

Pharmaceutical Management Agency

Statement of Performance Expectations

2014–2015





Stuart McLauchlan
Chair
30 June 2014



David Kerr
Board Member
30 June 2014

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Technical information about PHARMAC

Our form and functions

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

Our core business processes are published on the PHARMAC website www.pharmac.govt.nz. These include our:

- Operating Policies and Procedures;
- Prescription for Pharmacoeconomic Analysis;
- consultation and notification documents; and
- minutes of the Board’s advisory committees.

Information about pharmaceutical funding applications, including minutes of the Pharmacology and Therapeutics Advisory Committee (PTAC) – our clinical advisory committee, is available through our online Application Tracker.

Accountability

PHARMAC is accountable to the Minister of Health, who, on behalf of the Crown, is accountable to Parliament for our performance. The Minister also sets the level of the Combined Pharmaceutical Budget. The Ministry of Health acts as the Minister’s agent in monitoring PHARMAC’s performance.

Governance

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

In addition to the work undertaken by PHARMAC itself, the Board takes objective advice from two statutory advisory committees: the Pharmacology and Therapeutics Advisory Committee (PTAC) and its specialty subcommittees, and the Consumer Advisory Committee (CAC – a committee of people experienced in consumer issues).² The Board also has an Audit and Forecast Committee (comprising Board members), which provides assistance to the Board on relevant issues.

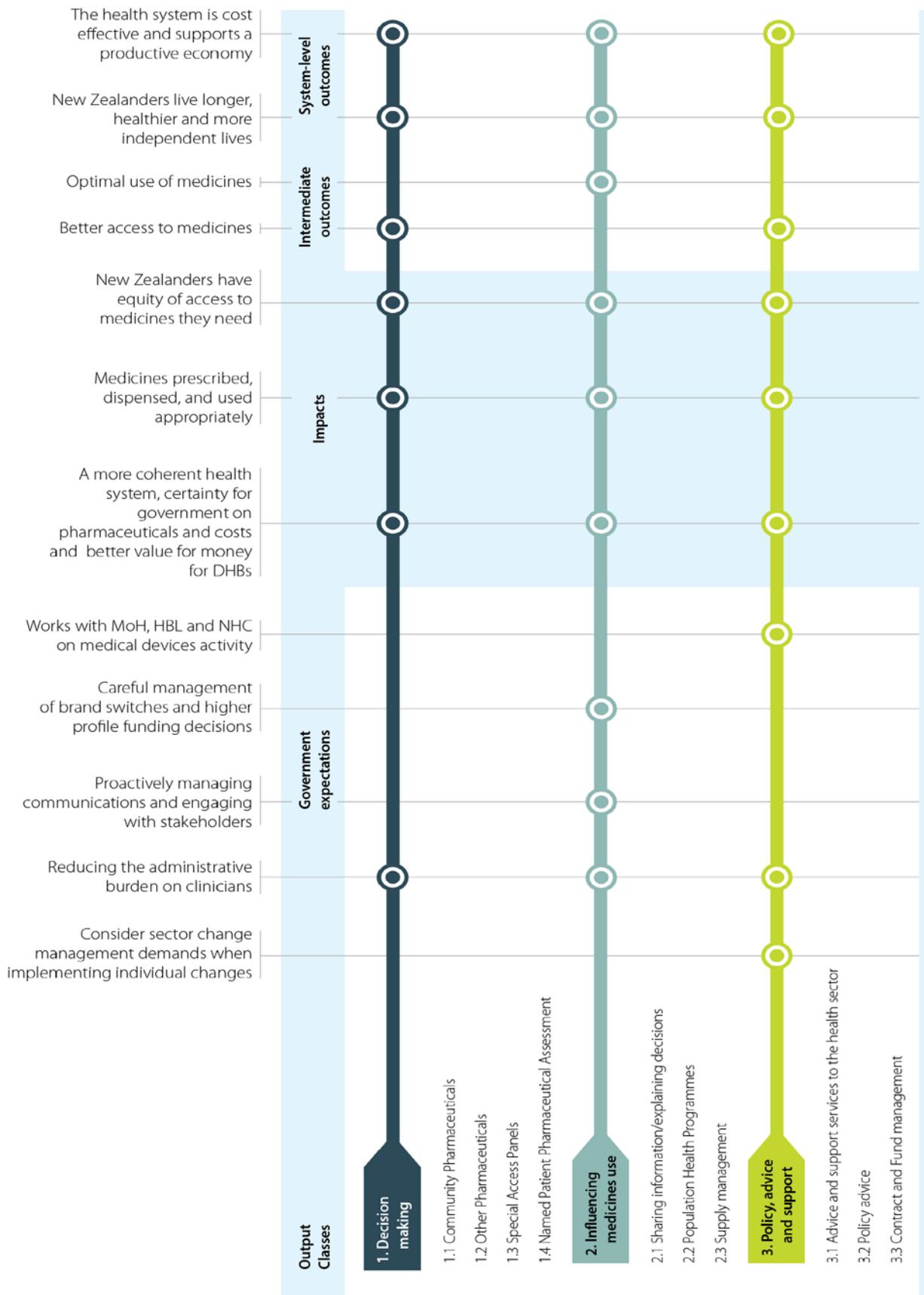
Reporting

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

¹ New Zealand Public Health and Disability Act 2000.

