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Pharmaceutical Management Agency

Annual Report

For the year ended 30 June 2016

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

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Annual Report of

Pharmaceutical Management Agency (PHARMAC)

for the year ended
30 June 2016

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Stuart McLauchlan
Chair

30 September 2016

Prof Jens Mueller
Director

30 September 2016

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PHARMAC DIRECTORY

(As at 30 June 2016)

Head Office Level 9, Simpl House 40 Mercer Street Wellington	**Postal Address** PO Box 10 254 Wellington Telephone: (04) 460 4990 Facsimile: (04) 460 4995 Website www.pharmac.govt.nz
Board Members Stuart McLauchlan – Chair Prof Jens Mueller – Chair, Audit and Forecast Committee Dr David Kerr Dr Jan White Nicole Anderson	**Chief Executive** Steffan Crausaz
Pharmacology & Therapeutics Advisory Committee Prof Mark Weatherall - Chair	**Consumer Advisory Committee** Shane Bradbrook – Chair
Auditors Audit New Zealand	**Bankers** ASB Bank Limited
Solicitors Bell Gully	**Insurers** Lumley General Insurance (NZ) Ltd AIG Insurance New Zealand Ltd QBE Insurance (International) Ltd

CHAIR'S REPORT

PHARMAC continues to make responsible choices for New Zealanders' health, based on the funding we have to invest.

Over the past year PHARMAC funded 28 new medicines and widened access to six more. This included the first medicines funded through the specific work PHARMAC has undertaken around medicines for rare disorders; a pilot we intend to evaluate during the coming year. There was a strong public focus on new medicines to treat melanoma. PHARMAC carefully assessed these treatments and listened to the advice we received before consulting on funding a treatment from 1 July 2016.

Decision-making

PHARMAC continued to take steps towards implementing a new approach to decision-making by consulting on and designing 'Factors for Consideration' to take effect from 1 July 2016. This is the biggest change to PHARMAC's decision-making in its 23-year history. The model makes explicit acknowledgement of the impact of a decision on a person, their family, whānau and on wider society, and also recognises the wider impact on the health system. We are grateful to everyone that provided input throughout this important process.

Hospital medical devices

PHARMAC's work in this important area continues to advance and expand. The initial goal was to establish national agreements that would bring 12 categories of medical devices into the PHARMAC framework, which we achieved this year. PHARMAC has now entered approximately 28 agreements covering spend of around $55-59 million of expenditure. Savings are estimated to be $22.35 million over 5 years. We are now obtaining some market data that supports progression past national contracting to market share procurement.

Working well with others

We have a strong focus on working well with a wide range of stakeholders and making the best possible decisions for the health system. Engagement with DHB staff at all levels has made our devices work much easier, and we continue to actively engage with DHBs via forums, meetings and advisory groups.

PHARMAC has also made significant strides in implementing its Te Whaioranga Māori responsiveness strategy. We have new agreements with two more Whānau Ora collectives and continue to benefit from agreements with Māori health professional organisations. We have also laid the foundation for a new Pacific Responsiveness Strategy. With regards to our research work, an important partnership arrangement was also put in place with the Health Research Council to support pharmaceutical-oriented research.

One health system

We recognise the importance of the health system further improving the way it works together. The Government's Health Strategy provides welcome direction. The Pharmacy Action Plan is also highly relevant to our work. We look forward to further collaboration and engagement with all of our stakeholders in the year ahead.

Stuart McLauchlan
Chair

SUMMARY OF PHARMAC'S ACTIVITY FOR THE YEAR

Combined Pharmaceutical Budget 2015/16

- **$800 million** – DHBs' combined pharmaceutical expenditure (on budget)
- **44.4 million** – number of funded prescription items filled (3% increase)
- **3.5 million** – number of New Zealanders receiving funded medicines
- **$79 million** – amount of savings achieved
- **15** – number of new medicines funded
- **6** – number of medicines with access widened
- **38,478**– estimated number of additional patients benefiting from decisions

Hospital Medicines 2015/16

- **$6.69 million** – full-year savings to DHB hospitals from hospital medicines decisions
- **$1.78 million** – cost of new investments in hospital medicines
- **$25.37 million** – savings to Vote Health over five years after costs of new investments
- **13** – number of new hospital medicines funded

Hospital Medical Devices 2015/16

- **2,084** – additional line items on the Pharmaceutical Schedule under national contracts
- **$9.15 million** – net savings over five years from contracts during year
- **$22.35 million** – savings over five years from all contracting to date

OVERVIEW OF PHARMAC

PHARMAC is the New Zealand government agency that decides which pharmaceuticals to publicly fund in New Zealand. PHARMAC makes choices about District Health Boards' (DHBs) spending on vaccines, community and cancer medicines. PHARMAC's decisions affect most New Zealanders because almost everyone will be prescribed a medicine or receive a service involving a medical device at some stage. PHARMAC's work includes:

- managing and maintaining a Pharmaceutical Schedule – the list of funded pharmaceuticals;
- managing the Combined Pharmaceutical Budget – the funding decided by the Minister of Health for community and cancer pharmaceuticals, managed by PHARMAC;
- managing the medicines and related products used in public hospitals;
- considering funding applications for people with exceptional circumstances;
- promoting the responsible use of pharmaceuticals; and
- engaging in relevant research.

PHARMAC is committed to the principles of the Treaty of Waitangi. PHARMAC's Māori Responsiveness Strategy, Te Whaioranga, provides a framework for PHARMAC to respond to the particular needs of Māori in relation to pharmaceuticals. PHARMAC is also working on a responsiveness strategy to assist the health of Pacific people.

PHARMAC contributes to the Government's goal of a growing, sustainable economy through being part of the New Zealand health and disability system. We contribute to the health system outcomes: New Zealanders live longer, healthier, more independent lives; and the health system is cost-effective and supports a productive economy.

PHARMAC's website contains extensive information, including information sheets, on PHARMAC's funding process and other aspects of PHARMAC's work.

OUR CAPABILITY

Overview of key capability

PHARMAC requires a broad range of capability to carry out its work effectively. We have a strong focus on building capability to enhance current work and ensure PHARMAC is well-prepared for future challenges. PHARMAC's people capability, and our focus on being a good employer, is discussed in the next section.

Other key capability areas include:

- *Governance* – Board members are appointed by the Minister of Health. A Governance Manual guides the Board's operations and sets out legal obligations, relevant procedures and the delegations framework for PHARAMC's decision making.

- *Critical appraisal and evidence-based medicine* – Clinical evidence is a fundamental part of PHARMAC's decision-making. We have a strong focus on continual development of critical-appraisal skills; monitoring international developments in evidence-based medicine, and providing effective support to PHARMAC's independent advisory committees.

- *Procurement and contracting* – An important part of PHARMAC's work is the negotiation of commercial contracts. In addition to ongoing development of negotiation and contract skills, PHARMAC has a well-developed set of purchasing strategies and tools and systems to support procurement and contracting work. We also have a strong focus on managing contracts once in place.

- *Policies and procedures* – PHARMAC has in place a wide set of corporate and operational policies and procedures to ensure work is carried out in the best possible way, including to ensure probity and integrity across PHARMAC's operations. Policies and procedures are regularly reviewed. Operational policies and procedures are also published and consulted on when changed.

- *Risk management* – PHARMAC operates a risk management framework with a regular focus on risks and their management by both Management and the Board.

- *Stakeholder relationships* – PHARMAC places high value in stakeholder relationships, to understand stakeholder issues and views, and to ensure a good understanding of PHARMAC's work and the decisions that are made.

Enhancing PHARMAC as a good employer

PHARMAC's success requires the right people in the right roles, so high importance is attached to recruiting and retaining high-performing employees. We have a number of initiatives in place, discussed below, guided by sound principles of being a good employer. PHARMAC makes all of the policies mentioned below available to its employees:

- *Leadership, Accountability and Culture* – We have a strong focus on leadership development and effective personal leadership across the organisation. Clear expectations are set for staff conduct, including for probity, conflict management and integrity. We have internal values that are reinforced through various initiatives to build an organisation culture that supports high performance. We have a high degree of openness with staff and also provide regular opportunities for staff to contribute to organisation development work. We also regularly review policies and procedures to ensure they are fit for purpose.

- *Recruitment, Selection and Induction* – PHARMAC is an equal opportunities employer and we recruit the best person for each role. Vacancies are advertised to attract a range of candidates, with the approach varying according to circumstances and the type of role. An induction programme is in place to help new staff familiarise themselves with PHARMAC's operations as quickly as possible.

- *Employee Development, Promotion and Exit* – Most PHARMAC roles offer significant levels of autonomy and responsibility. To develop the skills and careers of our employees, we provide and encourage opportunities to move within the organisation, temporarily fill a more senior role, undertake external training, receive support for formal study through our fellowship program and take up secondments. PHARMAC also offers regular training to directly support our Māori responsiveness work, including language training. Our performance management system includes individual and team goals that link to organisational priorities, and includes a focus on individual professional development. In order to further understand the reasons for departure, departing employees are offered exit interviews.

- *Flexibility and Work Design* – Provided business needs are met, employees may work flexible hours and at times work remotely. To support this, and improve the efficiency and effectiveness of work more generally, we provide appropriate technology that supports work flexibility. PHARMAC offers enhanced parental leave entitlements to both men and women in addition to legal entitlements. This flexibility in work arrangements has further enhanced our ability to retain high-performing staff.

- *Remuneration, Recognition and Conditions* – PHARMAC uses independent job evaluation and market remuneration information to set salary ranges for positions. Remuneration is performance based and reviewed annually against market changes and Government expectations.

- *Harassment and Bullying Prevention* – PHARMAC does not tolerate any bullying or harassment. Conduct and behaviour expectations are clearly communicated through policies, our competencies and at induction of new employees. Existing staff are regularly reminded about policies and expectations.

- *Safe and Healthy Environment* – PHARMAC's health and safety committee includes employee representatives. Information on health and safety responsibilities is included in induction for new employees and is also periodically discussed with all staff to ensure clear expectations. PHARMAC also supports the health of employees through support for fitness-related activities and provision of workstation assessments. We monitor the health and safety of our working environment and undertake business continuity planning and emergency preparedness.

