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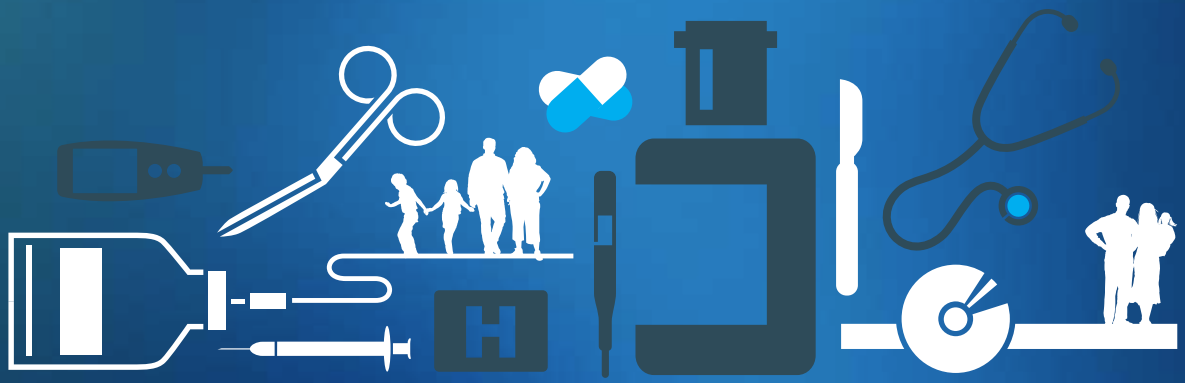
Pharmaceutical Management Agency

Statement of Performance Expectations

2015–2016



PHARMAC
Pharmaceutical Management Agency

PHARMAC
Statement of Performance Expectations
2015–2016

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Chair
26 June 2015

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Board Member
26 June 2015

TABLE OF CONTENTS

Technical information about PHARMAC 4

Fitting it all together – linking our outputs to impacts and health system outcomes . 7

PART ONE 7

OUTPUTS – PHARMAC'S ACTIVITIES 8
OUTPUT CLASS 1 – MAKING DECISIONS ABOUT PHARMACEUTICALS 8
OUTPUT CLASS 2 – INFLUENCING PHARMACEUTICALS ACCESS AND USE 12
OUTPUT CLASS 3 – PROVIDING POLICY ADVICE AND SUPPORT 14

PART TWO 16

PROSPECTIVE FINANCIAL INFORMATION 16
PROSPECTIVE FINANCIAL STATEMENTS 17
Statement of Forecast Comprehensive Income 17
Statement of Forecast Financial Position 18
Statement of Forecast Cash Flow 19
Statement of Forecast Changes in Equity 20
Reconciliation of Net Surplus to Cash Flow from Operating Activities 21
Statement of Forecast Comprehensive Income, by Output Class 22

APPENDIX 1 – STATEMENT OF ACCOUNTING POLICIES 23

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] Section 47(a) 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.

