

Pharmaceutical Management Agency
Te Pātaka Whaioranga

STATEMENT OF PERFORMANCE EXPECTATIONS

*Te Tauākī o Ngā Mahi Hei
Whakatutuki*

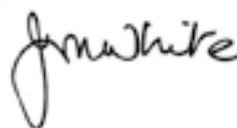
2021/22

PHARMAC
TE PĀTAKA WHAIORANGA

New Zealand Government



Hon Steve Maharey
Chair
10 June 2021



Jan White
Deputy Chair
10 June 2021

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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 July 2020 – June 2024 Pharmac Statement of Intent (SOI).¹ It identifies for Parliament and the New Zealand public what Pharmac intends to achieve in the 2021/22 financial year and how performance will be assessed to deliver on Pharmac’s strategy.

Ministerial Expectations for the 2021/22 Financial Year

This Statement of Performance Expectations is guided by the Minister of Health’s annual Letter of Expectations to Pharmac received on 8 March 2021.²

General expectations for 2021/22 set by the Minister of Health are to continue to progress the following:

- Support the work of the panel undertaking the independent external review with timely, practical and informed advice.
- Continue to make progress on meeting our obligations under Te Tiriti o Waitangi, and in doing so, utilise both Whakamaua: Māori Health Action Plan 2020–2025 and Ola Manuia: Pacific Health and Wellbeing Action Plan 2020–2025 to support Pharmac’s work.
- Continue our efforts to better communicate with stakeholders and the wider community about Pharmac’s work and particularly where activities result in changes for patients.
- Work collaboratively with the Ministry of Health, Medsafe, and others in the wider health system to ensure the continuity of the supply of medicines and medical devices.
- Continue to make progress across a number of key priorities and areas outlined in Pharmac’s 2020/21 Letter of Expectations.

¹ https://pharmac.govt.nz/assets/Uploads/Statement-of-Intent-2020_212023_24.pdf

² <https://pharmac.govt.nz/assets/Uploads/2021-22-Annual-Letter-of-Expectation-Minister-Little.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 by negotiating national contracts. In future, we will decide which medical devices are available for people under the care of public hospitals, and we will manage spending within a fixed budget, so 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, the individual may want to use a medicine that is not funded at all or that is funded for other uses but not for their 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 vaccines³ in New Zealand. This includes all vaccines on the National Immunisation Schedule, including the childhood immunisation programme and the annual influenza vaccine, which is free for eligible people.

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 underused, overused, 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 medicines are used in the best way so the health benefits are maximised.

³ Except for the influenza vaccine and the COVID-19 vaccines.

Research

Pharmac has a statutory function to engage in research as appropriate. We are involved in supporting and/or initiating research that 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 objectives are set out in the New Zealand Public Health and Disability Act 2000. They are:

- 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
- any other objectives it is given by or under any enactment or authorised to perform by the Minister of Health by written notice to the Board of Pharmac after consultation with it.

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 our 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 committees: the Pharmacology and Therapeutics Advisory Committee (PTAC), and the Consumer Advisory Committee (CAC) – a committee of people experienced in consumer issues.⁴


The Board also has an Audit and Risk Committee and a 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. We will provide commentary on our activities, including any ongoing impacts of COVID-19, in our upcoming Annual Report.

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.



During the 2019/2020 year we undertook a review of our performance measures.⁵ This resulted in the introduction of several new measures, as well as changes in methodology for existing performance measures. Baseline data for these was collected during 2020/21. This 2021/22 Statement of Performance Expectations provides some more information about baselines and measurement methodology. The measures will be reported upon in Pharmac's 2020/21 Annual Report which will be published in October 2021.

