Pharmaceutical Management Agency
Statement of Intent
2010/11–2012/13

New Zealand Government

PHARMAC
Pharmaceutical Management Agency

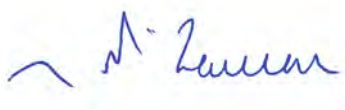
INTRODUCTION

PHARMAC is well placed to meet the challenges of the current economic environment. PHARMAC has a strong track record of managing funding within budget and the skills we have used to establish this record will stand us in good stead for future challenges.

The Government has initiated two reviews that may directly impact on PHARMAC – the High Cost Highly Specialised Medicines review and the Ministerial Review Group. We are preparing to adapt and incorporate any changes that emerge from these reviews. This will involve working carefully with key players in the sector, including frontline health professionals, the Ministry of Health and senior District Health Board managers.

Public expectations for access to medicines continue to be high, and the pharmaceutical budget is limited. This can lead to tensions over which medicines are funded. PHARMAC will strive to meet these expectations while meeting its statutory objective to maximise health outcomes from within the available budget.

We are mindful of Government expectations on the public sector, and these expectations are a good fit with PHARMAC's organisational culture. A strong focus on value for money, restraint and sustainability in spending, and a culture that is responsive to the needs of external stakeholders are all central to the way PHARMAC works. We have carefully reprioritised our spending on operational activities to ensure we continue to meet expectations, and have reduced our activities, particularly in the area `influencing access to medicines'.