Government expectations

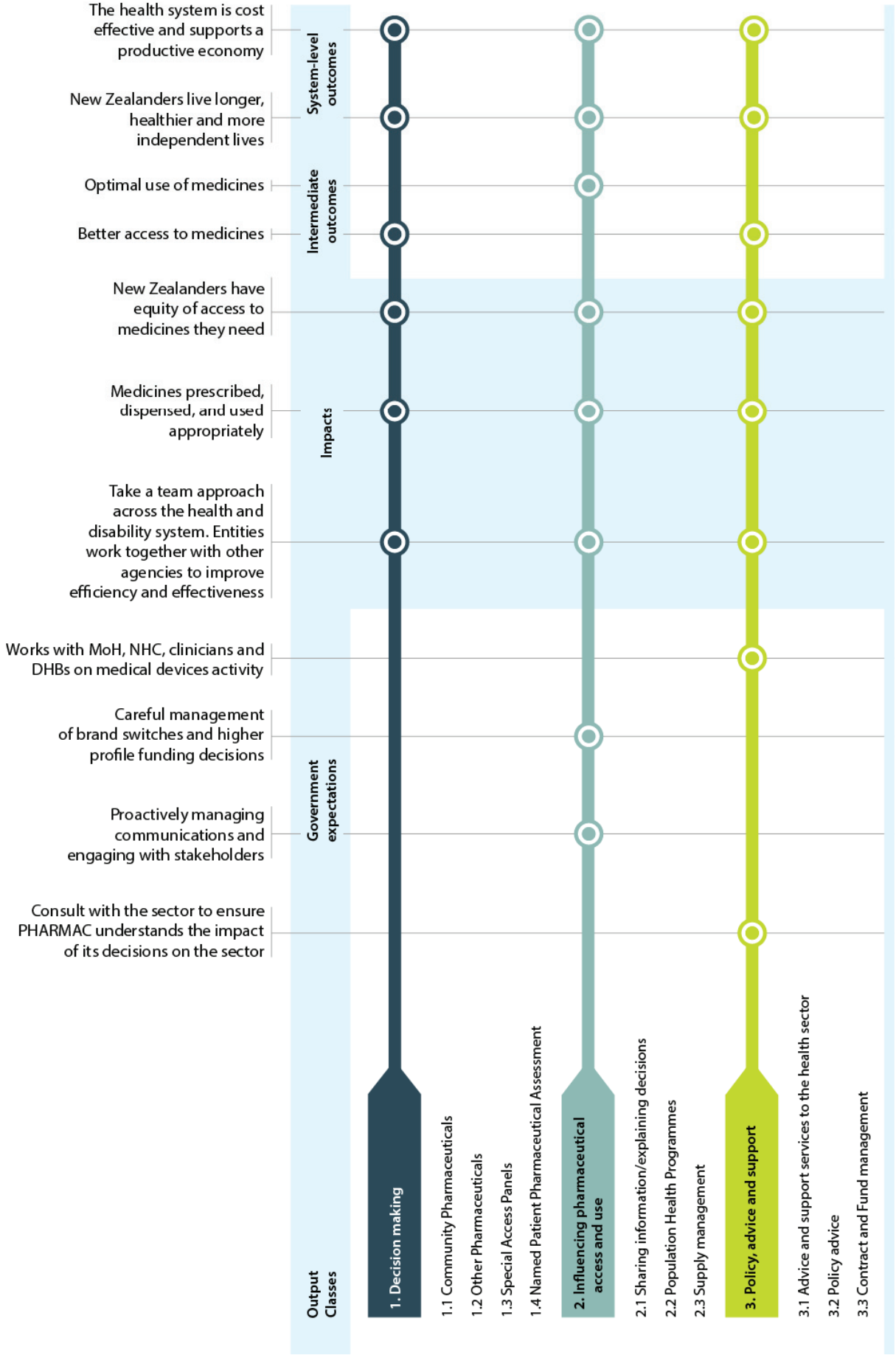
Both PHARMAC's Statement of Intent and Statement of Performance Expectations are guided by the Government's Enduring Letter of Expectations, which was issued in July 2012, and the Minister of Health's Letter of Expectations to PHARMAC dated December 2014. Crown entities are expected to continue a focus on financial sustainability and demonstrate a strong understanding of what we do and how it relates to the rest of the health sector. We must manage ourselves responsibly, reflecting public concerns over government agencies' expenditure, setting realistic pay and working conditions, and providing value for money. In particular, agencies should maintain careful financial management, while lifting productivity and providing high-quality services. PHARMAC must also maintain a 'no surprises' approach to communication between ourselves, the Ministry and the Minister.

Key expectations, and relevant outputs for each, are outlined below and summarised in the diagram on page 7:

Expectation	Comment
Entities to make use of performance or continuous improvement processes such as the Performance Improvement Framework (PIF)	PHARMAC has initiated a rolling review of our Operating Policies and Procedures to make sure they continue to reflect current policy settings and remain fit for purpose into the future. PHARMAC will continue to make use of its current suite of continuous improvement processes. *All output classes* 
Take a team approach across the health and disability system. Entities should continue to improve their efficiency and effectiveness by working together with other agencies.	Our work in hospital medicines, hospital medical devices and vaccines includes new partnerships and working relationships with other health Crown entities and the Ministry of Health to support action in areas of mutual interest. This will help to ensure alignment and avoid duplication. We are also identifying opportunities to work with other health sector stakeholders to support health sector and cross-government priorities. This includes working with DHBs and primary care to consider opportunities to shift administration services to community settings, and developing memoranda of agreement with Whānau Ora collectives. *All output classes* 
Contribute to the Ministry of Health's work to update and refresh the New Zealand Health Strategy.	PHARMAC will provide assistance as required to inform the development of a refreshed Health Strategy. *All output classes* 
Work closely with the Ministry of Health, the National Health Committee (NHC), clinicians and the DHB-owned vehicle that will take over responsibility for leading implementation of the Health Benefits Limited (HBL) business cases to plan the development and implementation of medical devices work.	We have agreed a Memorandum of Understanding (MOU) with the National Health Committee and meet quarterly to share current issues with respective work programmes and identify areas of common interest. We will continue to work with sector stakeholders including clinicians, and DHB agents to develop and implement medical device management activity. *Output: 3.1*

