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Pharmaceutical Management Agency

Annual Report

For the year ended 30 June 2017

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

PHARMAC
Pharmaceutical Management Agency

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Annual Report of

Pharmaceutical Management Agency (PHARMAC)

for the year ended
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Stuart McLauchlan
Chair

29 September 2017

Prof Jens Mueller
Board Member

29 September 2017

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PHARMAC DIRECTORY

As at 30 June 2017

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Board Members Stuart McLauchlan – Chair Prof Jens Mueller – Chair, Audit and Forecast Committee Dr Jan White – Chair, Health and Safety Committee Nicole Anderson Prof Ross Lawrenson	**Chief Executive** Steffan Crausaz
Pharmacology & Therapeutics Advisory Committee Prof Mark Weatherall - Chair	**Consumer Advisory Committee** David Lui – Chair
Auditors Audit New Zealand Limited	**Bankers** ASB Bank Limited
Solicitors Bell Gully	**Insurers** Lumley General Insurance (N.Z.) Limited AIG Insurance New Zealand Limited QBE Insurance (International) Pty Limited

CHAIR'S REPORT

This Annual Report is the last in our reporting cycle based on the Statement of Intent 2014/15-2017/18. Reflecting on many achievements over this time, I am very proud of the work PHARMAC has done, and continues to do, making a real difference to the health and well-being of so many New Zealanders.

This year, we have taken the opportunity to refresh the organisation's strategy. PHARMAC has adopted three ambitious bold goals that we hope to achieve by 2025. These goals will challenge us to deliver the very best we can for New Zealand. You can read more about our strategy in our new Statement of Intent 2017/18 – 2020/21 on our website.

More medicines for more people

The Government provided a funding boost over four years for the Combined Pharmaceutical Budget this year. We funded more medicines, that have benefitted 62,000 New Zealanders, including two new medicines that can cure 90% of people who receive them for treating hepatitis C. We completed a piloted commercial process to improve access to medicines that treat rare disorders. In total, 10 new treatments have been funded, treating rare conditions that affect one in 50,000 people or less. You can read more about some of the significant medicine decisions for the year on pages 19-20.

PHARMAC commissioned and published peer-reviewed research that compared access to cancer medicines in New Zealand and Australia. The results show that many cancer medicines offer small benefits that are not clinically meaningful. It's clear from the study that our evidence-based approach ensures New Zealand's investment in medicines is targeted at treatments that are likely to make the biggest difference for patients.

Progress milestone for hospital medical devices

Our progress managing hospital medical devices reached an important milestone this year. Market share agreements are now in place for some wound care products. Suppliers are guaranteed a share of the DHB hospital spend and, in return, our public hospitals have access to quality products at lower prices. We also added 11 more categories of devices to our current work programme, which represent significant spend for DHBs. We aim to have all medical device categories under PHARMAC management by 2019.

Partnering together for a high performing system

PHARMAC has continued to build on the great relationships we have with our partners in the health system and with communities across New Zealand. We worked very closely with DHB staff and clinicians on a range of activities, including planning for the service delivery impacts of the newly funded advanced melanoma treatments. We held forums to discuss with DHB staff our hospital medical devices progress.

Feedback from people in many communities around New Zealand was instrumental in shaping our new Pacific Responsiveness Strategy, and helped refine how PHARMAC would meet New Zealand's Trans-Pacific Partnership obligations. We also partnered with five more Whānau Ora Collectives to deliver health programmes on the six Māori Health Areas of Focus.

Finally, PHARMAC implemented the Factors for Consideration decision-making framework. Following extensive consultation during 2014, these factors are the things that New Zealanders told us are important to take into consideration when making funding choices.

Stuart McLauchlan
Chair

SUMMARY OF PHARMAC'S ACTIVITY FOR THE YEAR

Combined Pharmaceutical Budget 2016/17

- **$849.6 million** – DHBs' combined pharmaceutical expenditure (on budget)
- **45.8 million** – number of funded prescription items filled (3.1% increase)
- **3.6 million** – number of New Zealanders receiving funded medicines (4.1% increase)
- **$52 million** – amount of savings achieved
- **18** – number of new medicines funded
- **8** – number of medicines with access widened
- **179,198** – estimated number of additional patients benefiting from decisions in a full year

Hospital Medicines 2016/17

- **$8.98 million** – full-year savings to DHB hospitals from hospital medicines decisions
- **$2.66 million** – savings to Vote Health over five years after costs of new investments
- **4** – number of new hospital medicines funded
- **2** – number of hospital medicines with access widened

Hospital Medical Devices 2016/17

- **29,000**– additional line items on the Pharmaceutical Schedule under national contracts
- **$17.07 million** – net savings over five years from contracts during year
- **$39.42 million** – savings over five years from all contracting to date
- **$109 million** – total value of medical devices under PHARMAC contract

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, and medicines and medical devices used in the community and public hospitals. 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 that applies consistently across New Zealand;
- managing the Combined Pharmaceutical Budget (CPB) – the funding decided by the Minister of Health for community and cancer pharmaceuticals, vaccines, and haemophilia treatments managed by PHARMAC;
- managing the medicines and related products used in public hospitals;
- considering funding applications for people with exceptional clinical 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.

Following extensive engagement with Pacific communities, in 2017 PHARMAC refreshed its Pacific Responsiveness Strategy. The Strategy provides direction and a framework that reflects the aspirations of Pacific peoples for PHARMAC to further improve their health.

PHARMAC contributes to the Government's goal of a growing, sustainable economy through being part of the New Zealand health and disability system. Our Strategy lines up with the overall objective of the New Zealand Health Strategy - our work is critical to the health system's goal of ensuring all New Zealanders live well, stay well, get well.

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.

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 PHARMAC's decision making.

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

- *Procurement and contracting* – An important part of PHARMAC's work is the negotiation of commercial contracts. In addition to ongoing development of negotiation and 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 regularly updated.

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

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

Enhancing PHARMAC as a good employer

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

- *Leadership, Accountability and Culture* – We have a strong focus on developing effective individual and organisational leadership. We expect all staff members to act with respect, integrity and accountability. We have internal values that are reinforced through various initiatives to build an organisational culture that supports high performance. We encourage openness in all facets of our work, including providing regular opportunities for staff to contribute to and be actively involved in PHARMAC decisions. Policies and procedures are regularly reviewed to ensure they are fit for purpose.

- *Recruitment, Selection and Induction* – 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. PHARMAC launched an in-house online recruiting tool in 2016 which has led to less reliance on recruitment agencies, an improved employer brand and greater candidate insights. 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* – We provide and encourage development opportunities for staff to grow their skills, abilities and careers. These opportunities include stepping up to take on a more senior role, undertaking external training and development, receiving support for formal study through tertiary and professional study and secondment opportunities. PHARMAC also offers regular training to directly support our Māori responsiveness strategy, including Te Reo Māori language classes. In 2017 PHARMAC refreshed its Pacific Responsiveness Strategy with a focus on building staff capability. 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, employees leaving are offered exit interviews.

- *Flexibility and Work Design* – PHARMAC recognises that supporting employees to balance their work and family commitments will, over time, have a positive impact on the quality of work, productivity, and the general well-being of employees. This includes ensuring staff who work remotely are provided with appropriate technology and communication solutions to enable seamless and flexible working arrangements. PHARMAC offers generous parental leave entitlements to all staff in addition to legal entitlements.

- *Remuneration, Recognition and Conditions* – PHARMAC uses independent job evaluation and market remuneration information to set salary ranges for positions. Remuneration reviews take performance into consideration and are reviewed annually against market changes and Government expectations. In addition to this, PHARMAC aims to provide fairness and equity through reviewing and managing pay disparities. PHARMAC recognises high performers by offering internal promotions and development opportunities. We create work conditions that enable staff to feel comfortable and supported, including for those who may identify as LGBTQI and staff with disabilities.

