E59

PHARMAC
Statement of Performance Expectations 2016–2017

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


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Stuart McLauchlan
Chair
30 June 2016

Prof Jens Mueller
Board Member
30 June 2016

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[1], the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided"*.[2]

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.

The Pharmaceutical Schedule (the Schedule) lists the vaccines, cancer treatments and community medicines funded through the Combined Pharmaceutical Budget (CPB). Section H of the Schedule includes the Hospital Medicines List (HML), listing the medicines available to use in DHB hospitals, as well as the medical devices for which PHARMAC has negotiated national contracts.

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).[3] 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.

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[1] 'Pharmaceuticals' are medicines, vaccines, therapeutic medical devices, related products or related things.
[2] Section 47(a) New Zealand Public Health and Disability Act 2000.
[3] 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

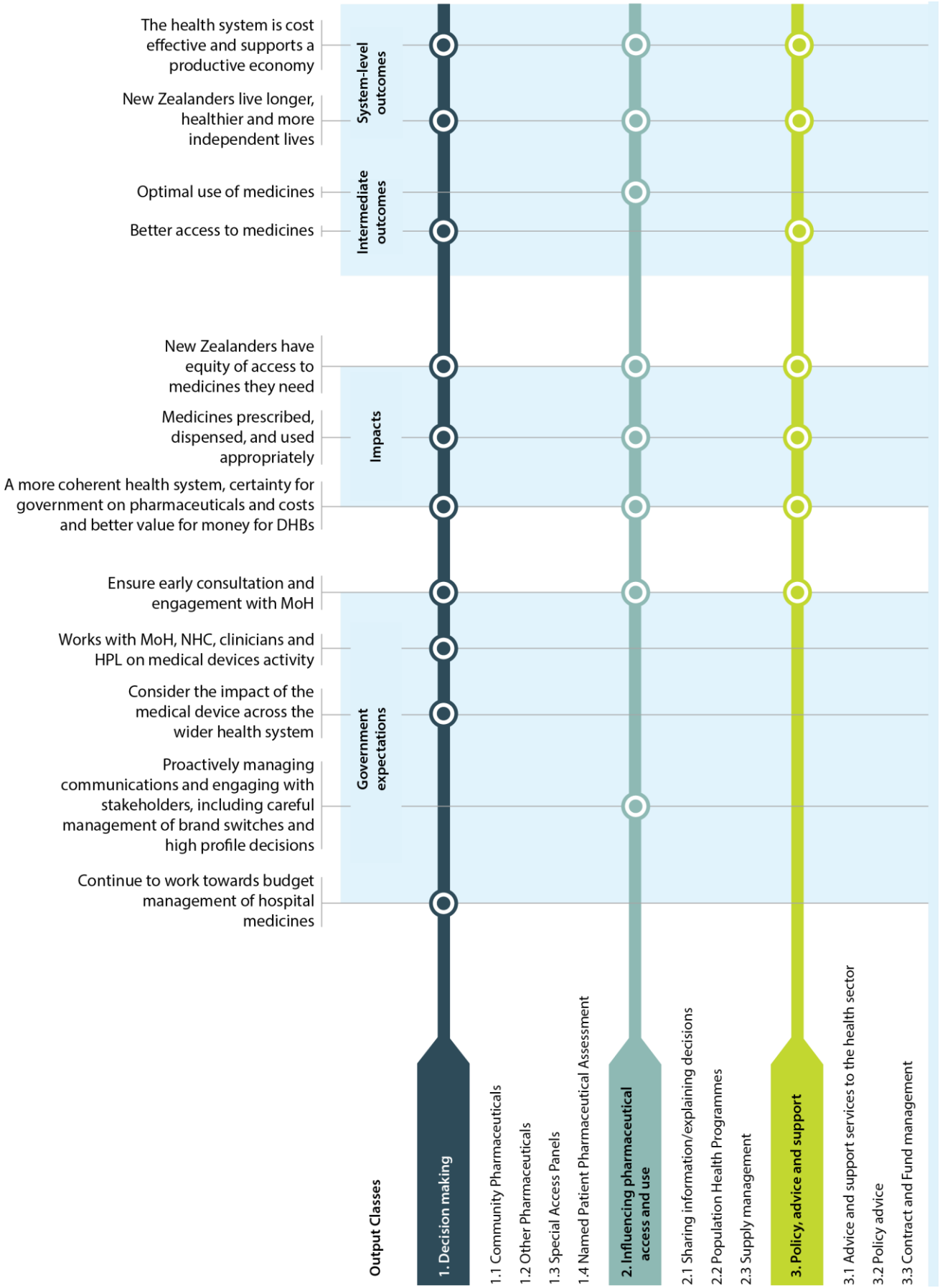
Both PHARMAC's Statement of Intent and Statement of Performance Expectations are guided by the Government's Enduring Letter of Expectations, which was issued in July 2012, and the Minister of Health's Letter of Expectations to PHARMAC dated December 2015. Crown entities are expected to play their part in ongoing prudent financial management. We must manage ourselves responsibly, reflecting public concerns over government agencies' expenditure, setting realistic pay and working conditions, and providing value for money. Results matter and we should be able to shift resources within PHARMAC to improve service delivery. We need to use a performance or continuous improvement process. A team approach across the health and disability system means we need to be clear on how we are working with other agencies, influencing sector-wide results and putting the patient or client (not agency boundaries) first. Where appropriate, the refreshed New Zealand Health Strategy should inform our planning. 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 on page 7:

Expectation	Comment
Continue to work closely with the Ministry of Health, the National Health Committee, clinicians and Health Partnerships Limited to plan the development and implementation of medical devices work.	We engage in a range of regular and ad hoc meetings with Ministry of Health staff. While the National Health Committee has been disestablished we will continue to meet with the Ministry of Health, which has absorbed this function, to share current issues with respective work programmes and identify areas of common interest. We will continue to work with sector stakeholders including clinicians, DHB leaders and DHB agents to develop and implement medical devices management activity. *Output: 1.2*
When making decisions about medical devices, consider the impact of the medical device across the wider health system and, where appropriate, the need to integrate with other systems at the point of care.	Our work in hospital medical devices continues to be informed by consultation and objective clinical advice. We are building implementation plans and engaging with DHBs to better understand the impacts of, and requirements to implement, our decisions. Our new decision-making framework specifically identifies as a relevant factor for consideration, the impact on the wider health system of our decisions, including the suitability of the medical device. *Output: 1.2*
Continue to work towards budget management of hospital medicines.	We are working with DHBs on a range of activities to build our capacity for budget management. Some hospital medicines are already under budget management due to their inclusion within the Combined Pharmaceutical Budget (CPB) and this transition will continue over time. Use of the Hospital and CPB Discretionary Pharmaceutical Funds are expected to facilitate this. A focus on working with DHB hospitals using the e-pharmacy system is expected to assist in developing enablers to support and monitor compliance with the Pharmaceutical Schedule. PHARMAC will work closely with DHBs to support an eventual transition to budget management. *Output: 1.2*

Expectation	Comment
Continue to communicate and engage proactively with the public and key stakeholders, and, in particular, to manage brand switches and high profile funding decisions carefully.	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. PHARMAC recognises the importance of engaging with the public and key 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 will continue to provide resources and evidence-based information to support brand changes and high-profile funding decisions. We have key roles in our corporate structure to ensure implementation of our funding decisions, including brand changes, is managed well. *Output: 2.1* 
Continue to consult with the sector, to ensure that PHARMAC understand the impact of its decisions on the sector.	Consultation is an important element of PHARMAC's decision-making approach. We proactively engage with a wide range of stakeholders to ensure we understand clinical, community and sector perspectives. We recognise our decisions are often impactful and we seek to manage implementation in ways that are sensitive to the concerns raised with us. The findings of the 2014/15 stakeholder survey will be used to strengthen our consultation and engagement. *All output classes* 
Ensure early consultation and engagement with the Ministry of Health, particularly on the content of policy work programmes and when proposed changes may have an impact on programme management and sector engagements.	We value our relationship with Ministry of Health staff and work to ensure they are aware of significant consultations, decisions and implementation activities. The findings of the 2014/15 stakeholder survey will be used to strengthen our consultation and engagement. *All output classes* 

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



PHARMAC'S ACTIVITIES

What the classes of outputs are intended to achieve

We set out our main activities for the financial year 1 July 2016 to 30 June 2017 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 and not the $849.6 million 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 $18.6 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, through expenditure management of hospital medicines, and making decisions about hospital medical devices. 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 CPB and Hospital Discretionary Pharmaceutical Funds that enables us to achieve our statutory objective, supporting timely pharmaceutical decision making and smoother management 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. Attention is given to understanding the impacts of these decisions and we engage in a range of activities to support successful implementation.