Our funding for 2021/22

Te pūtea o te tau 2021/22

The Minister of Health has determined that the level of the Combined Pharmaceutical Budget (CPB) for 2021/22 is \$1,161 million, which includes \$76 million dedicated to covering additional costs due to the COVID-19 pandemic. The CPB is comprised of Government expenditure for community medicines, vaccines, haemophilia treatments and related products, some health products provided in the community settings such as nicotine replacement therapies, and spending on all medicines that are administered 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 (that is, any medicines that are purchased directly by Pharmac)
2. the Discretionary Pharmaceutical Fund, a small special-purpose reserve fund that serves as a budget management tool and allows Pharmac to manage unexpected variances in medicines expenditure.

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 sector-wide initiatives to promote the responsible use of medicines in New Zealand.

⁵ Refer to Pharmac's Statement of Intent 2020/21-2023/24 for the full suite of performance measures. (pharmac.govt.nz/assets/Uploads/Statement-of-Intent-2020_212023_24.pdf).

Our operating environment

Ngā take o te wā

Contributing to the COVID-19 response

Since the COVID-19 pandemic started, Pharmac has had two priorities – to support the health sector in responding to the pandemic and to ensure New Zealanders continue to have access to the funded medicines and medical devices they need.

Most medicines used in New Zealand are imported. Despite global issues with medicine manufacturing and supply chains, our work has ensured that people who take or need medicines or other related products have not experienced significant clinical impacts during the pandemic.

Our role has been:

- ensuring people can get their medicines
- keeping medicines available for all
- be part of and support the pandemic response team.

Pharmac will continue to work with suppliers, the health sector and wider government agencies to ensure New Zealanders can access the medicines and medical devices they need. We will continue to be part of the all-of-government response to COVID-19, including providing support as required for the roll-out of the COVID-19 vaccination programme.

Health and Disability System Review

In April 2021, the Minister of Health announced substantial changes to the way the health and disability system is structured and operates. Two new agencies, Health NZ and

the Māori Health Authority, will be established by July 2022. The Minister announced that DHBs will be disestablished, and Health NZ will take over the planning and commissioning of services and the functions of the existing 20 DHBs. The Māori Health Authority will work alongside Health NZ to improve services and achieve equitable health outcomes for Māori.

Clearly Pharmac's role and our relationships with Health NZ and the Māori Health Authority will be part of the implementation of the new health and disability system. We look forward to participating in more detailed systems development and being part of improving health services for New Zealanders.

Independent review of Pharmac

In March 2021, the Government announced an independent review of Pharmac. The review will focus on two key areas:

- How well Pharmac performs against its current objectives and whether and how its performance against these objectives could be improved
- Whether Pharmac's current objectives maximise its potential to improve health outcomes for all New Zealanders as part of the wider health system, and whether and how these objectives should be changed.

It is expected there will be an interim report in August 2021 and a final report in December 2021. It is likely that the report recommendations will impact on our work in the latter half of the 2021/22 year.





Ngā uaratanga

Our values

In 2020, we began a journey to refresh our organisational values. With the input of all staff, we are proud to present ngā uaratanga – our five values. Whakarongo, tūhono, wānanga, māia, and kaitiakitanga ground our behaviour and guide our thinking. They are the principles that help us make decisions that create better health outcomes for New Zealanders.

Whakarongo | Listen

Āta whakarongo kia puaki te ngākau aroha

We listen with intent and empathy, to understand

Whakarongo means listening with more than your ears. It's perceiving with all senses – listening with intent and empathy, listening to understand. To do this well, we must seek out all voices. We must be ready to change our minds when needed, based on what we hear. With whakarongo shaping the way we communicate, people will trust us and know that we will always engage in a meaningful and empathetic way.

Tūhono | Connect

Kōtuitui kia piri, tūhono kia whakatatū te ara tika

We connect with people, communities, the health system and each other

Tūhono means that everything in the universe is connected. It's a warm word that reminds us that relationships and connections are taonga. They must be treasured. We combine tūhono with whakatatū, which means coming to an agreement or decision together. To help us find the best way forward for everyone, tūhono reminds us that we must connect with people, communities, the health system and each other. We must see each other as people first, and tūhono with sincerity and purpose.