- *Harassment, Discrimination and Bullying Prevention* – PHARMAC does not tolerate any bullying, discrimination or harassment. Conduct and behaviour expectations are clearly communicated through our Bullying, Harassment and Discrimination policy, our competencies, and during induction of new employees. Existing staff are regularly reminded about policies and expectations including specific workshops for managers on this topic.

- *Safe and Healthy Environment* – PHARMAC supports the health, safety and wellness of employees through providing a range of resources and opportunities. The health and safety committee includes employee representatives, management and the Chief Executive. In addition to this, on 31 March 2017 the Board formed its Health and Safety Committee to provide leadership and set policy in order to discharge its health and safety management responsibilities within the organisation. Clear expectations with regard to health and safety have been set for all staff. We monitor the health and safety of our working environment and undertake business continuity planning and emergency preparedness.

Staffing

At 30 June 2017 we had a total of 120 staff –117 permanent employees, plus 1 fixed-term employee and 2 casual staff. PHARMAC had been in a significant growth phase in 2016/17. We currently have 8 vacancies and anticipate growth to continue but at a slower rate. In 2016/17, 22 permanent staff resigned (9% of permanent staff). This is a decrease from 11% in 2015/16 (noting also that a small change in numbers leaving can, given overall staff numbers, have a disproportionate effect on the turnover percentage). 1 employee went on parental leave during the year. We have a relatively high number of part-time staff – 8% at 30 June 2017 – which we effectively manage in order to retain valuable skills and competencies and to provide for work-life balance. We are also currently supporting staff with disabilities and a disability register is held in case of emergency.

Staff numbers by ethnicity	
Australian	4
Chinese	10
German	1
Indian	2
Canadian	1
NZ European/Pākehā	64
Samoan	1
NZ/Māori	4
UK/British/Irish	6
Other European	5
Unknown/Undisclosed	22
Total	120

Staff numbers by age (years)	
Under 20	0
20–29	20
30–39	35
40–49	19
50–59	17
60–69	4
70-79	1
Undeclared	24
Total	**120**

Gender	Part-time	Full-time	Total
Permanent employees			
Men	4	44	48
Women	5	64	69
Total	**9**	**108**	**117**
Fixed-term employees			
Men			
Women	1+2 casuals		3
Total			**3**
Grand Total			**120**

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 2016/17 financial year. These have been integrated into business as usual activities and during the year a refreshed strategy was developed to guide our work from 2017/18 onwards. However, for clarity, this annual report contains an assessment against the strategic intentions set out in the Statement of Intent for 2014/15-2017/18 (as this is the most recent statement of intent relating to the relevant reporting year under consideration).

- *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. In 2017, PHARMAC initiated a new engagement and discussions with representatives of national general practice organisations.

- *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 staff working on 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's extended functions, 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 an important part of this strategy, as is a strong focus on our organisational capability more generally.

- *Value from extended functions* – PHARMAC has made significant progress on hospital medical devices and medicines, and the funding of vaccines and haemophilia treatments. PHARMAC has been working closely with other sector organisations, in particular with New Zealand Health Partnerships Ltd on the DHB 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 extensive community engagement. In the last year, we visited communities throughout New Zealand to seek feedback on our Pacific Responsiveness Strategy, our proposed approach to addressing New Zealand's obligations under the Trans-Pacific Partnership (TPP) Agreement and with DHBs on our hospital medical devices activity.

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
Jan White	Board member of WorkSafe New Zealand	Board Chair	No conditions	n/a

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. The table below addresses this requirement.

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

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
- the 2016/17 Annual Report.

In the opinion of the Board, the Financial Statements and Statement of Performance for the year ended 30 June 2017 fairly reflect the financial position and operations of PHARMAC.

Stuart McLauchlan
Chair

29 September 2017

Prof Jens Mueller
Board member

29 September 2017

INDEPENDENT AUDITOR'S REPORT

To the readers of Pharmaceutical Management Agency's financial statements and performance information for the year ended 30 June 2017

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

Opinion

We have audited:

- the financial statements of Pharmac on pages 39 to 60, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies; and
- the performance information of Pharmac on pages 24 to 37.

In our opinion:

- the financial statements of Pharmac on pages 39 to 60:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- the performance information on pages 24 to 37:
  - presents fairly, in all material respects, Pharmac's performance for the year ended 30 June 2017, including:
    - for each class of reportable outputs:
      - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and

    - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year.

- complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 29 September 2017. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Pharmac's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.

- We evaluate the appropriateness of the reported performance information within Pharmac's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Pharmac's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Pharmac to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages 5 to 12; 18 to 23 and 38, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

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

PHARMACEUTICAL EXPENDITURE

Combined Pharmaceutical Budget in 2016/17

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 $849.60 million. This consisted of $841.27 million on combined pharmaceuticals (community pharmaceuticals, hospital pharmaceutical cancer treatments, vaccines and haemophilia treatments), plus a transfer of $8.33 million from DHBs into the CPB Discretionary Pharmaceutical Fund (CPB DPF). Gross expenditure for the year was $1262.19 million, with PHARMAC's commercial agreements with suppliers including $412.59 million of rebates and adjustments.

Expenditure increases

During the year, there was a 3.1% increase in the number of prescription items for medicines compared to the previous year. There was also an increase in the average cost of prescription items due to previous funding decisions adding more expensive medicines to the total pool of funded medicines. In addition to the growth in expenditure for medicines already funded, PHARMAC made 26 medicine investment decisions during the year.

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	$0.03	$0.50	$0.47	$0.49
Blood and Blood Forming Organs	$0.54	$14.03	$13.49	$15.45
Cardiovascular System	$1.50	$0.44	-$1.07	-$0.44
Dermatologicals	$0.05	$0.00	$0.05	$0.19
Genito-Urinary System	$0.00	$1.26	$1.26	$1.26
Hormone Preparations - Systemic Excluding Contraceptive Hormones	$0.02	$4.01	$3.99	$4.97
Infections - Agents for Systemic Use	$0.05	$3.57	$3.53	$4.25
Musculoskeletal System	$0.04	$0.54	$0.50	$2.48
National Immunisation Schedule	$0.32	$0.97	$0.64	$0.64
Nervous System	$1.44	$1.22	-$0.22	$3.24
Oncology Agents and Immunosuppressants	$1.37	$3.00	$1.63	$2.48
PCT	$0.37	$5.91	$5.53	$5.71
Respiratory System and Allergies	$0.33	$2.73	$2.40	$2.56
Sensory Organs	$0.00	$0.00	$0.00	$0.00
Special Foods	$0.18	$0.03	-$0.15	-$0.29
Tender	$1.45	$8.91	$7.46	$9.70
Grand Total**	**$7.71**	**$47.11**	**$39.39**	**$52.30**

* Full-year value of savings secured in 2016/17 is realised with $39.39 million in 2016/17 and $52.30 million in 2017/18.
** Totals may not sum due to rounding.

Expenditure decreases

With this continuing pressure on spending – prescription growth and new investments – PHARMAC has created savings through price and subsidy reductions each year to stay on budget. During 2016/17, PHARMAC made decisions that generated full-year savings valued at $52.30 million ($39.39 million of which was available during the year due to the timing of when decisions were made). There was an additional $5.30 million of savings available this year from agreements reached in the previous financial year, making a total level of savings available for use in 2016/17 of $44.69 million. All these savings were used to contribute to the cost of CPB pharmaceuticals during the year.

CPB decisions 2009/10-2016/17

The following table highlights the number of new funding decisions or medications we have widened access to over the last eight years (including 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
2016/17	18	8	26

Summary of major CPB investments

In this financial year, PHARMAC funded a total of 18 new medicines and widened access criteria to 8 more. Some of the major investment decisions are noted below:

Two new treatments for melanoma

Nivolumab and pembrolizumab for people with advanced melanoma. The new medicines are benefiting the 350 New Zealanders who are diagnosed with melanoma every year.