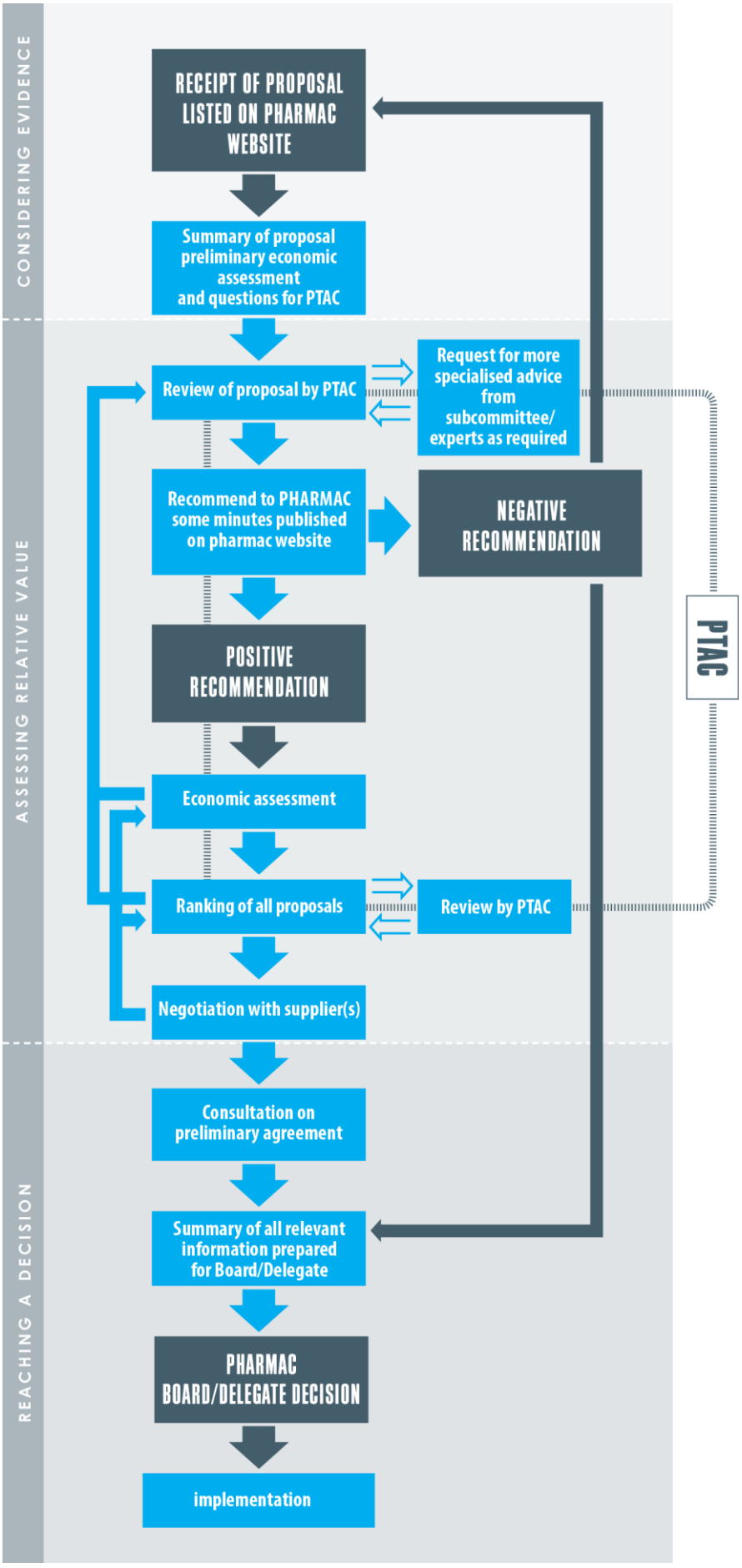
PHARMAC's decisions involve choice. One way to assess the quality of PHARMAC's decision making is to consider the average value for money of the choices we make compared with the average value of all available choices as described in PHARMAC's Statement of Intent 2014/15–2017/18 (page 18). The process includes economic analysis, clinical advice from PTAC and specialist subcommittees as appropriate, negotiations with pharmaceutical suppliers and, often, public consultation.