² PTAC members are independently appointed by the Director-General of Health. CAC members are appointed by the PHARMAC Board. PTAC seeks input as required from specialist subcommittees, whose members are also practising clinicians.

Fitting it all together – linking our outputs to impacts and health system outcomes



PART ONE

Outputs – PHARMAC’s activities

We set out our main activities for the financial year 1 July 2014 to 30 June 2015 below. Output classifications align with those set out in the PHARMAC Statement of Intent 2014/15–2017/18. We also indicate the level of expenditure budgeted on each output class. Expenditure figures relate to spending from PHARMAC’s operational budget, not the \$795 million Combined Pharmaceutical Budget (CPB). Note that the outputs with the greatest impact are measured and reported on.

Output class 1 – Making decisions about pharmaceuticals \$11.9 million

PHARMAC’s pharmaceutical funding decisions are key to our statutory objective *“to secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided”*.

PHARMAC achieves this partly through managing the notional budget decided by the Minister of Health and set aside by District Health Boards (DHBs) for pharmaceuticals through the CPB. The CPB includes funding for community pharmaceuticals and medical devices, pharmaceutical cancer treatments, and vaccines. PHARMAC does not hold these funds but monitors spending to ensure that it does not exceed the agreed notional budget. PHARMAC also has a Discretionary Pharmaceutical Fund that enables timely pharmaceutical decision making and smoother management of the CPB across financial years. PHARMAC implements most of its decisions through the Pharmaceutical Schedule, which is a comprehensive list of pharmaceuticals covering the majority of New Zealanders’ health needs.

PHARMAC’s decisions involve economic analysis, clinical advice from PTAC and specialist subcommittees as appropriate, negotiations with pharmaceutical suppliers and, often, public consultation.

PHARMAC takes into account a broad range of factors important for making robust medicine funding decisions in the New Zealand context. The affordability of decisions is essential since PHARMAC operates 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.

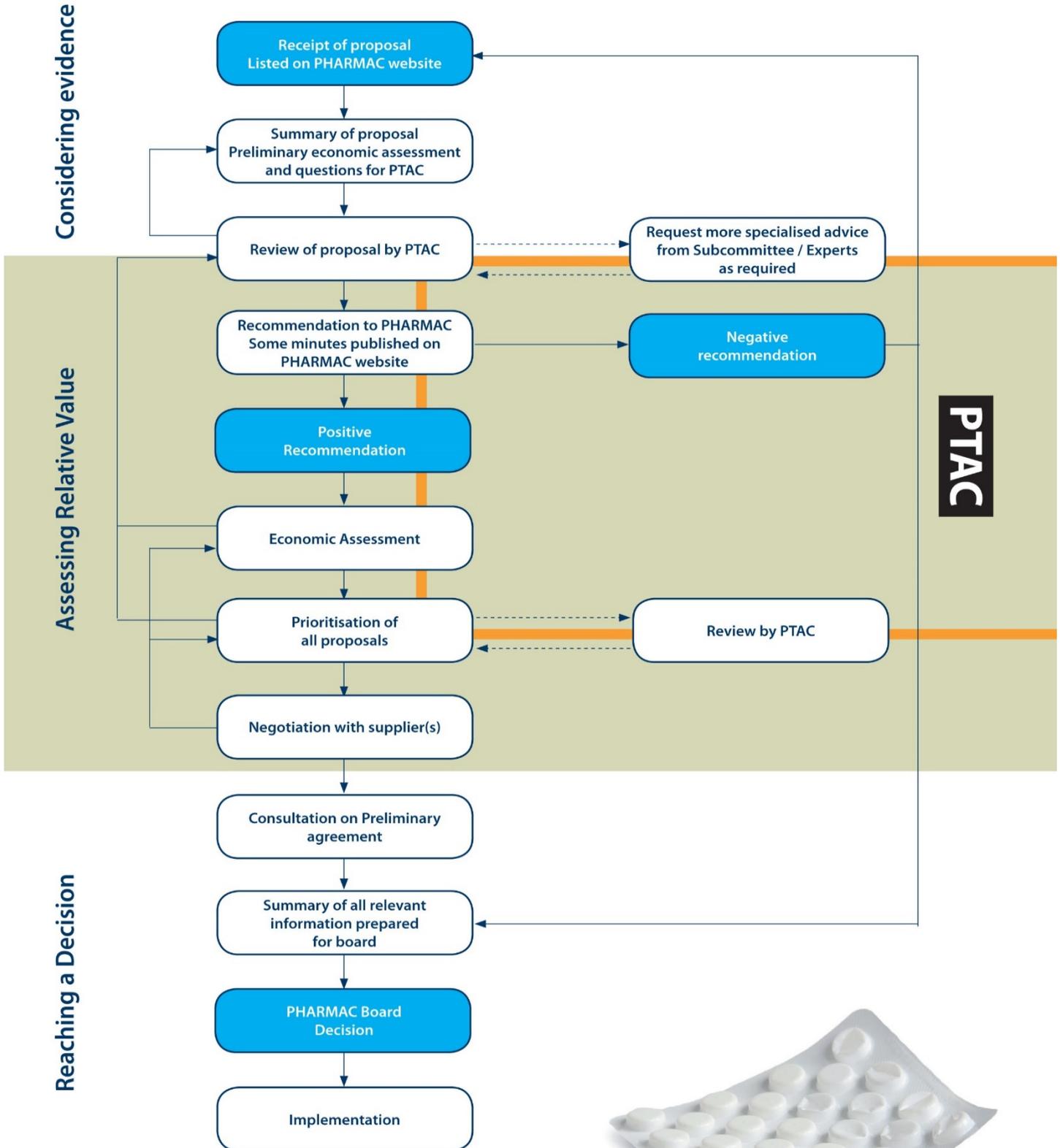
PHARMAC’s Operating Policies and Procedures (OPPs) inform the way we work. These processes need to be as efficient and effective as possible, because good quality processes increase the likelihood of making the best possible decisions. A focus on continuously improving our work is therefore important. In 2012/13 PHARMAC initiated an ongoing review of the OPPs, which began with a review of our nine decision criteria. A new decision-making approach is being finalised and any changes are likely to be implemented in the 2014/15 financial year.