Wānanga | Learn together

Ma te māhirahira ka whāwhāki te maramatanga

We draw on evidence and people's experiences to improve

To keep growing and changing for the better, we must share our knowledge and ideas. We must be curious and always feed our appetite to learn. We must balance empirical evidence with the unique experiences people share. This way, we can reveal the best way forward. By combining māhirahira (curiosity), whāwhāki (revelation), and maramatanga (insight), we learn together. We wānanga with an open mind.

Māia | Be courageous

Tū te ihiihi, tū te wanawana, tū te wehiwehi

We challenge ourselves

Ihi, wana, and wehi are central to māia because challenging ourselves takes courage. These words are used in many haka as they capture the joy and excitement of life. They describe a wonder and gratitude for the world itself. To be courageous, we must be excited about what we can achieve and driven by a greater purpose. Māia ensures we face change with We challenge ourselves

Kaitiakitanga | Preserve, protect and shelter

Hāpaitia te mana tangata hei whāriki mo nga uri whakatipu

We safeguard wellbeing for New Zealanders, now and for the future

Kaitiakitanga is core to who we are. Te Pātaka Whaioranga, our te reo Māori name, means the storehouse of wellbeing. Whaioranga describes recovering to good health and te pātaka symbolises the solid and reliable structure that safeguards supplies. For Pharmac, that's supplies of medicines and medical devices. As kaitiaki of Te Pātaka Whaioranga, we play our part to preserve, protect, and shelter the future wellbeing of everyone in New Zealand. We whakarongo, tūhono and wānanga with māia to strengthen Te Pātaka Whaioranga.



Our strategic direction

Te koronga rautaki

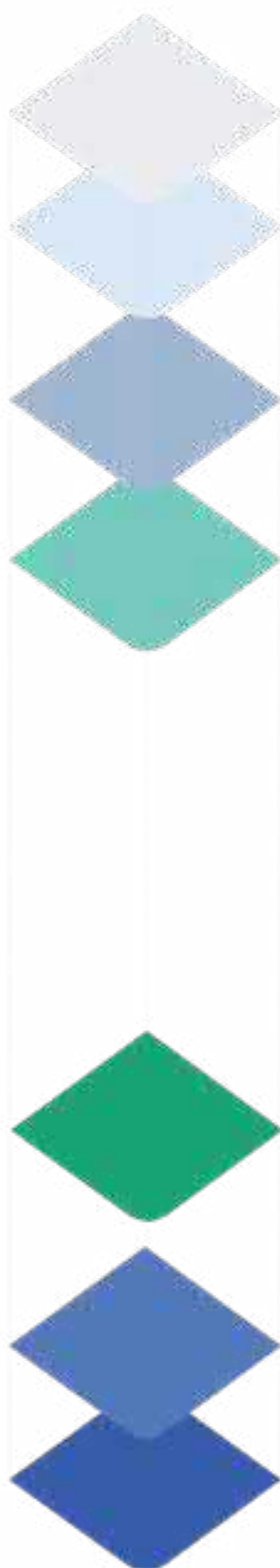
Pharmac contributes to the Government's priority of improving the wellbeing of New Zealanders and their families through achieving our purpose to deliver the best health outcomes from New Zealand's investment in medicines and medical devices.

To be successful in achieving this purpose, we have set out our strategic direction in our Statement of Intent 2020/21-2023/24 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 a People and Capability Strategy, since we know that, in order to succeed in our priority areas, we need to develop different capabilities and get better at projecting our future capability needs.

In 2020/21, we refreshed Te Whaioranga, which provides a cross-cutting lens through which we will plan and implement each priority area – success will only be achieved in each area if we deliver it for and with Māori as a partner in Te Tiriti o Waitangi.