Staffing

At 30 June 2016 we had a total of 127 staff – 116 permanent employees, plus 10 fixed-term employees and one casual. PHARMAC employed 12 permanent staff over the 2015/16 period to support growth in the areas of vaccine management, hospital medicines and medical devices. In 2015/16, 13 permanent staff resigned (11% of total permanent staff). This is a decrease from 13% in 2014/15 (noting also that a small change in numbers leaving can, given low overall staff numbers, have a disproportionate effect on the turnover percentage). Three employees went on parental leave during the year. We have a relatively high number of part-time staff – 9% at 30 June 2016 – which we effectively manage in order to retain valuable skills and competencies and provide work-life balance. We are also currently supporting staff with disabilities and a disability register is held in case of emergency.

Staff numbers by ethnicity	
Australian	1
Chinese	8
German	1
Indian	3
Italian	1
Korean	1
NZ European/Pākehā	54
NZ European/Pākehā & Samoan	1
NZ/Māori	6
Other Asian	1
Other European	3
UK/British/Irish	6
Unknown/Undisclosed	41
Total	**127**

Staff numbers by age (years)	
Under 20	0
20–29	18
30–39	38
40–49	22
50–59	17
60–69	2
70-79	1
Undeclared	29
Total	**127**

Gender	Part-time	Full-time	Total
Permanent employees			
Men	3	48	51
Women	6	59	65
Total	**9**	**107**	**116**
Fixed-term employees			
Men	0	1	1
Women	2	7	9
Total	**2**	**8**	**10**
Casual			**1**
Grand Total			**127**

Our strategies for future success

PHARMAC has five strategies to enhance its work and value to New Zealand. The following section reports on PHARMAC's performance in relation to these strategic intentions for the 2015/16 financial year.

- *Improved clinical leadership* – PHARMAC is developing deeper relationships with clinical groups, both in primary and secondary care. In addition to providing guidance and leadership to clinical advisory groups, PHARMAC's medical directors regularly speak at conferences, 'grand rounds' in DHBs and national clinical meetings.

- *Enhancing e-influence* – Better use of technology presents opportunities for PHARMAC to get the most out of data, creating improved knowledge and information that PHARMAC and the wider health sector can use to make better decisions. PHARMAC has been working with the Ministry of Health and the New Zealand Universal List of Medicines (NZULM) to develop a national approach to coding for medical devices. This will assist suppliers, DHBs and PHARMAC to have improved standardised information.

- *Core strength* – Alongside ongoing development of PHARMAC in new ways, we must maintain a strong focus on effectively delivering PHARMAC's business-as-usual work. Ensuring that we recruit, retain and develop our staff is important as part of this strategy, as is a strong focus on our organisation capability more generally.

- *Value from extended functions* – PHARMAC has made significant progress on medical devices and the funding of vaccines. PHARMAC has been working closely with other sector organisations, in particular with New Zealand Health Partnerships to develop a nationally agreed DHB-wide procurement strategy with the aim of driving further savings for DHBs.

- *Great reputation* – Strong working relationships with DHBs, communities, clinicians, pharmacists and others is essential to our work. PHARMAC works with a wide range of stakeholders in a variety of ways, including through regular meetings and forums. Stakeholders are consulted on key decisions or pieces of work. Significant information is also shared through various communication channels. PHARMAC also undertakes significant community engagement, such as through recent work to develop the Factors for Consideration.

INTERESTS OF DIRECTORS

The Board is required to disclose any interests to which a permission to act has been granted, despite a member being interested in a matter.

Member	Details of the interest	Permission granted by	Conditions of permission	Revocation/Changes to permission
David Kerr	Disclosed an interest as the Chairman of Ryman Healthcare. David requested not to be present for discussions around Special Foods in rest homes.	Board Chair	The Board noted the interest and determined that David would not participate in discussions.	This determination is for any Board meeting at which Special Foods in rest homes was discussed.
David Kerr	Disclosed an interest as a Director of Forte Health and has requested not to participate in decisions involving medical devices in private hospitals.	Board Chair	The Board noted the interest and determined that David would not participate in decisions involving medical devices in private hospitals.	This determination is for any Board meeting at which medical devices in private hospitals was discussed.

MINISTERIAL DIRECTIONS

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

Direction/Authorisation	Minister	Effective date
Whole of Government Direction regarding Procurement Functional Leadership	Minister of State Services and Minister of Finance	February 2015
Whole of Government Direction regarding Property Functional Leadership	Minister of State Services and Minister of Finance	July 2014
All-of-government shared authentication services	Minister of State Services and Minister of Finance	July 2008
Authorisation of PHARMAC to perform an additional function	Minister of Health	August 2001

STATEMENT OF RESPONSIBILITY

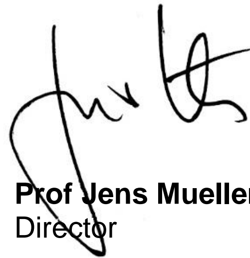
The Board of PHARMAC accepts responsibility for:

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

In the opinion of the Board, the Financial Statements and Statement of Performance for the year ended 30 June 2016 fairly reflect the financial position and operations of PHARMAC.

Stuart McLauchlan
Chair

30 September 2016



Prof Jens Mueller
Director

30 September 2016

INDEPENDENT AUDITOR'S REPORT

To the readers of Pharmaceutical Management Agency's financial statements and performance information for the year ended 30 June 2016

The Auditor-General is the auditor of Pharmaceutical Management Agency (Pharmac). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of Pharmac on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of Pharmac on pages 38 to 58, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of Pharmac on pages 21 to 37.

In our opinion:

- The financial statements of Pharmac:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Tier 1 Public Benefit Entity (PBE) accounting standards.
- The performance information:
  - presents fairly, in all material respects, Pharmac's performance for the year ended 30 June 2016, including for each class of reportable outputs:
    - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 30 September 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of Pharmac's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Pharmac's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported performance information within Pharmac's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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

Responsibilities of the Board

The Board is responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly Pharmac's financial position, financial performance and cash flows; and
- present fairly Pharmac's performance.

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

The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in Pharmac.

Andy Burns
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

PHARMACEUTICAL EXPENDITURE

Summary of major investments

Six new respiratory treatments

- Five new treatments were funded for people with Chronic Obstructive Pulmonary Disease, one new once-daily treatment for asthma, and access was widened for two others. These changes cover $61 million in gross expenditure, provide savings of approximately $27 million over five years, and will benefit over 23,000 New Zealanders.

Valaciclovir

- Access was widened to this treatment for infections caused by the herpes virus. Nearly 34,000 more people will now be able to access this funded treatment.

New treatments for multiple sclerosis

- Dimethyl fumarate and teriflunomide were funded, taking the number of funded MS treatments to seven.

New medicines for rare disorders

During the year, PHARMAC ran its pilot initiative for the funding of medicines for rare disorders. Four medicines for treatment of rare disorders were funded, with an estimated $8.2 million of gross expenditure in the first full year.

- **Icatibant** – This medication is used to treat severe attacks of hereditary angioedema and can be administered at home, which benefits the person and their whānau, and DHBs.

- **Siltuximab** – This is a treatment for HIV-negative, HHV-8 negative multicentric Castleman's disease.

- **Galsulfase** – This is a treatment for people with the rare enzyme deficiency condition Maroteaux-Lamy Syndrome (mucopolysaccharidosis (MPS) VI). It is usually diagnosed in children and can cause damage to bones, joints, eyes, heart valves and the nervous system.

- **Bedaquiline** – This medicine is used to treat extensively drug-resistant tuberculosis, a rare form caused by bacteria resistant to a number of usual tuberculosis treatments.

Combined Pharmaceutical Budget in 2015/16

PHARMAC manages the Combined Pharmaceutical Budget (CPB), set by the Minister of Health. DHBs hold funding for the CPB and PHARMAC works to ensure spending does not exceed the CPB. A small discretionary fund held by PHARMAC also helps manage this budget.

The total expenditure by DHBs this year was on budget at $800 million. This consisted of $796.8 million on combined pharmaceuticals (community pharmaceuticals, hospital pharmaceutical cancer treatments, vaccines and haemophilia treatments), plus a transfer of $3.2 million from DHBs into the CPB Discretionary Pharmaceutical Fund (CPB DPF). (Gross expenditure for the year was $1,072.1 million, with PHARMAC's commercial agreements with suppliers including $275.2 million of rebates and adjustments).

During the year, there was a 3% increase in the number of prescription items for medicines that were already funded at 30 June 2015. There was also an increase in the average cost of prescriptions given previous funding decisions have added more expensive medicines to the total pool of funded medicines. This increase in expenditure as a result of increased prescription numbers (across all medicines funded at 30 June 2015) was $26.8 million.

In addition to the growth in expenditure for medicines already funded, PHARMAC made decisions during the year with a full-year budget impact of $62.2 million ($52.9 million of which resulted during the year due to the timing of when decisions were made).

With this continuing pressure on spending – prescription growth and new investments – PHARMAC has to create savings each year to stay on budget. During 2015/16, PHARMAC made decisions that generated full-year savings of $79 million ($50.0 million of which accrued during the year due to the timing of when decisions were made). There was an additional $12.9 million of savings available from agreements reached in the previous financial year, making a total level of savings in 2015/16 of $62.9 million.

Overview of CPB savings by therapeutic group

Therapeutic group	Increase ($ million)	Saving ($ million)	Net change in spending ($ million)	Full-year* net change ($ million)
Alimentary Tract and Metabolism	$0.3	-$0.7	-$0.4	-$1.0
Blood and Blood Forming Organs	$0.7	-$13.1	-$12.4	-$14.4
Cardiovascular System	$0.2	-$0.2	$0.0	-$0.7
Genito-Urinary System	$1.0	$0.0	$0.9	$0.9
Hormone Preparations - Systemic Excluding Contraceptive Hormones	$0.1	-$0.1	$0.0	-$0.1
Infections - Agents for Systemic Use	$0.4	-$0.2	$0.2	$0.9
Nervous System	$0.6	-$6.5	-$5.9	-$7.3
Oncology Agents and Immunosuppressants	$0.9	-$5.0	-$4.1	-$7.2
PCT	$0.9	-$2.0	-$1.1	-$4.9
Respiratory System and Allergies	$0.0	-$8.3	-$8.2	-$18.3
Sensory Organs	$0.0	-$0.2	-$0.2	-$1.3
Special Foods	$0.1	$0.0	$0.1	$0.0
Unknown	$0.0	-$1.9	-$1.9	-$5.3
National Immunisation Schedule	$0.2	$0.0	$0.1	$0.1
Tender	$0.7	-$17.7	-$17.1	-$20.4
Grand Total	**$5.9**	**-$55.9**	**-$50.0**	**-$79.0**

* Full-year value of savings secured in 2015/16 is realised with $55.9 million in 2015/16 and $23.1 million in 2016/17.