Decisions involve choice. 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 2014/15–2017/18 (page 18).

PHARMAC’s decision making can include decisions to decline funding. These decisions are made carefully in the context of achieving the best health outcomes. One impact of a decision to decline funding is to increase the availability of funding for other, more cost-effective medicines. Transparency, where possible, is important and consumers, clinicians and industry representatives are able to track progress with funding applications for Schedule listings through PHARMAC’s online Application Tracker on our website (<http://www.pharmac.govt.nz/patients/ApplicationTracker>).

Schedule decision making process

The process set out in this diagram is intended to be indicative of the process that may follow where a supplier or other applicant wishes a pharmaceutical to be funded on the Pharmaceutical Schedule. PHARMAC may, at its discretion, adopt a different process or variations of the process (for example, decisions on whether or not it is appropriate to undertake consultation are made on a case-by-case basis).



Output 1.1 Combined Pharmaceuticals

Sections B to I of the Schedule contains a list of medicines funded for all New Zealanders through the Combined Pharmaceutical Budget (CPB) and dispensed in the community. The Schedule also includes vaccines administered in primary care and Pharmaceutical Cancer Treatments provided through DHB cancer services. From 1 July 2013 PHARMAC also began managing haemophilia treatments for DHBs through the CPB.

Output 1.2 Other Pharmaceuticals

PHARMAC manages pharmaceutical expenditure for DHBs in areas outside of the community setting, including an expanded role with hospitals. In July 2013 Section H of the Schedule was expanded to include the Hospital Medicines List (HML). Previously, Section H included a list of hospital medicines for which PHARMAC had negotiated national supply terms. The HML aims to increase national consistency in the medicines prescribed in hospitals and drive efficiencies for DHBs in hospital medicine expenditure.

PHARMAC is responsible for a small number of medical devices used in the community and DHB hospitals. During 2014/15 we will continue to work on the national procurement of certain types of hospital medical devices ahead of transition to full medical device management for DHB hospitals. Eventually most medical devices used in DHB hospitals will be listed on the Pharmaceutical Schedule.

Medicines and medical devices listed in Section H are funded directly by DHB hospitals, so are not currently included in the CPB.

Output 1.3 Special access panels

Some pharmaceuticals are very expensive, and to help ensure these are appropriately targeted PHARMAC manages panels of expert doctors to apply the criteria on which patients can access treatment.

Panels are currently maintained for:

- Cystic Fibrosis;
- Gaucher's Disease;
- Insulin Pumps;
- Multiple Sclerosis;
- Pulmonary Arterial Hypertension;
- Treatments for Gastro Intestinal Stromal Tumours (imatinib, dasatinib) and chronic myeloid leukaemia (dasatinib); and
- Haemophilia treatments (through the National Haemophilia Treaters' Group).

Output 1.4 Named Patient Pharmaceutical Assessment

This is the mechanism that assesses applications for individual patients to receive funding of medicines that are not otherwise funded through the Pharmaceutical Schedule. PHARMAC introduced the NPPA policy in 2012 following a comprehensive review of the previous Exceptional Circumstances schemes for community, hospital and cancer medicines. Expenditure for NPPA community and cancer treatments continues to be drawn from the CPB, while approvals for hospital medicines are funded by individual DHB hospitals.

In the fourth quarter of the 2013/14 financial year PHARMAC began a review of the NPPA policy as part of its ongoing review of its OPPs. The NPPA policy has been operational for two years, making it timely to reflect on how well the policy is working. During the 2014/15 financial year PHARMAC expects to start implementing any changes identified through the review that will strengthen the policy.