Expectation	Comment
Continue to work towards budget management of hospital medicines	We are working with DHBs to obtain suitable DHB level usage data for hospital medicines for informing an appropriate budget size over time. Budget management of hospital medicines requires more than data to inform budget size. For example, enablers to monitor compliance with the Pharmaceutical Schedule and the ability to adjust sector mechanisms for managing funding flows within and between DHBs are needed. PHARMAC will work closely with our health sector partners to scope and plan activity to support an eventual transition to budget management. *Output: 1.2* 
Continuing to manage brand switches and high-profile funding decisions carefully.	We will continue to provide resources and evidence-based information to support brand changes and high-profile funding decisions. We have established key roles in our new corporate structure to ensure implementation of our funding decisions, including brand changes, is managed well. *Output: 2.1* 
Continuing to communicate and engage proactively with the public and key stakeholders, including clinicians, to increase confidence.	PHARMAC recognises the importance of engaging with clinicians and other stakeholders. Our routine engagement includes face-to-face meetings with clinical and consumer groups, attendance at conferences, and business relationships with pharmaceutical suppliers (see pages 12-13). We are actively engaging with a range of stakeholders in our ongoing review of our Operating Policies and Procedures and as we progress the development of our expanded role managing hospital medical devices. *Output: 2.1* 
Continue to consult with the sector to ensure that PHARMAC understands the impact of its decisions on the sector.	Consultation is an important element of PHARMAC's decision-making approach. We continue to build relationships with health professional bodies, NGOs and consumers groups to help inform significant decisions. The findings of the 2014/15 stakeholder survey will be used to identify ways our consultation and engagement can be strengthened. *All output classes* 

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



PART ONE – PHARMAC'S ACTIVITIES

What the classes of outputs are intended to achieve

We set out our main activities for the financial year 1 July 2015 to 30 June 2016 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 $800 million Combined Pharmaceutical Budget (CPB). While all output classes are reported on, those outputs with the greatest impact have specific measures associated with them.

Output class 1 – Making decisions about pharmaceuticals $13.5 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.