Our Strategic Direction



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

- Enhance key functions**
We continuously improve the way we work to deliver maximum value to New Zealanders
- Medical devices**
We drive better value and more consistent access to hospital medical devices
- Equitable access and use**
We enable equitable access and use of medicines and related products through influencing availability, affordability, accessibility, acceptability and appropriateness
- 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
- Public understanding, trust and confidence**
We listen to the views of New Zealanders and we communicate clearly and simply
- Relationships and partnerships**
We create strong and enduring partnerships across the health system and beyond

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

- **Whakarongo**
Listen
- **Tūhono**
Connect
- **Wānanga**
Learn together
- **Māia**
Be curious
- **Kaitiakitanga**
Preserve, protect and shelter

Our impacts

Ngā hua



The section below shows the relationship between our enduring impact areas and our 2021/22 outcome indicator targets.

Impact Area	Why is this important?	What does success look like?	Outcome Indicators	2021/22 Target
Our investment choices enhance wellbeing.	<p>Funding more clinically effective and good value medicines and medical devices helps New Zealanders to 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. 	1.1 Health outcomes from our investments.	Measure developed Baseline established
			1.2 Uptake of medicines following key investments and brand changes.	Baseline established
			1.3 The average time from funding application being received to a decision on whether to fund is made.	Downward trend

Impact Area	Why is this important?	What does success look like?	Outcome Indicators	2021/22 Target
Medicines and medical devices ⁶ 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 overused. 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 Did you follow instructions when you took the medicine? 	Upward trend ⁷
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. Supply of medicines and vaccines is monitored and maintained to ensure health outcomes aren't affected by out of stock situations. We work 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>Upward trend</p> <p>High levels of medicines supply are maintained</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 adherence to medicines in these priority areas: gout, cardiovascular disease and Type 2 diabetes. During 2021/22 we will consider what other conditions we could include to expand our measurement.

⁸ Survey data is provided to Pharmac by a third party for these indicators. 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.

Our focus for 2021/22

Tā mātou aronga 2021/22

In 2021/22, 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 2021/22 is outlined below for each of our strategic priority areas.

We will also progress implementation of Te Whaioranga, Pharmac's Māori Responsiveness Strategy.

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	What we plan to deliver in 2021/22
Uphold and embed Te Tiriti o Waitangi so that it is central to our policies, leadership and processes.	<ul style="list-style-type: none">• Incorporate Te Tiriti into key policies and professional development.
Strengthened Māori participation in leadership and decision at all levels within our organisation.	<ul style="list-style-type: none">• Increased proportion of staff who are Māori experienced in mātauranga Māori and with close ties to whānau (increased trend).
We have strong partnerships with Māori and engage, listen to understand and deliver on what we agree.	<ul style="list-style-type: none">• A Māori Advisory Committee that is engaged on key parts of our work and provides guidance to our senior leaders and board.
Accountability for delivering on Te Tiriti.	<ul style="list-style-type: none">• Measures for meeting our Te Tiriti o Waitangi responsibilities in place.
Staff have strong Māori capability and we identify, address and routinely monitor bias in our systems. obligations.	<ul style="list-style-type: none">• Implement a Māori capability development programme for all staff using Te Arawhiti guidelines.• A review of bias in our systems.



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 2021/22
Revise how we make funding and procurement decisions to ensure they reflect our Treaty obligations, societal preferences, and the Government's priorities for Pharmac.	<ul style="list-style-type: none">• Develop evaluation criteria for our procurement activities that would move us toward more sustainable and environmental outcomes.• Undertake a business process review of how we assess and make funding/procurement decisions for medicines and begin to implement some changes.
Establish a more systematic approach to ensuring the responsible use of pharmaceuticals.	<ul style="list-style-type: none">• Develop standards for the use of funding restrictions in the Pharmaceutical Schedule.• Undertake a pilot clinical audit to improve our understanding of what barriers are preventing access to funded medicines.
Improve how we plan and execute our commercial activities.	<ul style="list-style-type: none">• Design new tools and commercial strategies for assessing and managing funded medicines and products.
Improve our management of Pharmaceutical Schedule business risks and uncertainties.	<ul style="list-style-type: none">• Complete our work to implement changes to increase our resilience to interruptions to the Pharmaceutical supply chain.• Finalise our emergency management planning and implement a training programme for staff, to ensure we are better able to respond to consumer and health sector needs during civil defence and public health emergencies.
Enhance key enabling information systems and funding mechanisms.	<ul style="list-style-type: none">• Implement changes/upgrades to at least one core system.



