward this Bold Goal.  As this is a new measure for 2019/20, it is a baseline measure and therefore we will not be establishing a target. Rather this demonstrates PHARMAC's commitment to a future medicines outcomes performance framework that will demonstrate meaningful progress towards eliminating inequities in access to medicines.  The focus for this measure is on comparing Māori with non-Māori because of our obligations as a Treaty of Waitangi partner, and the strong evidence demonstrating the current inequities in access for Māori.	[new output and measure for 2019/20]	[new output and measure for 2019/20]	Target will be set once baseline has been established.
Medicines are available when needed	2.4 Supply management	Low medicine stock situations are identified, and actively managed to avoid a sustained or irreversible impact on the health of patients.	Ensuring we know and understand the impact of stock shortages so we can act to minimise disruption for patients and providers is important for achieving best health outcomes.	PHARMAC worked with suppliers to manage stock events.  A significant number required PHARMAC to take action; this resulted in continuity of supply to patients. Activities included sourcing alternative supply with suppliers and liaising with Medsafe, wholesalers and distributors.	We will respond to all low medicine stock reports. We will actively manage any stock situations where a supply shortage will have a sustained or irreversible impact on the health of patients.  For all stock issues we will communicate effectively and proactively and take action as necessary, alongside the Ministry of Health and DHBs.	We will respond to all low medicine stock reports. We will work with the Ministry of Health and DHBs to actively manage any stock situations where a supply shortage will have a sustained or irreversible impact on the health of patients.  For all stock issues we will communicate effectively and proactively and take action as necessary alongside the Ministry of Health and DHBs.

## **Output class 3 – Policy, advice and support**

### ***Output 3.1 Advice and support services to the health sector***

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

### ***Output 3.2 Policy advice***

PHARMAC provides specialist operational policy advice to Ministers and officials from a range of Government agencies. We do this through meetings, papers, submissions, Ministerial support services and providing other information. PHARMAC also provides policy advice through our attendance and contribution to wider health sector forums.

PHARMAC's policy work supports the Government priority to improve environmental sustainability. Work is underway to consider what specific actions PHARMAC can take in relation to environmentally sustainable procurement. This will be aligned with Government rules of sourcing. We are also engaging with the Ministry of Health and DHBs to support them with their work in this area.

### ***Output 3.3 Contracts and fund management***

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

PHARMAC also has access to a Legal Risk Fund, with a value of \$8.154 million in 2018/2019, which is used to meet litigation costs that are not otherwise met from our regular operational spending on legal services.

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

### ***Output 3.4 Research***

PHARMAC has a statutory function to engage in research as appropriate. We are involved in supporting, and/or initiating research which supports PHARMAC's core function and aligns with our strategic priorities and priorities for the health system. PHARMAC collaborates with other agencies and organisations to contribute to research projects that are mutually beneficial; including through providing funding and sharing data and information.

**How the performance of Output class 3 will be assessed:**

Impact	Output	Measure	Rationale	2017/18 result	2018/19 estimate	2019/2020 target
In a high performing system	3.2 Policy advice	PHARMAC staff participate in and contribute to wider sector forums.	Whether our policy advice to the sector is sought after is an indication of the quality of advice and contributions we make.	PHARMAC staff participated and contributed to various wider sector forums. Examples include the Social Investment Panel, Healthcare Associated Infections Governance Group and the Ministry of Business, Innovation and Employment Procurement Functional Leadership Group.	PHARMAC staff participate in wider sector forums.	PHARMAC staff participate in wider sector forums.
	3.3 Contract and fund management	All rebates are collected and distributed to DHBs in accordance with PHARMAC policy.	Effective management of rebates provides certainty to DHBs.	All fund use is in accordance with PHARMAC policy.	All fund use will be in accordance with PHARMAC policy.	All fund use will be in accordance with PHARMAC policy.
	3.4 Research	PHARMAC is involved in, or contributing to, research which supports PHARMAC's core functions and strategic priorities.	PHARMAC has a statutory function to engage in research as appropriate. PHARMAC undertakes, or supports, research that aligns with our research and strategic priorities, and supports our core functions.	[new output and measure for 2019/20]	[new output and measure for 2019/20]	PHARMAC will initiate or collaborate on research, that supports PHARMAC's core functions and strategic priorities. PHARMAC will also engage with other Government entities to collaborate on, or help contribute to, research that supports the strategic priorities for the health system.

