

ANNUAL REPORT

For the year ended 30 June 2019

PHARMAC

TE PĀTAKA WHAIORANGA



Annual Report of
Pharmaceutical Management Agency (PHARMAC)
Te Pātaka Whaioranga

for the year ended
30 June 2019

*Presented to the House of Representatives pursuant to
Section 150(3) of the Crown Entities Act 2004*

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ISSN 1179-3759 (Print)
ISSN 1179-3767 (Online)

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A handwritten signature in black ink that reads 'Steve Maharey'.

Hon Steve Maharey
Chair

27 September 2019

A handwritten signature in black ink that reads 'Nicole Anderson'.

Nicole Anderson
Chair, Audit and Forecast Committee

27 September 2019

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STATEMENT OF RESPONSIBILITY

The Board of PHARMAC accepts responsibility for:

- the preparation of the annual Financial Statements and Statement of Performance and for the judgements in them
- establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting
- any end-of-year performance information provided by PHARMAC under section 19A of the Public Finance Act 1989
- the 2018/19 Annual Report.

In the opinion of the Board, the Financial Statements and Statement of Performance for the year ended 30 June 2019 fairly reflect the financial position and operations of PHARMAC.



Hon Steve Maharey
Chair

27 September 2019



Nicole Anderson
Chair, Audit and Forecast Committee

27 September 2019

CHAIR'S REPORT

Tēnā koutou ngā karanga maha
Tēnā koutou ngā mate rangatira huhua
Tēnā koutou 'Te Pātaka Whaioranga'
Tēnā koutou katoa

Greetings to you all. As I introduce the annual report for 2018/19, I want to acknowledge my sector colleagues, the leaders and Board members who have come before me, and the skilled and committed staff of PHARMAC Te Pātaka Whaioranga.

Over my 12 months as Board Chair I have seen first-hand the positive impact PHARMAC has on the health and wellbeing of New Zealanders, and the critical part we play within the health sector.

I have been pleased to see an organisation that is receptive to change and keen to engage in a more open and transparent way with New Zealanders; I am proud to be part of this excellent organisation.

We have been working to better incorporate New Zealanders' views in our decisions, and make our processes faster, clearer and simpler. Increasing public trust in PHARMAC is a priority for the organisation.

We are undertaking a wide-ranging programme of work to improve the transparency of our processes and our communication with New Zealanders and other stakeholders and are making significant steps forward with this.

Increasing transparency and enabling the best possible choices to be made

To make the best possible investment decisions and generate the best health outcomes for New Zealand, we are working on a number of analytical and system design changes. These will help make our processes faster, clearer and simpler and increase the public's trust and confidence in PHARMAC.

One significant improvement we have worked on is the creation of an easy-to-use tool, PHARMConnect, that suppliers, clinicians and consumers can use to make medicine funding applications. PHARMConnect will provide up-to-date information and allow anyone to track the progress of their funding application. This tool will also give people more insight into how PHARMAC makes its funding decisions.

We are considering how we can engage consumers earlier on medicine funding applications and are reviewing the role and function of our Consumer Advisory Committee.

We have published meeting summaries from our Board and responses to Official Information Act requests and have cut the time taken to provide information from our expert clinical committees. We are also working to close inactive medicine funding applications, so New Zealanders can have more clarity around our medicines funding process.

These improvements will give New Zealanders easier and faster access to information about our processes and clarity about our decisions.

Achieving equitable access to medicines

We published the evidence-based discussion paper *Achieving medicine access equity in Aotearoa New Zealand: towards a theory of change* in early 2019. It has been recognised across the health sector as a significant step towards identifying the factors that need to be addressed in the health sector if we are to achieve equitable outcomes from medicines for New Zealanders.

Addressing inequitable health outcomes and access to healthcare is a Government priority. PHARMAC is advancing this objective by focusing on equitable access to funded medicines, particularly in primary care, for long term conditions, such as cardiovascular disease, gout, and diabetes.

Too many people miss out on funded medicines and the health benefits those medicines can bring, particularly Māori, Pacific people, and those living in socioeconomic disadvantage and in rural locations. For Māori, the unmet need is highlighted by research showing a shortfall of 1.1 million prescribed treatments a year; PHARMAC's responsibilities under Te Tiriti o Waitangi also demand a particular focus on improving outcomes for Māori.

Te Whaioranga, our Māori Responsiveness Strategy, and our Pacific Responsiveness Strategy describe key parts of our work programme to improve access to medicines, in collaboration with policy and decision makers in the wider health sector.

Introducing Te Pātaka Whaioranga

We launched PHARMAC's Māori name Te Pātaka Whaioranga – the storehouse of wellbeing. It is an expression of the role we play in the New Zealand health system in safeguarding and managing medicines and medical devices for the benefit of all New Zealanders. The introduction of Te Pātaka Whaioranga signals our commitment to the principles of Te Tiriti o Waitangi and our drive to improve health outcomes of Māori and all New Zealanders.

Our goal to generate \$1 billion of savings from medical device management to reinvest in health outcomes for New Zealanders

PHARMAC is preparing for a significant change in the way we manage medical devices. The new approach is about supporting more consistent access to medical devices for New Zealanders and helping District Health Boards (DHBs) manage spending on medical devices.

PHARMAC continues to engage with a wide range of key stakeholders about how to achieve fairer access to DHB hospital medical devices through PHARMAC's management of them. The feedback received from the health sector, medical device industry and others will help ensure the final design of the new approach will be effective, practical and successful.

PHARMAC consulted with every DHB and more than 150 medical device suppliers to ensure we are working closely with the health system to design the future way of working.

The money that is eventually saved from this process will stay with DHBs and be reinvested in the healthcare of New Zealanders.

Increasing access to medicines

This year saw a major change as PHARMAC took over full budget management of hospital medicines. To support this change, PHARMAC's medicines budget increased to \$985 million in 2018/19 from \$870.8 million in 2017/18.

Over the 2018/19 financial year we made 20 investment decisions that benefitted approximately 138,000 people. We funded 10 new medicines and widened access to 10 more. These investment decisions include a potentially lifesaving treatment for people with hepatitis C and treatment for people with haemophilia.

More New Zealanders are being immunised against the flu

In 2019 more than 1.38 million influenza vaccines were distributed around the country, which has resulted in a record number of New Zealanders being immunised. We are pleased that so many people took the opportunity to be immunised this winter.

Medicines for people with rare disorders

In July 2018 we established a Rare Disorders Subcommittee of the Pharmacology and Therapeutics Advisory Committee. This Subcommittee provides PHARMAC with expert clinical input on funding applications for rare disorder medicines. This is just one of the ways we are seeking to improve the process for assessing medicines for rare disorders and to increase the range of medicines available to these patients.

What it's all about - improving lives

A story that illustrates the positive impact of PHARMAC's work is that of Lyn, a 52-year-old Auckland mother of two who completed her 12-week course of Maviret (a newly funded cure for hepatitis C) in June 2019. It has been life changing for her.

Lyn has suffered from hepatitis C for over 30 years, constantly feeling exhausted and suffering from "brain fog".

Within a week of starting treatment, Lyn started to feel better. One month after completing treatment she no longer needs daytime naps, her mind is clearer and she has started training to become a mental health worker. She says that would have been impossible while she had hepatitis C.

"Life was an uphill battle, now I'm living," she says.

A handwritten signature in black ink that reads "Steve Maharey". The signature is written in a cursive style with a large, sweeping underline that loops back under the name.

Hon Steve Maharey
Chair

PHARMAC EXPLAINED

Who are we?

PHARMAC is the government health agency that decides which medicines, and some medical devices, are **available** to New Zealanders in a way that is **affordable** and **accessible**.

Most New Zealanders experience PHARMAC's work when they get a prescription filled at the pharmacy, when they're vaccinated for free or when they receive medicines in a public hospital.

Available

Each year PHARMAC makes more medicines available to more New Zealanders. This is by funding new medicines or making the medicines we already fund available to more people.

Affordable

The Government sets the budget for overall public spending on health and then the Minister of Health decides how much of the health budget will be managed by PHARMAC and used to fund medicines. PHARMAC's mission is to, within the fixed budget, choose medicines to fund that will get the best health outcomes for New Zealanders.

Accessible

After PHARMAC makes the decision to fund a medicine or medical device, we want to make sure that everyone who will benefit from it, gets it and uses it. We are committed to ensuring equitable access to the treatments we've made available and that everyone uses treatments in the best way so they get the health benefits they offer.

How does PHARMAC choose which medicines should be funded?

PHARMAC receives applications for medicines to be funded, usually from medicine suppliers, but sometimes from clinicians or everyday New Zealanders.

PHARMAC uses its Factors for Consideration to assess medicines. The Factors enable us to look carefully at information and evidence about the health of people who need the medicines, the health benefits the medicine offers, any costs or savings that funding the medicine would have for overall public spending on health, and we also think about the suitability of the medicine for people who will need to use or administer it.

Every year, the total cost of the new medicines we have applications for is more than the funds not already allocated from our fixed budget. Decisions take time – we consider a lot of detailed information because we take our responsibility to make these important choices seriously. We want to ensure New Zealanders achieve the best health outcomes from medicines by using our fixed budget in the best way possible.

We know that it's sometimes hard to understand what is happening with a funding application and whether PHARMAC will or won't fund a medicine. We have an Application Tracker that anyone can use to see where a medicine is at in our decision making process.

We also know people want us to make our decisions faster and we do too. From 1 January 2020 we plan to start assessing cancer medicines for funding in parallel with Medsafe (New Zealand's Medicines and Medical Devices Safety Authority). Medsafe decides if a medicine meets standards for quality, safety and efficacy, and approves it for marketing in New Zealand. By assessing medicines at the same time as Medsafe, PHARMAC will reduce the overall time between a medicine being

approved for sale in New Zealand and us reaching a decision about whether or not the medicine will be funded.

The process explained

When PHARMAC receives an application for a medicine to be funded, all the supporting evidence is reviewed. This can be from a range of sources, including our own research and input from patients, patient representative groups and clinicians.

The medicine and all the evidence is then looked at by experienced and independent doctors and other health care professionals on the Pharmacology and Therapeutics Advisory Committee (PTAC) or one of its specialist subcommittees. These committees are made up of expert clinical advisors from around New Zealand who work within the health system and give PHARMAC the expert advice we need. You can learn more about the members of PTAC and its subcommittees on our website.

The committees use PHARMAC's Factors for Consideration (described above) when looking at the evidence and giving advice to PHARMAC. The committees can make a recommendation to PHARMAC to either fund the medicine (with either a high, medium or low priority) or to decline the funding application. PTAC and subcommittee advice and recommendations are published on our website and can also be found via our Application Tracker.

A recommendation to fund the medicine by PTAC or a subcommittee is not a decision. This is because the PHARMAC Board (or its delegate) is the decision-maker. Following advice and recommendations from our clinical experts, PHARMAC completes a health economic assessment and gathers all the information it has together. Using the Factors for Consideration, PHARMAC compares all the new medicines with each other and ranks them in order of preference. This creates a prioritised list of medicines that could be funded.