Hepatitis C treatments

Two treatments (Harvoni, and Viekira Pak and Viekira Pak-RBV) that are major advancements in the treatment of hepatitis C, with cure rates of more than 90%.

Vaccines access

During the year, PHARMAC made some significant changes to funded vaccines that will benefit a further 100,000 people. Changes that took effect in 2016/17 included:

- **Human papillomavirus (HPV) vaccine** – This is now available to all children and adults up to the age of 26 years. Boys are now also included in the HPV school vaccination programme.

- **Influenza (flu) vaccine** – Pregnant women and people over 65 years can now get a funded flu vaccine from pharmacists who are trained vaccinators.

Funding deal for 6 medicines covering 10 different conditions

PHARMAC negotiated a large multi-product agreement with a supplier this year that included medicines to treat cancer, respiratory, rheumatology and other diseases. The arrangement also included savings to five funded medicines.

Three new medicines funded:

- **Obinutuzumab** – This medication is used for chronic lymphocytic leukaemia which is a cancer that affects a type of white blood cell in the bone marrow.
- **Pertuzumab** - This is used with other medicines to treat certain types of metastatic breast cancer.
- **Pirfenidone** – This medicine is used to slow the damage to the lungs from a chronic irreversible condition called idiopathic pulmonary fibrosis.

Three funded medicines can now treat seven more conditions:

- **Dornase alfa** - This medicine is now funded for children with cystic fibrosis under the age of 5 years.
- **Rituximab** – Funding has been extended to include treatment of hairy cell leukaemia; re-treatment of chronic lymphocytic leukaemia; and MPO-ANCA positive vasculitis.
- **Tocilizumab** – This medicine is also now funded for polyarticular juvenile idiopathic arthritis; rheumatoid arthritis; and idiopathic multicentric Castleman's disease.

New medicines for rare disorders

PHARMAC ran a pilot initiative in 2015/16 to fund medicines that treat rare disorders. The pilot has now ended and an evaluation was published in June along with the submissions received from affected stakeholders. This year, six medicines were approved for funding, bringing the total number of medicines funded in this pilot to 10.

- **Alglucosidase** – This medicine is used to treat infantile-onset Pompe disease – a disease that is associated with skeletal muscle weakness and wasting causing mobility problems, and respiratory function.
- **Betaine** – This medication is used to treat homocystinuria, a metabolic condition that most commonly affects the eyes, central nervous system, skeleton and the vascular system.
- **Cholic acid** – This medicine is used to treat rare forms of bile acid synthesis disorders in infants with metabolic liver disease.
- **Idursulfase** – This medicine is used to stabilise people with Hunter Syndrome (MPS II) who are awaiting stem cell transplant.
- **Laronidase** – This is a medicine used to stabilise patients with Hurler Syndrome (MPS 1-H) who are awaiting stem cell transplant.
- **Sodium phenylbutyrate** – This medicine is used to treat urea cycle disorders, which can lead to a fatal build-up of nitrogen and ammonia in the body.

Hospital medicines and medical devices in 2016/17

Hospital medicines

PHARMAC manages new investments in hospital medicines and also assesses the cost of named patient approvals for people with exceptional clinical circumstances for medicines or indications not listed on the Pharmaceutical 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 2016/17, $8.98 million of savings were generated. After investments, the net annualised saving was $0.56 million to Vote Health (with a 5-year saving of $2.66 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 2016/17, the total value of these hospital rebates was $26.89 million (excluding GST).

Hospital medicines decisions, 2013/14-2016/17

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
2016/17	4	2	6

Hospital medical devices

During the year, PHARMAC added 29,000 hospital medical device line items to the Pharmaceutical Schedule, bringing the total number of items to around 45,000. The national contracts negotiated in 2016/17 will save a minimum of $17.07 million over five years based on current use patterns. If DHBs increased their utilisation of nationally-contracted products, the savings would increase. The value of savings over five years arising from all national contracts PHARMAC has already negotiated are estimated to be $39.42 million. The total value of hospital medical devices under contract as at 30 June 2017 is $109.00 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 2016/17 financial year, the CPB DPF balance was $6,148,000. An amount of $8,334,000 was paid by DHBs to the CPB DPF on 30 June 2017 as a result of spending on subsidies being lower than budgeted. The closing balance of the CPB DPF on 30 June 2017 was $14,482,000 which is now available for future years.

Hospital DPF

Since May 2016 PHARMAC has held a Hospital DPF (HDPF). The HDPF is an additional budget management tool which supports long-term management of DHB expenditure through the transfer of funding across years to enable strategic investment decisions.

The HDPF became operational in May 2016 with the transfer of $5,000,000 to the Fund from PHARMAC's operating reserves. At the start of the 2016/17 financial year, the HDPF balance was $5,000,000. PHARMAC entered into an agreement with NZ Health Partnerships Ltd for improvements to the Hospital Medical Devices Datahub, a DHB managed data collection of these purchases. This provides important expenditure information to support PHARMAC's management of hospital medical devices. The agreement is for payments spread over two years totalling $1,100,000. The closing balance of the HDPF on 30 June 2017 was $4,450,000.

IMPACTS – PHARMAC'S INFLUENCE

PHARMAC is committed to:

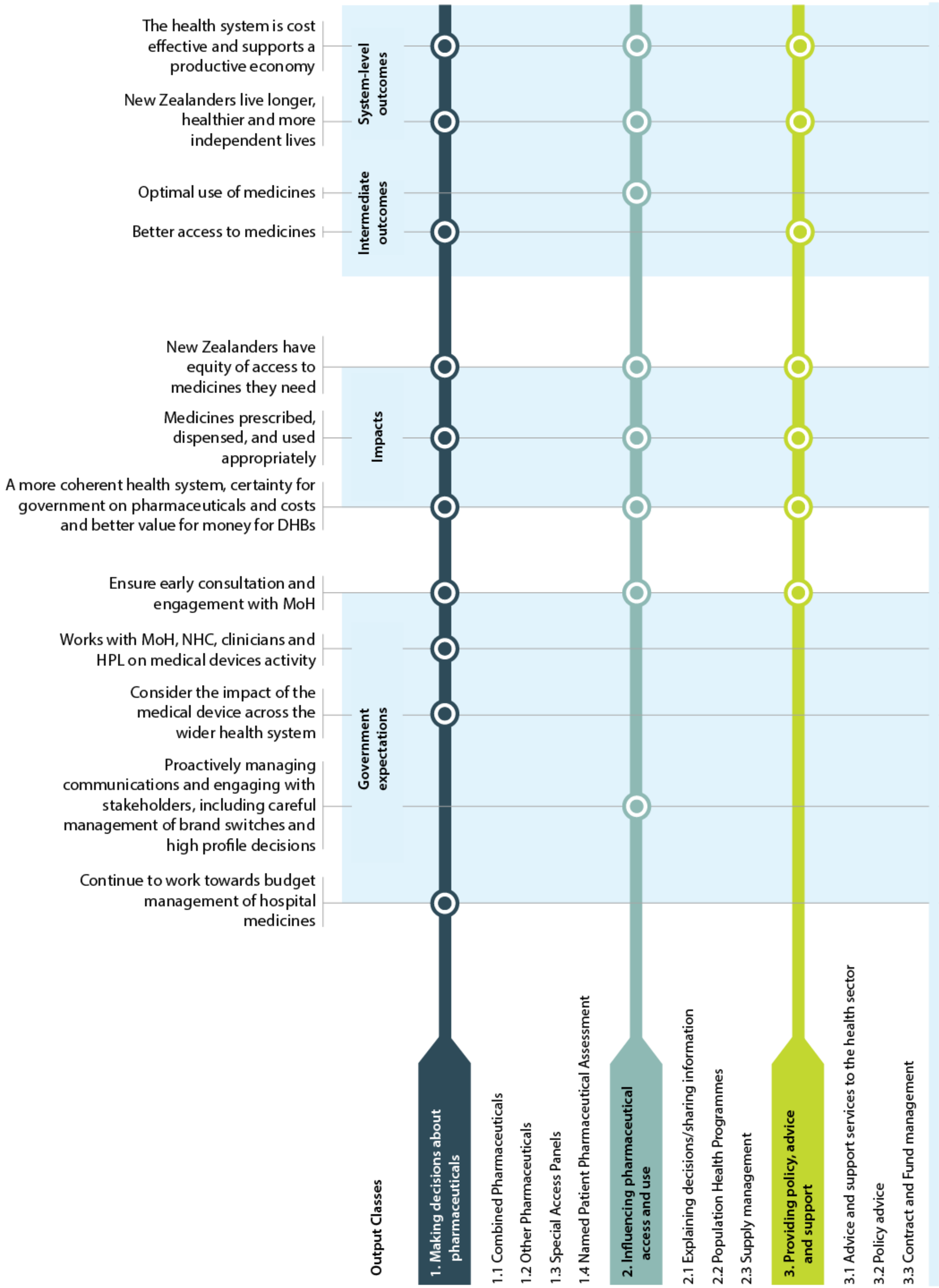
- generating the best possible health outcomes from available funding (and managing pharmaceutical expenditure within budget);
- making high-quality funding decisions so that people anywhere in the country have equal access to funded pharmaceuticals;
- promoting the responsible use of pharmaceuticals;
- 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 contained in this annual report (pages 31 to 38).