# 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:

- *operating revenue* – forecast revenue is based on current Crown funding arrangements, and reasonable assumptions about funding from DHBs, interest received, secondment recoveries, and other miscellaneous recoveries
- *expenditure increases generally* – a number of budget lines have assumed cost increases due to changes in PHARMAC's functions
- *operating model* – forecast revenue and expense are based on the current business model and policy settings
- *personnel costs* – expenditure in personnel has been increased to deliver on PHARMAC's expanded role and to maintain consistency with other state sector organisations, given PHARMAC's personnel are its key asset
- *operating costs* – continuing material one-off expenditure on new software implementation, categorised as operating expenditure, is expected in 2019/20
- *capital expenditure* – PHARMAC expects data and information costs to increasingly move to operating expenditure resulting in lower capital expenditure in future periods. 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 Legal Risk Fund is assumed to remain the same in out-years based on an assumption that fund use is offset by replenishment (interest and transfer of any unspent litigation money in the operating budget)
- *CPB Discretionary Pharmaceutical Fund (CPBDPF)* – the 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 system. No movements in this fund is expected during the 2019/20 forecast period
- PHARMAC is currently exempt from the imposition of the Crown's capital charge.

## Prospective Financial Statements

### Statement of Forecast Comprehensive Revenue and Expense

	Note	2019/20	2020/21	2021/22
	1	\$000	\$000	\$000
<b>Revenue</b>				
Crown funding - Baseline		23,488	23,488	23,488
DHB - Operating funding	2	1,490	1,490	1,490
DHB - DPF	3	2,450	-	-
<b>Other:</b>				
Interest received - Operating		360	315	293
- Legal Risk Fund		180	180	180
Other revenue - Operating		130	130	130
<b>Total Income</b>		<b>28,098</b>	<b>25,603</b>	<b>25,581</b>
<b>Expenditure</b>				
Personnel Costs		15,261	15,319	15,379
Operating Costs		10,809	10,200	9,511
Depreciation & amortisation costs		378	444	501
CPB Discretionary Pharmaceutical Fund		-	-	-
Hospital DPF		-	-	-
LRF expense		180	180	180
Finance Costs		19	10	10
<b>Total expenditure</b>		<b>26,647</b>	<b>26,153</b>	<b>25,581</b>
<b>Net surplus/(deficit) for the period</b>		<b>1,451</b>	<b>(550)</b>	<b>-</b>
Other comprehensive income		-	-	-
<b>Total comprehensive income</b>		<b>1,451</b>	<b>(550)</b>	<b>-</b>

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 2019/20, we are forecasting that DHBs would need to make a payment to replenish the CPBDPF.

## Statement of Forecast Financial Position

	Note	2019/20	2020/21	2021/22
	1	\$000	\$000	\$000
<b>PUBLIC EQUITY</b>				
Contribution capital		1,856	1,856	1,856
Retained earnings and reserves		5,906	5,356	5,356
CPBDPF	2	9,963	9,963	9,963
HDPF		100	100	100
Legal risk fund		7,904	7,904	7,904
<b>TOTAL PUBLIC EQUITY</b>		<b>25,729</b>	<b>25,179</b>	<b>25,179</b>
Represented by:				
<b>Current assets</b>				
Cash and cash equivalents		3,284	4,036	5,246
Investments		14,000	13,000	12,000
CPBDPF monies into rebates account		9,963	9,963	9,963
Receivables		150	150	150
Prepayments		200	200	200
<b>Total current assets</b>		<b>27,597</b>	<b>27,349</b>	<b>27,559</b>
<b>Non-current assets</b>				
Property, plant and equipment		552	260	60
Intangible Assets		50	50	50
<b>Total non-current assets</b>		<b>602</b>	<b>310</b>	<b>110</b>
<b>Total assets</b>		<b>28,199</b>	<b>27,659</b>	<b>27,669</b>
<b>Current liabilities</b>				
Payables		1,200	1,200	1,200
GST Payable		170	170	170
Make Good Provision		-	-	-
Employee entitlements		900	900	900
<b>Total current liabilities</b>		<b>2,270</b>	<b>2,270</b>	<b>2,270</b>
<b>Non-current liabilities</b>				
Provisions		200	210	220
<b>Total liabilities</b>		<b>2,470</b>	<b>2,480</b>	<b>2,490</b>
<b>NET ASSETS</b>		<b>25,729</b>	<b>25,179</b>	<b>25,179</b>