PHARMAC's mission is to fund as many of the medicines it can on this list from any available money in its fixed budget. When there is sufficient funding available, we enter into negotiations with the suppliers to procure the medicines.

If we decide to decline funding for a medicine, we let the applicant know. We won't consider the medicine for funding again, unless there is new evidence.

Getting more medicines for more New Zealanders

Medicines and medical devices can cost a lot of money. PHARMAC has a fixed budget, which we aim to spend in the most worthwhile way possible. We try to fund as many new good value medicines as we can from that budget. Occasionally, we take steps to reduce the costs of some already funded medicines, so we can use the money to buy more medicines for more New Zealanders. This might mean we make brand changes for medicines we already fund. Before we make these kinds of decisions, we seek clinical advice to make sure it's the right thing to do, and we publicly consult to understand what impacts the change might have on people. Supporting clinicians and people who use medicines to make these kinds of changes is an important part of our work.

PHARMAC'S BOLD GOALS

PHARMAC's strategy guides our work ahead to 2025. Our vision is to be critical to the health system in delivering better health for all New Zealanders. Our legislative mandate is to get the best health outcomes from our investment in medicines and medical devices.

To drive our strategy, we have adopted three bold goals. They push beyond our everyday work to challenge us to deliver the very best we can for New Zealand. The goals we want to achieve by 2025 are:



Eliminate inequities in access to medicines

Not all New Zealanders are achieving the best health outcomes from medicines funded by PHARMAC.

Due to a range of systemic barriers, Māori are not able to benefit from funded medicines in the community in the same way as non-Māori. Pacific peoples, those experiencing socioeconomic disadvantage and those in rural locations are likely to face barriers too.

PHARMAC has, following the World Health Organisation definition of health equity, defined **medicine access equity** as 'the absence of avoidable, unfair or remediable differences in funded medicine access among groups of people, whether those groups are defined socially, economically, demographically or geographically or by other means of stratification.'

This means that everyone should have a fair opportunity to access funded medicines to attain their full health potential and no one should be disadvantaged from achieving this potential. In this context, different levels of support are needed for some population groups to get fair access to medicines once they have been funded.

Taking a focused approach

In *Achieving medicine access equity in Aotearoa New Zealand: towards a theory of change* (published April 2019), we have identified our scope for current and future equity work.

We are focused on **conditions that respond well to medicines**. This includes medicines for the prevention, treatment and/or management of:

- asthma
- diabetes
- gout
- hypertension (high blood pressure)
- primary and secondary prevention of a cardiovascular event.

In line with the Government's priorities, we are focused on the **primary care** setting. Over time, we'll look to improve equity of access to medicines in secondary care and for funded vaccines.

Priority is given to our Treaty partner, Māori, who are well-evidenced to experience health inequities. Other priority populations are:

- Pacific peoples
- those living in high socioeconomic deprivation
- those residing in rural and isolated areas where access to health services is more challenging
- people from former refugee backgrounds.

Partnerships to improve medicines access equity in communities

Through partnership with the Health Quality Safety Commission and Te Tihi o Ruahine Whānau Ora Alliance, this year PHARMAC has supported three community-led quality improvement/action research projects looking at improving equitable access to medicines in their communities. The projects will provide us with invaluable information about what works on the ground, which we can use to inform larger-scale interventions in the future. These projects are:



Westbury Pharmacy/Hora Te Pai Health Services (Kāpiti Coast): The 'hauora pai' project (Māori for 'good health'), is improving Māori and Pacific patients' long-term gout management and reduce inequity of service provision.



Te Whānau a Apanui Community Health Centre (Te Kaha, Bay of Plenty): Medicines access in a remote rural community to address health disparities of its high-need, predominantly Māori population.



Tongan Health Society (Onehunga, Auckland): To reduce the rate of diabetic complications in the Tongan population, clients will be offered an integrated wrap around model of care focused on improving insulin starts for those in need.

Through Te Whaioranga, PHARMAC's Māori Responsiveness Strategy, we have developed enduring partnerships with Whānau Ora Collectives across the country to support their health activities in Māori communities. In addition, we run 'He Rongoā Pai He Oranga Whānau – whānau staying well with medicines', a community wānanga programme for achieving optimal medicines use by whānau.

PHARMAC also supports Māori health workforce development by funding annual study awards through our four Māori health professional partners Te ORA (Māori Medical Practitioners), Ngā Kaitiaki o Te Puna Rongoā o Āotearoa (Māori Pharmacists Assn), Te Rūnanga o Āotearoa NZNO (Māori Nurses Union), and Ngā Pou Mana (Māori Allied Health Workers Assn).

Measuring outcomes

We have developed a Medicine Access Equity outcomes framework that we are testing with the sector. This recognises that there are multiple reasons for medicines access inequities and most require a system-level response. Tracking system level progress will help PHARMAC to understand where to invest resource and to influence change with health sector players and with communities. Our next step is to develop appropriate indicators and undertake baseline analysis informed by a range of perspectives, including Māori, clinical and population health expertise.

Generate \$1 billion of savings from medical device management to reinvest in health outcomes for New Zealanders

More medical devices used by DHBs were brought under national contracts this year, which means any DHB can purchase the contracted items under common terms for things like price, maintenance and supply.

We have a total of over 106,000 hospital medical device line items listed in the Pharmaceutical Schedule. Following the Government's decision to apply the PHARMAC management model to DHB hospital medical devices, PHARMAC will be responsible for deciding what devices are used or provided by DHBs – either within hospitals or the community.

In future, our approach to medical device funding decisions will bear many similarities with the approach we currently use for medicines. For example, decisions will be based on the Factors for Consideration, which means we will assess the need, benefits, costs, and savings and suitability of a particular device, including how these apply to the individual requiring treatment, their family/whānau and wider society, as well as the broader health system.

This year we consulted with DHBs and medical device suppliers on the next step in our proposed approach to managing funding decisions for hospital medical devices. The feedback from this consultation will ensure that our approach to managing hospital medical devices is effective, practical and successful.

Create systems that enable the best investment choices to be implemented across all PHARMAC activities

Getting the best health outcomes from the decisions we make depends on the right systems and processes being in place to support those decisions – not just within PHARMAC, but across the wider health sector too.

The work we have doing towards this goal involves changing how we do things and how we work with others to achieve our goal of delivering the best health outcomes for New Zealanders.

This year saw a major change with responsibility for managing expenditure on DHB hospital medicines transferring from DHBs to PHARMAC. With hospital medicines now included in the Combined Pharmaceutical Budget, we have the ability to deliver even greater savings which can be reinvested into the health of New Zealanders.

We have been working with DHBs, NZ Health Partnerships and the Ministry of Health to support the implementation of the National Health Finance, Procurement and Information Management System (FPIM). FPIM will deliver a national, unified system for finance, procurement and information management across all 20 DHBs; a key component of system infrastructure to enable PHARMAC to deliver on Government expectations for its role in hospital medical devices and achieve maximum value and benefits for the health sector.

Within PHARMAC we have been working on PHARMConnect, a new online system for submission of medicines funding applications and making it easier for people to track the status of an application. PHARMConnect launched in late August 2019.

THE YEAR IN NUMBERS

Combined Pharmaceutical Budget 2018/19

\$985m

DHB's combined medicines expenditure



Hospital medical devices 2018/19

29,880

additional line items on the Pharmaceutical Schedule under national contracts



3.77m

number of New Zealanders receiving funded medicines
(2.5 percent increase on previous year)



47.2m

number of funded prescription items filled



106,628

total line items on the Pharmaceutical Schedule under national contracts



10

number of new medicines funded



10

number of medicines with widened access



\$76m

value of medical devices under contract for 2018/19



138,346

estimated number of additional patients benefitting from decisions



\$75.4m

in savings reinvested in more medicines



\$255m

total value of medical devices under PHARMAC contract



SUMMARY OF MEDICINES SPENDING

PHARMAC is responsible for deciding which medicines to publicly fund in New Zealand. In order to make these funding decisions, PHARMAC works to a budget held by DHBs, known as the Combined Pharmaceuticals Budget. This budget is set by the Minister of Health. PHARMAC's role is ensure that spending on medicines doesn't exceed this budget.

This year is the first time that DHB spending on hospital medicines is included in the Combined Pharmaceutical Budget. Between the 2017/18 and 2018/19 financial years, the Combined Pharmaceutical Budget increased from \$870.8 million to \$985 million to support this change.

Medicines spending was on budget...

This year, medicines spending was on budget at \$985 million. This budget figure is determined through the following:

\$1,492.61 million	total spending on medicines used in community and hospital settings, including cancer treatments, vaccines and haemophilia treatments
– \$517.39 million	rebates and adjustments (part of our commercial agreements with suppliers)
+ \$9.78 million	transfer from DHBs to the Discretionary Pharmaceutical Fund (DPF) ¹
\$985 million	total medicines spending for 2018/19

This means that in total DHBs spent \$985 million on both maintaining the supply of medicines we currently fund, as well as the purchase of new medicines

...while the number of medicines available for New Zealanders also increased

In 2018/19, PHARMAC made decisions to fund 10 new medicines and widen access to a further 10 medicines, meaning that more New Zealanders have access to more treatments. This is on top of continuing to purchase the medicines that are already funded.

This year saw a 3 percent increase in the number of prescription items for medicines compared to last year. This means that the total amount of medicines being used in New Zealand is growing.

Although the cost of medicines is increasing, we were able to make savings of \$75.4 million during the year, which was reinvested in more medicines.

The table below shows how many medicines we have funded or widened access to over the last ten years:

Year	New listings	Widened access	Total
2018/19	10	10	20
2017/18	13	39	52
2016/17	18	8	26
2015/16	15	6	21
2014/15	21	20	41
2013/14	26	35	61
2012/13	20	40	60
2011/12	14	10	24
2010/11	39	43	82
2009/10	20	25	45

¹ This fund is explained in more detail on page 16.

A lifesaving medicine for those living with hepatitis C

From 1 February 2019, PHARMAC started funding a lifesaving treatment for those in New Zealand living with hepatitis C.

Hepatitis C is an infectious disease that primarily affects the liver, which often leads to liver disease, cirrhosis, and potentially later liver failure or liver cancer.

PHARMAC began funding Maviret to treat people with any type of hepatitis C virus. In many instances this treatment can lead to fewer cases of liver cancer, reduce the need for liver transplants or prevent early death. This is a major step forward for treatment, and potential cure, of hepatitis C with estimates that up to 50,000 New Zealanders could benefit from this funded treatment.

Improving the health of those with haemophilia

From 1 May 2019, people with haemophilia in New Zealand will have some of the broadest access in the world to two new long-acting medicines.

Haemophilia is a condition where the blood of a person with haemophilia does not clot normally, due to lacking one or more of the plasma proteins needed to form a clot and stop the bleeding.

PHARMAC has begun funding two medicines which will cut down on the amount of injections people will need to administer. This decision is expected to benefit around 160 New Zealanders.