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 2021/22
<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">Secure at least \$500 million of DHB spend under national contract by the end of the financial year.
<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 and report to DHBs on 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">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

Whāinga Tōmua: Kia Rite Tahī 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 2021/22
Enhance the equity capability of our clinical advisory committees.	<ul style="list-style-type: none">Review the results from the equity capability assessment of the first set of clinical advisors.Develop, and commence programme options to enhance the equity capability of the clinical advisors.Implement equity capability development programme for clinical advisors.
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">Enable systemised generation of medicine access data insights for priority conditions for Māori and Pacific peoples.Enable access to medicine access data insights by DHBs and other health sector users.
Address inequitable access to medicines for priority clinical conditions in partnership with others where appropriate.	<ul style="list-style-type: none">Develop and implement medicine access action plans for up to 2 priority clinical conditions for Māori and Pacific peoples.Develop and deliver access equity-focussed clinical education support to primary care health professionals.
Promote equitable access to medicines and medical devices for Pacific peoples.	<ul style="list-style-type: none">Continue to implement stage two (supporting growth) of our Pacific Responsiveness Strategy.Build our organisational capability to engage effectively with Pacific peoples.



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	What we plan to deliver in 2021/22
The data we have, and use will be well governed and managed as a shared asset across the organisation.	<ul style="list-style-type: none">Continued development and roll-out of information products to support business decision-making.
Our data and information products will be timely, high quality and accurate.	<ul style="list-style-type: none">Strengthen and enhance the functionality of our system used to forecast CPB expenditure.
We will move from monitoring transactional outputs, to focusing on outcomes.	<ul style="list-style-type: none">Begin measuring our contribution to achieving better health outcomes for New Zealanders at a medicine level.
We treat data about Māori as a taonga.	<ul style="list-style-type: none">We will incorporate te ao Māori and Māori experts in sense-making of the data and insights and communicate findings appropriately to Māori.
We will develop our capability in the data space to be better positioned for the future.	<ul style="list-style-type: none">Evaluate and gain access to complimentary data sets to support decision-making and evaluation.
A clear pathway to necessary sector-wide IT solutions for medical devices.	<ul style="list-style-type: none">Participate in health sector work to support medical devices on the Health Sector Catalogue and National Health Finance, Procurement and Information Management System (FPIM) and other associated systems.



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

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.

Pharmac makes better informed decisions by incorporating consumer voices.

New Zealanders have higher levels of trust and confidence in Pharmac.

What we plan to deliver in 2021/22

- Implement year 1 actions of our social media strategy to increase our social media presence.
- Improve process for external enquiries including complaints.
- Enhance the functionality of the online Pharmaceutical Schedule.
- Continue to build our organisational capability to produce appropriate and transparent communications with all our external and internal audiences.
- Continue to strengthen the role of consumers in our advisory committees.

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 deliver our key outputs.

What we plan to deliver in 2021/22

- Undertake a regular stakeholder engagement survey and report on results.
- Develop a stakeholder engagement strategy.
- Scope potential relationship management models to effectively deliver our engagement strategy.
- Identify and partner with key stakeholders to deliver strategic work programmes.

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

Strengthening our Leadership.

What we plan to deliver in 2021/22

- Establish and implement a leadership development framework to support a development pathway and programme for leaders.

Enhance Diversity and Inclusion.

- Review and revise workplace practices and policies to ensure they are inclusive, supportive, and attractive to a diverse workforce, and enhance our focus on recruiting from under-represented groups.

Develop Organisational Capability.

- Develop a learning and development work programme to ensure our people have the capability required to deliver on performance expectations.