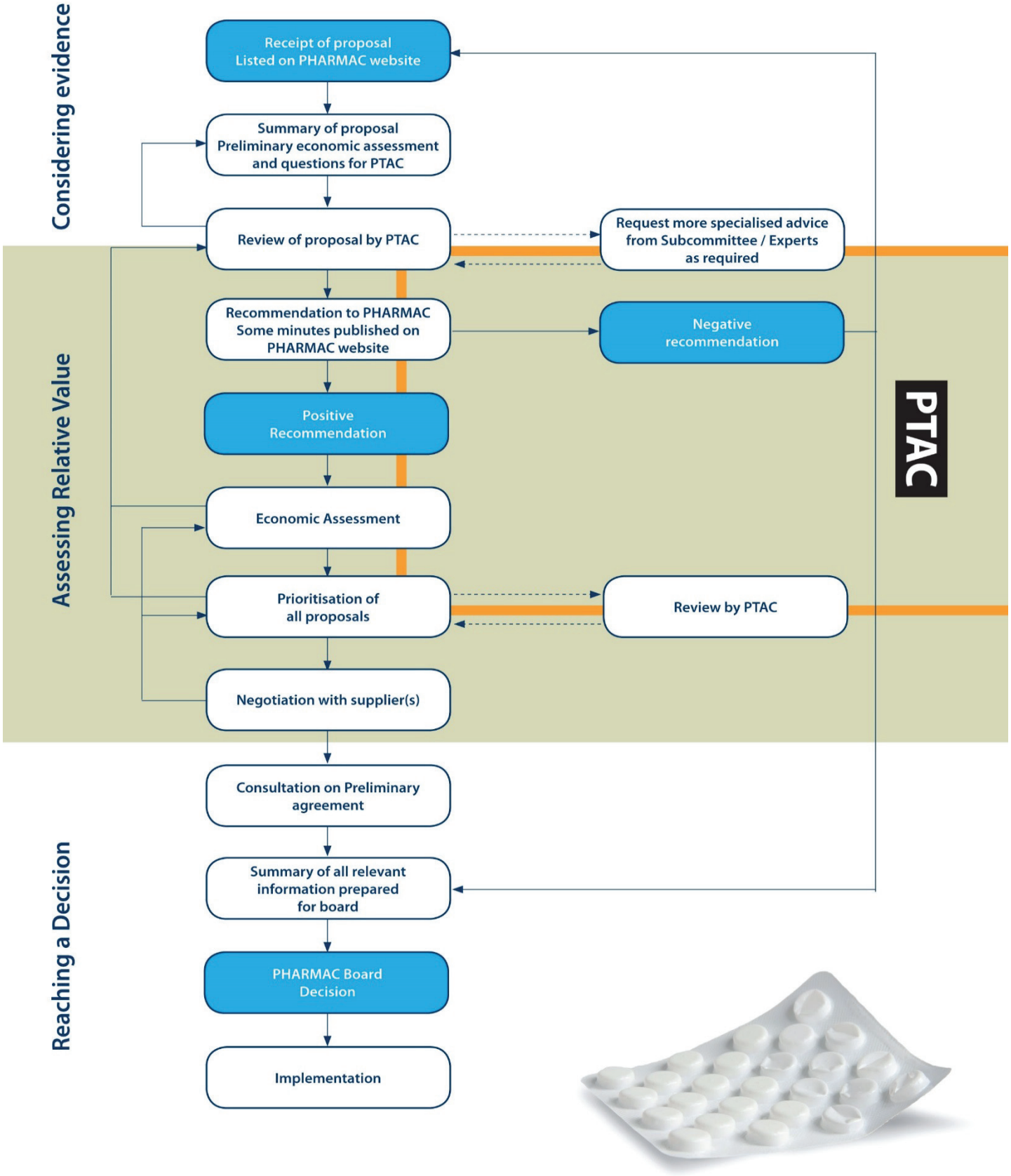
PHARMAC's Operating Policies and Procedures (OPPs) inform the way we work. These processes need to be as efficient and effective as possible, because good quality processes increase the likelihood of making the best possible decisions. A focus on continuously improving our work is therefore important. 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 has been announced that will begin to be implemented during 2015/16.

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).



Note that implementation of a decision includes both positive and negative funding decisions. These may include notification of a Schedule listing or notification that an application has been declined.

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 lists a small number of medical devices used in the community, and some used in DHB hospitals. During 2015/16 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;
- Multiple Sclerosis;
- Pulmonary Arterial Hypertension;
- Treatments for Gastro Intestinal Stromal Tumours (imatinib, dasatinib) and chronic myeloid leukaemia (dasatinib); and
- Haemophilia treatments (in addition to 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 Named Patient Pharmaceutical Assessment (NPPA) policy in 2012 following a comprehensive review of the previous Exceptional Circumstances schemes for community, hospital and cancer medicines. PHARMAC manages a panel of doctors (the NPPA panel) from whom it is able to seek clinical advice. 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. During 2014/15 PHARMAC reviewed the NPPA policy as part of its ongoing review of its OPP. The NPPA policy has been operational for more than two years, during which PHARMAC's responsibilities have changed, making it timely to reflect on how well the policy is working. PHARMAC expects to implement any changes resulting from the review in the 2015/16 financial year.

How the performance of the class of outputs will be assessed

Impact	Output	Measure	Rationale	2013/14 actual	2014/15 estimate	2015/16 target	2016/17 target
Access Economic and system	1.1 Combined Pharma-ceuticals 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.
		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 95% of line items made (excluding bids held open while awaiting Medsafe registration) within five months of 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.	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 Economic and system	1.2 Other pharma-ceutical 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.	Gross savings to DHBs $32.77 m (includes hospital medicines savings $3.65 m , haemophilia treatments $28 m, and hospital medical devices $1.12 m) Net savings to DHBs before PHARMAC's costs $32.17 m (includes $0.6 m new investment in hospital medicines) Net savings to DHBs after PHARMAC's costs $26.52 m (includes $0.6 m new investment in hospital medicines, contribution to PHARMAC's operational cost for hospital medical devices establishment work $5.65 m)	5 year net value of 2014/15 hospital medicines and medical devices decisions exceeds $78m. Hospital medical devices gross savings 5 year NPV exceeds $4.74m target. .	Cumulative five year value to Vote Health at 30 June 2016 exceeds cumulative five year value of additional baseline contribution to PHARMAC's operations.	Cumulative five year value to Vote Health at 30 June 2017 exceeds cumulative five year value of additional baseline contribution to PHARMAC's operations.