In addition to the above, PHARMAC has made a number of other significant medicines funding decisions. Some of the major investment decisions we made include:

- **new treatment for those with chronic heart failure**

PHARMAC started funding sacubitril, in combination with valsartan (Entresto), as an anti-hypertensive treatment for those with chronic heart failure. We estimate up to 646 New Zealanders could be eligible for this new treatment

- **new treatments for those with type-2 diabetes**

PHARMAC started funding vildagliptin (Galvus) and vildagliptin with metformin (Galvumet) as an anti-hyperglycemic agent for those with type-2 diabetes. We estimate up to 7000 New Zealanders could be eligible for these treatments

- **widened access to treatment for those with Gaucher's disease**

Gaucher's disease is a rare, inherited enzyme deficiency disorder which causes increased quantities of fats (lipids) to build up in the body, leading to a wide variety of symptoms. PHARMAC started funding taliglucerase alfa (Elelyso), an infusion treatment to help those with Gaucher's disease manage their condition.

PHARMAC has continued expanding its role into hospital medical devices

We are working with DHBs, suppliers and others to change the way we manage medical devices used or supplied to people by DHBs. This means that PHARMAC's role has expanded to include making funding decisions on hospital medical devices. This approach is about supporting more consistent access to medical devices for New Zealanders and helping DHBs manage spending on medical devices.

During the year, PHARMAC added 29,880 line items to the Pharmaceutical Schedule, bringing the total number of line items to 106,628. The value of the hospital medical devices negotiated in our agreements with DHBs currently totals \$255 million.

How PHARMAC managed spending in 2018/19

In addition to managing the Combined Pharmaceutical Budget, PHARMAC has three funds that it looks after:

- Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund
- Hospital Discretionary Pharmaceutical Fund
- Legal Risk Fund.

Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund

The Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund (CPB DPF) is a special purpose reserve fund which also serves as a budget management tool in that it both:

1. allows PHARMAC to manage unexpected fluctuations in medicines expenditure, which may lead to over or under spending of the Combined Pharmaceutical Budget
2. allows PHARMAC to make investment decisions that might otherwise be unaffordable within the Combined Pharmaceutical Budget.

At the start of the 2018/19 financial year, the CPB DPF balance was \$9.71 million. An amount of \$9.78 million was paid by DHBs to the CPB DPF on 30 June 2019 as a result of spending on subsidies being unexpectedly lower than budgeted. The closing balance of the CPB DPF on 30 June 2019 was \$19.49 million, which is now available for spending in future years.

Hospital Discretionary Pharmaceutical Fund

The Hospital Discretionary Pharmaceutical Fund (HDPF) is a fund which supports the long term management of DHB expenditure and increases PHARMAC's capacity to make efficient budgeting decisions. The HDPF provides the ability to manage investments over financial years for the overall benefit of the health system.

At the start of the 2018/19 financial year, the HDPF balance was \$4.18 million in equity, and a further commitment for \$275,000 in prepaid expenses. Payments from the Fund relate to initiatives to support long term management of DHB expenditure and increase PHARMAC's capacity to make efficient budgeting decisions. The closing balance of the HDPF on 30 June 2019 was \$3.9 million.

Legal Risk Fund

PHARMAC maintains a Legal Risk Fund, which can be used to initiate or defend legal action to which PHARMAC is a party. Any spending from this fund needs to be approved by PHARMAC's Board in accordance with the Use of Legal Risk Fund Policy. Historically, PHARMAC has experienced a high level of litigation activity. It is difficult to predict when litigation can occur, and it may extend beyond our normal, year-to-year resourcing. Having the Legal Risk Fund allows us to commence or continue with legal proceedings as required without delay.

There was nil expenditure from the Legal Risk Fund for 2018/19 (2017/18: \$7,007). PHARMAC's litigation budget is used to replenish the Legal Risk Fund at financial year end, in the event that funds remain in that budget. At 30 June 2019, nil (2017/18: \$21,568) remained in the litigation budget. The balance of the Legal Risk Fund at 30 June 2019 was \$8.2 million.

OUR PEOPLE

Overview of key capability

PHARMAC requires a broad range of capabilities to carry out its work effectively. We have a strong focus on building capability to enhance current work and ensure PHARMAC is well-prepared for future challenges.

Key capability areas include:

- *governance* – Board members are appointed by the Minister of Health. A Governance Manual guides the Board's operations and sets out legal obligations, relevant procedures and the delegations framework for PHARMAC's decision-making
- *critical appraisal and evidence-based medicine* – clinical evidence is a fundamental part of PHARMAC's decision-making. We have a strong focus on continual development of critical-appraisal skills, monitoring international developments in evidence-based medicine, and providing effective support to PHARMAC's clinical advisory committees
- *procurement and contracting* – an important part of PHARMAC's work is the negotiation of commercial contracts. In addition to ongoing development of negotiation and contracting skills, PHARMAC has a well-developed set of purchasing strategies, tools and systems to support procurement and contracting work. We also have a strong focus on managing contracts once in place
- *policies and procedures* – PHARMAC has in place a wide set of corporate and operational policies and procedures to ensure work is carried out in the best possible way, including to ensure probity and integrity across PHARMAC's operations. Policies and procedures are regularly reviewed, and operational policies and procedures are also regularly updated
- *risk management* – PHARMAC operates a risk management framework with a regular focus on risks and their management by both management and the Board
- *stakeholder relationships* – PHARMAC places high value in effective stakeholder relationships, to understand stakeholder issues and views, and to ensure a good understanding of PHARMAC's work and the decisions that are made.

Enhancing PHARMAC as a good employer

PHARMAC's success requires the right people in the right roles, so high importance is attached to recruiting and retaining high-performing employees. We have several initiatives in place guided by sound principles of being a good employer. We regularly review our programmes and policies to ensure they meet the changing demographics and the workplace.

Leadership, accountability and culture

PHARMAC focuses on developing effective individual and organisational leadership. All staff members are expected to act with respect, integrity and accountability. We invest in programmes and activities that support leadership development and, where possible, staff advancement. We encourage openness in the workplace, including providing regular opportunities for staff to contribute to and be actively involved in PHARMAC decisions. Policies and procedures are regularly reviewed to ensure they are fit for purpose.

Recruitment, selection and induction

We are an equal opportunities employer (EEO) and recruit the best person for the role. Vacancies are advertised to attract a range of candidates, with the approach varying according to circumstances and role type. We have a strong and diverse employer brand in the health industry and work to extend this has been supported through social media channels such as Facebook, Twitter and LinkedIn. An induction programme is in place to help new staff familiarise themselves with PHARMAC's operations as quickly as possible.

PHARMAC considers equity and diversity in all decisions. We are partner to, and have obligations under, Te Tiriti o Waitangi. We are a Crown entity organisation and we take our commitments seriously, as detailed in PHARMAC's Statement of Intent.

Employee development, promotion and exit

We provide and encourage development opportunities for staff to grow their skills, abilities and careers. These opportunities include taking on senior roles, undertaking external training and development, receiving support for formal study, and secondment opportunities. We also offer regular training to directly support our Māori Responsiveness strategy, including Te Reo Māori classes and Te Tiriti o Waitangi training offered annually.

Our Pacific Responsiveness Strategy's purpose is to support Pacific People in New Zealand to live healthy lives through improved and timely access to, and use of, medicines and medical devices. Cultural awareness sessions have been offered to staff to support this strategy and educate staff.

Our overall business plan aims to link individual and team performance to PHARMAC's direction. This year work is under way to provide clarity on the key business priorities.

Online exit surveys and face-to-face interviews are offered to all departing employees and the data is analysed to monitor, manage and communicate reasons for people leaving the organisation.

Flexibility and work design

PHARMAC recognises that supporting employees to balance their work and family commitments will, over time, have a positive impact on work quality, productivity and employee wellbeing. Our flexible working arrangements ensure staff, who work remotely, are provided with appropriate technology and communication solutions to enable seamless and flexible working arrangements. We offer generous parental leave entitlements in addition to legal entitlements.

Remuneration, recognition and conditions

We use independent job evaluation and market remuneration information to set salary ranges for positions. We aim to achieve fairness and equity through reviewing and eliminating inappropriate pay disparities. Remuneration is reviewed annually against market changes and Government expectations. High performers are recognised with promotions and development opportunities. We create work conditions that enable staff to feel comfortable and supported, including those who identify as LGBTQI and those with disabilities.

Harassment, discrimination and bullying prevention

We do not tolerate any bullying, discrimination or harassment. Conduct and behaviour expectations are clearly communicated through our bullying, harassment and discrimination policy, which is provided to staff at the induction stage. Existing staff are regularly reminded about policies and expectations, including specific workshops for managers on this topic.

Safe and healthy environment

PHARMAC aims to provide a working environment and management process which is, so far as is reasonably practicable, free of risks to health and safety. Our health and safety system ensure that hazards are identified and risks are controlled and managed accordingly.

PHARMAC is committed to doing everything possible to prevent injury. This includes establishing early reporting and detection procedures, training and education, and providing guidelines on safe working conditions. All accidents, injuries, and near misses and hazards are reported to the Health and Safety Committee for analysis and necessary actions are taken to eliminate recurrence, using a hierarchy of controls.

Maintaining a safe and healthy workplace, free from injury, is our aim. In the 2018/19 financial year, we had one lost time injury. Our focus this year has been on encouraging staff to report hazards and near misses. As a result, the number of reports has increased, however, our lost time injuries have remained unchanged. The following table provides a summary of the 2018/19 financial year reported events:

Category of incident	Number of incidents reported
Lost time injuries	1
Reported accidents / incidents / events / hazards	18
Non-work related	0
Near miss	3

Our Health and Safety approach aims to enable staff to operate and work in a safe and healthy environment. This is achieved through our Health and Safety Governance programme.

- *PHARMAC Board Health and Safety Committee* – meets several times per year to assist the Board to provide leadership and policy in discharging its health and safety management responsibilities within the organisation.
- *Staff Health and Safety Committee* – meets monthly to deliver key priorities, address risks and minimise incidents from occurring, as well as audit the systems of work.
- *Well Working Group* – a subgroup of PHARMAC’s Health and Safety Committee and exists to support a work culture of wellness. The working group’s role is to identify and implement wellness practices in the following areas: stress management, mental health, physical health, healthy environment, and organisational engagement.
- *Health and safety training and safety culture* – PHARMAC provides regular training and engagement in health and safety, with the aim of encouraging individual responsibility for health and safety in the workplace. Staff are provided regular updates on health and safety matters via all staff meetings and the PHARMAC intranet, as well as access to simplified near miss reporting tools, which aim to encourage individuals to report on potential hazards.

In order to manage and monitor health and safety in the organisation, PHARMAC has developed key performance indicators. Our Risk Management System provides reporting of incidents, emergency preparedness and business continuity planning.

Staffing

At 30 June 2019, we had a total of 127 staff – 112 permanent employees, plus 15 fixed-term employees. We also had 15 vacancies. We anticipate overall staff numbers to grow, but at a slower rate than previous years. Permanent staff turnover for the 2018/19 year was 29 percent, which is higher than in previous years and driven by a variety of factors². Eight employees went on parental leave during the year.

We have a relatively high number of part-time staff – 11 percent at 30 June 2019 – to retain valuable skills and competencies and provide for work-life balance. We are also currently supporting staff with disabilities, and a disability register is held in case of emergency.