[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
System-level outcomes
Intermediate outcomes
New Zealanders have equity of access to medicines they need
Medicines prescribed, dispensed, and used appropriately
A more coherent health system, certainty for government on pharmaceuticals and costs and better value for money for DHBs
Impacts
Ensure early consultation and engagement with MoH
Works with MoH, NHC, clinicians and HPL on medical devices activity
Consider the impact of the medical device across the wider health system
Proactively managing communications and engaging with stakeholders, including careful management of brand switches and high profile decisions
Continue to work towards budget management of hospital medicines
Government expectations
Output Classes
1. Making decisions about pharmaceuticals
1.1 Combined Pharmaceuticals
1.2 Other Pharmaceuticals
1.3 Special Access Panels
1.4 Named Patient Pharmaceutical Assessment
2. Influencing pharmaceutical access and use
2.1 Explaining decisions/sharing information
2.2 Population Health Programmes
2.3 Supply management
3. Providing 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 a wide range of medicines including those 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

Monitoring these rates enables PHARMAC to consider whether additional best practice prescribing information or population health programmes are appropriate. This year, no further activity was required.

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	Achieved. (2015/16: Achieved) In 2016/17: Prescription rates for Pacific Island people remained the same. Māori and Other ethnicities saw a drop from 1-2%* All deprivation quintiles saw a drop in prescription rates of between 0.5 and 4%* Prescriptions for people aged 0-69 decreased except for those 10 to 19 which saw a slight increase. Prescriptions for those aged 70 and older continue to increase with those 70 to 79 up 5% and '80 and older' up 3% Prescriptions for males increased by 1.4% from the previous year. Prescriptions for females remained the same as 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.

Access impact	Measure	Result	Rationale
	The number of prescriptions dispensed for low-dose aspirin monitored by ethnicity and deprivation	Achieved. (2015/16: Achieved) In 2016/17: Low dose aspirin prescription rates across all deprivation quintiles for were lower than the previous year (between 3% and 6% 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	Achieved. (2015/16: Achieved) In 2016/17: There was a decrease in prescription rates for all deprivation quintiles (1-2%) except for quintile 4 who remained the same* All ethnicities saw a 1% increase in prescription rates for 2016/17 over the previous year*	

*This data has been age standardised to compare across groups.

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. (2015/16: Achieved) There were 4 new listings and 2 medicines with widened access. Additional hospital costs were within the savings expenditure range with net annualised saving of $0.56 million to Vote Health	Expanding the number of medicines available through DHB hospitals will increase access

PHARMAC's work in medical devices reached an important milestone this year, with the first market share agreement being negotiated in some wound care products. We have also expanded the scope of our work by adding a further 11 categories for which planning work is well underway. We also released our work plan for this phase of activity with the aim of having all categories under management by 2020. Procurement is underway in all 12 categories that we initially proposed. Around 40,000 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	Achieved. (2015/16: Achieved) All DHBs have taken up a range of PHARMAC-negotiated medical device contracts. All DHBs have also made necessary changes to give effect to wound care market share agreements	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

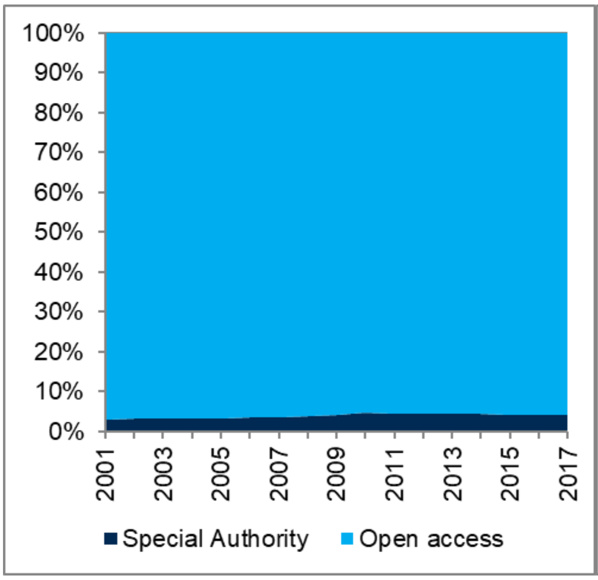
A Special Authority is a funding rule which aims to ensure medicines – usually expensive medicines – are used by people with the greatest health need or who will receive the most health gains. They are used for prescribing in the community.

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 2017. 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.

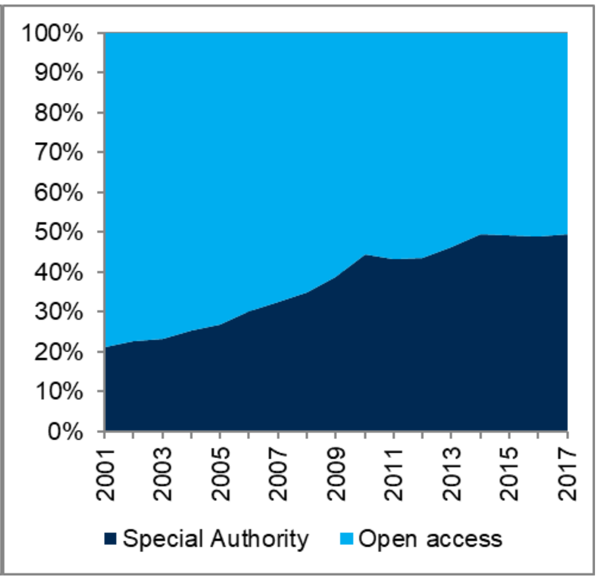
Usage impact	Measure	Result	Rationale
Funded medicines are targeted to those most likely to benefit	The proportion of Special Authority medicines to open access medicines is monitored over time	Achieved. (2015/16: Achieved) Displayed in the chart below	Special Authority approvals enable PHARMAC to provide 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	Achieved. (2015/16: Achieved) Displayed in the chart below	

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

Prescription items



Drug cost (excl. GST)



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. This information has been shared with DHBs with some interventions incorporated into business as usual clinical practice.