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. The outcome of this review was a new decision-making framework, the Factors for Consideration, which came into effect on 1 July 2016. The Factors represent a broad holistic approach to how we make decisions and cover four dimensions: needs, health benefits, costs and savings, and suitability.

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 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 haemophilia treatments have been funded through the CPB.

Output 1.2 Other Pharmaceuticals

PHARMAC manages pharmaceutical expenditure for DHBs in areas outside of the community setting, including within 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 more than 15,500 used in DHB hospitals. This reflects 23 contracts with suppliers over five categories of medical devices. During 2016/17 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;
- Haemophilia treatments (in addition to the National Haemophilia Treaters' Group);
- Multiple Sclerosis; and
- Pulmonary Arterial Hypertension.

Output 1.4 Named Patient Pharmaceutical Assessment

This is the mechanism that PHARMAC uses to assess applications for individual patients to receive funding of medicines that are not otherwise funded through the Pharmaceutical Schedule. PHARMAC manages a panel of doctors (the NPPA Advisory Panel) from whom it is able to seek clinical advice on applications as well as contracting with individual clinical experts in particular specialities. 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.

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. The Policy was reviewed again in 2015/16 as part of the rolling review of the OPP, given the policy had been in operation for more than two years and during which time PHARMAC's responsibilities had changed. The policy review resulted in a new Exceptional Circumstances Framework, of which the simplified NPPA policy sits within. Process changes related to the new policy were implemented in the 2015/16 financial year.

How the performance of the class of outputs will be assessed

Impact	Output	Measure	Rationale	2014/15 actual	2015/16 estimate	2016/17 target	2017/18 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.	All funding decisions were supported by evidence and made using PHARMAC's decision-making approach.	All funding decisions will be supported by evidence and made using PHARMAC's decision-making approach.	All funding decisions will be supported by evidence and made using PHARMAC's decision-making approach.	All funding decisions will be 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.	100% of line items (excluding bids held open while awaiting Medsafe registration) were completed by end of June 2015.	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.	Cumulative five year value to Vote Health at 30 June 2015 exceeded cumulative five year value of additional baseline contribution to PHARMAC's operations.	Cumulative five year value to Vote Health at 30 June 2016 will exceed cumulative five year value of additional baseline contribution to PHARMAC's operations.	Cumulative five year value to Vote Health at 30 June 2017 will exceed cumulative five year value of additional baseline contribution to PHARMAC's operations.	Cumulative five year value to Vote Health at 30 June 2018 will exceed cumulative five year value of additional baseline contribution to PHARMAC's operations.

Output class 2 – Influencing pharmaceuticals access and use $10.0 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 that medicines are prescribed and used well. Good communication helps people understand the reasons for PHARMAC's 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. We are guided by our Māori Responsiveness Strategy, Te Whaioranga, and expect to implement a refreshed Pacific Peoples' Responsiveness Strategy during 2016/17.

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 DHBs and the community through regional and national forums.

To explain our decisions we use 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 2016/17 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 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.

Medication adherence – aims to assess the intervention level required to improve people's medicine taking (adherence) to oral anti-hypoglycaemic medicines (not insulin) in people with Type 2 diabetes.