Staff numbers by ethnicity / country of origin	
Australian	3
British/Irish	4
Chinese	3
Dutch	1
Indian	4
Māori	5
NZ European/Pākehā	71
Samoan	1
Vietnamese	1
Other European	4
Other ethnicity	1
Unknown/Undisclosed	29
Total	127

Staff numbers by age (years)	
20–29	21
30-39	38
40-49	27
50-59	23
60-69	9
70-79	1
Undeclared	8
Total	127

Gender	Part-time	Full time	Total
Permanent employees			
Men	4	34	38
Women	4	69	73
Undisclosed	0	1	1
Fixed-term employees			
Men	2	2	4
Women	4	7	11
Undisclosed	0	0	0
Grand Total			127

² The main factors that led to staff turnover in 2018/19 included taking up opportunities for career progression (due to PHARMAC's small organisation size), personal reasons and employees moving away from Wellington.

MEASURING OUR IMPACT

PHARMAC's statutory objective is to secure the best health outcomes for New Zealanders from pharmaceutical treatment. This means it is vitally important that PHARMAC's work has a positive impact for New Zealanders and contributes to health gains in the wider health system.

PHARMAC has identified four areas that we use to measure the impact of our work. These impact areas are laid out in our Statement of Intent 2017/18 – 2020/21 and are outlined below.

IMPACT AREA 1: Increased access to effective medicines and medical devices

Why is this important?

Funding more clinically effective and good value medicines and medical devices helps New Zealanders to live longer and healthier lives. PHARMAC creates savings from funded medicines so we can purchase more medicines or allow more people to benefit from existing funded medicines. We also make decisions about the access criteria to some funded medicines so that, within the funding available, the right people benefit from the medicines they need, and the best health outcomes are achieved.

Where are we focused?

- We will continue to manage the list of funded medicines and related products by ensuring total expenditure is within the fixed budget. We will continue to make decisions on new hospital medicines within the available funding and decide on contract arrangements and usage for medical devices across all DHBs.
- We will decide and monitor rules or criteria for access to specific products and distribution arrangements.
- We will make decisions on funding medicines for people in exceptional circumstances.

The following page details PHARMAC's performance for this impact area.

Impact	Measure	Rationale	Results
Increased access to effective medicines and medical devices	The price paid for medicines and related products in the Combined Pharmaceuticals Budget (CPB) reduces in real terms over time, while access to them increases.	In managing the CPB we want to, in effect, get more for less. We are always aiming to increase people's access to clinically effective, good value medicines by reducing prices. This is demonstrated by the graphs on page 24.	Between 2009 and 2019, we saved DHBs a cumulative total of around \$7.20 billion, including \$1.44 billion in 2018/19. At the same time, the number of new medicines and people receiving them has increased.
	The number of New Zealanders receiving funded medicines increases.	We want to see an increase in the number of New Zealanders receiving funded medicines. This would help to reflect the success of our work in: <ul style="list-style-type: none"> • funding more medicines • removing or widening clinical access criteria, so more people can get funded medicines • reducing inequities in access to medicines. 	The number of New Zealanders receiving funded medicines (excluding vaccinations, hospital medicines and haemophilia patients) increased by 2.5 ³ percent to 3.77 million.
	Total value and total number of hospital medical devices under contract increases.	As we progress our work in hospital medical devices (for which we entered into our first contracts in February 2014) we expect to see an increase in the number of devices that we've secured contracts for. We also track our progress through the value of the contracts we've negotiated – demonstrating the extent of our work. This measure shows the growth of PHARMAC's medical devices work programme (and links to our bold goal to generate \$1 billion of savings from medical device management to reinvest in health outcomes for New Zealanders).	We estimate the annualised spend on hospital medical devices under contract has increased by \$76 million. ⁴ In 2018/19, the total number of new medical devices under contract has increased by 29,880 listings to 106,628 line items.
	The average value of our funding decisions is higher than the average value of all investment proposals.	To get the best health outcomes – our overarching objective – we need to decide which funding applications represent the best health outcomes for us to progress and implement. This fundamentally means making the best of all choices available to us in any year. Combined with the integrity of our application process, including priority recommendations from PTAC, this measure helps us prove that the best choices were made.	There were 118 quality-adjusted life-year (QALYs) ⁵ achieved per \$1 million spent for funded proposals, compared to 12 QALYs per \$1 million for all available investment options.

³ The number of New Zealanders receiving funded medicines is estimated using data as at August 2019. The data is not finalised until late 2019, due to lags in pharmacies submitting prescription claims. For consistency of reporting year-on-year, the reported increase of 2.5% is calculated from the 2019 data estimate compared to the 2018 reported estimate. The increase when compared to 2018 finalised data (3.72 million) is 1.3%.

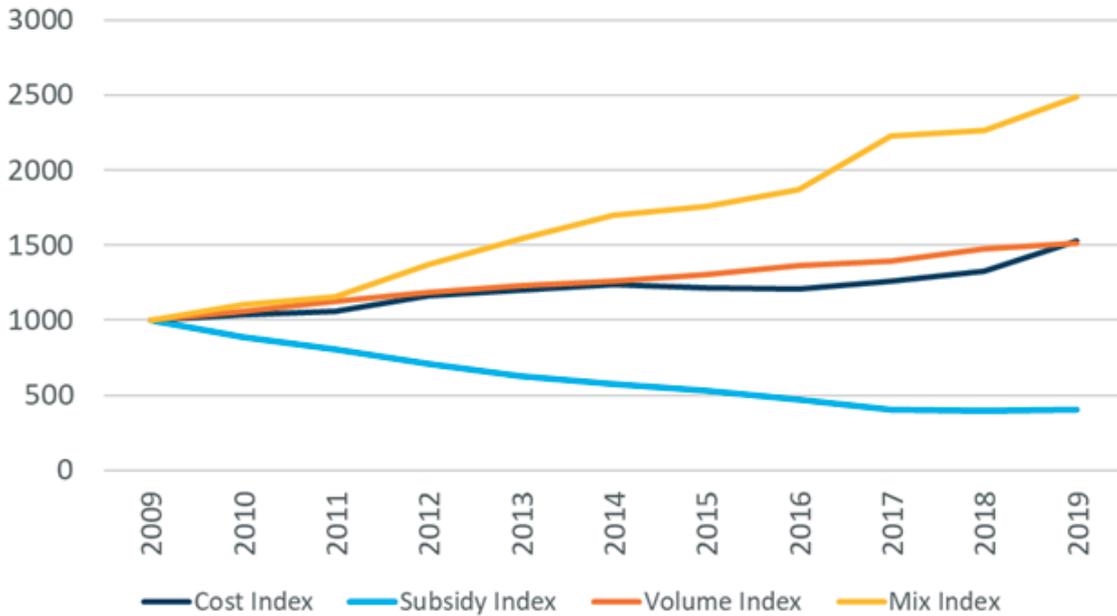
⁴ This estimate is based on information provided by suppliers in their submissions to PHARMAC. While we consider this a reasonable estimate, the actual figure may vary due to spend being estimated from historical data.

⁵ A QALY is a measure of the health of a person or group in which the benefits, in terms of length of life, are adjusted to reflect the quality of life.

New Zealanders are getting more medicines and paying less for them

The graph below shows that from 2009 the 'volume' (number of medicines) and 'mix' (variety of medicines) has increased over time, meaning we are seeing more, and varied, medicines in New Zealand. Over the same period, subsidies paid ('subsidy') have gone down, signalling that PHARMAC are achieving savings in the face of medicines costs ('cost') increasing.

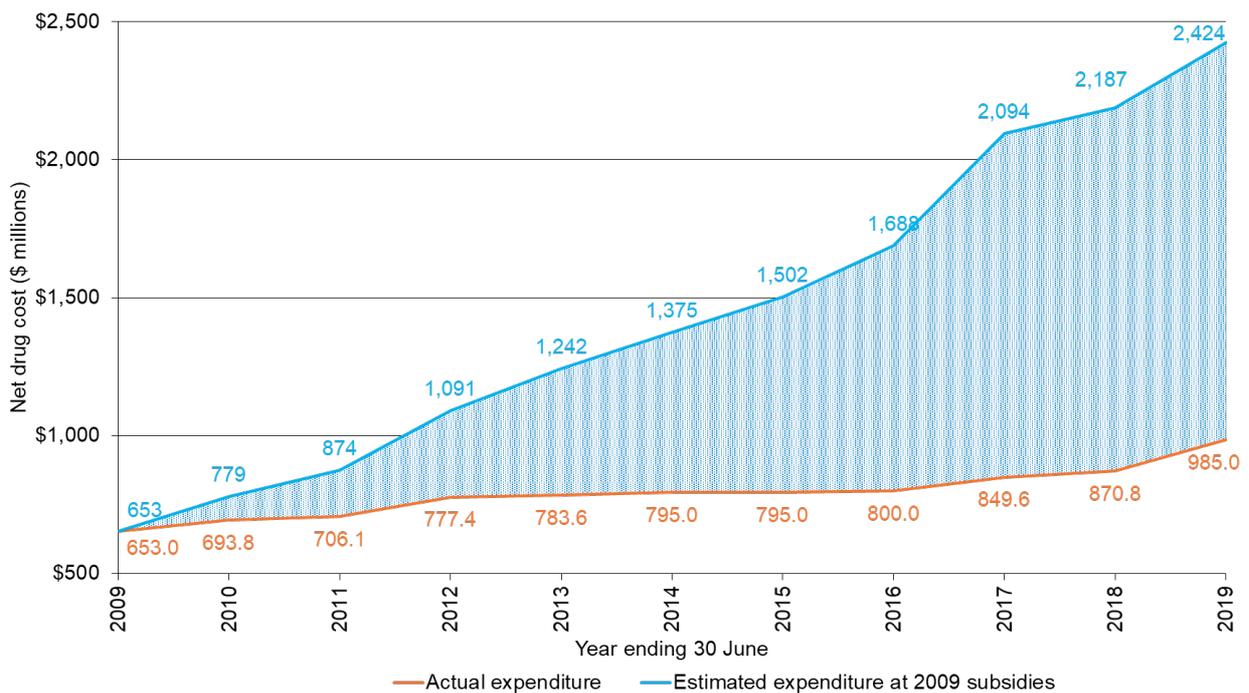
Price, Volume, Mix (actual 2009-2019)



New Zealand is making large medicines savings over time

The graph below shows estimated savings on medicines spending, using 2009 prices as a baseline. Over the last ten years, PHARMAC has saved \$7.20 billion on net medicine costs, with the gap between the two lines highlighting how much money PHARMAC is estimated to have saved through its work.

Impact of PHARMAC on predicted CPB drug expenditure over time (actual 2009-2019)



IMPACT AREA 2: Funded medicines and medical devices are available when needed

Why is this important?

Continued availability of funded products is critical to the efficient running of the health system – people need certainty that funded products are available when and where they are needed.

Where are we focused?

- We will use contracting methods and other mechanisms to ensure continued supply.
- We will continue to monitor the continuity of supply of funded medicines and medical devices.