Summary of factors determining CPB expenditure

Summary of combined pharmaceutical expenditure 2015/16 ($ million)			
	Expenditure	**Impact in 2015/16**	**Full-year impact**
Expenditure for year ended 30 June 2015	795		
Volume changes			
Volume increases		51.6	
Volume decreases		-24.8	
Widened access to medicines already funded		14.5	58.1
New investments		38.4	4.1
Net volume changes	79.7		
Subsidy changes			
Subsidy increases		5.9	5.5
Subsidy decreases		-38.2	-63.5
Savings from annual tenders		-17.7	-21.1
Savings from alternative commercial proposals		0	0
De-listings		-8.2	
Residual subsidy increases from 2014/15		8.8	
Residual subsidy decreases from 2014/15		-21.7	
Net subsidy changes	-71.2		
Change in additional items not included above	2.10		
Change in DPF income*	-5.6		
Total expenditure for year ended 30 June 2016	800		

* This is the net change in DPF movement, not the change in DPF balance

CPB decisions 2009/10-2015/16

The following table highlights the number of new funding decisions or medications we have widened access to over the last five years (includes pharmaceuticals prescribed by GPs, hospital cancer treatments, vaccines).

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

Hospital Pharmaceuticals in 2015/16

Hospital medicines

PHARMAC manages new investments in hospital medicines and also assesses the cost of named patient approvals in exceptional circumstances for medicines or indications not listed on the Schedule.

Funding for new investments comes from savings we make on products currently used in hospitals, as a result of an annual tender and other savings transactions. In 2015/16, $6.69 million of savings were generated. After investments of $1.78 million, the net annualised saving was $4.91 million to Vote Health (with a 5-year saving of $25.37 million).

Our commercial agreements with suppliers can include rebates to help manage how much money is spent and ensure confidentiality of the reduced net effective prices. For 2015/16, the total value of these rebates was $21.2 million (excluding GST).

Hospital medicines decisions, 2013/14-2015/16

This table summarises the number of medications we have funded or widened access to public hospitals (excluding hospital cancer treatments).

Year	New listings	Widened access	Total
2013/14	3	4	7
2014/15	9	2	11
2015/16	13	0	13

Hospital medical devices

During the year, PHARMAC added 2,084 hospital medical device line items to the Pharmaceutical Schedule, bringing the total number of items to around 16,000. The national contracts available to DHBs will return $5.05 million in savings in 2016/17 based on current use patterns. If DHBs increased their utilisation of nationally-contracted products, the savings would increase. Over five years, the total savings from the national contracts PHARMAC has negotiated are estimated to be $22.35 million. After deducting $1.5 million in one-off DHB contribution to PHARMAC's operations costs in 2014/15, the net saving over five years is $20.85 million.

Discretionary Pharmaceutical Funds

Community DPF

Since 2010/11 PHARMAC has held a fund called the Combined Pharmaceutical Budget Discretionary Pharmaceutical Fund (CPB DPF). The CPB DPF is a budget management tool that serves two objectives:

1. to manage unexpected pharmaceutical expenditure that may result in over or under spending of the CPB budget; and

2. to allow PHARMAC to transfer funding across years to enable investment decisions to be made with a longer-term focus.

At the start of the 2015/16 financial year, the CPB DPF balance was $2,967,000. DHBs were required to pay $7,033,000 to bring the minimum balance to $10,000,000. An amount of $3,852,000 was paid to DHBs from the CPB DPF on 1 July 2016. The closing balance of the CPB DPF on 30 June 2016 was $6,148,000.

Hospital DPF

In May 2016 the PHARMAC Board agreed to establish the Hospital DPF (HDPF). The HDPF is an additional budget management tool which supports long-term management of DHB expenditure through transfer of funding across years to enable strategic investment decisions. The HDPF became operational in May 2016 with the transfer of $5 million to the Fund from PHARMAC's operating reserves. The closing balance of the HDPF on 30 June 2016 was $5 million.

IMPACTS – PHARMAC'S INFLUENCE

PHARMAC is committed to:

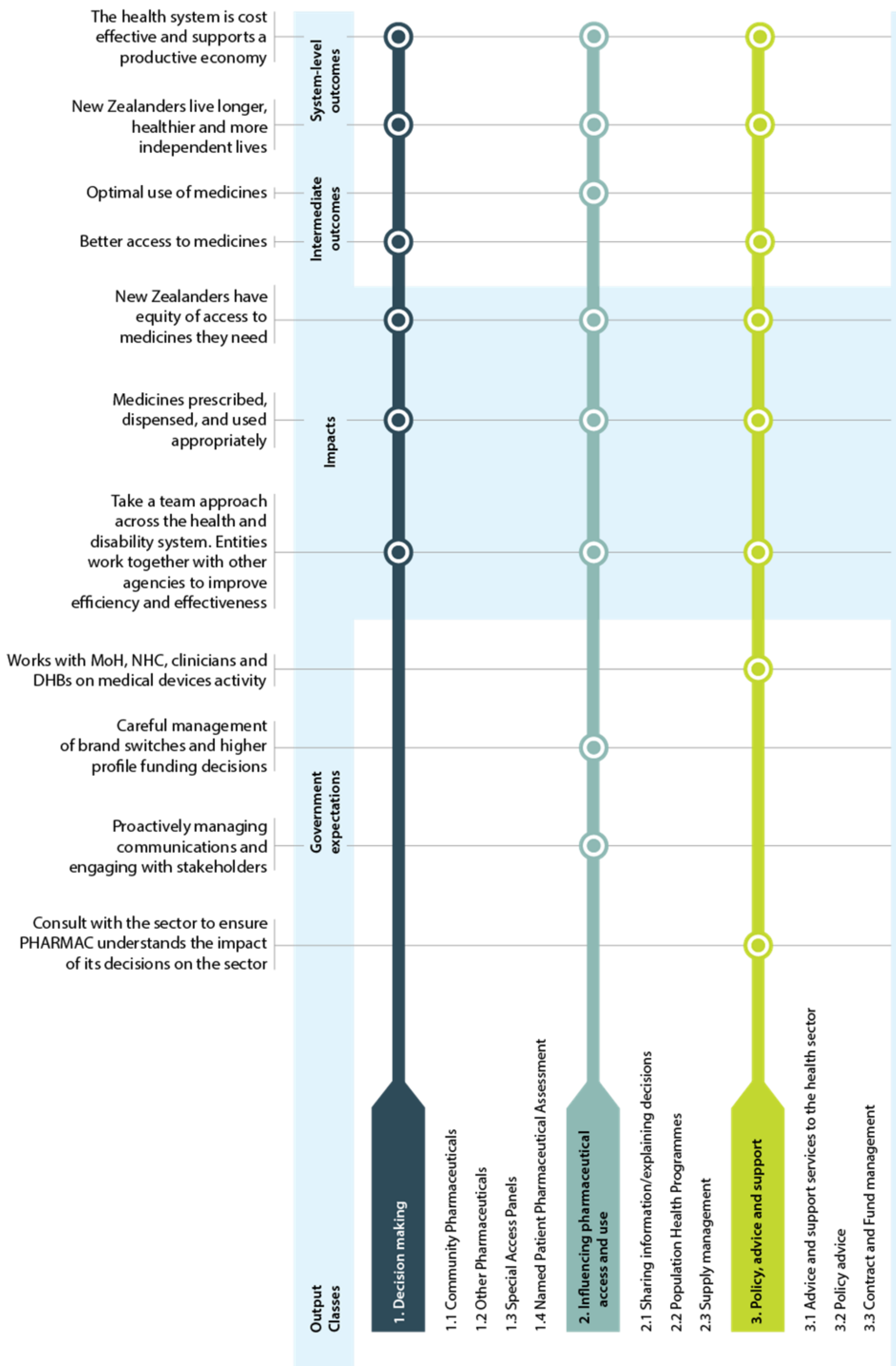
- generating the best possible health outcomes from available funding (and managing pharmaceutical expenditure within budget);
- making high-quality funding decisions so that people anywhere in the country have equal access to funded pharmaceuticals;
- promoting the responsible use of pharmaceuticals;
- assisting DHBs to achieve better health outcomes from other procurement initiatives; and
- addressing inequalities in medicines access for Māori and populations with health disparities.

These impacts are made possible through the services we provide – our outputs:

Output class	Description	Outputs
1. Making decisions about pharmaceuticals[1]	Work that leads to new medicines being funded and money being saved on older medicines	1.1. Combined Pharmaceuticals[2] 1.2. Other Pharmaceuticals[3] 1.3. Special Access Panels 1.4. Named Patient Pharmaceutical Assessment
2. Influencing pharmaceuticals access and use	Promoting the optimal use of medicines and ensuring decisions are understood	2.1. Explaining Decisions/Sharing Information 2.2. Population Health Programmes 2.3. Supply Management
3. Providing policy advice and support	Assisting the cohesiveness of the broader health sector	3.1. Advice and Support Services to the Health Sector 3.2. Policy Advice 3.3. Contracts and Fund Management

These are reported on in full in our Statement of Performance (pages 30 to 37).

[1] 'Pharmaceuticals' are medicines, vaccines, medical devices, related products or related things.
[2] Includes vaccines, hospital pharmaceutical cancer treatments and some blood products.
[3] Includes hospital medicines and hospital medical devices listed in Section H of the Pharmaceutical Schedule.