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

2. CPBDPF forecast is linked to CPB forecast.

## Statement of Forecast Cash Flow

	Note	2019/20	2020/21	2021/22
	1	\$000	\$000	\$000
<b>CASH FLOWS – OPERATING ACTIVITIES</b>				
Cash was provided from:				
- Receipts from the Crown		23,488	23,488	23,488
- Receipts from DHBs		1,490	1,490	1,490
- DHB Discretionary Pharmaceutical Fund		2,450	-	-
- Hospital Discretionary Pharmaceutical Fund		-	-	-
- Interest Operating received		360	315	293
- Interest Legal Risk Fund received		180	180	180
- Receipts from other revenue		130	130	130
		<u>28,098</u>	<u>25,603</u>	<u>25,581</u>
Cash was disbursed to:				
- Legal Risk Fund expenses		(180)	(180)	(180)
- CPBDPF expensed from rebates bank account		(2,450)	-	-
- Payments to suppliers and employees		(26,068)	(25,519)	(24,890)
- Goods and services tax (net)		-	-	-
		<u>(28,698)</u>	<u>(25,699)</u>	<u>(25,070)</u>
<b>Net cash flow from operating activities</b>		<b>(600)</b>	<b>(96)</b>	<b>511</b>
<b>CASH FLOWS – INVESTING ACTIVITIES</b>				
- Purchase of property, plant and equipment		(324)	(102)	(251)
- Purchase of intangible assets		(50)	(50)	(50)
- Receipts from sale of investments		2,000	1,000	1,000
<b>Net cash flow from investing activities</b>		<b>1,626</b>	<b>848</b>	<b>699</b>
Net increase/(decrease) in cash		1,026	752	1,210
Cash at the beginning of the year		<u>2,258</u>	<u>3,284</u>	<u>4,036</u>
<b>Cash at the end of the year</b>		<b>3,284</b>	<b>4,036</b>	<b>5,246</b>

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 1	2019/20 \$000	2020/21 \$000	2021/22 \$000
<b>CONTRIBUTION CAPITAL</b>				
<b>Balance at 1 July</b>		1,856	1,856	1,856
Add: Net transfer from/(to) retained earnings		-	-	-
<b>Balance at 30 June</b>		<b>1,856</b>	<b>1,856</b>	<b>1,856</b>
<b>RETAINED EARNINGS</b>				
<b>Balance at 1 July</b>		6,905	5,906	5,356
Net surplus/(deficit)		1,451	(550)	-
Net transfer from/(to) CPBDPF		(2,450)	-	-
Net transfer from/(to) HDPF		-	-	-
Net transfer from/(to) legal risk fund		-	-	-
<b>Balance at 30 June</b>		<b>5,906</b>	<b>5,356</b>	<b>5,356</b>
<b>CPBDPF</b>				
<b>Balance at 1 July</b>		7,513	9,963	9,963
Add: Income received transferred from retained earnings		2,450	-	-
Less: Pharmaceutical expenses transferred to retained earnings		-	-	-
<b>Balance at 30 June</b>		<b>9,963</b>	<b>9,963</b>	<b>9,963</b>
<b>HDPF</b>				
<b>Balance at 1 July</b>		100	100	100
Add: Income received transferred from retained earnings		-	-	-
Less: Hospital expenses transferred to retained earnings		-	-	-
<b>Balance at 30 June</b>		<b>100</b>	<b>100</b>	<b>100</b>
<b>LEGAL RISK FUND</b>				
<b>Balance at 1 July</b>		7,904	7,904	7,904
Add: Income received transferred from retained earnings		180	180	180
Less: Litigation expenses transferred to retained earnings		(180)	(180)	(180)
<b>Balance at 30 June</b>		<b>7,904</b>	<b>7,904</b>	<b>7,904</b>
<b>TOTAL PUBLIC EQUITY</b>		<b>25,729</b>	<b>25,179</b>	<b>25,179</b>

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

## Reconciliation of Net Surplus to Cash Flow from Operating Activities

	Note	2019/20	2020/21	2021/22
	1	\$000	\$000	\$000
Net operating surplus/(deficit)		1,451	(550)	-
<b>Add non-cash items:</b>				
Discount on unwind provision		19	10	10
Depreciation		378	444	501
<b>Total</b>		<b>397</b>	<b>454</b>	<b>511</b>
<b>Add/(less) working capital movements:</b>				
Decrease/(increase) in receivables		-	-	-
Decrease/(increase) in prepayments		-	-	-
(Decrease)/increase in payables		-	-	-
(Decrease)/increase in make good provision		-	-	-
(Decrease)/increase in employee entitlements		2	-	-
(Decrease)/increase in net GST		-	-	-
<b>Net movements in working capital items</b>		<b>2</b>	<b>-</b>	<b>-</b>
<b>Other movements</b>				
DPF monies (deposited in)/withdrawn from rebates bank account		(2,450)	-	-
<b>Net cash flow from operating activities</b>		<b>(600)</b>	<b>(96)</b>	<b>511</b>