Impact	Measure	Rationale	Results
Funded medicines and medical devices are available when needed	No supply situations result in patients losing access to a suitable funded medicine that they need.	<p>Supply issues arise for a variety of different, and often uncontrollable, reasons.</p> <p>We undertake a considerable amount of work to monitor and manage potential stock outages, such as sole-provider contracts, stock management tools and sourcing suitable alternatives.</p> <p>We do not want any situations where New Zealanders cannot access medicines they need.</p>	<p>PHARMAC actively monitors stock issues and records these in our tracker. Once we are notified of a potential supply issue, we work with the supplier to mitigate any impact to patients. Mitigation can occur by:</p> <ul style="list-style-type: none"> • influencing usage by either removal of all-at-once dispensing or notifying pharmacists they can dispense under rule 5.5 of the Pharmaceutical Schedule • seeking an alternative brand of the same chemical • changing patients to an alternative medicine with the same or similar therapeutic outcomes. <p>At 30 June 2019, there was only one instance where PHARMAC staff noted an issue with level of stock that resulted in patients not receiving the funded medicine – the product Colifoam. This product, which is a medicine for the treatment of Crohn’s disease and colitis patients, was unavailable on the global market for a period in June 2019. PHARMAC sourced alternate options, however, there was an out-of-stock period of 5 weeks, which we estimate resulted in approximately 35 fewer prescriptions filled per week. There are other treatment options available, however, these are less desirable from a patient perspective than Colifoam.</p>

IMPACT AREA 3: Medicines and medical devices are used optimally

Why is this important?

The debate about access to medicines is often focused on new medicines. But getting the best out of what is already in the medicines “toolbox” is just as important. Patients will have improved health outcomes when medicines and medical devices are prescribed, dispensed, accessed, and used optimally.

PHARMAC helps ensure medicines and hospital medical devices are used in the most responsible way so that they are used when they are needed, and not under or over used. This includes a focus on optimal prescribing, dispensing, access and the way people use them.

Sometimes, our funding decisions allow new groups of health professionals to prescribe funded products. Supporting new prescribers is important in ensuring the optimal use of products along with improving access so that more New Zealanders can get the health care they need.

Where are we focused?

We will inform and support health professionals and consumers on the use of medicines and medical devices.

Impact	Measure	Rationale	Results
Medicines and medical devices are used optimally	The objectives of PHARMAC's projects to improve the optimal use of medicines are met.	We want to demonstrate that the information and education activities we undertake have a positive effect on the optimal use of pharmaceuticals.	<p>Two projects to improve the optimal use of medicines were completed:</p> <ul style="list-style-type: none"> a medication adherence pilot for people with Type 2 diabetes the winter 2018 delivery of an appropriate use of antibiotics awareness campaign. <p>The medication adherence pilot was started in 2014 and prescription dispensing data was analysed to determine the effect of the intervention. Participants in the intervention picked up, on average, 1.4 more prescriptions per year than those not involved in the intervention. PHARMAC will be assessing the cost-effectiveness of the intervention and we will publish the results of this pilot, along with the cost-effectiveness analysis, when that is complete.</p> <p>We delivered a consumer facing awareness campaign about the appropriate use of antibiotics during winter 2018. Evaluation of this looked at the effectiveness of the online strategies and messages used. This helped inform messages for winter 2019 activities.</p> <p>We have been working with the University of Auckland on a survey about the perceptions of generic medicines and brand changes, and a research project</p>

Impact	Measure	Rationale	Results
			<p>to assess the impact of a patient level intervention on people's acceptance of brand changes. Results from both the survey and the research project are anticipated in early 2020 and will help inform our future work to support brand changes and, therefore, optimal use of medicines.</p>
	<p>Undertake research to identify medicines with gaps in equitable access and then develop targeted programmes to address these gaps.</p>	<p>This measure relates to our goal of eliminating inequities in access to medicines. The first step in achieving this goal is identifying what particular medicines have access inequities and for which groups of people. We will then be able to develop specific programmes to address and eliminate these inequities. Partnership with other health sector agencies will be essential.</p>	<p>PHARMAC has published an evidence-based paper '<i>Achieving medicine access equity in Aotearoa New Zealand: towards a theory of change</i>' which sets out our scope for eliminating inequities in access to medicines. We have identified who are our priority populations, as well as identified priority health conditions where there are existing inequities in access to medicines – these are asthma, diabetes, gout, hypertension, and cardiovascular conditions.</p> <p>Based on these priority areas, we have developed an Outcomes and Monitoring Framework for Medicine Access Equity and plan to undertake baseline analysis and reporting against these indicators during 2019/20.</p> <p>In collaboration with the Health Quality Safety Commission, we are participating in three community-led quality improvement/action research projects, which align with our priority populations and health conditions. Learnings from these projects will inform our thinking on what works on the ground to enhance equitable medicines access.</p> <p>We are also working with Arthritis New Zealand to undertake an evaluation of existing models of gout management, to better understand good practice for Māori and Pacific populations with gout who may not be receiving appropriate medicines.</p>

IMPACT AREA 4: In a high performing health system

Why is this important?

PHARMAC works closely with many people in the health system towards the same end goal – that New Zealanders live well, get well, and stay well. We are focused on the ongoing improvement in the design and operation of the health system, and how that system works together.

Where are we focused?

We will continue working with stakeholders to help ensure the health system is well-designed and well-coordinated.

Impact	Measure	Rationale	Results
In a high-performing health system	There is an improved perception by health sector agencies that PHARMAC works with.	<p>An effective and joined up health system relies on strong engagement and collaboration.</p> <p>We want to understand whether we are working effectively with stakeholders, so we can continue to improve our contribution.</p>	As part of PHARMAC's new Communication and Engagement Strategy, we have identified a range of actions to ensure that stakeholder engagement is authentic and purposeful. We have planned to undertake a stakeholder engagement survey in 2019/20, to measure our effectiveness.

STATEMENT OF PERFORMANCE

In order to achieve our Bold Goals and ensure that PHARMAC's funding decisions lead to the best health outcomes from New Zealand's investment in medicines and medical devices, we need measures to monitor the impact of the work we do.

Output class measures are key areas of service delivery we provide the government, for the money we are provided. These measures help us demonstrate that we are performing to a high standard and delivering best outcomes for New Zealanders. These measures are set the year ahead in our Statement of Performance Expectations.

These measures are:

1. making decisions about pharmaceuticals⁶
2. influencing pharmaceuticals access and use
3. providing policy advice and support.

Output 1: Making decisions about pharmaceuticals

Work that leads to new medicines being funded and money being saved on older medicines

Making robust and fair pharmaceutical funding decisions is key to achieving our statutory objective⁷. 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 Combined Pharmaceutical Budget
- making decisions about hospital medical devices.

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

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

⁶ Pharmaceuticals are medicines, vaccines, medical devices, and related products or related things.

⁷ 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.

Stakeholder voices are important, and consumers, clinicians and industry representatives are able to track progress with funding applications for Pharmaceutical Schedule listings through our online Application Tracker and contribute to consultations on proposed changes to funded pharmaceuticals (that is, new listings or widened access).

The following are expected outputs from our work in making decisions about pharmaceuticals:

Output 1.1 Combined pharmaceuticals

Sections B to I of the Pharmaceutical Schedule (the Schedule) contain a list of medicines funded for all New Zealanders through the Combined Pharmaceutical Budget 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 pregnancy tests. From 2018/19, funding for all remaining hospital medicines has been included in the Combined Pharmaceutical Budget.

Impact	Output	Measure	Rationale	2018/19 Target	2018/19 Results
Increased access to effective medicines and medical devices	1.1 Combined Pharmaceutical 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.	Savings are generated to meet the cost of future volume growth and allow for new investments.	<i>Achieved</i> \$75.4 million in savings were generated to meet the cost of future volume growth and allow for new investments. <i>(2017/18 result: Achieved)</i>

Output 1.2 Medical devices

Section H of the Pharmaceutical Schedule includes the contracts and agreements we've negotiated for hospital medical devices. As of 30 June 2019, these agreements cover approximately \$255 million worth of annual DHB expenditure. During 2018/19, we worked on the national procurement of hospital medical devices where DHBs remain free to choose to use those contracted suppliers or not; and the implementation of market share agreements where DHBs can choose suppliers of certain products only from within a closed list, ahead of transition to full medical device management for DHB hospitals. By 2020, most medical devices used in DHB hospitals will be listed on the Pharmaceutical Schedule.

Impact	Output	Measure	Rationale	2018/19 Target	2018/19 Results
Increased access to effective medicines and medical devices	1.2 Medical devices	The total value and number of hospital medical devices under contract increases.	We want to continue increasing the number of hospital medical devices under contract, and the amount of expenditure we have contracts for. This provides us with an indication of the growth of our work and an indication of the savings we will be able to generate to DHBs as our work progresses.	The total value and number of hospital medical devices under contract will increase.	<i>Achieved</i> In the 2018/19 financial year, expenditure under contract increased by around \$76 million and 29,880 new medical devices were listed. The total number of medical devices listed is now 106,628. <i>(2017/18 result: Achieved)</i>

Output 1.3 Special access panels

Some medicines require nationally consistent assessment of clinical criteria to determine funded access. To help ensure these are appropriately targeted, PHARMAC manages panels of expert clinicians to apply the clinical criteria on which patients can access treatment. Panels are currently maintained for managing treatments of:

- cystic fibrosis
- gaucher disease
- haemophilia
- hepatitis C
- multiple sclerosis
- pulmonary arterial hypertension.

Output 1.4 Named Patient Pharmaceutical Assessment (NPPA)

This is the policy that PHARMAC uses to assess applications for individual patients to receive funded medicines that are not otherwise funded through the Pharmaceutical Schedule. PHARMAC seeks clinical advice on applications from a panel of doctors (the NPPA Advisory Panel) and from individual clinical experts in particular specialities. Funding for NPPA is drawn from the Combined Pharmaceutical Budget.

OUTPUT 2: Influencing medicines access and use

Promoting access to, and the optimal use of, medicines and ensuring decisions are understood

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 medicines and this is an essential part of achieving best health outcomes. We help to ensure that medicines and hospital medical devices are used in the most responsible way, so that they are used when they are needed, and not under or over used.

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

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

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

The following are expected outputs from our work in influencing medicines access and use:

Output 2.1 Sharing information/explaining decisions

We consider feedback from prescribers and pharmacists on the practicality of Pharmaceutical Schedule changes and regularly meet with health professional groups to obtain input through our consultation processes. We work alongside some health professional groups in developing our implementation and responsible use activities. We maintain regular contact with patient and consumer groups and welcome dialogue on medicine funding, hospital medical devices and other issues.

To make sure we are asking the right questions of the right people, we take advice from our statutory committee, the Consumer Advisory Committee, on our engagement plans and practices and, from time to time, PHARMAC undertakes engagement and consultation activities with DHBs and the community through a range of measures, including regional and national forums, online and social media.