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	Achieved. (2015/16: Achieved) In 2016/17: The prescription rates of antipsychotics continue to increase from previous years with those aged 65-69 up 1.9%, 70-74 up 2.8% and 75-79 up 0.8% with 80+ steady at 0%. This is less than the growth in prescriptions for antipsychotics for those under the age of 65 years, which grew by 3.5% in the same period. It is greater than the growth across all prescription rates for those aged 65 and over (0%) and in those aged under 65 years (-1%) during the same period	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 – Māori responsiveness strategy

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 Memoranda of Agreement (MOA) with 11 Whānau Ora Collectives. Four of those MOA were signed in 2016/17 with the following Whānau Ora Collectives: Whaiora Whanui (Masterton), Te Kohao Health (Hamilton), Te Tihi o Ruahine (Palmerston North), Raukawa (Levin) and Te Whānau o Waipareira (West Auckland). Ten Whānau Ora Collectives have delivered activities from the Māori Health Areas of Focus on Cardiovascular, Diabetes, Mental Health, Arthritis, Gout and Respiratory disease.

In support of our community partners to better deliver their services, MOA have also been signed with three Māori health professional organisations. The first Summer Student Internship has been successfully completed with a Te ORA medical student, and three pharmacy students from Ngā Kaitiaki o te Puna Rongoā were awarded scholarships for their mahi.

Pacific Responsiveness Strategy

PHARMAC's Pacific Responsiveness Strategy was refreshed in 2017, following much work with Pacific stakeholders and communities across New Zealand. It was developed with the assistance of Pacific peoples which included two Pacific peoples focus groups and 10 community fono across New Zealand.

The strategy focuses on key actions that Pacific peoples told us were important to address. PHARMAC's goals include:

- having a better understanding of the health priorities for Pacific people, and tailor activity to improve health outcomes for Pacific peoples;
- developing meaningful and on-going relationships with Pacific communities and organisations focused on improving Pacific people's access and use of medicines;
- ensuring Pacific people are receiving the right information to improve their understanding and use of funded medicines and medical devices;
- increasing our awareness, capability and knowledge of Pacific peoples to strengthen PHARMAC's Pacific responsiveness work;
- introducing a Pacific focus to the way we work at PHARMAC, including committees, policies and procedures that can demonstrate a Pacific perspective and are taken into account; and
- barriers to medicines access and use are reduced for Pacific peoples.

PHARMAC is committed to work with Pacific peoples and their representatives to ensure better health outcomes for them.

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.

To help us compare medicines that do different things and have different impacts, we consider the potential health gain that could be expected for people using the medicine. This is measured in quality adjusted life years (QALYs). We can then consider how much funding would be required to achieved those health year gains.

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

We prioritise the next-best spend of the available pharmaceutical dollar using our decision-making framework and the health gain is one of those factors.

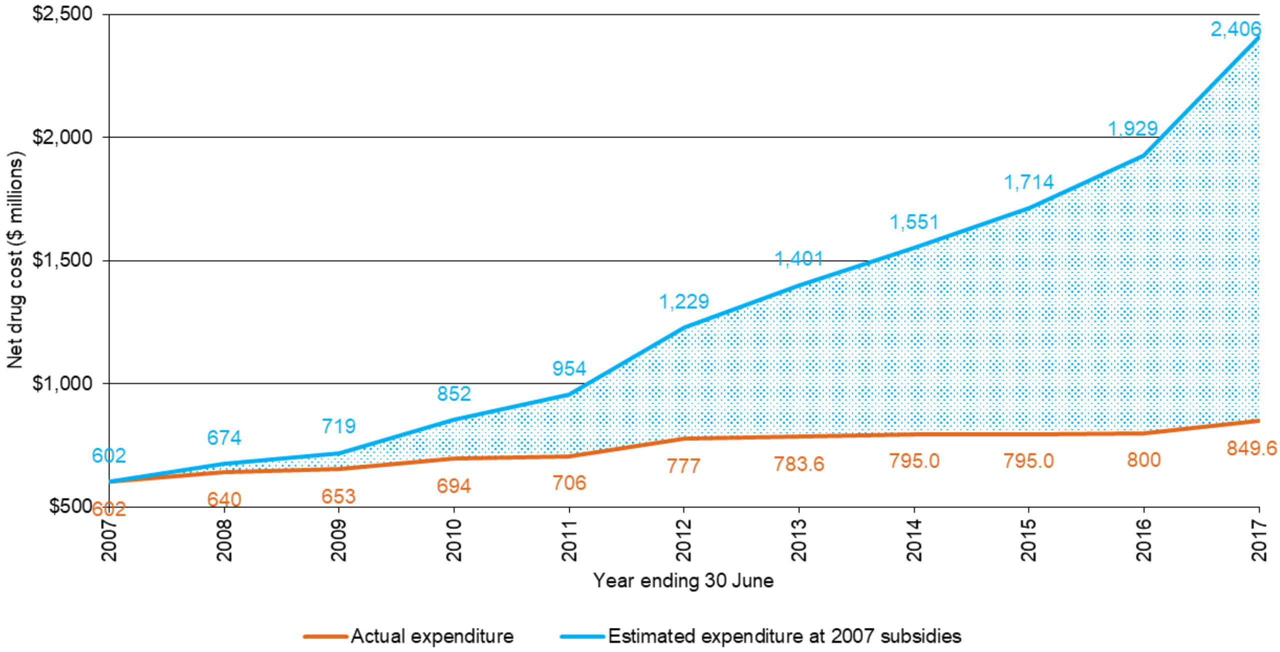
Measuring our contribution to economic and system impacts

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 (2015/16: Achieved) In 2016/17, 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 4.0 QALYs per $1m, compared with 1.5 QALYs per $1m for all valid rare disorder proposals received • Other CPB decisions - we achieved an average cost effectiveness of 36.8 QALYs per $1m net cost to the health sector compared with an average of 29.9 QALYs per $1m from all investment proposals	To ensure our decisions are delivering "best health outcomes within the funding provided"

In 2016/17 PHARMAC's operating budget was unchanged. PHARMAC's activity, including investing in new medicines and making savings on existing products, was associated with growth of more than 3.1 percent in the volume of medicines funded, an increase of 4.1 percent in the number of New Zealanders accessing funded items while the number of new medicines also grew by 18. More New Zealanders received funded medicines and the range grew.

Between 2007 and 2017, we saved DHBs a cumulative total of around $5.93 billion, including $1.56 billion in 2016/17. At the same time, the number of new medicines and people receiving them has increased. This estimate is based on pharmaceutical prices in 2007 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 2007–2017)



The shaded area between the graph's lines indicates the total amount saved since 2007. This is the difference between estimated spending without savings, and actual spending, around $6.00 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.

Savings to DHBs from PHARMAC's hospital medicines and medical devices activity

Since 2013/14 when PHARMAC took on management of the list of all hospital medicines and commenced national contracting of medical devices, the five year cumulative savings to the health system of all PHARMAC decisions totals $224.34 million.

Government's intention is for PHARMAC to manage the assessment, prioritisation, standardisation and purchasing of hospital medicines and medical devices within a budget, in the same way as PHARMAC manages the CPB. We have been working towards this in a carefully planned way.

STATEMENT OF PERFORMANCE

This Statement of Performance[5] records how PHARMAC has performed against targets outlined in its Statement of Performance Expectations 2016/17. PHARMAC defined three output classes for 2016/17. 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 achieves this partly through managing the national budget decided by the Minister of Health and set aside by District Health Boards (DHBs) for pharmaceuticals through the Combined Pharmaceutical Budget (CPB), through expenditure management of hospital medicines, and making decisions about hospital medical devices. The CPB includes funding for medicines and some medical devices used in the community, cancer medicines, vaccines, and haemophilia treatments. PHARMAC does not hold these funds but monitors spending to ensure that it does not exceed the agreed national budget. PHARMAC also has CPB and Hospital Discretionary Pharmaceutical Funds that enables us to achieve our statutory objective, supporting timely pharmaceutical decision making and smoother management across financial years.

Most of PHARMAC's decisions involve changes to the Pharmaceutical Schedule, which is the comprehensive list of pharmaceuticals covering most New Zealanders' health needs. These 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 we make 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 CPB. The Schedule includes vaccines administered in primary care, pharmaceutical cancer treatments provided through DHB cancer services, and haemophilia treatments. It also includes a small number of medical devices used in the community, such as blood glucose meters and intra-uterine devices.