Enhance Employee Engagement.

- Use our revised organisational values to build an inclusive and supportive values-led culture.
- Enhance organisational capability to effectively measure and monitor employee engagement for continuous improvement in employee experience and engagement.

Health and Wellbeing.

- Review and implement a health and safety framework and work programme that enhances employee health, safety, and wellbeing, incorporating the Te Whare Tapa Whā⁹ Māori health model.

⁹ This model was developed by Sir Mason Durie.



A close-up photograph of a person's hand holding a small white plastic bottle, tilted to pour several orange, oval-shaped capsules into a blue pill tray. The background is blurred, showing a white surface and some green and red objects.

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
- 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 2021/22. 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. 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.	Supporting and informing good decisions, 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 available medicines and medical devices. This means supporting clinicians to prescribe and dispense medicines and medical devices appropriately and working to improve patient knowledge around using them. It also means working with a range of partners to ensure that funded medicines can be accessed and used equitably, particularly for Māori.
We play a key role in an effective and equitable health system.	Influencing 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.

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.



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)¹¹ 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 2021/22
Timeliness of funding decisions	4.1 Average time to assess and rank new applications	Efficiency measures for our core decision-making function.	↓
Timeliness of Exceptional Circumstances decisions	4.2 Percentage of decisions made within target of 10 working days	Contributes to impact areas: Our investment choices enhance wellbeing and Medicines and medical devices are used appropriately, equitably, and well.	↑
Timeliness of PTAC and sub-committee records	4.3 Average time to publish the record		↓
Hitting the CPB ¹²	4.4 Meeting the CPB target	Measures our ability to manage the budget effectively. Contributes to impact areas: Our investment choices enhance wellbeing and We play a key role in an effective and equitable health system.	Yes

¹¹ [Pharmac.govt.nz/medicines/how-medicines-are-funded/factors-for-consideration/](https://pharmac.govt.nz/medicines/how-medicines-are-funded/factors-for-consideration/)

¹² Please refer to pages 8–9 for a detailed explanation of the CPB.



Indicator	As measured by	Why is this important?	Target / trend 2021/22
Anticipated value of our funding decisions	4.5 The expected average annual quality-adjusted-life-years (QALYs) gained per \$million for funding decisions was greater than the average expected gain for all proposals on the options for investment list for the reporting period	Indicates that we have invested in medicines that represent the best likely health outcomes.	Yes
Access to medicines compared to subsidy	4.6 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	4.7 Estimated savings on medicines spending (last 10 years' prices as a baseline)	Estimates the value that Pharmac has delivered for DHBs through its work.	
Environmental sustainability of pharmaceutical contracting approaches	4.8 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.	Baseline measure and target being finalised and will be reported in 2020/21 Annual Report



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 are not under- or overused. 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
- 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 2021/22
Consultations undertaken	5.1 Proportion of key pharmaceutical decisions consulted on for new proposals	Provides a quantity measure that indicates how often we consult on key decisions.	100%
Reach and use of responsible use activities	5.2 Specific metrics to be developed during contract negotiation process with new responsible-use provider	Provides a quality measure for our flagship responsible-use activity.	Baseline measure and target being finalised and will be reported in 2020/21 Annual Report




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 2021/22
Quality of policy advice	6.1 Quality score from an independent policy quality benchmark	Enables benchmarking and quality improvement for our policy advice.	
Contribution to research activities that support Pharmac's core activities and strategic priorities	6.2 Number and description of research projects funded and/or published (external and internal)	Provides a quantity measure.	At least one substantial 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 that 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.