The health system is cost effective and supports a productive economy
New Zealanders live longer, healthier and more independent lives
Optimal use of medicines
Better access to medicines
New Zealanders have equity of access to medicines they need
Medicines prescribed, dispensed, and used appropriately
Take a team approach across the health and disability system. Entities work together with other agencies to improve efficiency and effectiveness
Works with MoH, NHC, clinicians and DHBs on medical devices activity
Careful management of brand switches and higher profile funding decisions
Proactively managing communications and engaging with stakeholders
Consult with the sector to ensure PHARMAC understands the impact of its decisions on the sector
System-level outcomes
Intermediate outcomes
Impacts
Government expectations
Output Classes
1. Decision making
1.1 Community Pharmaceuticals
1.2 Other Pharmaceuticals
1.3 Special Access Panels
1.4 Named Patient Pharmaceutical Assessment
2. Influencing pharmaceutical access and use
2.1 Sharing information/explaining decisions
2.2 Population Health Programmes
2.3 Supply management
3. Policy, advice and support
3.1 Advice and support services to the health sector
3.2 Policy advice
3.3 Contract and Fund management

1. Access impacts

We want to improve people's ability to have equitable access to medicines.

How we influence access to pharmaceuticals

PHARMAC's central role is to provide the same access to funded medicines for people in New Zealand, regardless of where they live. Through PHARMAC's work, New Zealanders have access to modern, expensive medicines they otherwise wouldn't be able to afford. PHARMAC helps New Zealanders access funded medicines by:

- funding medicines that were not previously funded;
- making medicines available to all people eligible to receive them;
- targeting access to some medicines to people with the greatest clinical need;
- supporting prescribers and pharmacists with information about funded medicines; and
- informing patients and patient groups about funded medicines and how best they are used.

Measuring our impact on access to medicines

Access impact	Measure	Result	Rationale
New Zealanders have access to the medicines they need in the community	The number of prescriptions dispensed for high cholesterol statin medications monitored by age, gender, ethnicity and deprivation	All ethnicities saw a drop of 1-2% in prescription rates from the previous year. All deprivation quintiles saw a drop in prescription rates for 2015/16 of between 1 and 4% Prescriptions dropped for age groups 0-59. The 60-69 age group saw no significant change while prescriptions for those aged 70 and older increased by 3%* Prescriptions for males increased by 1.4% from the previous year. Prescriptions for females increased by 0.1% from the previous year*	Long-term conditions including cardiovascular disease (CVD) and diabetes mellitus are a leading cause of morbidity in New Zealand. These conditions also disproportionately affect Māori, Pacific and South Asian peoples[4] Funded medicines are available to help prevent or control CVD and diabetes mellitus. Monitoring prescription numbers for these medicines will help to identify whether access is equitable

[4] www.health.govt.nz/new-zealand-health-system/health-targets/about-health-targets/health-targets-more-heart-and-diabetes-checks.
*This data has been age standardised to compare across groups.

	The number of prescriptions dispensed for low-dose aspirin monitored by ethnicity and deprivation	Low dose aspirin prescription rates for 2015/16 were all lower than the previous year (between 2% and 7% lower) All ethnicities saw a drop in prescription rates from the previous year of approximately 3-4%	
	The number of prescriptions dispensed for oral hypoglycaemic medication (suphonylureas and biguanides) monitored by ethnicity and deprivation	2015/16 saw an increase in prescription rates for deprivation quintiles 1, 2 and 3, but a decrease for quintile 5 All ethnicities saw a 1% increase in prescription rates for 2015/16 over the previous year	

PHARMAC's expanded role includes managing expenditure on the medicines used in DHB hospitals. We have focused on achieving nationally consistent access to hospital medicines and managing new hospital medicines' investment within the expenditure agreed with DHBs. New medicines listed in Section H are available on a nationally consistent basis. PHARMAC is supporting DHBs to use Section H effectively and is developing an approach to manage hospital medicines within a fixed budget in the future.

Access impact	Measure	Result	Rationale
A nationally consistent range of medicines is available for use in DHB hospital settings	The number of medicines listed in Section H of the Pharmaceutical Schedule expands within the expenditure range agreed with DHBs.	Achieved. There were 13 new listings during 2015/16	Expanding the number of medicines available through DHB hospitals will increase access.

PHARMAC's main focus for medical devices has been to increase procurement activity from optional national contracts, which provide a foundation for future standardisation and management within a fixed budget. Procurement is underway in all 12 categories that we initially proposed. Around 16,000 items are now available through national contracts and listed in Part II of Section H.

Access impact	Measure	Result	Rationale
DHBs have access to a range of medical device contracts in selected categories	DHB uptake of PHARMAC-negotiated medical device contracts	All DHBs have taken up at least one PHARMAC-negotiated medical device contract	Comprehensive DHB uptake of optional national contracts will ensure the potential benefits of these contracts are realised

2. Usage impacts

We want medicines to be prescribed, dispensed and used by patients as well as possible. If medicines are over-, or under- or mis-used, then people miss out on the health benefits the medicines could provide them.

How we influence medicines use

Here are some of the ways PHARMAC influences the use of medicines in NZ:

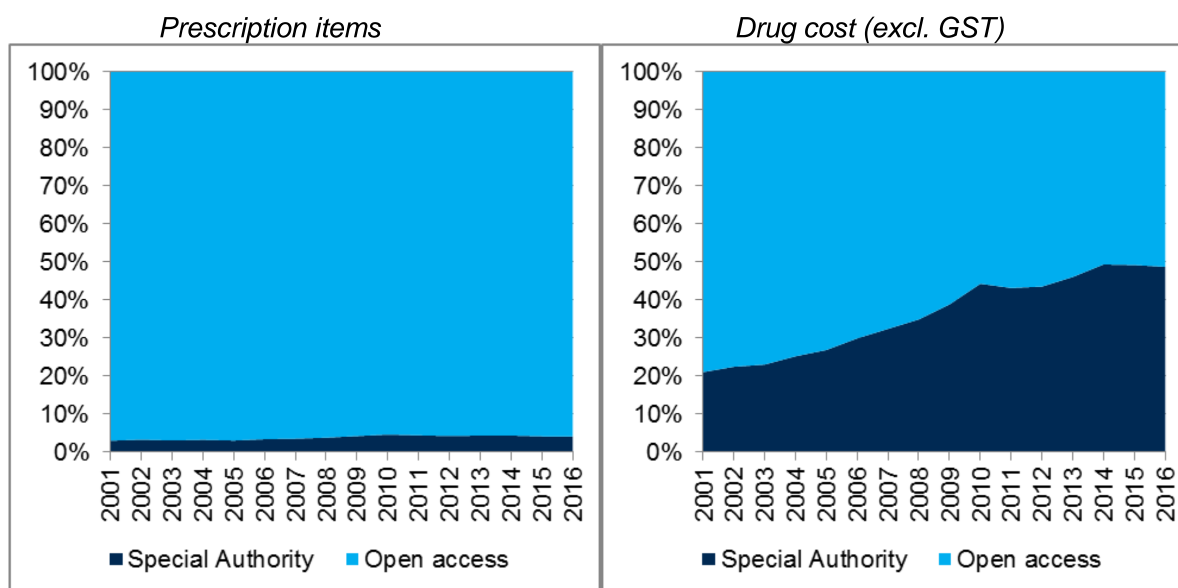
- targeting medicines to people who most need them through Special Authority or other funding rules;
- we contract for primary care clinicians to receive evidence-based health and medicine information;
- primary care clinicians can get Continuing Medical Education (CME) points from attending our PHARMAC Seminars, or watching them online;
- we provide information to health professionals and patients to help implement medicine brand changes; and
- we conduct programmes to promote medication adherence – people taking their medicine as prescribed and obtaining the full benefit.

Measuring our impact on medicines use

A Special Authority is a funding rule which aims to ensure medicines – usually expensive medicines – are used by people with the greatest health need or who will receive the most health gains. They are used for prescribing in the community.

The graphs below show the proportion of Special Authority medicines compared with open access medicines has grown only slightly over time. However, the cost of these medicines has grown from around 20 percent of the CPB in 2001 to almost 50 percent in 2016. This illustrates why Special Authorities are an important tool for managing medicines use, and therefore spending growth. This supports PHARMAC's legislative objective, because over-prescribing expensive medicines would limit our ability to use the pharmaceutical budget cost-effectively, reducing the opportunity to invest in new medicines.

Proportion of prescription items and drug cost for Special Authority medicines compared with open access medicines over time



Usage impact	Measure	Result	Rationale
Funded medicines are targeted to those most likely to benefit	The proportion of Special Authority medicines to open access medicines is monitored over time	Displayed in the chart above	Special Authority approvals enable PHARMAC to provide funded access to certain medicines sooner for those patients most likely to benefit (particularly where the medicine is higher cost), while at the same time managing spending growth sustainably
	The cost of Special Authority medicines as a percentage of the CPB is monitored over time	Displayed in the chart above	

PHARMAC previously ran a pilot to look at antipsychotic use in Aged Care Residential Facilities, which had some promising results based on behaviour change of clinical staff.

Usage impact	Measure	Result	Rationale
Funded medicines are used responsibly	The trend in prescription numbers for antipsychotics dispensed to over 65s is monitored over time	The prescription rates of antipsychotics continue to increase from previous years for people aged 65 and over by 0.5-3%. However those aged 75-79 saw a decrease in rates of 1.1%	The health of older people is a Government and health system priority. Antipsychotic medications can be prescribed inappropriately to older people with dementia experiencing behavioural symptoms. These medicines can have unacceptable adverse effects. Monitoring the trend will give PHARMAC and the wider health system insight into the extent of inappropriate use of these medicines

Te Whaioranga 2013–2023 responding to the health needs of Māori

Te Whaioranga, PHARMAC's Māori Responsiveness Strategy, was established in 2002. The current strategy – Te Whaioranga 2013–2023 – aims to ensure equitable access to medicines for Māori.

The five strategies of Te Whaioranga are:

- advance tino rangatiratanga with whānau in health interventions;
- establish and maintain authentic strategic connections;
- champion evidence-based Māori medicine management;
- support and engage in indigenous research and development about pharmaceutical management; and
- enhance and enable internal expertise and capability in Te Ao Māori.