How the performance of the class of outputs will be assessed

Impact	Output	Measure	Rationale	2014/15 result	2015/16 estimate	2016/17 target	2017/18 target
Access Usage	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.	At least half of all DHBs or agents acting on their behalf engaged with PHARMAC on implementing hospital medical device national contracts. All relevant DHB hospital services engaged with PHARMAC to support hospital medicine changes.	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.	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.
	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.	Surveys of attendees showed at least 93% rate their satisfaction with the Seminars at least 4 out of 5.	At least 90% of surveyed attendees will rate their satisfaction with the Seminars at least 4 out of 5.	Surveys of attendees will show at least 90% rate their satisfaction with the Seminars at least 4 out of 5.	Surveys of attendees will show at least 90% rate their satisfaction with the Seminars at least 4 out of 5.
	2.2 Population health programmes	Medicines use community health programmes are delivered to a range of health and community workers.	Whānau Ora Collectives (WOC) are best-placed to assess the needs of their communities for knowledge of medicines relating to Māori health areas of focus.	Community-based delivery of programmes occurred in half of all WOC partner areas.	Community-based delivery of programmes will occur in half of all WOC partner areas.	Community-based delivery of programmes will occur in half of all WOC partner areas and the number of WOC partners increase.	Community-based delivery of programmes will occur in two-thirds of all WOC partner areas and the number of WOC partners increase.
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.	We will respond to all low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.	We will respond to all low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.	We will respond to all 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 of the medicines used to treat multiple sclerosis and one type 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 $4.7 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 community pharmacy contracting services and medicines distribution, and contributing to the development of a New Zealand Universal List of Medicines and the New Zealand Formulary, among other sector-wide initiatives including those that aim to reduce the administrative workload of clinicians. We have worked closely with DHBs and their agents to support the development of sector procurement strategies at a national level, particularly where this intersects with our extended function to manage hospital medical devices.

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.

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 $7.5 million in 2016/17, 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 CPB Discretionary Pharmaceutical Fund, and from 2015/16, a Hospital Discretionary Pharmaceutical Fund. These funding mechanisms broaden PHARMAC's options in delivering on its statutory objectives. They support long-term management of DHB expenditure and increase PHARMAC's ability to make efficient budgeting decisions by providing the ability to manage investments over financial years, and across Vote Health, for the overall benefit of the health system.

How the performance of the class of outputs will be assessed

Impact	Output	Measure	Rationale	2014/15 result	2015/16 estimate	2016/17 target	2017/18 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 policy requesters in July 2015. The following scores are an average out of 5. 4.17 for timeliness of advice 4.5 for relevance of the advice 4.5 for thoroughness; 4.33 for clarity; 4.33 for the quality of the analysis; and 4.67 for informal policy support and availability.	We will achieve an average survey score of at least 4.0 in each area.	We will achieve an average survey score of at least 4.0 in each area.	We will achieve an average survey score of at least 4.0 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.	All fund use was in accordance with PHARMAC policy.	All fund use will be in accordance with PHARMAC policy.	All fund use will be in accordance with PHARMAC policy.	All fund use will be in accordance with PHARMAC policy.

PROSPECTIVE FINANCIAL INFORMATION

Key assumptions

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

Key assumptions are:

- *our Statement of Performance Expectations* is contingent on appropriate operating funding and depending on those funding decisions, PHARMAC's activities and associated measures for 2016/17 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);
- *CPB Discretionary Pharmaceutical Fund (CPBDPF)* – the balance of the CPB Discretionary Pharmaceutical Fund is based on the final estimate of pharmaceutical expenditure;
- *Hospital Discretionary Pharmaceutical Fund (HDPF)* – for planning purposes this includes investments in hospital medicine and medical device savings activity. The balance of the Hospital Discretionary Pharmaceutical Fund is based on the movements recorded during the year; and
- PHARMAC is currently exempt from the imposition of the Crown's capital charge.

Prospective Financial Statements

Statement of Forecast Comprehensive Revenue and Expense

For the year ended 30 June	Note	2016/17	2017/18	2018/19
	1	$000	$000	$000
Revenue				
Crown funding - Baseline		21,987	22,696	24,142
Crown funding - Additional One Off		0	628	0
Crown funding - Legal Risk Fund		0	646	1,937
DHB - Operating funding	2	1,390	1,390	1,390
DHB - CPBDPF	3	8,000	8,000	8,000
Other:				
Interest received - Operating		450	450	450
- Legal Risk Fund		300	300	300
Other revenue - Operating		131	140	140
Total Revenue		32,258	34,250	36,359
Expenditure				
Personnel Costs		13,972	15,029	15,483
Operating Costs		9,261	9,816	10,071
Herceptin SOLD trial administration		150	0	0
Depreciation & amortisation costs		550	660	700
CPBDPF		8,000	8,000	8,000
HDPF		1,000	1,000	1,000
Legal Risk Fund expense		300	946	2,238
Finance Costs		20	20	21
Total expenditure		33,253	35,471	37,513
Net surplus/(deficit) for the period		(995)	(1,221)	(1,154)
Other comprehensive income		0	0	0
Total comprehensive income		**$(995)**	**$(1,221)**	**$(1,154)**

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. CPBDPF forecast is linked to CPB forecast.