Output measures

Impact	Output	Measure	Rationale	2012/13 actual	2013/14 estimate	2014/15 target	2015/16 target
Access	1.1 Combined Pharmaceuticals decisions	Percentage of funding decisions supported by evidence and made using PHARMAC's decision-making approach.	High-quality decision making needs to be informed by evidence. Confidence in our decision making requires us to follow the same approach consistently.	Achieved. All PHARMAC funding decision papers (to PHARMAC Board or Chief Executive) discuss how the decision aligns with the nine decision criteria.	We estimate that all funding decisions will be supported by evidence and made using PHARMAC's nine decision criteria.	All funding decisions are supported by evidence and made using PHARMAC's decision-making approach.	All funding decisions are supported by evidence and made using PHARMAC's decision-making approach.
Economic and system		Percentage of decisions on line items (excluding bids held open while awaiting Medsafe registration) made within six months of the tender closing.	Ensuring tender decisions are made in a timely way is important for good sector relationships and to provide certainty to potential suppliers.	Achieved. Decisions on 91% of line items made (excluding bids held open while awaiting Medsafe registration) within five months of tender closing.	We estimate that despite an increase in bids, decisions on more than 90% of line items (excluding bids held open while awaiting Medsafe registration) will be made within six months of the tender closing.	Decisions on more than 90% of line items (excluding bids held open while awaiting Medsafe registration) will be made within six months of the tender closing.	Decisions on more than 90% of line items (excluding bids held open while awaiting Medsafe registration) will be made within six months of the tender closing.
Access	1.2 Other pharmaceutical decisions (including hospital medicines and medical devices)	Savings returned to the health sector.	Returning savings to the health sector demonstrates the value PHARMAC adds as part of the health system. The savings we make for DHBs enable money to be redirected to other activity. Savings where there is no fixed budget are not readily forecast.	Medical devices clinical engagement consultation completed. Medical devices interim procurement activity scoped (no savings, PHARMAC costs \$1.4m).	\$33.85m DHB gross savings (includes hospital medicines \$3.74m, haemophilia products \$28m and medical devices \$1.11m). Net savings returned to DHBs: \$33.08m (\$0.77m investment in hospital medicines). Hospital medical devices gross savings 5 year NPV \$4.74m.	Hospital medical devices gross savings five-year NPV at least \$4.74m.	Hospital medical devices gross savings five-year NPV at least \$7.0m.
Economic and system		Expenditure managed for DHB hospitals.	Increasing the range of medicines available to use in DHB hospital pharmaceuticals needs to be managed sustainably.	Hospital Schedule Rules developed. Consultation on Schedule rules and updated NPPA policy completed.	Hospital Schedule (Section H) implemented: Part I Rules, Part II Hospital Medicines, Part III Optional Pharmaceuticals (includes medical devices).	New investments made in hospital pharmaceuticals within financial limits agreed with DHB. Funding decisions supported by evidence and made using PHARMAC's decision-making approach.	New investments made in hospital pharmaceuticals within financial limits agreed with DHBs. Funding decisions supported by evidence and made using PHARMAC's decision-making approach.

Output class 2 – Influencing medicines access and use

\$11.6 million

Deciding to fund a medicine is only part of the pathway to medicines reaching New Zealanders who need them. PHARMAC has a legislative function to promote the responsible use of pharmaceuticals and this is an essential part of achieving best health outcomes. To do this, we need to communicate our decisions and provide information and support so medicines are prescribed and used well. Good communication helps people understand the reasons for decisions and contributes to realising the health outcomes sought through the funding decision. PHARMAC aims to support prescribers, pharmacists and patients so that medicines aren't over-, under- or misused. An important aspect of responsible use is medicines adherence (ensuring patients take the medicine prescribed for them in the way intended by their prescriber) along with broader actions to improve health literacy, workforce development and community engagement, and working with health professionals to deliver programmes so the medicines that are funded for people are used optimally. PHARMAC is one of many health sector agencies seeking to promote responsible use of medicines and we seek to work with other sector players to improve the value of the programmes we develop.

Output 2.1 Sharing information/explaining decisions

We consider feedback from prescribers and pharmacists on the practicality of Schedule changes and regularly meet with health professional groups to obtain input through our consultation processes. We also 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, or other issues. To make sure we are asking the right questions of the right people, we take advice from our Consumer Advisory Committee on our engagement plans and practices and, from time to time, PHARMAC undertakes engagement and consultation activities with the community through regional and national forums.

We work to explain our decisions more clearly through our notification letters, the PHARMAC website and information sent to health professionals and patients to help them adjust to the introduction of new medicines or brand changes. 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. This can be through targeted provision of clinical advice, or through more widespread provision of information about the changes.

Output 2.2 Population health programmes

Our population health programmes are developed in response to evidence-based analysis and identified unmet need, and aim to improve access and promote responsible use of medicines. Key projects to be advanced in 2014/15 are outlined in the box opposite.