Output 1.2 Other Pharmaceuticals

PHARMAC manages DHBs' pharmaceutical expenditure in areas outside of the community setting, including within hospitals. Medicines and medical devices listed in Section H of the Schedule are funded directly by DHB hospitals, so are not currently included in the CPB. PHARMAC is working towards budget management for both hospital medicines and medical devices.

Section H includes the list of hospital medicines that are available to use in DHB hospitals. The list aims to increase national consistency in the medicines prescribes in hospitals and drive efficiencies in hospital medicine expenditure.

PHARMAC lists around 45,000 hospital medical devices in Section H of the Schedule, that are used in DHB hospitals. These agreements cover around $109.00 million worth of DHB expenditure and provide total savings to DHBs of approximately $39.42 over 5 years. In 2016/17 we continued to grow the number

[5] PHARMAC's Statement of Performance has been prepared in accordance with section 154(3)(a) of the Crown Entities Act.

of contracts for products increasing the number of line items by 29,000, and implemented market share agreements for the first time. Eventually most medical devices used in DHB hospitals will be listed on the Pharmaceutical Schedule.

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;
- Haemophilia treatments (in addition to the National Haemophilia Treaters' Group);
- Hepatitis C;
- Multiple sclerosis; and
- Pulmonary arterial hypertension

Output 1.4 Named Patient Pharmaceutical Assessment (NPPA)

This is the mechanism that PHARMAC uses to assess applications for individual patients to receive funded medicines that are not otherwise funded through the Schedule. PHARMAC seeks clinical advice on applications from a panel of doctors (the NPPA Advisory Panel). Expenditure for NPPA community and cancer treatments comes from the CPB, while approvals for hospital medicines are funded by individual DHB hospitals.

Making decisions about pharmaceuticals - output measures

Impact	Output	Measure	Rationale	2016/17 Target	2016/17 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 will be supported by evidence and made using PHARMAC's decision-making approach	Achieved (2015/16: Achieved) 100% of funding decisions were 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 (2015/16: Achieved) 106% of line items (excluding bids held open while awaiting Medsafe registration) completed by end of June 2017[6]

[6] The percentage exceeds 100% because the total pool of preferred bids increased due to achieving Medsafe registration during the period. The initial target is not amended.

Impact	Output	Measure	Rationale	2016/17 Target	2016/17 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 2017 will exceed cumulative five year value of additional baseline contribution to PHARMAC's operations	Achieved (2015/16: Achieved) Five year cumulative savings to the health system of all decisions since 2013/14 is $224.34 million across both hospital medicines and devices compared to the cumulative value of additional baseline contribution since 2015/16 of $12.42 million

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 on our engagement plans and practices; and
- we undertake engagement and consultation activities with the community through regional and national forums. During the year we engaged 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

Our population health programmes are developed in response to evidence-based analysis and identified unmet need, and aim to improve access and promote responsible use of medicines. PHARMAC advanced two population health programmes in 2016/17 about generic medicines and medication adherence.

Sometimes decision implementation is supported by information provided to health professionals and consumers through our health education programmes, such as He Rongoā Pai He Oranga Whānau, a programme that provides seminars to hauora Māori kaimahi, providing them with clinical information to pass on to whānau. We are exploring opportunities to develop this resource for use as an educational tool in a range of health and community settings.

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

Output 2.3 Supply management

PHARMAC has dedicated contract management staff, which enables us to be more aware of when supply shortages might arise, and to take action 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 medicine and medical device companies, wholesalers, pharmacists, DHBs and patients. PHARMAC manages the storage and distribution arrangements for vaccines.

Currently, PHARMAC also manages the direct distribution of some complex medicines to consumers. This includes some of the medicines used to treat multiple sclerosis, hepatitis C and two types of cancer. PHARMAC has moved some medicine distribution into the regular supply chain, through community pharmacies. We have already initiated this change for people taking imatinib for conditions other than Gastro Intestinal Stromal Tumours (GIST), and for people receiving human growth hormone.

Influencing pharmaceutical access and use - output measures

Impact	Output	Measure	Rationale	2016/17 Target	2016/17 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	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 (2015/16: Achieved) All DHBs engaged with PHARMAC and made necessary changes to give effect to wound care market share agreements PHARMAC engaged with, and received feedback from, hospital pharmacists and prescribers on the proposal to delist a strength of tramadol with potential safety concerns A workshop to plan and understand the impact of PHARMAC's decision to fund melanoma treatment was held with all oncology-treating DHBs
	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 (2015/16: Achieved) 95% of attendees at the 16 seminars throughout 2016/17 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 programmes will occur in half of all Whānau Ora Collective (WOC) partner areas and the number of WOC partners increases	Achieved (2015/16: Not achieved) PHARMAC increased our agreements with Whānau Ora Collectives from six to 11. Ten out of 11 Whānau Ora Collectives are active
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 will respond to all low medicine stock reports, communicate effectively and	Achieved (2015/16: Achieved)

Impact	Output	Measure	Rationale	2016/17 Target	2016/17 Results
			we can act to minimise disruption for patients and providers is important for achieving best health outcomes	take action as necessary to ensure patient needs for medicines are met	PHARMAC worked with suppliers to manage 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. This includes managing pharmaceutical spending in the community, providing advice to DHBs on a range of matters including community pharmacy contracting services and medicines distribution, and contributing to the development of a New Zealand Universal List of Medicines and the New Zealand Formulary, among other sector-wide initiatives including those that aim to reduce the administration workload of clinicians. We have worked closely with DHBs and their agents to support the development of sector procurement strategies at a national level, particularly where this intersects with our extended function to manage hospital medical devices.

We also undertake work to assist health sector procurement where it fits with PHARMAC's skills. For example, we assisted with procuring some blood products for a number of years before taking on budget management responsibility for these during 2013/14.

Output 3.2 Policy advice

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

Output 3.3 Contracts and fund management

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

PHARMAC also has access to a Legal Risk Fund, with a value of $7.5 million in 2016/17, which is used to meet litigation costs that are not otherwise met from our regular operational spending on legal services.

From 2010/11 PHARMAC established the CPB Discretionary Pharmaceutical Fund, and from 2015/16, a Hospital Discretionary Pharmaceutical Fund. These funding mechanisms broaden PHARMAC's options in delivering on our statutory objectives. They support long-term management of DHB expenditure and increase PHARMAC's ability to make efficient budgeting decisions by providing the ability to manage investments over financial years, and across Vote Health, for the overall benefit of the health system.

Providing policy advice and support - output measures

Impact	Output	Measure	Rationale	2016/17 Target	2016/17 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	We will achieve an average survey score of at least 4.0 in each area	Achieved (2015/16: Not achieved) PHARMAC surveyed policy requesters in June 2017. The following scores are an average score out of 5: • 4.31 (2015/16: 3.5) for timeliness of advice • 4.35 (2015/16: 4.17) for relevance of the advice • 4.24 (2015/16: 4.17) for thoroughness • 4.12 (2015/16: 4.0) for clarity • 4.31 (2015/16: 3.5) for the quality of the analysis • 4.61 (2015/16: 3.5) 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 will be in accordance with PHARMAC policy	Achieved (2016/7 Achieved). All fund use is in accordance with PHARMAC policy

Legal Risk Fund

There was $173,305 expenditure from the Legal Risk Fund for 2016/17 (2015/16: $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 2017 no funds remained in the litigation budget. The balance of the Legal Risk Fund at 30 June 2017 was $7,579,923.

Herceptin SOLD Trial Fund

In the year to 30 June 2017, spending from the Herceptin Synergism Or Long Duration (SOLD) Study 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 2017. The financial statements were approved by the Board of PHARMAC on 29 September 2017.