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

Impact	Output	Measure	Rationale	2018/19 Target	2018/19 Results
Pharmaceuticals are used optimally	2.1 Explaining decisions and sharing information	DHB hospital engagement with PHARMAC compared with previous year.	Willingness of DHBs and their agents to engage with PHARMAC contributes to effective implementation of hospital medical devices contracts and hospital medicine changes.	All DHBs or agents acting on their behalf engage with PHARMAC on implementing hospital medical device national contracts. All relevant DHB hospital services will engage with PHARMAC to support hospital medicine changes.	<i>Achieved</i> All DHB hospitals hosted events for PHARMAC's medical devices consultation, which took place from March to June 2019. <i>(2017/18 result: Achieved)</i>

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 also working to understand the barriers that create inequitable access to and uptake of medicines, in order for us to develop programmes alongside health sector partners to address and eliminate these inequities.

Sometimes decision implementation is supported by information provided to health professionals and consumers through our health education programmes, such as He Rongoā Pai He Oranga Whānau, a programme that provides seminars to hauora Māori kaimahi, providing them with clinical information to pass on to whānau.

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

Impact	Output	Measure	Rationale	2018/19 Target	2018/19 Results
Pharmaceuticals are used optimally	2.2 Population health programmes	Survey of attendants at a PHARMAC seminar show a positive professional change in optimal use behaviour as a result of attendance.	Assessing whether our PHARMAC seminars have a positive effect in improving health professionals' knowledge and behaviour will help us to determine whether the seminars continue to have an impact in the optimal use of medicines.	Respondents to the survey show at least 75 percent have made positive changes as a result of attendance.	<i>Achieved</i> Fifteen PHARMAC seminars were held between July 2018 and June 2019. Surveys to assess change are sent 2 – 3 months after seminars, so 12 behaviour change surveys have been completed. 81 percent of respondents to surveys have made positive changes as a result of attendance at a PHARMAC seminar. <i>(2017/18 result: Achieved)</i>
		Medicines use community health programmes are delivered to a range of health and community workers.	Whānau Ora Collectives (WOC) are best-placed to assess the needs of their communities for knowledge of medicines relating to the Māori health areas of focus.	Community-based delivery of programmes will occur in three-quarters of all WOC partner areas and the number of WOC partners will increase.	<i>Achieved</i> Community-based delivery of programmes has occurred in over three-quarters of all partner WOC areas. The number of WOC partners is unchanged. <i>(2017/18 result: Achieved)</i>

Output 2.3 Supply management

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

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

The following page details PHARMAC's performance for this output measure.

Impact	Output	Measure	Rationale	2018/19 Target	2018/19 Results
Pharmaceuticals are available when needed	2.3 Supply management	Low medicine stock situations are identified and managed so there are no clinically meaningful consequences to patients.	Ensuring we know and understand the impact of stock shortages so we can act to minimise disruption for patients and providers is important for achieving best health outcomes.	We will respond to all low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.	<p><i>Mostly achieved</i></p> <p>PHARMAC actively monitors stock issues and records these in our tracker. Once we are notified of a potential supply issue, we work with the supplier to mitigate any impact to patients. Mitigation can occur by:</p> <ul style="list-style-type: none"> • influencing usage by either removal of all at once dispensing or notifying Pharmacists they can dispense under rule 5.5 of the Pharmaceutical Schedule • seeking an alternative brand of the same chemical • changing patients to an alternative medicine with the same or similar therapeutic outcomes. <p>At 30 June 2019, there was only one instance where PHARMAC staff noted an issue with level of stock that resulted in clinically meaningful consequences to patients (Colifoam). This product, which is a medicine for the treatment of Crohn's disease and colitis patients, was unavailable on the global market for a period in June 2019. PHARMAC sourced alternate options, however, there was an out-of-stock period of 5 weeks, which we estimate resulted in approximately 35 fewer prescriptions filled per week. There are other treatment options available, however, these are less desirable from a patient perspective than Colifoam. PHARMAC has been unable to identify any adverse impacts that resulted in hospitalisation or that required other serious clinical intervention.</p> <p><i>(2017/18 result: Achieved)</i></p>

OUTPUT 3: Providing policy advice and support

Assisting the cohesiveness of the broader health sector

The following are expected outputs from our work in providing policy advice and support:

Output 3.1 Advice and support services to the health sector

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

Output 3.2 Policy advice

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

Impact	Output	Measure	Rationale	2018/19 Target	2018/19 Results
In a high performing system	3.2 Policy advice	PHARMAC staff participate in and contribute to wider sector forums.	Understanding whether our policy advice to the sector is sought after is an indication of the quality of advice and contributions we make.	PHARMAC staff participate in wider sector forums.	<p><i>Achieved</i></p> <p>PHARMAC participated and contributed to various wider health sector forums. Examples include the Asia Pacific Lysosomal Conference, Alliance of Cancer NGOs (CANGO), and Cancer Care at a Cross Roads Conference.</p> <p>A Strategic Partnership Group involving senior leaders from PHARMAC, DHBs and the Ministry of Health was formed and provided a forum for joint approaches to strategic issues.</p> <p>PHARMAC has worked on joint policy initiatives with the Ministry of Health, such as early access to new medicines.</p> <p>PHARMAC staff regularly present to senior DHB leaders, in both clinical and operational roles.</p> <p><i>(2017/18 result: Achieved)</i></p>

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. The rebates are distributed back to DHBs.

PHARMAC also has access to a Legal Risk Fund, with a value of around \$8.2 million in 2018/19, which is used to meet litigation costs that are not otherwise met from our regular operational spend on legal services.

We also manage two other funds: the Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund and the Hospital Discretionary Pharmaceutical Fund. These two funds are governed by policies intended to support PHARMAC's 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 for the overall benefit of the health system.

Impact	Output	Measure	Rationale	2018/19 Target	2018/19 Results
In a high performing system	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 will be in accordance with PHARMAC policy.	<i>Achieved</i> All fund use was in accordance with PHARMAC policy. (2017/18 result: <i>Achieved</i>)

Independent Auditor's Report

To the readers of Pharmaceutical Management Agency – Te Pataka Whaioranga's financial statements and performance information for the year ended 30 June 2019

The Auditor-General is the auditor of Pharmaceutical Management Agency – Te Pataka Whaioranga (PHARMAC). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information, of PHARMAC on his behalf.

Opinion

We have audited:

- the financial statements of PHARMAC on pages 43 to 64, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of PHARMAC on pages 22 to 38.

In our opinion:

- the financial statements of PHARMAC on pages 43 to 64:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2019; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Reporting Standards; and
- the performance information on pages 22 to 38:
 - presents fairly, in all material respects, PHARMAC's performance for the year ended 30 June 2019, including:
 - for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 27 September 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Board for the financial statements and the performance information

The Board is responsible on behalf of PHARMAC for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of PHARMAC for assessing PHARMAC's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of PHARMAC, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to PHARMAC's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PHARMAC's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within PHARMAC's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PHARMAC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause PHARMAC to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages 1 to 21 and 65 to 66, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of PHARMAC in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in PHARMAC.



Kelly Rushton
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

FINANCIAL STATEMENTS

Statement of comprehensive revenue and expense

For the year ended 30 June 2019

		Actual 2019 \$000	SPE Budget 2019 \$000	Actual 2018 \$000
	Note			
Non exchange revenue				
Crown funding		23,488	23,488	21,988
DHB - Operating funding		1,490	1,490	1,390
Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund (CPBDPF)	5	9,780	100	-
Exchange revenue; other				
Interest received - Operating		543	560	622
- Legal Risk Fund		273	300	274
Other revenue - Operating		933	150	172
Total revenue		36,507	26,088	24,446
Expenditure				
Operating costs		7,909	7,623	5,941
Personnel costs	2	14,944	15,368	13,935
Audit Fees		53	50	51
CPBDPF	5	-	-	4,769
Depreciation and amortisation costs	10,11	479	675	632
Director Fees		148	168	144
Finance Costs	3	-	22	21
Hospital Discretionary Pharmaceutical Fund (HDPF)	4	275	500	275
Herceptin SOLD trial administration		-	-	319
Implementation projects		2,008	2,140	1,907
Legal Risk Fund payments for litigation		-	300	7
Occupancy costs		868	636	636
Total expense		26,684	27,482	28,637
Net surplus/(deficit) for the period		9,823	(1,394)	(4,191)
Other comprehensive revenue		-	-	-
Total comprehensive revenue and expense		9,823	(1,394)	(4,191)

Explanations of significant variances against budget are detailed in note 24.

The accompanying accounting policies and notes form part of these financial statements.

Statement of changes in equity

For the year ended 30 June 2019

	Actual 2019 \$000	SPE Budget 2019 \$000	Actual 2018 \$000
Balance at 1 July	31,920	30,288	36,111
Total comprehensive revenue and expense	9,823	(1,394)	(4,191)
Balance at 30 June	41,743	28,894	31,920

Explanations of significant variances against budget are detailed in note 24.
The accompanying accounting policies and notes form part of these financial statements.

Statement of financial position

As at 30 June 2019

		Actual 2019 \$000	SPE Budget 2019 \$000	Actual 2018 \$000
	Note			
PUBLIC EQUITY				
Contribution capital	4	1,856	1,856	1,856
Retained earnings and reserves	4	8,295	6,696	8,272
Restricted reserves				
CPBDPF	4	19,493	8,782	9,713
HDPF	4	3,900	3,700	4,175
Legal Risk Fund	4	8,199	7,860	7,904
TOTAL PUBLIC EQUITY		41,743	28,894	31,920
Represented by:				
Current assets				
Cash and cash equivalents	6	1,009	9,124	1,206
Investments	7	10,425	921	10,650
Debtors and other receivables	8	11,706	150	361
Prepayments		373	-	444
GST Receivable		-	-	581
Current assets associated with Restricted reserves				
Cash and cash equivalents - Legal Risk Fund/HDPF	6	89	100	46
Investments - Legal Risk Fund/HDPF	7	12,134	11,460	12,190
CPBDPF monies deposited into rebates account	9	9,713	8,782	8,997
Total current assets		45,449	30,537	34,475
Non-current assets				
Property, plant and equipment	10	817	700	365
Intangible Assets	11	57	220	93
Total non-current assets		874	920	458
Total assets		46,323	31,457	34,933
Current liabilities				
Creditors and other payables	12	1,657	1,128	1,663
Employee entitlements	13	966	900	987
Make Good Provision	14	-	-	182
GST Payable		1,629	170	-
Total current liabilities		4,252	2,198	2,832
Non-current liabilities				
Make Good Provision	14	328	365	181
Total liabilities		4,580	2,563	3,013
NET ASSETS		41,743	28,894	31,920

Explanations of significant variances against budget are detailed in note 24.

The accompanying accounting policies and notes form part of these financial statements.