Sometimes decision implementation is supported by information provided to health professionals and consumers through our health education programmes, such as He Rongoā Pai He Oranga Whānau, a programme that provides seminars to Māori Community Health Workers and Primary Care Nurses. We are currently refreshing He Rongoā Pai He Oranga Whānau to ensure it remains relevant. We are exploring opportunities to develop this resource for use as an education a tool in a range of health and community settings.

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

Our population health programmes

Generic medicines – aims to reduce the concerns people have about generic medicines, such as effectiveness, safety, side effects and country of manufacture.

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

Adherence programmes

Medicines adherence plays an important role in ensuring the benefits from PHARMAC's funding decisions are realised. Supporting medicines adherence is a key element in promoting responsible use. Medicines adherence programmes contribute to ensuring medicines are prescribed and used as intended. Following a Request for Proposals in 2013, PHARMAC has now contracted two providers to develop and pilot technology-based medicines adherence tools and programmes. The pilots will be evaluated to assess their wider applicability. See the box at right for more information. It is important to note that, while adherence tools like these may support people to achieve better medicines adherence, tools should be seen in a context of wider support. The role of health providers should not be underestimated.

Output 2.3 Supply management

PHARMAC has dedicated contract management resource, 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 companies, wholesalers, pharmacists and patients.

Currently, PHARMAC also manages the direct distribution of some complex medicines to patients. This includes some medicines used to treat multiple sclerosis and enzyme deficiency disorders. PHARMAC is looking to gradually move distribution into the regular supply chain, through community pharmacies. We have already initiated this change for people taking imatinib for conditions other than Gastro Intestinal Stromal Tumours (GIST), and for people receiving human growth hormone. We are currently developing Special Authority criteria for accessing funded growth hormone.

New ways of promoting adherence

Poor adherence to medication regimens has the potential to negatively affect health outcomes. Two providers are currently investigating the effectiveness of technology interventions to support, promote and improve medication adherence:

- Atlantis Healthcare – a technology-based adherence tool for people taking oral hypoglycaemic medicines; and
- CBG Health Research Ltd – a mobile device reminder service for people on five or more medications.

Output measures

Impact	Output	Measure	Rationale	2012/13 result	2013/14 estimate	2014/15 target	2015/16 target
	2.1 Explaining decisions and sharing information	Amount of campaign materials distributed compared with previous year.	Demand for resources provides an indication of whether the material we produce is effective for explaining our decisions and the way we work.	Achieved greater amount than previous year. Resource orders from www.pharmaonline.co.nz – 1815 orders were received with an average of 2.9 products per order. In the 2011/12 financial year, 1195 orders were received.	We estimate that demand for campaign materials will be equal to or greater than previous year.	Amount of campaign materials distributed is greater than previous year.	Amount of campaign materials distributed is greater than previous year.
Access	2.2 Population health programmes	Surveys of Seminar attendees showing respondents' satisfaction with the Seminars out of 5 (1 = poor, 5 = excellent).	Surveying Seminar attendees helps us to determine whether these continue to meet the needs of health professionals.	93% of respondents indicated their satisfaction with the service was at least 4 out of 5.	We estimate that at least 90% of surveyed attendees will rate their satisfaction with the Seminars at least 4 out of 5.	Surveys of attendees show at least 90% rate their satisfaction with the Seminars at least 4 out of 5.	Surveys of attendees show at least 90% rate their satisfaction with the Seminars at least 4 out of 5.
	2.2 Population health programmes	He Rongoā Pai He Oranga Whānau is delivered to a range of health and community workers.	He Rongoā Pai He Oranga Whānau increases knowledge of medicines and is consistent with Te Whaioranga.	RFP for programme delivery completed.	Four presentations delivered through contracted partner to four different provider groups.	RFP completed and six presentations delivered through contracted partner to four different provider groups.	Eight presentations delivered through contracted partner to four different provider groups.
Access	2.3 Supply management	Low medicine stock situations are identified and managed.	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.	All low medicine stock situations were identified and managed.	Respond to low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.	Respond to low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.	Respond to low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.

Output class 3 – Providing policy advice and support

\$4.1 million



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 in the community, providing advice to DHBs on a range of matters including pharmacy contracting 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 also undertake work to assist health sector procurement where it fits with PHARMAC's skills. For example, we assisted with procuring some blood products for a number of years before taking on a greater responsibility for these during 2013/14.

PHARMAC is working towards establishing a joint agency group with DHBs and the Ministry of Health to discuss matters of mutual interest.

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.

Output 3.3 Contracts and fund management

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

PHARMAC also has access to a Legal Risk Fund, with a value of \$6,713 million in 2014/15, which is used to meet litigation costs that are not otherwise met from our regular operational spending on legal services.