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

Financial instruments

In January 2017, the External Reporting Board issued PBE IFRS 9 Financial Instruments. This replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost;
- A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses; and
- Revised hedge accounting requirements to better reflect the management of risks.

The timing of PHARMAC adopting PBE IFRS 9 will be guided by the Treasury's decision on when the Financial Statements of Government will adopt PBE IFRS 9. PHARMAC has not yet assessed the effects of the new standard.

Summary of Significant Accounting Policies

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

Revenue

Funding from the Crown

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

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

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

Funding from DHBs

Operating funding includes agreed expenses to be provided by PHARMAC 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 it becomes receivable.

Interest revenue

Interest revenue is recognised using the effective interest method.

Cash and cash equivalents

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

Receivables

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

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

Investments

Bank term deposits

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

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

Property, plant and equipment

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

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

Additions

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

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

Disposals

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

Subsequent costs

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

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

Depreciation

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

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

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

The residual value and useful life of an asset 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 at-risk provisions where it is contractually bound to pay them.

Superannuation schemes

Defined contribution schemes

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

Provisions

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

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

Equity

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

- Contribution capital
- Retained earnings and reserves
- 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.

Budget figures

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

Cost allocation

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

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

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

Critical accounting estimates and assumptions

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

- The value of PHARMAC's CPB Discretionary Pharmaceutical Fund is dependent on the value of the final estimate of the District Health Boards' 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 2017.

FINANCIAL STATEMENTS

Statement of comprehensive revenue and expense

For the year ended 30 June 2017

	Note	Actual 2017 $000	SPE Budget 2017 $000	Actual 2016 $000
Non exchange revenue				
Crown funding		21,988	21,987	21,988
DHB - Operating funding		1,390	1,390	2,690
CPBDPF	4	8,334	8,000	7,033
Other:				
Interest received - Operating		585	450	512
- Legal Risk Fund		251	300	274
Other revenue - Operating		213	131	115
Total Income		32,761	32,258	32,612
Expenditure				
Operating costs		6,331	6,177	5,765
Personnel costs	1	13,525	13,972	12,798
Audit Fees		49	49	49
CPBDPF	4	0	8,000	3,852
Depreciation & amortisation costs	8&9	717	550	621
Director Fees		146	144	144
Finance Costs	2	20	20	19
HDPF		550	1,000	0
Herceptin SOLD trial administration		0	150	0
Implementation projects		1,858	2,255	2,012
Legal Risk Fund payments for litigation		173	300	0
Occupancy costs		636	636	606
Total expenditure		24,005	33,253	25,866
Net surplus/(deficit) for the period		8,756	(995)	6,746
Other comprehensive income		0	0	0
Total comprehensive revenue and expense		**$8,756**	**$(995)**	**$6,746**

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 2017

	Note	Actual 2017	SPE Budget 2017	Actual 2016
		$000	$000	$000
Balance at 1 July		27,355	22,330	20,609
Total Comprehensive Income		8,756	(995)	6,746
Balance at 30 June	3	**$36,111**	**$21,335**	**$27,355**

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 2017

	Note	Actual 2017	SPE Budget 2017	Actual 2016
		$000	$000	$000
PUBLIC EQUITY				
Contribution capital	3	1,856	1,856	1,856
Retained earnings and reserves	3	7,424	3,783	6,530
Herceptin SOLD Trial fund	3	319	169	319
CPBDPF	3	14,482	1,999	6,148
HDPF	3	4,450	6,000	5,000
Legal Risk Fund	3	7,580	7,528	7,502
TOTAL PUBLIC EQUITY		**$36,111**	**$21,335**	**$27,355**
Represented by:				
Current assets				
Cash and cash equivalents		2,505	12,050	2,451
Investments	6	21,630	7,000	12,381
CPBDPF monies deposited into rebates account	5	14,482	1,999	10,000
Debtors and other receivables	7	254	150	325
Prepayments		118	0	102
GST Receivable		0	1,000	397
Total current assets		38,989	22,199	25,656
Non-current assets				
Investments	6	0	0	7,051
Property, plant and equipment	8	701	1,339	1,083
Intangible Assets	9	262	239	211
Total non-current assets		963	1,578	8,345
Total assets		39,952	23,777	34,001
Current liabilities				
Creditors and other payables	10	1,219	1,200	5,431
Employee entitlements	11	892	900	893
GST Payable		1,388	0	0
Total current liabilities		3,499	2,100	6,324
Non-current liabilities				
Make Good Provision	12	342	342	322
Total liabilities		3,841	2,442	6,646
NET ASSETS		**$36,111**	**$21,335**	**$27,355**

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 2017

	Note	Actual 2017 $000	SPE Budget 2017 $000	Actual 2016 $000
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Receipts from the Crown		21,988	21,987	21,988
- DHBs Operating		1,390	1,390	2,690
- Interest Operating		753	450	385
- Interest Legal Risk Fund		154	300	254
- Other Operating		212	131	712
- CPBDPF top up		8,334	8,000	7,033
- Goods and services tax (net)		1,785	0	534
		34,616	32,258	33,596
Cash was disbursed to:				
- Legal Risk Fund expenses		(173)	(300)	0
- CPBDPF expenses		(3,852)	(8,000)	0
- CPBDPF deposited in rebates bank account		0	0	(8,088)
- HDPF expenses		(550)	(1,000)	0
- Payments to suppliers and employees		(27,402)	(22,555)	(20,892)
- Goods and services tax (net)		0	(800)	0
		(31,977)	(32,655)	(28,980)
Net cash flow from operating activities	13	2,639	(397)	4,616
CASH FLOWS – INVESTING ACTIVITIES				
- Purchase of property, plant and equipment		(149)	(600)	(505)
- Purchase of intangible assets		(237)	(344)	(128)
- Proceeds from the redemption of investments		32,355	0	18,051
- Purchase of investments		(34,554)	0	(21,865)
Net cash flow from investing activities		(2,585)	(944)	(4,447)
Net increase/(decrease) in cash		54	(1,341)	169
Cash at the beginning of the year		2,451	13,391	2,282
Cash at the end of the year		2,505	12,050	2,451

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 2017

Output Actual 2016/17	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	10,994	8,334	0	(9,836)	9,492
Influencing Medicine Access and Use	8,795	1,390	0	(9,691)	494
Policy Advice and support	2,199	0	1,049	(4,478)	(1,230)
Total	**21,988**	**9,724**	**1,049**	**(24,005)**	**8,756**
Output SPE Budget 2016/17	**Funding MOH**	**Funding DHB**	**Funding Other**	**Output expenditure**	**Net surplus/(deficit)**
Decision Making	10,994	8,000	0	(18,622)	372
Influencing Medicine Access and Use	8,795	1,390	0	(9,976)	209
Policy Advice and support	2,198	0	881	(4,655)	(1,576)
Total	**21,987**	**9,390**	**881**	**(33,253)**	**(995)**
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**

Statement of commitments

As at 30 June 2017

Non-cancellable operating lease commitments

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

	Actual 2017 $000	**Actual 2016** $000
Capital commitments approved and contracted	0	0
Operating commitments approved and contracted		
Not later than one year	636	636
Later than one year and not later than five years	42	636
Total commitments	**$678**	**$1,272**

The rental lease expires 24 July 2018. PHARMAC has recognised a make good provision of $342,000 (2016: $322,000).

Statement of contingent assets and liabilities

As at 30 June 2017

PHARMAC had no contingent assets at 30 June 2017 (2016: $nil).