Output class 2 – Influencing pharmaceuticals access and use $12.7 million

Deciding to fund a medicine or contract for a hospital medical device is only part of the pathway to medicines and medical devices reaching New Zealanders who need them. PHARMAC has a legislative function to promote the responsible use of pharmaceuticals and this is an essential part of achieving best health outcomes. 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. We also work closely with DHBs and their agents to support their uptake of national contracts for hospital medical devices.

Output 2.1 Sharing information/explaining decisions

We consider feedback from prescribers and pharmacists on 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, hospital medical devices, 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, 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.

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 2015/16 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 hauora Māori kaimahi, providing them with clinical information to pass on to whānau. We have refreshed He Rongoā Pai He Oranga Whānau to ensure it remains relevant. We are exploring opportunities to develop this resource for use as an educational tool in a range of health and community settings.

We also 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.

How the performance of the class of outputs will be assessed

Impact	Output	Measure	Rationale	2013/14 result	2014/15 estimate	2015/16 target	2016/17 target
Access	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.	Four DHBs engaged with PHARMAC on implementing hospital medical device national contracts (CDHB, HVDHB, CCDHB, SDHB).	We estimate that an additional four DHBs or agents acting on their behalf will engage with PHARMAC on implementing hospital medical device national contracts. We estimate that all hospital transplant services will engage with PHARMAC to support the tacrolimus medicine change.	At least half of all DHBs or agents acting on their behalf will engage with PHARMAC on implementing hospital medical device national contracts. All relevant DHB hospital services will engage with PHARMAC to support hospital medicine changes.	All DHBs or agents acting on their behalf will engage with PHARMAC on implementing hospital medical device national contracts. All relevant DHB hospital services will engage with PHARMAC to support hospital medicine changes.
Usage	2.2 Population health programmes	Surveys of Seminar Series 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.	94% 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.	Review of programme delivery completed.	Four Memoranda of Agreement agreed to enable community-based delivery of programme.	Community-based delivery of programme occurs in half of all MoA partner areas.	Community-based delivery of programme occurs in three quarters of all MoA partner areas.
Access Usage	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 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 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 complex medicines to patients. This includes some medicines used to treat multiple sclerosis and two types of cancer. PHARMAC has been gradually moving 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.

Output class 3 – Providing policy advice and support $4.4 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 $6.915 million in 2015/16, 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.

How the performance of the class of outputs will be assessed

Impact	Output	Measure	Rationale	2013/14 result	2014/15 estimate	2015/16 target	2016/17 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.	PHARMAC surveyed a significantly wider range of policy recipients and policy requesters in July 2014. The results gave PHARMAC an average out of a possible score of 5. Scores are shown with 2013 results in brackets. 3.91 (4.33) for timeliness; 4.1 (4.22) for quality of analysis given; 4 (4.50) for relevance; 3.82 (4.11) for thoroughness; 3.45 (4.11) for clarity; and 3.64 (4.33) 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 hospital 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 operating funding and depending on those funding decisions, PHARMAC's activities and associated measures for 2015/16 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 $5.0m;
- *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). Recruitment into the trial is now complete, actual future payments will depend on the requirement to make progress payments if achieved;
- *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 Revenue and Expense

For the year ended 30 June	Note 1	2015/16 $000	2016/17 $000	2017/18 $000
Income				
Crown funding - Baseline		21,987	21,987	21,987
DHB - Operating funding	2	3,210	3,180	3,180
DHB - Discretionary Pharmaceutical Fund	3	3,500	5,000	5,000
Other:				
Interest received - Operating		300	250	200
- Legal Risk Fund	4	280	280	280
Other revenue - Operating		181	131	131
Total Income		29,458	30,828	30,778
Expenditure				
Personnel Costs		13,344	13,526	13,769
Operating Costs		11,504	11,366	11,018
Herceptin SOLD trial administration		0	150	199
Depreciation & amortisation costs		512	512	512
Discretionary Pharmaceutical Fund payments to DHBs	3	5,000	5,000	5,000
Legal Risk Fund payments for litigation costs		280	280	280
Finance Costs		19	20	22
Total expenditure		30,659	30,854	30,800
Net surplus/(deficit) for the period		(1,201)	(26)	(22)
Other comprehensive income		0	0	0
Total comprehensive income		**$(1,201)**	**$(26)**	**$(22)**