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

Output measures

Impact	Output	Measure	Rationale	2012/13 result	2013/14 estimate	2014/15 target	2015/16 target
Economic and system	3.2 Policy advice	Survey of policy requesters indicates satisfaction with timeliness and quality of PHARMAC's policy advice, out of 5 (1 = poor, 5 = excellent).	Understanding whether our policy advice to other agencies meets expectations enables PHARMAC to continually improve the quality of that advice.	<p>PHARMAC surveyed policy requesters in July 2013. The results gave PHARMAC an average out of a possible score of 5. Scores, with 2012 results in brackets, showed a slight drop in performance:</p> <ul style="list-style-type: none"> ● 4.33 (4.88) for timeliness; ● 4.22 (4.50) for quality of analysis given; ● 4.50 (4.89) for relevance; ● 4.11 (4.63) for thoroughness; ● 4.11 (4.25) for clarity; and ● 4.33 (4.75) for informal policy support and availability. 	We estimate an average survey score of at least 4.5 in each area.	An average survey score of at least 4.5 in each area.	An average survey score of at least 4.5 in each area.
Economic and system	3.3 Rebates distribution	All rebates are collected and distributed to DHBs in accordance with PHARMAC policy.	Effective management of rebates provides certainty to DHBs.	Achieved. All rebates collected were distributed to DHBs in accordance with PHARMAC policy.	We estimate all fund use will be in accordance with PHARMAC policy.	All fund use is in accordance with PHARMAC policy.	All fund use is in accordance with PHARMAC policy.

PART TWO

Prospective financial information

Hospital medical device management

In addition to the assumptions identified below, the assumptions regarding Medical Device Management are particularly significant. The forecast statements of comprehensive income have been prepared assuming revenue from the Ministry of Health from 2015/16 of \$6.2 million to cover the cost of the planning and implementation for the management of medical devices. This figure was estimated during 2012/13 at the beginning of the establishment phase of the medical device project. As that project is not complete, it is unknown whether the actual cost of medical device procurement will be more or less than originally estimated, and the actual amount of revenue available to cover those costs may also differ.

Key assumptions

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

- *our Statement of Performance Expectations* is contingent on appropriate funding and, depending on funding decisions, PHARMAC's activities and associated measures for 2014/15 may change;
- *expenditure increases generally* – a number of budget lines have assumed cost increases due to changes in PHARMAC's functions;
- *operating model* – forecast revenue and expense are based on the current business model and policy settings;
- *personnel costs* – expenditure in personnel has been increased to deliver on PHARMAC's expanded role and to maintain consistency with other state sector organisations, given PHARMAC's personnel are its key asset;
- *prudential reserve* – the level of PHARMAC's prudential reserve of \$4.0m;
- *Herceptin SOLD trial* – a best estimate of the spreading of PHARMAC's contribution to the administration costs of an international Herceptin trial (the SOLD trial). As the timing of recruitment into the trial is based on estimates, actual payments will likely differ in practice;
- *Legal Risk Fund (LRF)* – the balance of the Legal Risk Fund is assumed to remain the same in out-years based on an assumption that fund use is offset by replenishment (interest and transfer of any unspent litigation money in the operating budget);
- *Discretionary Pharmaceutical Fund (DPF)*³ – the balance of the Discretionary Pharmaceutical Fund is based on the forecast of pharmaceutical expenditure; and
- PHARMAC is currently exempt from the imposition of the Crown's capital charge.

³ The purpose of the Discretionary Pharmaceutical Fund is to enable PHARMAC to take advantage of investment opportunities that might not otherwise be able to be funded in that year, as well as deal with the sometimes lumpy effects of growth in pharmaceutical usage.

Prospective Financial Statements

Statement of Forecast Comprehensive Income

For the year ended 30 June

	Note	SOI 2014/15 \$000	SOI 2015/16 \$000	SOI 2016/17 \$000
Income				
Crown funding - Baseline		15,779	21,987	21,987
DHB - Operating funding		3,400	3,500	3,536
DHB - Discretionary Pharmaceutical Fund	3	2,050	2,050	1,940
Additional Sector Contribution	4	2,000	0	0
Other:				
Interest received - Operating		200	200	200
- Legal Risk Fund	2	280	280	280
Other revenue - Operating		181	181	181
Total Income		23,890	28,198	28,124
Expenditure				
Personnel Costs		13,250	13,618	13,744
Operating Costs		11,297	11,377	11,604
Herceptin SOLD trial administration		368	25	25
Depreciation & amortisation costs		400	450	450
Discretionary Pharmaceutical Fund payments to DHBs	3	2,050	1,940	1,820
Legal Risk Fund payments for litigation costs		280	280	280
Finance Costs		10	18	18
Total expenditure		27,655	27,708	27,941
Net surplus/(deficit) for the period		(3,765)	490	183
Other comprehensive income		0	0	0
Total comprehensive income		\$(3,765)	\$490	\$183

1. The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
2. LRF interest calculation is 4.00% on an average balance of \$7,000k.
3. DPF forecast is linked to CPB forecast.
4. Additional Sector Contribution includes the establishment costs of the medical device management function, which for 2014/15 involves invoicing directly to DHBs. As agreed with the Ministry of Health and DHBs, the costs of this function will be built into baseline funding from 2015/16.