Statement of cash flows

For the year ended 30 June 2019

		Actual 2019 \$000	SPE Budget 2019 \$000	Actual 2018 \$000
	Note			
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Receipts from the Crown		23,488	23,488	21,988
- DHBs Operating		1,490	1,490	1,390
- Interest Operating		501	560	479
- Interest Legal Risk Fund		242	300	252
- Other Operating		933	150	231
- CPBDPF top up		-	100	-
- CPBDPF release from rebates bank account		-	-	5,485
- Goods and services tax (net)		2,210	-	-
		28,864	26,088	29,825
Cash was disbursed to:				
- Legal Risk Fund expenses		-	(300)	(7)
- CPBDPF expenses		-	(100)	(4,769)
- CPBDPF deposited in rebates bank account		(716)	-	-
- HDPF expenses		(275)	(500)	(275)
- Payments to suppliers and employees		(27,413)	(25,137)	(22,721)
- Goods and services tax (net)		-	-	(1,968)
		(28,404)	(26,037)	(29,740)
Net cash flows from operating activities	15	460	51	85
CASH FLOWS – INVESTING ACTIVITIES				
- Purchase of property, plant and equipment		(846)	(400)	(129)
- Purchase of intangible assets		(49)	(345)	-
- Proceeds from the redemption of investments		27,840	-	34,554
- Purchase of investments		(27,559)	-	(35,763)
Net cash flows from investing activities		(614)	(745)	(1,338)
Net increase/(decrease) in cash		(154)	(694)	(1,253)
Cash at the beginning of the year		1,252	9,918	2,505
Cash at the end of the year		1,098	9,224	1,252

The GST (net) component of operating activities reflects the net GST paid and received. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

Explanations of significant variances against budget are detailed in note 24. The accompanying accounting policies and notes form part of these financial statements.

Statement of comprehensive revenue and expense by output class

For the year ended 30 June 2019

	\$000	\$000	\$000	\$000	\$000
Output Actual 2018/19	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/ (deficit)
Decision Making	11,744	9,780	-	(11,111)	10,413
Influencing Medicine Access and Use	8,221	1,490	-	(10,722)	(1,011)
Policy Advice and support	3,523	-	1,749	(4,851)	421
Total	23,488	11,270	1,749	(26,684)	9,823

Output SPE Budget 2018/19	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/ (deficit)
Decision Making	11,744	100	655	(12,367)	132
Influencing Medicine Access and Use	8,221	1,490	355	(10,993)	(927)
Policy Advice and support	3,523	-	-	(4,122)	(599)
Total	23,488	1,590	1,010	(27,482)	(1,394)

Output Actual 2017/18	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/ (deficit)
Decision Making	10,995	-	-	(14,311)	(3,316)
Influencing Medicine Access and Use	8,795	1,390	-	(9,952)	233
Policy Advice and support	2,198	-	1,068	(4,374)	(1,108)
Total	21,988	1,390	1,068	(28,637)	(4,191)

Statement of commitments

As at 30 June 2019

Non-cancellable operating lease commitments

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2019 \$000	Actual 2018 \$000
Capital commitments approved and contracted	-	-
Operating commitments approved and contracted		
Not later than one year	695	829
Later than one year and not later than five years	2,780	3,367
Later than five years and not later than ten years	347	896
Balance at 30 June	3,822	5,092

PHARMAC's rental lease dates back to 2002/03 financial year, and has been the subject of regular variation. The current lease expiry is 31 December 2024. During 2018/19, variations were executed to relinquish certain non-adjacent space enabling occupation of contiguous space. PHARMAC has recognised a make good provision of \$327,825 (2018: \$361,922).

Statement of contingent assets and liabilities

As at 30 June 2019

PHARMAC has no contingent assets as at 30 June 2019 (2018: \$nil).

PHARMAC has no contingent liabilities as at 30 June 2019 (2018: \$nil).

Explanations of significant variances against budget are detailed in note 24.
The accompanying accounting policies and notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Statement of Accounting Policies

Reporting entity

Pharmaceutical Management Agency (PHARMAC) is a Crown entity as defined in the Crown Entities Act 2004 and is domiciled and operates in New Zealand. PHARMAC acts as an agent of the Crown for the purpose of meeting its obligations in relation to the operation and development of a national Pharmaceutical Schedule.

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

The financial statements of PHARMAC are for the year ended 30 June 2019. The financial statements were approved by the Board of PHARMAC on 27 September 2019.

Basis of preparation

The financial statements of PHARMAC 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 of PHARMAC 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 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).

Standard early adopted

In line with the Financial Statements of the Government, PHARMAC has elected to early adopt PBE IFRS 9 Financial Instruments. PBE IFRS 9 replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. There has been no effect on the financial statements as a result of early adoption.

Standards and amendments, issued but not yet effective and not early adopted

Amendment to PBE IPSAS 2 Statement of Cash Flows

An amendment to PBE IPSAS 2 Statement of Cash Flows requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. PHARMAC does not intend to early adopt the amendment.

PBE IPSAS 34-38

PBE IPSAS 34-38 replace the existing standards for interests in other entities (PBE IPSAS 6-8). These new standards are effective for annual periods beginning on or after 1 January 2019. PHARMAC will apply these new standards in preparing the 30 June 2020 financial statements. No effect is expected as a result of this change.

PBE IPSAS 41 Financial Instruments

The XRB issued PBE IPSAS 41 Financial Instruments in March 2019. This standard supersedes PBE IFRS 9, which was issued as an interim standard. This standard is effective for reporting periods beginning on or after 1 January 2022. Although PHARMAC has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2021. PHARMAC has not yet determined how application of PBE FRS 48 will affect its statement of performance.

Summary of Significant Accounting Policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note are outlined below.

Revenue

Funding from the Crown

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 relevant appropriations of the funder.

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

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

Funding from DHBs

Operating funding includes agreed expenses to be provided by PHARMAC for 20 DHBs, the Discretionary Pharmaceutical Fund payments reflect expenses incurred under the Discretionary Pharmaceutical Fund Policy, and additional contributions are made to support implementation of PHARMAC's hospital medical devices activity.

Funding is recognised as revenue when it becomes receivable.

Interest revenue

Interest revenue is recognised using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at 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 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 amount 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 amortised cost using the effective interest method, less any provision for impairment.

Property, plant and equipment

Property, plant and equipment consist of leasehold improvements, EDP equipment, and furniture and office equipment, and 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 comprehensive revenue and expense.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to PHARMAC and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and 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 disposal 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 - 5 years	20% - 40%
Furniture and fittings	5 years	20%

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter.

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 by PHARMAC 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.

For computer software (the only identified intangible asset), the useful life is estimated as 2–5 years with a corresponding depreciation rate of 20%–50%.

Payables

Short-term payables are recorded at their fair 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 to date but not yet taken at balance date. 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 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 where there is a present obligation (either legal or constructive) as a result of a past event. It is probable that an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time, value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in 'finance costs'.

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- contribution capital
- retained earnings and reserves
- CPB Discretionary Pharmaceutical Fund
- Hospital Discretionary Pharmaceutical Fund
- 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 input tax, it is recognised as part of the related asset or expense.

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Budget figures

The budget figures are derived from the statement of performance expectations as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

Cost allocation

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

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

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

Critical accounting estimates and assumptions

In preparing these financial statements, PHARMAC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- the value of PHARMAC's CPB Discretionary Pharmaceutical Fund is dependent on the value of the final estimate of the District Health Boards' expenditure against the Combined Pharmaceutical Budget.

Critical judgements in applying PHARMAC's accounting policies

Management has not exercised any critical judgements in applying accounting policies for the period ended 30 June 2019.

Note 2: Personnel costs

	Actual 2019 \$000	Actual 2018 \$000
Salaries and related costs	14,167	13,195
Employer contributions to defined contribution plans	284	294
Other personnel costs	493	446
Total personnel costs	14,944	13,935

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Savings Scheme and KiwiSaver.

Note 3: Finance costs

	Actual 2019 \$000	Actual 2018 \$000
Expense of current discounted value (refer note 14)	-	21
Total finance costs	-	21

Note 4: Public equity

	Actual 2019 \$000	Actual 2018 \$000
CONTRIBUTION CAPITAL		
Balance at 1 July	1,856	1,856
Balance at 30 June	1,856	1,856
RETAINED EARNINGS AND RESERVES		
Balance at 1 July	8,272	7,424
Net surplus/(deficit)	9,823	(4,191)
Net transfer from/(to) CPBDPF	(9,780)	4,769
Net transfer from/(to) HDPF	275	275
Net transfer from/(to) Legal Risk fund	(295)	(324)
Net transfer from/(to) SOLD Trial Fund	-	319
Balance at 30 June	8,295	8,272
CPBDPF		
Balance at 1 July	9,713	14,482
Add: Revenue received transferred from/(to) retained earnings	9,780	-
Less: Pharmaceutical expenses transferred from/(to) retained earnings	-	(4,769)
Balance at 30 June	19,493	9,713
HDPF		
Balance at 1 July	4,175	4,450
Add: Transfer from retained earnings	-	-
Less: Expenses transferred from/(to) retained earnings	(275)	(275)
Balance at 30 June	3,900	4,175
LEGAL RISK FUND		
Balance at 1 July	7,904	7,580
Add: Interest received transferred from/(to) retained earnings	273	274
Add: Unused litigation from PHARMAC budget 2017/18 and 2016/17	22	57
Less: Litigation expenses transferred from/(to) retained earnings	-	(7)
Balance at 30 June	8,199	7,904
HERCEPTIN SOLD TRIAL FUND		
Balance at 1 July	-	319
Less: Final expense for SOLD Trial	-	(319)
Balance at 30 June	-	-
TOTAL PUBLIC EQUITY	41,743	31,920

Note 5: CPBDPF

The revenue in 2019 of \$9.780 million (2018: \$nil) relates to the purpose of the DPF, which is to manage unexpected expenditure and enable PHARMAC to take advantage of investment opportunities that might not otherwise be funded in that year. The expenditure in 2019 of \$nil (2018: \$4.769 million) relates to disbursements to DHBs so that the CPB expenditure does not exceed the CPB budget of \$985 million.

Note 6: Cash and cash equivalents

	Actual 2019 \$000	Actual 2018 \$000
PHARMAC funds	1,009	1,206
Legal Risk Fund/HDPF (Restricted)	89	46
Total Cash and cash equivalents	1,098	1,252

Note 7: Investments

	Actual 2019 \$000	Actual 2018 \$000
Term deposits - PHARMAC	10,425	10,650
Term deposits - Legal Risk Fund	7,959	7,740
Term deposits - HDPF	4,175	4,450
Total Investments	22,559	22,840

There is no impairment provision for investments.

The carrying amounts of term deposits with maturities of less than 12 months approximates their fair value.

Note 8: Debtors and other receivables

The carrying value of receivables approximates their fair value. Receivables are non-interest bearing and generally on 30 day terms.

	2019			2018		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	11,706	-	11,706	361	-	361
Past due 30-60 days	-	-	-	-	-	-
Past due 31-90 days	-	-	-	-	-	-
Past due > 90 days	-	-	-	-	-	-
Total	11,706	-	11,706	361	-	361

All receivables greater than 30 days in age are considered to be past due.

Note 9: CPBDPF Monies

During the year, PHARMAC advances CPBDPF monies to DHBs via the PHARMAC-managed Combined Rebates Bank Account to enable earlier pay out of accrued rebates to DHBs. The CPBDPF is utilised at year end should DHB pharmaceutical expenditure exceed the CPB value. Where this is forecast, PHARMAC ensures it recovers any advanced DPF cash prior to year end.