Statement of Forecast Financial Position

As at 30 June	Note	2016/17	2017/18	2018/19
	1	$000	$000	$000
PUBLIC EQUITY				
Contribution capital		1,856	1,856	1,856
Retained earnings and reserves		3,783	3,731	3,578
Herceptin SOLD Trial fund		169	0	0
CPBDPF	2	1,999	1,999	1,999
HDPF		6,000	5,000	4,000
Legal Risk Fund		7,528	7,528	7,527
TOTAL PUBLIC EQUITY		**$21,335**	**$20,114**	**$18,960**
Represented by:				
Current assets				
Cash and cash equivalents		12,050	10,851	9,722
Investments		7,000	5,000	5,000
CPBDPF monies into rebates account		1,999	1,999	1,999
Receivables		150	150	150
Prepayments		0	0	0
GST Refund		1,000	1,000	1,000
Total current assets		22,199	19,000	17,871
Non-current assets				
Property, plant and equipment		1,339	3,209	3,359
Intangible Assets		239	369	319
Total non-current assets		1,578	3,578	3,678
Total assets		**23,777**	**22,578**	**21,549**
Current liabilities				
Payables		1,200	1,202	1,306
Employee entitlements		900	900	900
Total current liabilities		2,100	2,102	2,206
Non-current liabilities				
Provisions		342	362	383
Total liabilities		**2,442**	**2,464**	**2,589**
NET ASSETS		**$21,335**	**$20,114**	**$18,960**

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

Statement of Forecast Cash Flow

	Note	2016/17 $000	2017/18 $000	2018/19 $000
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Receipts from the Crown		21,987	23,324	24,142
- Receipts from DHBs		1,390	1,390	1,390
- DHBs Discretionary Pharmaceutical Fund		8,000	8,000	8,000
- Interest Operating received		450	450	450
- Legal Risk Fund interest received		300	300	300
- Legal Risk Fund Crown receipts		0	646	1,937
- Receipts from other revenue		131	140	140
		32,258	34,250	36,359
Cash was disbursed to:				
- Legal Risk Fund expenses		(300)	(946)	(2,238)
- CPBDPF expensed from rebates bank account		(8,000)	(8,000)	(8,000)
- HDPF payments to suppliers		(1,000)	(1,000)	(1,000)
- Payments to suppliers and employees		(22,555)	(23,843)	(24,650)
- Goods and services tax (net)		(800)	(1,000)	(800)
		(32,655)	(34,789)	(36,688)
Net cash flow from operating activities		**($ 397)**	**($ 539)**	**($ 329)**
CASH FLOWS – INVESTING ACTIVITIES				
- Purchase of property, plant and equipment		(600)	(2,200)	(500)
- Purchase of intangible assets		(344)	(460)	(300)
- Receipts from sale of investments		0	2,000	0
Net cash flow from investing activities		(944)	(660)	(800)
Net increase/(decrease) in cash		(1,341)	(1,199)	(1,129)
Cash at the beginning of the year		13,391	12,050	10,851
Cash at the end of the year		**$ 12,050**	**$ 10,851**	**$ 9,722**