PHARMAC had no contingent liabilities at 30 June 2017 (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 2017 $000	**Actual 2016** $000
Salaries and related costs	12,816	11,983
Employer contributions to defined contribution plans	292	294
Other personnel costs	417	521
Total personnel costs	**$13,525**	**$12,798**

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

Note 2: Finance costs

	Actual 2017 $000	**Actual 2016** $000
Discount unwind on provisions (note 12)	**$20**	**$19**

Note 3: Public equity

RETAINED EARNINGS	Actual 2017 $000	Actual 2016 $000
Balance at 1 July	6,530	8,239
Net surplus/(deficit)	8,756	6,746
Net transfer from/(to) CPBDPF	(8,334)	(3,181)
Net transfer from/(to) HDPF	550	(5,000)
Net transfer from/(to) Legal Risk fund	(78)	(274)
Balance at 30 June	**$7,424**	**$6,530**
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	319
Balance at 30 June	**$319**	**$319**
LEGAL RISK FUND		
Balance at 1 July	7,502	7,228
Add: Interest received transferred from/(to) retained earnings	251	274
Less: Litigation expenses transferred from/(to) retained earnings	(173)	0
Balance at 30 June	**$7,580**	**$7,502**
CPBDPF		
Balance at 1 July	6,148	2,967
Add: Income received transferred from/(to) retained earnings	8,334	7,033
Less: Pharmaceutical expenses transferred from/(to) retained earnings	0	(3,852)
Balance at 30 June	**$14,482**	**$6,148**
HDPF		
Balance at 1 July	5,000	0
Add: Transfer from retained earnings	0	5,000
Less: Expenses transferred from/(to) retained earnings	(550)	0
Balance at 30 June	**$4,450**	**$5,000**
TOTAL PUBLIC EQUITY	**$36,111**	**$27,355**

Note 4: CPBDPF

The revenue in 2017 of ($8.334 million): (2016: $7.033 million) relates to the purpose of the DPF, which is to enable PHARMAC to take advantage of investment opportunities that might not otherwise be able to be funded in that year. The expenditure in 2017 of $nil (2016: $3.852 million) relates to disbursements to DHBs so that the CPB expenditure does not exceed the CPB budget of $849.600 million.

Note 5: CPBDPF monies

During the year, PHARMAC advances CPBDPF monies to DHBs via the PHARMAC-managed Combined Rebates Bank Account to enable earlier pay out of accrued rebates to DHBs. The CPB 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 2017 $000	Actual 2016 $000
Current portion		
Term Deposits	$21,630	$12,381
Non-current Portion		
Term deposits	$ 0	$ 7,051
Total Investments	**$21,630**	**$19,432**

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.

	2017			**2016**		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due	$254	0	254	325	0	325
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	**$254**	**$0**	**$254**	**$325**	**$0**	**$325**

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
2016							
Furniture and fittings	701	10	294	515	53	294	143
EDP equipment	2,002	441	695	1,854	197	695	392
Office equipment	587	43	234	488	64	234	78
Leasehold improvements	1,708	11	159	1,053	196	159	470
Total PPE Assets	**$4,998**	**$505**	**$1,382**	**$3,910**	**$510**	**$1,382**	**$1,083**
2017							
Furniture and fittings	417	8	0	274	54	0	97
EDP equipment	1,748	138	263	1,356	240	263	290
Office equipment	396	3	0	321	45	0	33
Leasehold improvements	1,560	0	0	1,090	192	0	278
Total PPE Assets	**$4,121**	**$149**	**$263**	**$3,041**	**$531**	**$263**	**$698**

Reclassification to the components of 2016 property, plant and equipment was made to better reflect the correct balances. The net carrying amount as at 30 June 2016 was unchanged.

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
2016							
Total Intangible Assets	**$731**	**$128**	**$0**	**$528**	**$120**	**$0**	**$211**
2017							
Total Intangible Assets	**$859**	**$237**	**$9**	**$648**	**$186**	**$9**	**$262**

Reclassification to the components of 2016 intangible assets was made to better reflect the correct balances. The net carrying amount as at 30 June 2016 was unchanged.

Note 10: Payables and deferred revenue

	Actual 2017	Actual 2016
	$000	$000
Creditors	938	5,159
Income in advance (seminar fees)	7	-
Accrued expenses	281	272
Total payables	**$1,219**	**$5,431**

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 2017 $000	Actual 2016 $000
Annual leave entitlement	642	630
Accrued salaries and wages	250	263
Total employee entitlements	**$892**	**$893**

Note 12: Provisions

	Actual 2017 $000	Actual 2016 $000
Non-current provisions are represented by:		
Lease make good	342	322
Total provisions	**$342**	**$322**

Movement for 'make good' provision

	2017 $000	2016 $000
Balance at 1 July	322	303
Additional provisions made	0	0
Amount used	0	0
Unused amounts reversed	0	0
Discount unwind	20	19
Balance at 30 June	**$342**	**$322**

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

	2017 $000	2016 $000
Net surplus/(deficit)	8,756	6,746
Discount on unwind provision	20	19
Depreciation and amortisation	717	630
Total non-cash items	737	649
Add (less) movements in working capital items:		
Decrease/(increase) in debtors and other receivables	70	451
Decrease/(increase) in prepayments	(14)	76
(Decrease)/Increase in payables	(4,210)	4,261
(Decrease)/Increase in employee entitlements	(3)	(12)
Decrease/(Increase) in net GST	1,785	533
Net movements in working capital	$(2,372)	$5,309
Other movements		
CPBDPF monies released from/(deposited in) rebates bank account	(4,482)	(8,088)
Net cash flow from operating activities	$2,639	$4,616

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 2017 $000	Actual 2016 $000
Board members		
Remuneration	$146	$144
Full time equivalent members	5.00	5.00
Leadership Team		
Remuneration	$1,576	$1,316
Full-time equivalent members	5.75	5.33
Total key management personnel compensation	**$1,722**	**$1,460**
Total full-time equivalent personnel	**10.75**	**10.33**

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	
	2017	**2016**
	$000	$000
Stuart McLauchlan (Chair)	48	48
Nicole Anderson	24	24
Dr David Kerr	8	24
Prof Ross Lawrenson	18	0
Prof Jens Mueller	24	24
Dr Jan White	24	24
Total Board member remuneration	**$146**	**$144**

There have been payments of $380,000 (2016: $335,000) made to committee members appointed by the Director-General of Health or the Board who are not Board members during the financial year.

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

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

No Board members received compensation or other benefits in relation to cessation (2016: $nil).

Note 16: Employee remuneration

Total remuneration paid or payable	Actual	
$000	2017	2016
100 – 110	6	13
110 – 120	11	9
120 – 130	7	7
130 – 140	7	2
140 – 150	2	3
150 – 160	2	3
160 – 170	3	1
170 – 180	1	2
190 – 200	1	0
200 – 210	1	0
220 – 230	1	1
230 – 240	0	3
240 – 250	1	0
250 – 260	2	0
390 – 400	0	1
410 – 420	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.

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.

	2017 Less than 6 months $000	**2016** Less than 6 months $000
Creditors and other payables	**$1,219**	**$5,431**

Fair value

The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2017 and 30 June 2016 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 2017** $000	**Actual 2016** $000
Cash at bank and term deposits		
A+	0	11,512
A	16,504	0
AA-	22,113	20,371
Total cash at bank and term deposits	**$38,617**	**$31,883**

Counterparties with credit ratings	**Actual 2017** $000	**Actual 2016** $000
Debtors and other receivables	254	325
Total financial liabilities at amortised cost	**$254**	**$325**

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 (2016: $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 2017 of $8,756,000 is $9,751,000 more than the SPE budgeted deficit of $995,000.

The main difference in revenue is $334,000 where the SPE budget allowed for a top-up of the Discretionary Pharmaceutical Fund (DPF) for $8,000,000 but the actual was $8,334,000.

The main differences in operating expenditure arise from under-expenditure of $8,000,000 for the CPBDPF, $450,000 for the HDPF, $447,000 personnel costs owing to delay in positions being filled as compared with planned, $397,000 implementation projects costs due to reduced activity.

Statement of financial position
The increase in current assets of $16,790,000 arises from an increase in cash equivalents and investments of $3,934,000 and DPF deposit into the rebates account $13,733,000 and other sundry movements. The increase in public equity of $14,776,000 also reflects the movements above.

New Zealand Government

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