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

**Prospective Statement of Comprehensive Revenue and Expense, by Output Class**

<b>2019/20</b>	<b>Funding MOH</b>	<b>Funding DHB</b>	<b>Funding Other</b>	<b>Output expenditure</b>	<b>Net surplus/(deficit)</b>
Making decisions about pharmaceuticals	11,744	2,450	425	(11,991)	2,628
Influencing pharmaceutical access and use	8,221	1,490	245	(10,659)	(703)
Providing policy advice and support	3,523	-	-	(3,997)	(474)
<b>Total</b>	<b>23,488</b>	<b>3,940</b>	<b>670</b>	<b>(26,647)</b>	<b>1,451</b>
<b>2020/21</b>	<b>Funding MOH</b>	<b>Funding DHB</b>	<b>Funding Other</b>	<b>Output expenditure</b>	<b>Net surplus/(deficit)</b>
Making decisions about pharmaceuticals	11,744	-	402	(11,769)	377
Influencing pharmaceutical	8,221	1,490	223	(10,461)	(527)
Providing policy advice and support	3,523	-	-	(3,923)	(400)
<b>Total</b>	<b>23,488</b>	<b>1,490</b>	<b>625</b>	<b>(26,153)</b>	<b>(550)</b>
<b>2021/22</b>	<b>Funding MOH</b>	<b>Funding DHB</b>	<b>Funding Other</b>	<b>Output expenditure</b>	<b>Net surplus/(deficit)</b>
Making decisions about pharmaceuticals	11,744	-	392	(12,011)	125
Influencing pharmaceutical	8,221	1,490	211	(9,732)	190
Providing policy advice and support	3,523	-	-	(3,838)	(315)
<b>Total</b>	<b>23,488</b>	<b>1,490</b>	<b>603</b>	<b>(25,581)</b>	<b>-</b>

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

## APPENDIX 1 – STATEMENT OF ACCOUNTING POLICIES

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

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

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

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

### Statement of compliance

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

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

### Presentation currency and rounding

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

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue** The specific accounting policies for significant revenues items are explained below: PHARMAC is primarily funded from the Crown. This funding is restricted in its use for the purpose of PHARMAC meeting the objectives specified in its founding legislation and the scope of the relevant appropriations of the funder.

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

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

**Financial instruments** Financial assets and financial liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through profit or loss, in which case the transaction costs are recognised in the statement of forecast comprehensive 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 deposits are measured at amortized cost using the effective interest method, less any provision for impairment.

**Property, plant and equipment**

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

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

Work in progress is recognised at cost less impairment and it is not depreciated.

- *Disposals* – gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.
- *Subsequent costs* – costs incurred subsequent to initial acquisition are 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 is provided on a straight-line basis on all property, plant and equipment, leasehold improvements, furniture and office equipment at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

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

Leasehold improvements are capitalised and depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter. Capital work in progress is not depreciated. The total cost of a project is transferred to the asset class on its completion and then

depreciated. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

**Intangible assets**

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

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

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

**Payables**

Short term payables are recorded at their face value.

**Employment entitlements**

Employee entitlements that PHARMAC expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued to balance date, and annual leave earned but not yet taken at balance date expected to be settled within 12 months.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made. Currently there are no such obligations applying.

**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, Legal Risk Fund and Discretionary Pharmaceutical Fund.

**Goods and Services Tax (GST)**

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

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

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

**Income Tax**

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

**Cost Allocation**

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

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

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

**Critical accounting estimates and assumptions**

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

**Critical 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 2019 – 30 June 2022.







# PHARMAC

TE PĀTAKA WHAIORANGA

If you are interested in working for PHARMAC  
please register on our careers site  
[www.careers.pharmac.govt.nz](http://www.careers.pharmac.govt.nz)

---

Pharmaceutical Management Agency  
Level 9, 40 Mercer Street, PO Box 10254,  
Wellington 6143, New Zealand  
Email: [enquiry@pharmac.govt.nz](mailto:enquiry@pharmac.govt.nz)  
[www.pharmac.govt.nz](http://www.pharmac.govt.nz)  
Phone: +64 4 460 4990  
 @PHARMACnz

---

ISSN 2382-0780 (Print)  
ISSN 2382-0799 (Online)