1. The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
2. DHB Operating Funding is for activities that DHBs have requested PHARMAC provides, including optimal use of pharmaceuticals programmes and other miscellaneous national expenditure.
3. DPF forecast is linked to CPB forecast.
4. LRF interest calculation is 4.00% on an average balance of $7,000k.

Statement of Forecast Financial Position

As at 30 June	Note	2015/16	2016/17	2017/18
	1	$000	$000	$000
PUBLIC EQUITY				
Contribution capital		1,856	1,856	1,856
Retained earnings and reserves		6,025	6,149	6,326
Herceptin SOLD Trial fund		349	199	0
Discretionary Pharmaceutical Fund	2	5,000	5,000	5,000
Legal risk fund		6,915	6,915	6,915
TOTAL PUBLIC EQUITY		**$20,145**	**$20,119**	**$20,097**
Represented by:				
Current assets				
Cash and cash equivalents		9,500	9,474	9,452
Investments		7,000	7,000	7,000
DPF monies into rebates account		5,000	5,000	5,000
Receivables		50	50	50
Prepayments		56	28	0
Total current assets		21,606	21,552	21,502
Non-current assets				
Property, plant and equipment		2,030	2,000	2,000
Intangible Assets		120	120	120
Total non-current assets		2,150	2,120	2,120
Total assets		**23,756**	**23,672**	**23,622**
Current liabilities				
Payables		2,449	2,371	2,321
Employee entitlements		750	750	750
GST Payable		90	90	90
Total current liabilities		3,289	3,211	3,161
Non-current liabilities				
Provisions		322	342	364
Total liabilities		**3,611**	**3,553**	**3,525**
NET ASSETS		**$20,145**	**$20,119**	**$20,097**

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 Flow

	Note	2015/16 $000	2016/17 $000	2017/18 $000
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Receipts from the Crown		21,987	21,987	21,987
- Receipts from DHBs		3,210	3,180	3,180
- DHBs Discretionary Pharmaceutical Fund		3,500	5,000	5,000
- Interest Operating received		300	250	200
- Interest Legal Risk Fund received		280	280	280
- Receipts from other revenue		181	131	131
		29,458	30,828	30,778
Cash was disbursed to:				
- Legal Risk Fund expenses		0	0	0
- Discretionary Pharmaceutical Fund expensed from rebates bank account		(5,000)	(5,000)	(5,000)
- Payments to suppliers and employees		(22,847)	(24,972)	(24,888)
- Goods and services tax (net)		(400)	(400)	(400)
		(28,247)	(30,372)	(30,288)
Net cash flow from operating activities		**$ 1,211**	**$ 456**	**$ 490**
CASH FLOWS – INVESTING ACTIVITIES				
- Purchase of property, plant and equipment		(885)	(417)	(312)
- Purchase of intangible assets		(27)	(65)	(200)
- Receipts from sale of investments		0	0	0
Net cash flow from investing activities		(912)	(482)	(512)
Net increase/(decrease) in cash		299	(26)	(22)
Cash at the beginning of the year		9,201	9,500	9,474
Cash at the end of the year		**$ 9,500**	**$ 9,474**	**$ 9,452**

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	2015/16	2016/17	2017/18
RETAINED EARNINGS	**1**	**$000**	**$000**	**$000**
Balance at 1 July		5,726	6,025	6,149
Contribution Capital		1,856	1,856	1,856
Net surplus/(deficit)		(1,201)	(26)	(22)
Net transfer from/(to) Herceptin SOLD trial fund		0	150	199
Net transfer from/(to) DPF		1,500	0	0
Net transfer from/(to) legal risk fund		0	0	0
Balance at 30 June		**7,881**	**8,005**	**8,182**
HERCEPTIN SOLD TRIAL FUND		$000	$000	$000
Balance at 1 July		349	349	199
Add: Net transfer from/(to) retained earnings		0	(150)	(199)
Balance at 30 June		**349**	**199**	**0**
DPF		$000	$000	$000
Balance at 1 July		6,500	5,000	5,000
Add: Income received transferred from/(to) retained earnings		3,500	5,000	5,000
Less: Pharmaceutical expenses transferred from/(to) retained earnings		(5,000)	(5,000)	(5,000)
Balance at 30 June		**5,000**	**5,000**	**5,000**
LEGAL RISK FUND		$000	$000	$000
Balance at 1 July		6,915	6,915	6,915
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		**6,915**	**6,915**	**6,915**
TOTAL PUBLIC EQUITY		**20,145**	**20,119**	**20,097**