To improve Māori access to and knowledge about pharmaceuticals, PHARMAC has signed Memoranda of Agreements (MOA) with six Whānau Ora Collectives: Te Pū o Te Wheke (Kaikohe), Kotahitanga (Papakura), Ngā Mataapuna Oranga (Tauranga), Te Arawa (Rotorua), Te Ao Mārama Trust (Ōpōtiki) and Te Taiwhenua o Heretaunga (Hastings).

In support of our community partners to better deliver their services, MOAs have also been signed with three Māori health professional organisations: Ngā Kaitiaki o Te Puna Rongoā o Aotearoa – The Māori Pharmacists' Association, Te Ohu Rata o Aotearoa (Te ORA) - Māori Medical Practitioners Association and Te Rūnanga o Aotearoa – New Zealand Nurses Organisation Māori health professional members.

3. Economic and system impacts

Helping the health system work more cohesively, providing certainty for Government on the costs of pharmaceuticals and assisting DHBs to obtain better value for money.

How we contribute to economic and system impacts

PHARMAC's economic and system impacts support the Government's overall fiscal management through tight budgetary control.

We prioritise the next-best spend of the available pharmaceutical dollar using our decision-making framework. To help us compare medicines that do different things and have different impacts, we use a "common currency" – the Quality Adjusted Life Year (QALY) – which enables the health needs of people and health benefits of pharmaceuticals to be compared more or less equally.

We can measure our decision-making effectiveness by calculating the average value of the health gains from funding options we had available (our prioritisation list), and comparing that with the average value of the health gains from the funding decisions actually made. Value of health gains can be expressed as the number of QALYs gained per net million dollars spent by the health system.

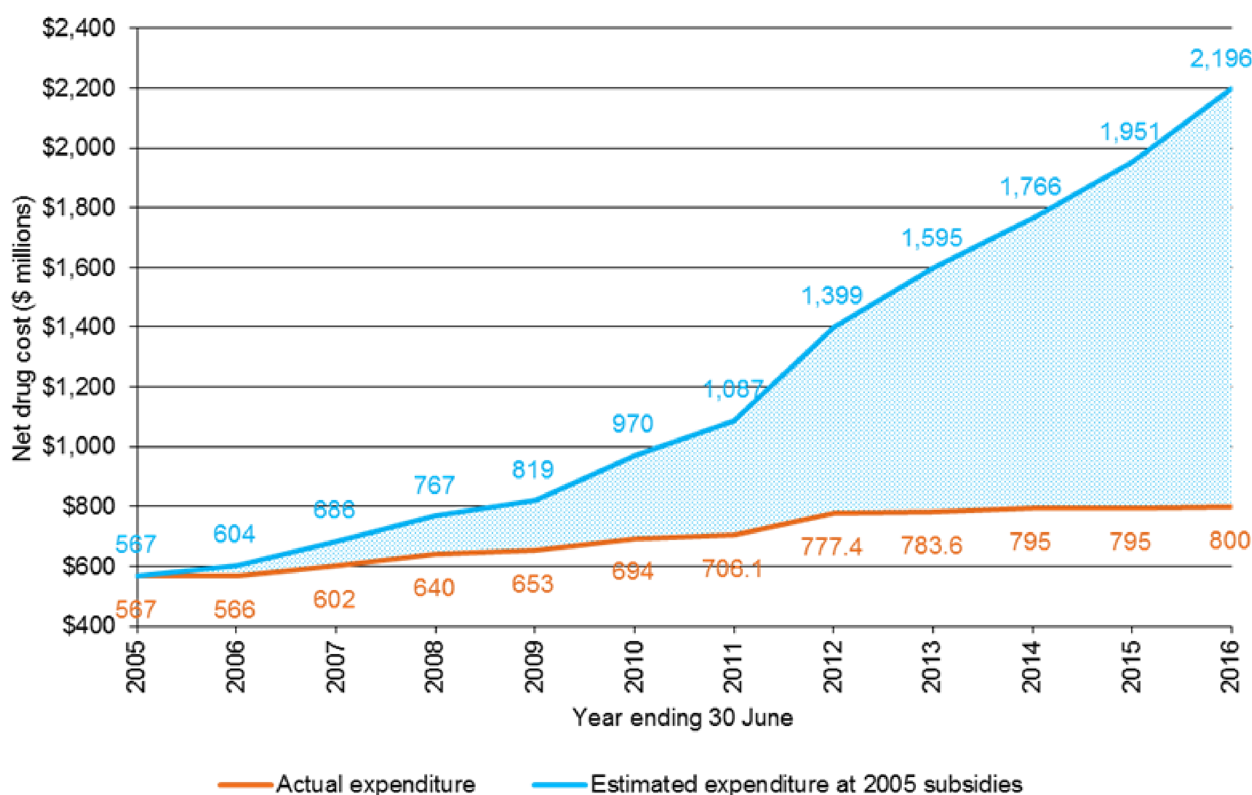
Measuring our contribution to economic and system impacts

Economic and system impact	Measure	Result	Rationale
DHBs get best value for money	The average value of funding decisions within the CPB continues to be greater than the average value of all opportunities	Achieved (2014/15: Achieved) In 2015/16, PHARMAC made decisions from within two funding provisions: the medicines for rare disorders contestable funding pilot and our regular management of the CPB. The average value of funding decisions was: • Rare disorders pilot – We achieved an average cost effectiveness of 6.5 QALYs per $1m, compared with 1.5 QALYs per $1m for all valid rare disorder proposals received • CPB decisions – We achieved an average cost effectiveness of 52 QALYs per $1m net cost to the health sector compared with an average of 38 QALYs per $1m from all investment proposals	To ensure our decisions are delivering "best health outcomes within the funding provided"

In 2015/16 PHARMAC's operating budget increased to support our continued focus on DHB hospital expenditure. The Combined Pharmaceutical Budget (CPB) allowed for $15 million spent on widened access and new medicines (counting net cost (excluding offsets) for the first 12 months from the date of the investment). PHARMAC's activity, including investing in new medicines and making savings on existing products, was associated with growth of more than four percent in the volume of medicines funded, and the number of new medicines also grew by 15. More New Zealanders received funded medicines and the range grew.

Between 2005 and 2016, we saved DHBs a cumulative total of $5.99 billion, including $1.396 billion in 2015/16. At the same time, the number of new medicines and people receiving them has increased. This estimate is based on pharmaceutical prices in 2005 mapped to current prescribing activity, and compares actual spending with predictions of what would have happened had PHARMAC taken no action. Without PHARMAC, this predicted gap in funding would have had to come from other areas of health spending. The graph below shows PHARMAC's impact on predicted CPB expenditure. Cost management of pharmaceuticals has been achieved through competition, which has led to price reductions.

Impact of PHARMAC on predicted CPB drug expenditure over time (actual 2005–2016)



The shaded area between the graph's lines indicates the total amount saved since 2005. This is the difference between estimated spending without savings, and actual spending, around $6 billion.

The CPB includes nicotine replacement therapy from 2010/11, pharmaceutical cancer treatments from 2011/12, vaccines from 2012/13 and haemophilia treatments from 2013/14.

Potential savings to DHBs from PHARMAC's medical devices activity

In 2011/12 DHBs were spending around $880 million on medical devices, with cost growth estimated at around 11.5 percent per year in 2008/09. PHARMAC is negotiating national contracts for some medical devices used in public hospitals. The ultimate aim is to manage the assessment, prioritisation and purchasing of devices within a budget, in the same way as PHARMAC manages the CPB.

STATEMENT OF PERFORMANCE

This Statement of Performance records how PHARMAC has performed against targets outlined in its Statement of Performance Expectations 2015/16. PHARMAC defined three output classes for 2015/16. The outputs with the greatest impact are measured and reported on. The statement of comprehensive income by output class provides the actual revenue and expenses incurred compared with budget.

Output Class 1 – Making decisions about pharmaceuticals

PHARMAC's 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" is central to its funding decisions.

PHARMAC meets its objective in part by managing the CPB decided by the Minister of Health. The CPB includes funding for community pharmaceuticals and medical devices, pharmaceutical cancer treatments, and vaccines. PHARMAC does not hold these funds but manages spending to ensure the CPB is not exceeded. PHARMAC also has two Discretionary Pharmaceutical Funds, which enable timely pharmaceutical decision making and smoother management of the CPB and DHB expenditure across financial years.

Most of PHARMAC's decisions involve changes to the Pharmaceutical Schedule, which is the comprehensive list of pharmaceuticals covering most New Zealanders' health needs.

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

PHARMAC considers a broad range of factors to make robust medicine funding decisions. The PHARMAC website outlines the way in which PHARMAC makes decisions and what is taken into account.

Transparency about our decision-making is important, where possible, and consumers, clinicians and industry representatives are able to track progress with funding applications for Schedule listings through PHARMAC's online Application Tracker at (www.pharmac.govt.nz/patients/ApplicationTracker).

Output 1.1 Combined Pharmaceuticals

Sections B to I of the Schedule contain a list of medicines funded for all New Zealanders through the Combined Pharmaceutical Budget (CPB). The Schedule includes vaccines administered in primary care, Pharmaceutical Cancer Treatments provided through DHB cancer services, and haemophilia treatments.

Output 1.2 Other Pharmaceuticals

PHARMAC manages pharmaceutical expenditure for DHBs in areas outside of the community setting, including hospitals. Section H of the Pharmaceutical Schedule ensures medicines use in hospitals is consistent across the country and helps to reduce the cost of medicines used in DHB hospitals.

PHARMAC is responsible for a small number of medical devices used in the community and DHB hospitals. During 2015/16 we continued to work on the national procurement of 12 categories 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.

Listed hospital medicines and medical devices are funded directly by DHB hospitals, so are not 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 funded treatment. Panels were maintained for:

- Cystic fibrosis
- Gaucher's disease
- Insulin pumps
- Multiple sclerosis
- Pulmonary arterial hypertension
- Haemophilia treatments (through the National Haemophilia Treaters' Group).

Output 1.4 Named Patient Pharmaceutical Assessment

This is the mechanism that assesses applications for individual patients to receive funding of medicines that are not funded through the Pharmaceutical Schedule. Expenditure for NPPA community and cancer treatments comes from the CPB, while approvals for hospital medicines are funded by individual DHB hospitals.