Note 10: Property, plant and equipment

	Cost at beginning of the year \$000	Additions during the year \$000	Disposals during the year \$000	Accumulated depreciation beginning of the year \$000	Depreciation for the year \$000	Elimination on disposals \$000	Net Carrying Amount as at 30 June \$000
2018							
Furniture and fittings	425	28	-	328	50	-	75
EDP equipment	1,623	101	(884)	1,333	247	(879)	139
Office equipment	399	-	(253)	363	16	(255)	22
Leasehold improvements	1,560	-	(9)	1,282	150	(10)	129
Total PPE Assets	4,007	129	(1,146)	3,306	463	(1,144)	365
2019							
Furniture and fittings	453	35	(155)	378	50	(155)	60
EDP equipment	840	210	(146)	701	168	(146)	181
Office equipment	146	-	(52)	124	13	(52)	9
Leasehold improvements	1,551	601	(702)	1,422	163	(702)	567
Total PPE Assets	2,990	846	(1,055)	2,625	394	(1,055)	817

Note 11: Intangible assets

	Cost at beginning of the year \$000	Additions during the year \$000	Disposals during the year \$000	Accumulated amortisation beginning of the year \$000	Amortisation for the year \$000	Elimination on disposals \$000	Net Carrying Amount as at 30 June \$000
2018							
Total Intangible assets	1,087	-	(346)	825	169	(346)	93
2019							
Total Intangible assets	741	49	(233)	648	85	(233)	57

Note 12: Creditors and other payables

	Actual 2019 \$000	Actual 2018 \$000
Creditors	857	1,024
Accrued expenses	800	639
Total creditors and other payables	1,657	1,663

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. The carrying value of creditors and other payables approximates their fair value.

Note 13: Employee entitlements

	Actual 2019 \$000	Actual 2018 \$000
Annual leave entitlement	632	679
Accrued salaries and wages	334	308
Total employee entitlements	966	987

Note 14: Provisions

	Actual 2019 \$000	Actual 2018 \$000
Current provisions are represented by:		
Lease make good	-	182
Total current provisions	-	182
Non-current provisions are represented by:		
Lease make good	328	181
Total non-current provisions	328	181
Movement for "make good" provision		
Balance at 1 July	363	342
Additional provisions made	40	-
Amount used	(75)	-
Unused amounts reversed	-	-
Discounted value recognised as expense	-	21
Balance at 30 June	328	363

The make good provision relates to a rental lease that expires 31 December 2024. PHARMAC leases four floors of an office building.

Note 15: Reconciliation of the net surplus from operations with the net cash flows from operating activities

	Actual 2019 \$000	Actual 2018 \$000
Net surplus/(deficit)	9,823	(4,191)
Add non-cash items:		
Make good provision - discounted value recognised as expense	-	21
Depreciation and amortisation	479	632
Total non-cash items	479	653
Add/(less) movements in working capital items:		
Decrease/(increase) in debtors and other receivables	(11,345)	(107)
Decrease/(increase) in prepayments	71	(326)
Increase/(decrease) in creditors and other payables	(6)	444
Increase/(decrease) in employee entitlements	(21)	95
Increase/(decrease) in make good provision	(182)	182
Decrease/(increase) in net GST	2,210	(1,968)
Net movements in working capital	(9,273)	(1,680)
Other movements		
CPBDPF monies released from/(deposited in) rebates bank account	(716)	5,485
Increase/(decrease) in non-current make good provision	147	(182)
Total other movements	(569)	5,303
Net cash flows from operating activities	460	85

Note 16: Related party transactions

PHARMAC is a wholly owned entity of the Crown. Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect PHARMAC would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Note 16: Related party transactions (continued)

Key management personnel compensation	Actual 2019	Actual 2018
Board members		
Remuneration	\$ 148,000	\$ 144,000
Full-time equivalent members	5.00	5.00
Leadership team		
Remuneration	\$ 1,594,597	\$ 1,632,000
Full-time equivalent members	5.65	5.83
Total key management personnel compensation	\$ 1,742,597	\$ 1,776,000
Total full-time equivalent members	10.65	10.83

The full-time equivalent for Board members has been determined based on their period of appointment for this financial year.

Note 17: Board members' remuneration

The total value of remuneration paid or payable to each Board and committee member during the year was:

Member	Fees	
	2019 \$000	2018 \$000
Hon Steve Maharey (Chair)	44	-
Nicole Anderson	24	24
Prof Ross Lawrenson	24	24
Prof Jens Mueller	24	24
Dr Jan White	24	24
Stuart McLauchlan (Chair, 2010-2018)	8	48
Total Board member remuneration	148	144

There have been payments of \$400,000 (2018: \$432,000) made to committee members appointed by the Director-General of Health or the Board who are not Board members during the financial year.

PHARMAC has provided a deed of indemnity to Directors for certain activities undertaken in the performance of PHARMAC's functions.

PHARMAC has taken out Directors' and Officers' Liability and Professional Indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees.

No Board members or committee members received compensation or other benefits in relation to cessation (2018: \$nil).

Note 18: Employee remuneration

Total remuneration paid or payable	Actual	
	2019	2018
\$000		
100 - 110	9	8
110 - 120	15	10
120 - 130	11	8
130 - 140	10	4
140 - 150	4	1
150 - 160	1	4
160 - 170	3	3
170 - 180	2	1
180 - 190	4	-
200 - 210	1	-
210 - 220	-	1
220 - 230	-	1
230 - 240	1	1
240 - 250	1	-
250 - 260	2	-
290 - 300	-	1
340 - 350	-	1
410 - 420	1	-

Note 19: Events after the balance date

There have been no significant events after the balance date.

Note 20: Financial instrument risks

PHARMAC's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquid risk. PHARMAC has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Credit risk

Credit risk is the risk that a third party will default on its obligation to PHARMAC, causing PHARMAC to incur a loss. Due to the timing of its cash inflows and outflows, PHARMAC invests surplus cash with registered banks.

PHARMAC does not have significant concentration of credit risk.

Note 20: Financial instrument risks (continued)

Liquidity risk

Liquidity risk is the risk that PHARMAC will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, PHARMAC closely monitors its forecast cash requirements. The table below analyses PHARMAC's financial liabilities that will be settled based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	2019 Less than 6 months \$000	2018 Less than 6 months \$000
Creditors and other payables	1,657	1,663

Fair value

The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2019 and 30 June 2018 approximate their fair values.

Note 21: Categories of financial instruments

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit rating.

	Actual 2019 \$000	Actual 2018 \$000
Counterparties with credit ratings		
Cash at bank and term deposits		
A+	-	-
A	13,744	17,100
AA-	19,626	15,988
Total cash at bank and term deposits	33,370	33,088
Receivables		
Debtors and other receivables	11,706	361
Total receivables	11,706	361

Note 22: Capital management

PHARMAC's capital is its equity, which comprises accumulated funds and other reserves. Equity is represented by net assets.

PHARMAC is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which imposes restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

PHARMAC manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure PHARMAC effectively achieves its objectives and purpose, while remaining a going concern.

PHARMAC is currently exempt from the imposition of the Crown's capital charge.

Note 23: Cessation payments

This information is presented in accordance with section 152(1)(d) of the Crown Entities Act 2004. Cessation payments include payments that the person is entitled to under contract on cessation such as retirement payment, redundancy, and gratuities. PHARMAC made no cessation payments to former employees during the financial year (2018: \$nil).

Note 24: Explanation of major variances against budget

Explanations of major variances from PHARMAC's estimated figures in the Statement of Performance Expectations (SPE) are as follows:

Statement of comprehensive income and expense

The net surplus (deficit) for the year ended 30 June 2019 of \$9,823,000 is \$11,217,000 more than the SPE budgeted deficit of (\$1,394,000). The CPBDPF revenue is \$9,780,000 above budget (net of GST).

Total expense was \$798,000 lower than budget, or 2.9%. The main differences in expenses arise from under-expense of \$424,000 personnel costs owing to delay in positions being filled as compared with planned, \$300,000 for litigation relating to the Legal Risk fund where no costs were incurred, and \$196,000 depreciation and amortisation costs from lower investment in property plant and equipment. Other variances were not material.

Statement of financial position

The increase in current assets of \$14,912,000 arises from an increase in cash equivalents and investments of \$2,052,000, an increase in receivables and prepayments of \$11,929,000 of which \$11,247,000 (including GST) relates to the CPBDPF revenue.

The decrease in non current assets is (\$46,000). The increase in current liabilities of (\$2,054,000) relates mainly to an increased GST Payable (\$1,459,000) relating to the CPBDPF revenue. Creditors and other payables have increased (\$529,000) from higher than expected payables compared to the SPE.

The increase in public equity of \$12,849,000 also reflects the movements above.

SUPPLEMENTARY INFORMATION

Interests of directors

For the purpose of section 68(6) of the Crown Entities Act 2004, there were no occasions during the year where permission was given to a Board member to act, despite being interested in a matter.

Ministerial directions

PHARMAC is required to publish information on any new direction given to PHARMAC by a Minister in writing under any enactment during that financial year, along with other directions that remain current.

PHARMAC did not receive any new Ministerial directions in 2018/19. The following table outlines the directions and authorisations we have in place:

Direction/authorisation	Minister	Effective date
Direction to PHARMAC to contribute to New Zealand meeting its international obligations under the Trans-Pacific Partnership Agreement	Minister of Health	September 2016
Whole of Government Direction regarding the New Zealand Business Number	Minister of State Services and Minister of Finance	July 2016
Whole of Government Direction regarding Procurement Functional Leadership	Minister of State Services and Minister of Finance	February 2015
Whole of Government Direction regarding Property Functional Leadership	Minister of State Services and Minister of Finance	July 2014
All-of-Government shared authentication services	Minister of State Services and Minister of Finance	July 2008
Authorisation of PHARMAC to perform an additional function	Minister of Health	August 2001

PHARMAC directory

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<p>Board Members Hon Steve Maharey – Chair Nicole Anderson – Chair, Audit and Forecast Committee Dr Jan White – Chair, Health and Safety Committee Prof Jens Mueller Prof Ross Lawrenson</p>	<p>Chief Executive Sarah Fitt</p>
<p>Pharmacology and Therapeutics Advisory Committee (PTAC) Mark Weatherall (Chair) Marius Rademaker Brian Anderson Melissa Copland Alan Fraser Sean Hanna Jennifer Martin Stephen Munn Giles Newton-Howes Tim Stokes Matthew Strother Jane Thomas Simon Wynn Thomas</p>	<p>Consumer Advisory Committee (CAC) David Lui (Chair) Stephanie Clare Key Frost Francesca Holloway Lisa Lawrence Te Ropu Poa Tuiloma Lina Samu Adrienne von Tunzelmann Neil Woodhams (until 24 May 2019)</p>
<p>Auditors Audit New Zealand Limited</p>	<p>Bankers ASB Bank Limited</p>
<p>Solicitors Bell Gully</p>	<p>Insurers Lumley General Insurance (N.Z.) Limited AIG Insurance New Zealand Limited QBE Insurance (International) Pty Limited</p>



PHARMAC

TE PĀTAKA WHAIORANGA

If you are interested in working for PHARMAC
please register on our careers site
www.careers.pharmac.govt.nz

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ISSN 1179-3775 (Print)
ISSN 1179-3783 (Online)