Our key assumptions are as follows:

- **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 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 expected pay rate changes 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** – Increases in operating costs are primarily attributable to project expenditure to progress the strategic priorities described in this document.
- **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 is \$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 risks 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 ensure 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. An expected payment to DHBs is included as a budgeted expense for 2021/22.
- **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. Draws on the HDPF reflect expected expenditure pursuant to the HDPF policy.
- **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 1	2021/22 \$000	2022/23 \$000	2023/24 \$000	2024/25 \$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		-	-	-	-
Other					
Interest received - Operating		184	150	126	100
- Legal Risk Fund		99	111	111	111
Other revenue - Operating		100	100	100	100
Total revenue		27,635	27,613	27,589	27,563
Expenditure					
Personnel costs		19,017	18,592	18,021	18,330
Operating costs		8,958	9,822	10,360	10,108
Depreciation and amortisation costs		442	447	353	292
CPB Discretionary Pharmaceutical Fund		7,882	-	-	-
Hospital Discretionary Pharmaceutical Fund		19,492	-	-	-
Legal Risk Fund expense		250	250	250	250
Finance costs		-	-	-	-
Total expenditure		56,041	29,111	28,984	28,980
Net surplus/(deficit) for the period		(28,406)	(1,498)	(1,395)	(1,417)
Other comprehensive revenue		-	-	-	-
Total comprehensive revenue and expense		(28,406)	(1,498)	(1,395)	(1,417)

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.

Statement of Forecast Financial Position

	Note 1	2021/22 \$000	2022/23 \$000	2023/24 \$000	2024/25 \$000
Public Equity					
Contribution capital		1,856	1,856	1,856	1,856
Retained earnings and reserves		8,292	6,933	5,677	4,399
Restricted reserves					
CPBDPF	2	10,450	10,450	10,450	10,450
HDPF		1,365	165	165	165
Legal Risk Fund		8,391	8,252	8,113	7,974
TOTAL PUBLIC EQUITY		30,354	27,656	26,261	24,844
Represented by:					
Current assets					
Cash and cash equivalents		3,027	2,960	2,902	2,933
Investments		8,635	7,535	6,435	4,835
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		1,707	1,568	1,429	1,290
Investments - Legal Risk Fund		6,600	6,600	6,600	6,600
Investments - HDPF		1,365	165	165	165
CPBDPF monies into rebates account		10,450	10,450	10,450	10,450
Total current assets		32,254	29,748	28,451	26,743
Non-current assets					
Property, plant and equipment		728	537	440	403
Intangible Assets		50	49	48	48
Total non-current assets		778	586	488	451
Total assets		33,032	30,334	28,939	27,194
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	2,678	2,350
Non-current liabilities					
Make Good Provision		328	328	-	-
Total liabilities		2,678	2,678	2,678	2,350
NET ASSETS		30,354	27,656	26,261	24,844

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 1	2021/22 \$000	2022/23 \$000	2023/24 \$000	2024/25 \$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		184	150	126	100
- Interest Legal Risk Fund		99	111	111	111
- Other Operating		100	100	100	100
		27,635	27,613	27,589	27,563
Cash was disbursed to:					
- Legal Risk Fund expenses		(250)	(250)	(250)	(250)
- CPBDPF expenses		(7,882)	-	-	-
- CPBDPF deposited in rebates bank account		-	-	-	-
- HDPF expenses		(20,692)	(1,200)	-	-
- Payments to suppliers and employees		(27,975)	(28,414)	(28,381)	(28,766)
- Goods and services tax (net)		-	-	-	-
		(56,799)	(29,864)	(28,631)	(29,016)
Net cash flows from operating activities		(29,164)	(2,251)	(1,042)	(1,453)
CASH FLOWS – INVESTING 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		30,382	2,300	1,100	1,600
- Purchase of investments		-	-	-	-
Net cash flows from investing activities		30,127	2,045	845	1,345
Net increase/(decrease) in cash		963	(206)	(197)	(108)
Cash at the beginning of the year		3,771	4,734	4,528	4,331
Cash at the end of the year		4,734	4,528	4,331	4,223