In the 2014/15 financial year PHARMAC completed a review of the NPPA policy as part of its ongoing review of its OPP. The outcome of the review was the announcement of an Exceptional Circumstances Framework, which includes a revised NPPA policy. The revised NPPA policy has been simplified but the original intent has not changed. The Exceptional Circumstances Framework captures and make explicit other exceptional circumstances that fall outside the Pharmaceutical Schedule funding process. The new framework came into effect in July 2015.

Making decisions about pharmaceutical - output measures

Impact	Output	Measure	Rationale	2015/16 Target	2015/16 Results
Access Economic and system	1.1 Combined Pharmaceuticals decisions	Percentage of funding decisions supported by evidence and made using PHARMAC's decision-making approach	High-quality decision making needs to be informed by evidence Confidence in our decision making requires us to follow the same approach consistently	All funding decisions are supported by evidence and made using PHARMAC's decision-making approach	Achieved (2014/15: Achieved) All funding decisions 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	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	Achieved (2014/15: Achieved) 92% of line items (excluding bids held open while awaiting Medsafe registration) completed by end of June 2016

Impact	Output	Measure	Rationale	2015/16 Target	2015/16 Results
Access Economic and system	1.2 Other pharmaceutical decisions (including hospital medicines and medical devices)	Savings returned to the health sector	Returning savings to the health sector demonstrates the value PHARMAC adds as part of the health system. The savings we make for DHBs enable money to be redirected to other activity. Savings where there is no fixed budget are not readily forecast	Cumulative five year value to Vote Health at 30 June 2016 exceeds cumulative five year value of additional baseline contribution to PHARMAC's operations	Achieved (2014/15: Achieved) Five year cumulative savings to the health system of all decisions since 2013/14 is $160.80 million across both hospital medicines and devices compared to the additional baseline contribution of $6.208 million in 2015/16

Output Class 2 – Influencing pharmaceuticals access and use

PHARMAC has a legislative function to promote the responsible use of pharmaceuticals and this is an essential part of achieving best health outcomes. We do this in a number of ways:

- we communicate our decisions and provide information and support to clinicians, consumers and others so medicines are prescribed and used well;
- we help ensure people take the medicine prescribed for them in the way intended by their prescriber; and
- we aim to improve health literacy, workforce development and community engagement, and work alongside health professionals to deliver programmes so the medicines that are funded for people are well used.

PHARMAC is one of many health sector agencies seeking to promote responsible use of medicines and we seek to work with other sector players to improve the value of the programmes we develop.

Output 2.1 Explaining decisions/sharing information

We consider feedback from prescribers and pharmacists on the practicality of Schedule changes in the following ways:

- we meet regularly with health professional groups to obtain input through our consultation processes;
- we work alongside health professional groups to develop implementation approaches and responsible use activities;
- we maintain regular contact with health consumer groups and welcome dialogue on medicine funding or other issues;
- we take advice from our Consumer Advisory Committee (CAC) on our engagement plans and practices;

- we undertake engagement and consultation activities with the community through regional and national forums. During the year we planned engagement with Pacific communities to discuss how PHARMAC's work can best support the health of Pacific peoples.

We work to explain our decisions more clearly through our notification letters, the PHARMAC website and information sent to health professionals and consumers to help them adjust to the introduction of new medicines or brand changes. As well as notifying people about our decisions, we also implement our decisions in a way that supports both health professionals and consumers. This can be through targeted provision of clinical advice, or through more widespread provision of information about the changes.

Output 2.2 Population health programmes

Sometimes we support decisions with information provided to health professionals and consumers through our health education programmes. He Rongoā Pai He Oranga Whānau is one such programme, providing seminars to Māori community health workers and primary care nurses. We are currently refreshing He Rongoā Pai He Oranga Whānau to ensure it remains relevant.

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

Adherence programmes

Medicines adherence plays an important role in ensuring the benefits from PHARMAC's funding decisions are realised. Supporting medicines adherence is a key element in promoting responsible use. Medicines adherence programmes contribute to ensuring medicines are prescribed and used as intended.

PHARMAC has helped fund a pilot programme to assess the level of intervention required to improve medication adherence, and medication beliefs, for people with Type 2 diabetes. Interim participant reported results indicate that the pilot has improved people's understanding of their condition and their understanding of medicine taking. A more comprehensive evaluation is planned.

Output 2.3 Supply management

PHARMAC has staff employed specifically to manage contracts, a team which enables us to be more aware of when supply shortages might arise, and to take action should it be required. We are also aware that medicines not on contract are important and need to be monitored. This requires ongoing vigilance of the supply chain to ensure adequate supplies between pharmaceutical companies, wholesalers, pharmacists and consumers.

Currently, PHARMAC also manages the direct distribution of some complex medicines to consumers. This includes some medicines used to treat multiple sclerosis and enzyme deficiency disorders. PHARMAC is 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 gastrointestinal stromal tumours (GIST), and for people receiving human growth hormone.

Influencing pharmaceuticals access and use output measures

Impact	Output	Measure	Rationale	2015/16 Target	2015/16 Results
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 will engage with PHARMAC on implementing hospital medical device contracts All relevant DHB hospital services will engage with PHARMAC to support hospital medicine changes	Achieved (2014/15: Achieved 13 DHBs engaged with PHARMAC) 16 DHBs engaged with PHARMAC for hospital medical devices All hospital transplant services engaged to support the tacrolimus change 75% of DHBs attended a workshop on medical devices (wound care changes) All DHBs have implemented significant changes for the funding of haemophilia treatments
	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 show at least 90% rate their satisfaction with the seminars at least 4 out of 5	Achieved (2014/15: Achieved 93%) 93% of attendees at the 14 seminars throughout 2015/16 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	Community-based delivery of programme occurs in half of all MoA partner areas	Not achieved (2014/15: Not achieved) The programme was unable to be delivered due to the need to redesign it from a two-day to a one-day wānanga to better suit the needs of our partners. We increased our agreements with Whānau Ora Collectives from five to six and are planning 3 workshops for 2016/17

Impact	Output	Measure	Rationale	2015/16 Target	2015/16 Results
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	Respond to low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met	Achieved (2014/15: Achieved) PHARMAC worked with suppliers to manage several stock events A significant number required intervention management by PHARMAC staff; this resulted in continuity of supply to patients Activities included sourcing alternative supply with suppliers and liaising with Medsafe, wholesalers and distributors

Output Class 3 – Providing policy advice and support

Output 3.1 Advice and support services to the health sector

PHARMAC provides advice and support for other health sector agencies to improve the cost-effectiveness of health spending.

We also undertake work to assist health sector procurement where it fits with PHARMAC’s skills.

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 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 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.

Providing policy advice and support output measures

Impact	Output	Measure	Rationale	2015/16 Target	2015/16 Results
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	An average survey score of at least 4.5 in each area	Not achieved (2014/15: Partially achieved) PHARMAC surveyed policy requesters in July 2016. The following scores are an average score out of 5: • 3.5 (2014/15: 4.17) for timeliness of advice • 4.17 (2014/15: 4.5) for relevance of the advice • 4.17 (2014/15: 4.5) for thoroughness • 4.0 (2014/15: 4.33) for clarity • 3.5 (2014/15: 4.33) for the quality of the analysis • 3.5 (2014/15: 4.67) for informal policy support and availability
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 is in accordance with PHARMAC policy	Achieved (2014/15: Achieved). All fund use is in accordance with PHARMAC policy

Legal Risk Fund

There were no expenditures from the Legal Risk Fund for 2015/16 (2014/15: $nil). In performing its functions, PHARMAC maintains a Legal Risk Fund. This fund can be used to initiate or defend legal action to which PHARMAC is a party. The PHARMAC Board is responsible for approving access to PHARMAC's Legal Risk Fund on the basis of defined rules. The existence of the Legal Risk Fund recognises the high litigation risk associated with the activity of a government agency engaged in procurement (evidenced by PHARMAC's litigation history).

The size and regularity of litigation can be unpredictable and may extend beyond the level of litigation activity a government agency can manage within normal, year-to-year resourcing. A fund can help manage litigation risk better by making it possible (and without delay) to commence or continue with major or complex legal proceedings. PHARMAC's litigation budget ($100,000) is used to replenish the Legal Risk Fund at financial year end, in the event that funds remain in that budget. At 30 June 2016 no funds remained in the litigation budget. The balance of the Legal Risk Fund at 30 June 2016 was $7.5 million.

Herceptin SOLD Trial Fund

In the year to 30 June 2016, spending from the Herceptin SOLD Trial Fund was $418,274. The Herceptin SOLD trial is an international research trial examining whether the nine-week or 12 month duration of Herceptin offers equivalent treatment. The trial is headed by Professor Heikke Joennsuu of the University of Helsinki in Finland. In February 2007 PHARMAC contracted to contribute $3,200,000 over at least 10 years towards the trial costs. The PHARMAC Board established a fund in 2009/10 to ensure PHARMAC could meet its contractual obligations over future years. The balance of the fund stands at $319,000 at year end. The patient recruitment is complete and future payments relate to publication and administration costs.

STATEMENT OF ACCOUNTING POLICIES

Reporting entity

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

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

The financial statements of PHARMAC are for the year ended 30 June 2016. The financial statements were approved by the Board of PHARMAC on 30 September 2016.

Basis of preparation

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

Statement of compliance

The financial statements of PHARMAC have been prepared in accordance with the requirements of the Crown Entities Act 2004 and the New Zealand Public Health and Disability Act 2000, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

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

Standards issued and not yet effective and not early adopted

In 2015, the External Reporting Board issued Disclosure Initiative and Other Amendments. These amendments apply to PBES with reporting periods beginning on or after 1 January 2016.

PHARMAC will apply to PBEs with reporting periods beginning on or after 1 January 2016. PHARMAC will also apply these amendments in preparing its 30 June 2017 financial statements. PHARMAC expects there will be no effect in applying these amendments.

Summary of Significant Accounting Policies

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

Revenue

All PHARMAC revenue is non-exchange.

Funding from the Crown

PHARMAC is primarily funded from the Crown. This funding is restricted in its use for the purpose of PHARMAC meeting the objectives specified in its founding legislation and the relevant appropriations of the funder.