Statement of Forecast Financial Position

As at 30 June

	Note	SOI 2014/15	SOI 2015/16	SOI 2016/17
	1	\$000	\$000	\$000
PUBLIC EQUITY				
Retained earnings and reserves		4,243	4,648	5,034
Herceptin SOLD Trial fund		348	323	0
Discretionary Pharmaceutical Fund	2	7,950	8,060	8,180
Legal risk fund		6,713	6,713	6,713
TOTAL PUBLIC EQUITY		\$19,254	\$19,744	\$19,927
Represented by:				
Current assets				
Cash and cash equivalents		6,598	7,088	7,071
Investments		6,035	6,035	6,035
DPF monies into rebates account		7,950	8,060	8,180
Debtors and other receivables		100	100	100
Prepayments		26	52	26
Total current assets		20,709	21,335	21,412
Non-current assets				
Property, plant and equipment		1,665	1,665	1,665
Intangible Assets		85	85	285
Total non-current assets		1,750	1,750	1,950
Total assets		22,459	23,085	23,362
Current liabilities				
Creditors and other payables		2,115	2,231	2,295
Employee entitlements		700	700	700
GST Payable		90	90	90
Total current liabilities		2,905	3,021	3,085
Non-current liabilities				
Provisions		300	320	350
Total liabilities		3,205	3,341	3,435
NET ASSETS		\$19,254	\$19,744	\$19,927

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

Statement of Forecast Cash Flows

	Note	SOI 2014/15 \$000	SOI 2015/16 \$000	SOI 2016/17 \$000
RETAINED EARNINGS				
	1			
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Crown		15,779	21,987	21,987
- DHBs Operating		3,400	3,500	3,536
- DHBs Discretionary Pharmaceutical Fund		2,050	2,050	1,940
- Additional Sector Contribution		2,000	0	0
- Interest Operating		200	200	200
- Interest Legal Risk Fund		280	280	280
- Other Operating		181	181	181
		<u>23,890</u>	<u>28,198</u>	<u>28,124</u>
Cash was disbursed to:				
- Legal Risk Fund expenses		0	0	0
- Discretionary Pharmaceutical Fund expenses		0	0	0
- Discretionary Pharmaceutical Fund deposited in rebates bank account		0	(110)	(120)
- Payments to suppliers and employees		(26,855)	(26,748)	(26,971)
- Goods and services tax (net)		(400)	(400)	(400)
		<u>(27,255)</u>	<u>(27,258)</u>	<u>(27,491)</u>
Net cash flow from operating activities		<u>(3,365)</u>	<u>940</u>	<u>633</u>
CASH FLOWS – INVESTING ACTIVITIES				
- Purchase of property, plant and equipment		(400)	(450)	(450)
- Purchase of intangible assets		0	0	(200)
- Purchase of investments		0	0	0
Net cash flow from investing activities		<u>(400)</u>	<u>(450)</u>	<u>(650)</u>
Net increase/(decrease) in cash		(3,765)	490	(17)
Cash at the beginning of the year		10,363	6,598	7,088
Cash at the end of the year		<u>6,598</u>	<u>7,088</u>	<u>7,071</u>

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

Statement of Forecast Changes in Equity

	Note	SOI 2014/15	SOI 2015/16	SOI 2016/17
RETAINED EARNINGS				
	1	\$000	\$000	\$000
Balance at 1 July		7,640	4,243	4,648
Net surplus/(deficit)		(3,765)	490	183
Net transfer from/(to) Herceptin SOLD trial fund		368	25	323
Net transfer from/(to) DPF		0	(110)	(120)
Net transfer from/(to) legal risk fund		0	0	0
Balance at 30 June		\$4,243	\$4,648	\$5,034
HERCEPTIN SOLD TRIAL FUND				
		\$000	\$000	\$000
Balance at 1 July		716	348	323
Add: Net transfer from/(to) retained earnings		(368)	(25)	(323)
Balance at 30 June		\$348	\$323	\$0
DPF				
		\$000	\$000	\$000
Balance at 1 July		7,950	7,950	8,060
Add: Income received transferred from/(to) retained earnings		2,050	2,050	1,940
Less: Pharmaceutical expenses transferred from/(to) retained earnings		(2,050)	(1,940)	(1,820)
Balance at 30 June		\$7,950	\$8,060	\$8,180
LEGAL RISK FUND				
		\$000	\$000	\$000
Balance at 1 July		6,713	6,713	6,713
Add: Interest received transferred from/(to) retained earnings		280	280	280
Less: Litigation expenses transferred from/(to) retained earnings		(280)	(280)	(280)
Balance at 30 June		\$6,713	\$6,713	\$6,713
TOTAL PUBLIC EQUITY		\$19,254	\$19,744	\$19,927