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	2021/22 \$000	2022/23 \$000	2023/24 \$000	2024/25 \$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		9,173	8,292	6,933	5,677
Net surplus/(deficit)		(28,406)	(1,498)	(1,395)	(1,417)
Net transfer from/(to) CPBDPF		7,882	-	-	-
Net transfer from/(to) HDPF		19,492	-	-	-
Net transfer from/(to) Legal Risk fund		151	139	139	139
Balance at 30 June		8,292	6,933	5,677	4,399
CPBDPF					
Balance at 1 July		18,332	10,450	10,450	10,450
Add: Revenue received transferred from retained earnings		-	-	-	-
Less: Transfer to HDPF		-	-	-	-
Less: Pharmaceutical expenses transferred to retained earnings		(7,882)	-	-	-
Balance at 30 June		10,450	10,450	10,450	10,450
HDPF					
Balance at 1 July		22,057	1,365	165	165
Add: Revenue received transferred from retained earnings		-	-	-	-
Add: Transfer from CPBDPF		-	-	-	-
Less: Hospital expenses incurred		(20,692)	(1,200)	-	-
Balance at 30 June		1,365	165	165	165
LEGAL RISK FUND					
Balance at 1 July		8,542	8,391	8,252	8,113
Add: Revenue received transferred from retained earnings and unused litigation budget		99	111	111	111
Less: Litigation expenses transferred to retained earnings		(250)	(250)	(250)	(250)
Balance at 30 June		8,391	8,252	8,113	7,974
TOTAL PUBLIC EQUITY		30,354	27,656	26,261	24,844

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 1	2021/22 \$000	2022/23 \$000	2023/24 \$000	2024/25 \$000
Net operating surplus/(deficit)		(28,406)	(1,498)	(1,395)	(1,417)
Add non-cash items					
Make good provision - discounted value recognised as expense		-	-	-	-
Depreciation and amortisation		442	447	353	292
Total non-cash items		442	447	353	292
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	(328)
Decrease/(increase) in net GST		-	-	-	-
Net movements in working capital		-	-	328	(328)
Other movements					
CPBDPF monies released from/(deposited in) rebates bank account		-	-	-	-
HDPF expenses incurred		(1,200)	(1,200)	-	-
Increase/(decrease) in non-current make good provision		-	-	(328)	-
Total other movements		(1,200)	(1,200)	(328)	-
Net cash flows from operating activities		(29,164)	(2,251)	(1,042)	(1,453)

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
2021/22					
Making choices and managing expenditure and supply	12,631	-	131	(38,927)	(26,165)
Support and inform good decisions and access and use	8,842	1,990	112	(10,124)	820
Influence through policy, research and insights	3,789	-	140	(6,990)	(3,061)
Total	25,262	1,990	383	(56,041)	(28,406)
2022/23					
Making choices and managing expenditure and supply	12,631	-	121	(12,402)	350
Support and inform good decisions and access and use	8,842	1,990	103	(9,801)	1,134
Influence through policy, research and insights	3,789	-	137	(6,908)	(2,982)
Total	25,262	1,990	361	(29,111)	(1,498)
2023/24					
Making choices and managing expenditure and supply	12,631	-	109	(11,832)	908
Support and inform good decisions and access and use	8,842	1,990	94	(10,711)	215
Influence through policy, research and insights	3,789	-	134	(6,441)	(2,518)
Total	25,262	1,990	337	(28,984)	(1,395)
2024/25					
Making choices and managing expenditure and supply	12,631	-	97	(11,862)	866
Support and inform good decisions and access and use	8,842	1,990	84	(10,705)	211
Influence through policy, research and insights	3,789	-	130	(6,413)	(2,494)
Total	25,262	1,990	311	(28,980)	(1,417)

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

Te Pātaka Whaioranga, 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 as follows. 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 to be 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, 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 but 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 for contributions to KiwiSaver and the State Sector Retirement Savings Scheme (SSRSS) 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, CPB 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, Inland Revenue (IR) is included as part of the receivables or payables in the statement of forecast financial position.

The net GST paid to, or received from, IR, 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 paying 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' CPB.

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 2022 to 30 June 2025.









PHARMAC

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