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

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

Funding from DHBs

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

Funding is recognised as revenue when they become receivable.

Interest revenue

Interest revenue is recognised using the effective interest method.

Capital charge

The capital charge is recognised as an expense in the financial year to which the charge relates.

Cash and cash equivalents

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

Receivables

Short-term receivables are recorded at value, less any provision for impairment.

A receivable is considered impaired when there is evidence that PHARMAC will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amounts expected to be collected.

Investments

Bank term deposits

Investments in bank term deposits are initially measured at the amount invested.

After initial recognition, investments in bank deposits are measured at amortised cost using the effective interest method, less any provision for impairment.

Property, plant and equipment

Property, plant and equipment consist of leasehold improvements, computer hardware, furniture and office equipment, and are shown at cost less accumulated depreciation and impairment losses.

Any write-down of an item to its recoverable amount is recognised in the statement of comprehensive income.

Additions

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

Work in progress is recognised at cost less impairment and is not depreciated.

Disposals

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal are reported net in the surplus or deficit.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to PHARMAC and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

Depreciation

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

Item	Estimated useful life	Depreciation rate
Leasehold Improvements	5 years	20%
Office Equipment	2.5–5 years	20%–40%
Computer Hardware	2.5–5 years	20%–40%
Furniture and Fittings	5 years	20%

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

The residual value and useful life of an asset are reviewed, and adjusted if applicable, at each financial year end.

Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by PHARMAC are recognised as an intangible asset. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with the development and maintenance of PHARMAC's website are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit. For computer software (the only identified intangible asset), the useful life is estimated as 2–5 years with a corresponding depreciation rate of 20%–50%.

Payables

Short-term payables are recorded at their fair value.

Employment entitlements

Employee entitlements that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued to balance date, and annual leave earned to but not yet taken at balance date. PHARMAC recognises a liability and an expense for bonuses where it is contractually bound to pay them.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver, the Government Superannuation Fund, and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit as incurred.

Provisions

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

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

Equity

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

- Contribution capital
- Retained earnings and reserves
- Herceptin SOLD Trial Fund
- CPB Discretionary Pharmaceutical Fund
- Hospital Discretionary Pharmaceutical Fund
- Legal Risk Fund

Goods and services tax (GST)

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Cost allocation

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

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

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

Critical accounting estimates and assumptions

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

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

Critical judgements in applying PHARMAC's accounting policies

Management has not exercised any critical judgements in applying accounting policies for the period ended 30 June 2016.

FINANCIAL STATEMENTS

Statement of comprehensive revenue and expense

For the year ended 30 June 2016

	Note	Actual 2016 $000	SPE Budget 2016 $000	Actual 2015 $000
Non exchange revenue				
Crown funding		21,988	21,987	15,780
DHB - Operating funding		2,690	3,210	3,360
DHB - Discretionary Pharmaceutical Fund	4	7,033	3,500	8,764
DHB - Additional Contribution		0	0	2,000
Other:				
Interest received - Operating		512	300	523
- Legal Risk Fund		274	280	313
Other revenue - Operating		115	181	382
Total Income		32,612	29,458	31,122
Expenditure				
Operating costs		5,765	7,321	5,574
Personnel costs	1	12,798	13,344	11,735
Audit Fees		49	35	42
Depreciation & amortisation costs	8&9	621	512	536
Director Fees		144	128	146
Discretionary Pharmaceutical Fund	4	3,852	5,000	7,032
Finance Costs	2	19	19	18
Herceptin SOLD trial administration		0	0	418
Legal Risk Fund payments for litigation		0	280	0
Occupancy costs		606	596	622
Implementation projects		2,012	3,424	2,625
Total expenditure		25,866	30,659	28,748
Net surplus/(deficit) for the period		6,746	(1,201)	2,374
Other comprehensive income		0	0	0
Total comprehensive revenue and expense		**$6,746**	**$(1,201)**	**$2,374**

Explanations of significant variances against budget are detailed in note 22.
The accompanying accounting policies and notes form part of these financial statements.

Statement of changes in equity

For the year ended 30 June 2016

	Note	Actual 2016	SOI Budget 2016	Actual 2015
		$000	$000	$000
Balance at 1 July		20,609	21,346	18,235
Total Comprehensive Income		6,746	(1,201)	2,374
Balance at 30 June	3	**$27,355**	**$20,145**	**$20,609**

Explanations of significant variances against budget are detailed in note 22.
The accompanying accounting policies and notes form part of these financial statements.

Statement of financial position

As at 30 June 2016

	Note	Actual 2016	SOI Budget 2016	Actual 2015
		$000	$000	$000
PUBLIC EQUITY				
Contribution capital	3	1,856	1,856	1,856
Retained earnings and reserves	3	6,530	6,025	8,239
Herceptin SOLD Trial fund	3	319	349	319
Community Discretionary Pharmaceutical Fund	3	6,148	5,000	2,967
Hospital Discretionary Pharmaceutical Fund		5,000	0	0
Legal Risk Fund	3	7,502	6,915	7,228
TOTAL PUBLIC EQUITY		**$27,355**	**$20,145**	**$20,609**
Represented by:				
Current assets				
Cash and cash equivalents		2,451	9,500	2,282
Investments	6	12,381	7,000	15,618
DPF monies deposited into rebates account	5	10,000	5,000	1,912
Debtors and other receivables	7	325	50	776
Prepayments		102	56	178
GST Receivable		397	0	930
Total current assets		25,656	21,606	21,696
Non-current assets				
Investments	6	7,051	0	0
Property, plant and equipment	8	1,083	2,030	1,089
Intangible Assets	9	211	120	203
Total non-current assets		8,345	2,150	1,292
Total assets		34,001	23,756	22,988
Current liabilities				
Creditors and other payables	10	5,431	2,449	1,171
Employee entitlements	11	893	750	905
GST Payable		0	90	0
Total current liabilities		6,324	3,289	2,076
Non-current liabilities				
Make Good Provision	12	322	322	303
Total liabilities		6,646	3,611	2,379
NET ASSETS		**$27,355**	**$20,145**	**$20,609**

Explanations of significant variances against budget are detailed in note 22.
The accompanying accounting policies and notes form part of these financial statements.

Statement of cash flows

For the year ended 30 June 2016

	Note	Actual 2016 $000	SPE Budget 2016 $000	Actual 2015 $000
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Receipts from the Crown		21,988	21,987	15,780
- DHBs Operating		2,690	3,210	3,360
- Additional Sector Contribution		0	0	1,500
- Interest Operating		385	300	483
- Interest Legal Risk Fund		254	280	282
- Other Operating		712	181	180
- Discretionary Pharmaceutical Fund top up		7,033	3,500	7,032
- Discretionary Pharmaceutcal Fund release from rebates bank account		0	0	8,087
- Goods and services tax (net)		534	0	753
		33,596	29,458	37,457
Cash was disbursed to:				
- Legal Risk Fund expenses		0	0	(33)
- Discretionary Pharmaceutical Fund expenses		0	(5,000)	(7,032)
- Discretionary Pharmaceutical Fund deposited in rebates bank account		(8,088)	0	(8,764)
- Payments to suppliers and employees		(20,874)	(22,847)	(17,664)
- Goods and services tax (net)		0	(400)	0
		(28,962)	(28,247)	(33,493)
Net cash flow from operating activities	13	4,634	1,211	3,964
CASH FLOWS – INVESTING ACTIVITIES				
- Purchase of property, plant and equipment		(505)	(885)	(695)
- Purchase of intangible assets		(128)	(27)	(224)
- Purchase of investments		(3,814)	0	(4,870)
Net cash flow from investing activities		(4,447)	(912)	(5,789)
Net increase/(decrease) in cash		169	299	(1,825)
Cash at the beginning of the year		2,282	9,201	4,107
Cash at the end of the year		2,451	9,500	2,282

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

Explanations of significant variances against budget are detailed in note 22.
The accompanying accounting policies and notes form part of these financial statements.

Statement of comprehensive revenue and expense by output class

For the year ended 30 June 2016

Output Actual 2015/16	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	9,214	5,844	721	(15,136)	643
Influencing Medicine Access and Use	9,575	3,394	90	(8,100)	4,959
Policy Advice and support	3,199	485	90	(2,630)	1,144
Total	**21,988**	**9,723**	**901**	**(25,866)**	**6,746**

Output SPE Budget 2015/16	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	9,213	4,033	609	(13,476)	379
Influencing Medicine 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)**

Output Actual 2014/15	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	8,784	11,284	585	(15,987)	4,666
Influencing Medicine Access and Use	4,729	2,840	349	(8,626)	(708)
Policy Advice and support	2,267	0	284	(4,135)	(1,584)
Total	**15,780**	**14,124**	**1,218**	**(28,748)**	**2,374**

Statement of commitments

As at 30 June 2016

Operating leases as lessee.

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

	Actual 2016 $000	Actual 2015 $000
Capital commitments approved and contracted	0	0
Operating commitments approved and contracted		
Not later than one year	636	606
Later than one year and not later than five years	636	1,272
Later than 5 and not later than 10 years	0	
Total commitments	**$1,272**	**$1,878**

The rental lease expires 24 July 2018. The commitment is recognised for the full term of two years.

PHARMAC has recognised a make good provision of $322,000 (2015: $303,000).

Statement of contingent assets and liabilities

As at 30 June 2016

PHARMAC had no contingent assets at 30 June 2016 (2015: $nil).

PHARMAC had no contingent liabilities at 30 June 2016 (2016: $nil).