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

Reconciliation of Net Surplus to Cash Flow from Operating Activities

Note	SOI 2014/15	SOI 2015/16	SOI 2016/17
1	\$000	\$000	\$000
Net operating surplus/(deficit)	(\$3,765)	\$490	\$183
Add non-cash items:			
Depreciation	\$400	\$450	\$450
Total	(\$3,365)	\$940	\$633
Add/(less) working capital movements:			
Decrease/(increase) in debtors and other receivables	\$0	\$0	\$0
Decrease/(increase) in prepayments	\$78	(\$26)	\$26
(Decrease)/increase in payables	(\$181)	\$116	\$64
(Decrease)/in make good provision	\$103	\$20	\$30
(Decrease)/increase in employee entitlements	\$0	\$0	\$0
(Decrease)/increase in net GST	\$0	\$0	\$0
Net movements in working capital items	\$0	\$110	\$120
Other movements			
DPF monies deposited in rebates bank account	\$0	(\$110)	(\$120)
Net cash flow from operating activities	(\$3,365)	\$940	\$633

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

Prospective Statement of Comprehensive Income, by Output Class

SOI 2014/15	Funding MOH	Funding DHB	Funding other	Output expenditure	Net surplus/(deficit)
Decision making	7,258	4,088	2,229	(11,892)	1,683
Influencing medicine use	6,312	1,090	266	(11,615)	(3,947)
Policy advice and support	2,209	272	166	(4,148)	(1,501)
Total	15,779	5,450	2,661	(27,655)	(3,765)

SOI 2015/16	Funding MOH	Funding DHB	Funding other	Output expenditure	Net surplus/(deficit)
Decision making	10,114	4,163	529	(11,915)	2,890
Influencing medicine use	8,795	1,110	66	(11,637)	(1,666)
Supply management	3,078	278	66	(4,156)	(734)
Total	21,987	5,551	661	(27,708)	490

SOI 2016/17	Funding MOH	Funding DHB	Funding other	Output expenditure	Net surplus/(deficit)
Decision making	10,114	4,107	529	(12,015)	2,735
Influencing medicine use	8,795	1,095	66	(11,735)	(1,779)
Policy advice and support	3,078	274	66	(4,191)	(773)
Total	21,987	5,476	661	(27,941)	183

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

APPENDIX 1 – STATEMENT OF ACCOUNTING POLICIES

<i>Reporting entity</i>	We act as a Crown agent to meet our obligations in relation to the operation and development of a national Pharmaceutical Schedule. PHARMAC has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (“NZ IFRS”).
<i>Basis of preparation</i>	Our financial statements have been prepared in accordance with New Zealand generally accepted accounting practices (NZ GAAP), the requirements of the Crown Entities Act 2004, and the New Zealand Public Health and Disability Act 2000. These financial statements have been prepared in accordance with, and comply with, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit entities.
<i>Standards etc</i>	<i>Standards, amendments and interpretations issued that are not yet effective and have not been early adopted</i> – the financial statements have been prepared on an historical cost basis. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).
<i>Revenue</i>	Revenue is measured at the fair value of consideration received. Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned. Interest income is recognised using the effective interest method.
<i>Leases</i>	An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.
<i>Financial instruments</i>	Financial assets and financial liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through profit or loss, in which case the transaction costs are recognised in the statement of financial performance.
<i>Cash and cash equivalents</i>	Cash includes cash on hand and funds on deposit with banks.
<i>Debtors and other receivables</i>	Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Impairment of a receivable is established when there is objective evidence that PHARMAC will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, and default in payments, are considered objective evidence of impairment. The amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the statement of financial performance. Overdue receivables that are renegotiated are reclassified as current.
<i>Property, plant and equipment</i>	<p>Property, plant and equipment consist of leasehold improvements, furniture and office equipment. Property, plant and equipment are shown at cost less accumulated depreciation and impairment losses. All property, plant and equipment, or groups of assets forming part of a network which are material in aggregate, are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the statement of financial performance.</p> <ul style="list-style-type: none">• <i>Additions</i> – 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.• <i>Disposals</i> – gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal are included in the statement of financial performance.• <i>Subsequent costs</i> – costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to PHARMAC and the cost of the item can be measured reliably.

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

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

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

Creditors and other payables Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Employment entitlements Employee entitlements that PHARMAC expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued to balance date, and annual leave earned but not yet taken at balance date expected to be settled within 12 months, and sick leave. PHARMAC recognises a liability and an expense for bonuses where it is contractually bound to pay them, or where there is a past practice that has created a constructive obligation. PHARMAC recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that PHARMAC anticipates it will be used by staff to cover their future absences.

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

Public equity Public equity is the Crown's investment in PHARMAC and is measured as the difference between total assets and total liabilities. Public equity is classified as general funds and legal risk fund.

Commitments Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations. Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the value of that penalty or exit cost.

Goods and Services Tax (GST) All items in the financial statements are exclusive of GST, except for receivables and payables, which are stated on a GST-inclusive basis. Where GST is not recoverable as an input tax, then it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of the receivables or payables in the statement of financial position. The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

Income tax PHARMAC is a public authority in terms of the Income Tax Act 2004 and consequently is exempt from income tax. Accordingly no charge for income tax has been provided for.

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