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	2016/17	2017/18	2018/19
RETAINED EARNINGS	**1**	**$000**	**$000**	**$000**
Balance at 1 July		3,628	3,783	3,731
Contribution Capital		1,856	1,856	1,856
Net surplus/(deficit)		(995)	(1,221)	(1,154)
Net transfer from/(to) Herceptin SOLD trial fund		150	169	0
Net transfer from/(to) CPBDPF		0	0	0
Net transfer from/(to) HDPF		1,000	1,000	1,000
Net transfer from/(to) Legal Risk Fund		0	0	1
Balance at 30 June		**5,639**	**5,587**	**5,434**
HERCEPTIN SOLD TRIAL FUND		$000	$000	$000
Balance at 1 July		319	169	0
Add: Net transfer from/(to) retained earnings		(150)	(169)	0
Balance at 30 June		**169**	**0**	**0**
CPBDPF		$000	$000	$000
Balance at 1 July		1,999	1,999	1,999
Add: Income received transferred from/(to) retained earnings		8,000	8,000	8,000
Less: Pharmaceutical expenses transferred from/(to) retained earnings		(8,000)	(8,000)	(8,000)
Balance at 30 June		**1,999**	**1,999**	**1,999**
HDPF		$000	$000	$000
Balance at 1 July		7,000	6,000	5,000
Add: Income received transferred from/(to) retained earnings		0	0	0
Less: Pharmaceutical expenses transferred from/(to) retained earnings		(1,000)	(1,000)	(1,000)
Balance at 30 June		**6,000**	**5,000**	**4,000**
LEGAL RISK FUND		$000	$000	$000
Balance at 1 July		7,528	7,528	7,528
Add: Income received transferred from/(to) retained earnings		300	946	2,237
Less: Litigation expenses transferred from/(to) retained earnings		(300)	(946)	(2,238)
Balance at 30 June		**7,528**	**7,528**	**7,527**
TOTAL PUBLIC EQUITY		**21,335**	**20,114**	**18,960**

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	2016/17	2017/18	2018/19
	1	$000	$000	$000
Net operating surplus/(deficit)		(995)	(1,221)	(1,154)
Add non-cash items:				
Depreciation		550	660	700
Total		**($445)**	**($561)**	**($454)**
Add/(less) working capital movements:				
Decrease/(increase) in receivables		0	0	0
Decrease/(increase) in prepayments		28	0	0
(Decrease)/increase in payables		0	2	104
(Decrease)/increase in make good provision		20	20	21
(Decrease)/increase in employee entitlements		0	0	0
(Decrease)/increase in net GST		0	0	0
Net movements in working capital items		**$48**	**$22**	**$125**
Net cash flow from operating activities		**($397)**	**($539)**	**($329)**

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

2016/17	Funding MOH	Funding DHB	Funding Other	Output Expenditure	Net Surplus/(Deficit)
Making decisions about pharmaceuticals	10,994	8,000	0	(18,622)	**372**
Influencing pharmaceutical access and use	8,795	1,390	0	(9,976)	**209**
Providing policy advice and support	2,198	0	881	(4,655)	**(1,577)**
Total	**$21,986**	**$9,390**	**$881**	**($33,253)**	**($996)**
2017/18	**Funding MOH**	**Funding DHB**	**Funding Other**	**Output Expenditure**	**Net Surplus/(Deficit)**
Making decisions about pharmaceuticals	12,308	8,000	0	(19,864)	**444**
Influencing pharmaceutical access and use	9,330	1,390	0	(10,641)	**78**
Providing policy advice and support	2,332	0	890	(4,966)	**(1,744)**
Total	**$23,970**	**$9,390**	**$890**	**($35,471)**	**($1,221)**
2018/19	**Funding MOH**	**Funding DHB**	**Funding Other**	**Output Expenditure**	**Net surplus/(deficit)**
Making decisions about pharmaceuticals	14,008	8,000	0	(21,007)	**1,001**
Influencing pharmaceutical access and use	9,657	1,390	0	(11,254)	**(207)**
Providing policy advice and support	2,414	0	890	(5,252)	**(1,948)**
Total	**$26,079**	**$9,390**	**$890**	**($37,513)**	**($1,154)**

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 subsidised to secure the best health outcomes reasonably achievable from pharmaceutical treatment. PHARMAC does not operate to make a financial return.

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

Basis of preparation

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

Statement of compliance

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

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

These financial statements comply with PBE accounting standards.

Presentation currency and rounding

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue

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

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

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

Financial instruments

Financial assets and financial liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through profit or loss, in which case the transaction costs are recognised in the statement of forecast comprehensive 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 earnings 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 2017-30 June 2019.