Explanations of significant variances against budget are detailed in note 22.
The accompanying accounting policies and notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Personnel costs

	Actual 2016 $000	Actual 2015 $000
Salaries and related costs	11,983	11,486
Employer contributions to defined contribution plans	294	275
Increase/(decrease) in employee entitlements	(12)	(438)
Other personnel costs	533	412
Total personnel costs	**$12,798**	**$11,735**

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

Note 2: Finance costs

	Actual 2016 $000	Actual 2015 $000
Discount unwind on provisions (note 12)	**$19**	**$18**

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Pharmaceutical Management Agency
Level 9, 40 Mercer Street, PO Box 10254, Wellington 6143, New Zealand
Phone: 64 4 460 4990 – Fax: 64 4 460 4995 – **www.pharmac.govt.nz**
Email: enquiry@pharmac.govt.nz

Note 3: Public equity

RETAINED EARNINGS	Actual 2016 $000	Actual 2015 $000
Balance at 1 July	8,239	7,492
Net surplus/(deficit)	6,746	2,374
Net transfer from/(to) Herceptin SOLD trial fund	0	418
Net transfer from/(to) DPF Community Discretionary fund	(3,181)	(1,732)
Net transfer from/(to) Hospital Pharmaceutical Discretionary fund	(5,000)	0
Net transfer from/(to) Legal Risk fund	(274)	(313)
Balance at 30 June	**$6,530**	**$8,239**
CONTRIBUTION CAPITAL		
Balance at 1 July	1,856	1,856
Balance at 30 June	**$1,856**	**$1,856**
HERCEPTIN SOLD TRIAL FUND		
Balance at 1 July	319	737
Add:Net transfer from/(to) retained earnings	0	(418)
Balance at 1 July	**$319**	**$319**
LEGAL RISK FUND		
Balance at 1 July	7,228	6,915
Add: Interest received transferred from/(to) retained earnings	274	313
Less: Litigation expenses transferred from/(to) retained earnings	0	0
Balance at 30 June	**$7,502**	**$7,228**
CPB DISCRETIONARY PHARMACEUTICAL FUND		
Balance at 1 July	2,967	1,235
Add: Income received transferred from/(to) retained earnings	7,033	8,764
Less: Pharmaceutical expenses transferred from/(to) retained earnings	(3,852)	(7,032)
Balance at 30 June	**$6,148**	**$2,967**
HOSPITAL DISCRETIONARY PHARMACEUTICAL FUND		
Balance at 1 July	0	0
Add: Transfer from retained earnings	5,000	0
Balance at 30 June	**$5,000**	**$0**
TOTAL PUBLIC EQUITY	**$27,355**	**$20,609**

Note 4: Discretionary Pharmaceutical Fund (DPF)

The revenue in 2016 of ($7,033k): (2015: $8,764k) relates to the purpose of the DPF to enable PHARMAC to take advantage of investment opportunities that might not otherwise be able to be funded in that year. The expenditure in 2016 of $3,852k (2015: $7,032) relates to disbursements to DHBs so that the CPB expenditure does not exceed the CPB budget of $800m.

Note 5: CPB Discretionary Pharmaceutical Fund monies

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

Note 6: Investments

	Actual 2016 $000	Actual 2015 $000
Current Portion		
Term deposits	$12,381	$15,618
Non-current portion		
Term deposits	$7,051	$0
Total investments	**$19,432**	**$15,618**

There is no impairment provision for investments.
The carrying amounts of term deposits with maturities less than 12 months approximate their fair value.

Note 7: Receivables

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

	2016			2015		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due	325	0	325	776	0	776
Past due 30-60 days	0	0	0	0	0	0
Past due 61-90 days	0	0	0	0	0	0
Past due > 91 days	0	0	0	0	0	0
Total	**$325**	**$0**	**$325**	**$776**	**$0**	**$776**

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

Note 8: Property, plant and equipment

	Cost at beginning of year	Additions during the year	Disposals during the year	Accumulated Amortisation beginning of the year	Amortisation for the year	Elimination on disposals	Net Carrying Amount as at 30 June
	$000	$000	$000	$000	$000	$000	$000
2015							
Furniture and fittings	527	174	0	465	50	0	186
EDP equipment	1,951	51	0	1,677	177	0	148
Office equipment	524	63	0	459	29	0	99
Leasehold improvements	1,282	427	0	849	204	0	656
Total PPE Assets	**$4,284**	**$715**	**$0**	**$3,450**	**$460**	**$0**	**$1,089**
2016							
Furniture and fittings	701	10	1	515	53	0	142
EDP equipment	2,002	441	100	1,854	198	(100)	391
Office equipment	587	43	28	488	52	(19)	81
Leasehold improvements	1,709	11	0	1,053	198	0	469
Total PPE Assets	**$4,999**	**$505**	**$129**	**$3,910**	**$501**	**($119)**	**$1,083**

Note 9: Intangible assets

	Cost at beginning of year	Additions during the year	Disposals during the year	Accumulated Amortisation beginning of the year	Amortisation for the year	Elimination on disposals	Net Carrying Amount as at 30 June
	$000	$000	$000	$000	$000	$000	$000
2015							
Total Intangible Assets	**$1,234**	**$253**	**$0**	**$1,191**	**$93**	**0**	**$203**
2016							
Total Intangible Assets	**$1,487**	**$128**	**$0**	**$1,284**	**$120**	**0**	**$211**

Note 10: Payables

All payables are non-exchange transactions.

	Actual 2016	**Actual 2015**
	$000	$000
Creditors	5,159	942
Accrued expenses	272	229
Total payables	**$5,431**	**$1,171**

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

Note 11: Employee entitlements

	Actual 2016 $000	Actual 2015 $000
Annual leave entitlement	630	585
Accrued salaries and wages	263	320
Total employee entitlements	**$893**	**$905**

Note 12: Provisions

	Actual 2016 $000	Actual 2015 $000
Non-current provisions are represented by:		
Lease make good	322	303
Total provisions	**$322**	**$303**

Movement for 'make good' provision

	2016 $000	2015 $000
Balance at 1 July	303	285
Additional provisions made	0	0
Amount used	0	0
Unused amounts reversed	0	0
Discount unwind	19	18
Balance at 30 June	**$322**	**$303**

The make good provision relates to a rental lease that expires 24 July 2018. PHARMAC leases four floors of an office building.

Note 13: Reconciliation of the net surplus from operations with the net cash flows from operating activities

	2016 $000	2015 $000
Net surplus/(deficit)	6,746	2,374
Discount on unwind provision	19	18
Depn and Amort	630	536
Total non-cash items	649	554
Add (less) movements in working capital items:		
Decrease/(increase) in debtors and other receivables	451	1,588
Decrease/(increase) in prepayments	76	(70)
(Decrease)/Increase in payables	4,260	(138)
(Decrease)/Increase in make good provision	19	18
(Decrease)/Increase in employee entitlements	(12)	(438)
Decrease/(Increase) in net GST	533	753
Net movements in working capital	$5,327	$1,713
Other movements		
DPF monies released from/(deposited in) rebates bank account	(8,088)	(677)
Net cash flow from operating activities	$4,634	$3,964

Note 14: Related party transactions

PHARMAC is a wholly owned entity of the Crown.

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

Key management personnel compensation

	Actual 2016	Actual 2015
Board members		
Remuneration	$144k	$146k
Full time equivalent members	5.00	5.08
Leadership team		
Remuneration	$1,316k	$1,299k
Full-time equivalent members	5.33	5.00
Total key management personnel compensation	**$1,460k**	**$1,445k**
Total full-time equivalent personnel	**10.33**	**10.08**

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

Note 15: Board members' remuneration

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

Member	Fees	
	2016	**2015**
	$000	$000
Stuart McLauchlan (Chair)	48	48
Nicole Anderson	24	24
Kura Denness	0	2
Dr David Kerr	24	24
Prof Jens Mueller	24	24
Dr Jan White	24	24
Total Board member remuneration	**$144**	**$146**

There have been payments of $335k (2015: $376k) made to committee members appointed by the Board who are not Board members during the financial year.

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

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

No Board members received compensation or other benefits in relation to cessation (2015: $nil).

Note 16: Employee remuneration

Total remuneration paid or payable	Actual	
$000	2016	2015
100 – 110	13	7
110 – 120	9	12
120 – 130	7	5
130 – 140	2	3
140 – 150	3	4
150 – 160	3	3
160 – 170	1	2
170 – 180	2	1
180 – 190	0	1
220 – 230	1	1
230 – 240	3	2
370 – 380	0	1
390 – 400	1	0

Note 17: Events after the balance sheet date

There have been no significant events after the balance sheet date.

Note 18: Financial instrument risks

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

Fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

PHARMAC's exposure to fair value interest rate risk is limited to its bank deposits which are held at fixed rates of interest.

Credit risk

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

PHARMAC does not have significant concentration of credit risk.

Liquidity risk

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

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

	2016 Less than 6 months $000	2015 Less than 6 months $000
Creditors and other payables	**$5,431**	**$1,171**

Fair value

The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2016 and 30 June 2015 approximate their fair values.

Note 19: Categories of financial instruments

Credit quality of financial assets

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

Counterparties with credit ratings	**Actual 2016** $000	**Actual 2015** $000
Cash at bank and term deposits		
A+	11,512	9,128
AA-	20,371	10,684
Total cash at bank and term deposits	**$31,883**	**$19,812**

Counterparties with credit ratings	**Actual 2016** $000	**Actual 2015** $000
Debtors and other receivables	325	776
Total financial liabilities at amortised cost	**$325**	**$776**

Note 20: Capital management

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

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

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

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

Note 21: Cessation payments

This information is presented in accordance with section 152(1)(d) of the Crown Entities Act 2004. Cessation payments include payments that the person is entitled to under contract on cessation such as retirement payment, redundancy and gratuities. PHARMAC made no payments to former employees during the financial year $0 (2015: $0).

Note 22: Explanation of major variances against budget

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

Statement of comprehensive income

The net surplus for the year ended 30 June 2016 of $6,746,000 is $7,947,000 less than the SPE budgeted deficit of $1,201,000.

The main difference in revenue is $3,154,000 where the SPE budget allowed for a top-up of the Discretionary Pharmaceutical Fund (DPF) for $3,500,000 but the actual was $7,033,000.

The main differences in operating expenditure arise from under-expenditure of $1,248,000 of the DPF, $546,000 personnel costs owing to delay in positions being filled as compared with planned, $1,412,000 implementation projects and $308,000 communication costs due to reduced activity.

Statement of financial position

The decrease in cash and cash equivalents of $7,049,000 arises from an increase in investments of $9,583,000,and an increase in creditors and other payables which relate to $3,852,000 monies from CPB DPF not yet transferred from rebates account. The increase in public equity of $7,210,000 also reflects the movements above.