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	2015/16	2016/17	2017/18
	1	**$000**	**$000**	**$000**
Net operating surplus/(deficit)		(1,201)	(26)	(22)
Add non-cash items:				
Depreciation		512	512	512
Total		**($689)**	**$486**	**$490**
Add/(less) working capital movements:				
Decrease/(increase) in receivables		0	0	0
Decrease/(increase) in prepayments		(28)	28	28
(Decrease)/increase in payables		389	(78)	(50)
(Decrease)/increase in make good provision		19	20	22
(Decrease)/increase in employee entitlements		0	0	0
(Decrease)/increase in net GST		20	0	0
Net movements in working capital items		**$400**	**($30)**	**$0**
Other movements				
DPF monies (deposited in)/withdrawn from rebates bank account		$1,500	$0	$0
Net cash flow from operating activities		**$1,211**	**$456**	**$490**

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

Statement of Forecast Comprehensive Income, by Output Class

2015/16	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	9,213	4,033	609	(13,476)	**379**
Influencing Pharmaceutical Access and Use	9,575	2,342	76	(12,730)	**(737)**
Policy Advice and support	3,199	335	76	(4,453)	**(843)**
Total	**$21,987**	**$6,710**	**$761**	**($30,659)**	**($1,201)**

2016/17	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	9,213	5,135	529	(13,479)	**1,398**
Influencing Pharmaceutical Access and Use	9,575	2,636	66	(12,887)	**(610)**
Supply Management	3,199	409	66	(4,488)	**(814)**
Total	**$21,987**	**$8,180**	**$661**	**($30,854)**	**($26)**

2017/18	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	9,213	5,135	489	(13,470)	**1,367**
Influencing Pharmaceutical	9,575	2,636	61	(12,850)	**(578)**
Policy Advice and support	3,199	409	61	(4,480)	**(811)**
Total	**$21,987**	**$8,180**	**$611**	**($30,800)**	**($22)**

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

APPENDIX 1 – STATEMENT OF ACCOUNTING POLICIES

Reporting entity

Pharmaceutical Management Agency (PHARMAC) is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled and operates in New Zealand. The relevant legislation governing PHARMAC's operations includes the Crown Entities Act 2004 and the Crown Service Enterprise Act 2002. PHARMAC's ultimate parent is the New Zealand Crown.

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

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

Basis of preparation

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

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

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

These financial statements comply with PBE accounting standards.

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue

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

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

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

Financial instruments

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

Cash and cash equivalents

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

Receivables

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

Investments

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

Property, plant and equipment

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

- *Additions* – the cost of item of property, plant and equipment, leasehold improvement, furniture and office equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to PHARMAC and the cost of the item can be measured reliably.
  Work in progress is recognised at cost less impairment and it is not depreciated.

- *Disposals* – gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

- *Subsequent costs* – Costs incurred subsequent to initial acquisition are capitalized only when it is probable that future economic benefits or service potential associated with the item will flow to PHARMAC and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

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

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

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

Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.
Costs that are directly associated with the development of software for internal use are recognised as an intangible asset.

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

Payables

Short term payables are recorded at their face value.

Employment entitlements

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

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

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required

to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised and is included in "finance" costs.

Public equity

Public equity is the Crown's investment in PHARMAC and is measured as the difference between total assets and total liabilities. Public equity is classified as contribution capital, retained earning and reserves, SOLD trial fund, Legal Risk Fund and Discretionary Pharmaceutical Fund.

Goods and Services Tax (GST)

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

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

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

Income Tax

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

Cost Allocation

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

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

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

Critical accounting estimates and assumptions

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

Critical judgments in applying PHARMAC's accounting policies

Management has not exercised any critical judgments in applying PHARMAC's accounting policies for the years ended 30 June 2016-30 June 2018.

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New Zealand Government

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