Stuart McLauchlan
Deputy Chair

25 June 2010

David Moore
Board Member

25 June 2010

TABLE OF CONTENTS

How our work helps patients get their medicines in the community 2

PART 1 3

PHARMAC – our role and contribution to health outcomes 3

FITTING IT ALL TOGETHER: DELIVERING OUTPUTS TO ACHIEVE OUTCOMES 5

MAPPING OUR OUTPUTS TO THE IMPACTS WE ARE SEEKING TO HAVE 6

Our Working Environment 7

GOVERNMENT EXPECTATIONS 8

Outcomes: health and disability system 9

Intermediate Outcomes: Medicines New Zealand 9

Impacts – the influence PHARMAC has 10

1. ACCESS IMPACTS 10
2. USAGE IMPACTS 11
3. ECONOMIC AND SYSTEM IMPACTS 12

Statement of Forecast Service Performance for 2010/11 13

Outputs – PHARMAC's activities 13

DECISION-MAKING OUTPUT MEASURES 15

INFLUENCING MEDICINES USE OUTPUT MEASURES 16

SUPPLY MANAGEMENT OUTPUT MEASURES 17

POLICY, ADVICE AND SUPPORT OUTPUT MEASURES 17

Our Capability 18

ENHANCING PHARMAC AS A GOOD EMPLOYER 18

OTHER IMPORTANT AREAS OF CAPABILITY FOCUS 19

PART 2 20

TECHNICAL INFORMATION ABOUT PHARMAC 20

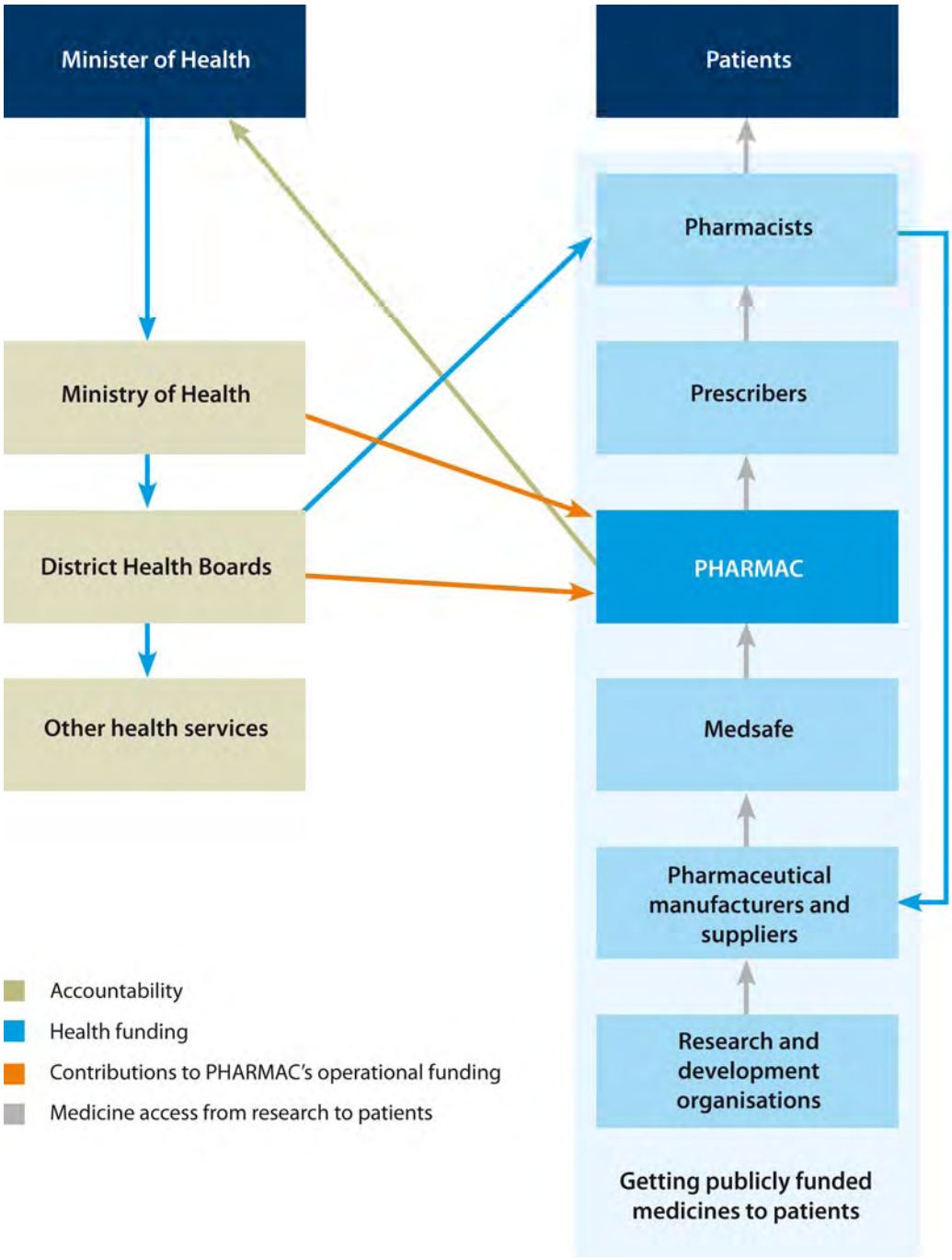
PART 3 21

Financial Information 21

Projected Financial Statements 22

APPENDIX 1 – STATEMENT OF ACCOUNTING POLICIES 27

How our work helps patients get their medicines in the community



PART 1

PHARMAC – our role and contribution to health outcomes

PHARMAC is the New Zealand government agency that makes decisions, on behalf of District Health Boards (DHBs), on which medicines are publicly funded in New Zealand and to what level. The core of PHARMAC's role is decision-making. When making its decisions PHARMAC is informed by robust processes involving consultation, advisory groups, assessment and analysis. PHARMAC's decisions are far-reaching; they affect the lives of almost every New Zealander in terms of their access to medicines, whether through medicines listed on the Schedule or special access to medicines for individuals experiencing exceptional circumstances. As such, these decisions attract high degrees of public and clinical scrutiny. Making robust, evidence-based decisions within a capped budget is central to PHARMAC's processes. High quality decision-making is essential and PHARMAC's processes have been frequently tested in both the Courts, via judicial review, and by the Ombudsman, via investigations of complaints. PHARMAC has used the outcomes of these reviews and investigations to continually improve its processes.

PHARMAC's main roles include:

- managing the approx $700m Community Pharmaceutical Budget;
- determining the Pharmaceutical Schedule (the list of Government-funded medicines prescribed and dispensed in the community and the list of pharmaceutical cancer treatments);
- managing Exceptional Circumstance schemes (medicines funding for people with unusual conditions) and other special access programmes;
- promoting the best possible (or 'optimal') use of medicines;
- managing national contracts for some medicines and related products used in public hospitals; and
- engaging in research, policy work and support to others in the health sector.

PHARMAC is guided by relevant legislation (including the Public Health and Disability Act and the Crown Entities Act), and current Government expectations, as outlined in relevant Letters of Expectations.

PHARMAC contributes to the Government's goal of a growing, sustainable economy through being part of the New Zealand health and disability system. We contribute to system outcomes of 'supporting New Zealand's economic growth' and 'longer, healthier and more independent lives for New Zealanders' primarily through our contribution to the outcomes defined in *Medicines New Zealand* – the strategy for the medicines system.

Our work creates impacts (or intermediate outcomes) that contribute to the *Medicines New Zealand* outcomes. We have defined these impacts as:

- Access impacts – our influence over people's ability to obtain medicines;
- Usage impacts – how people use medicines; and
- Economic and System impacts – helping the health system work more effectively, and improving value for money

These impacts are made possible through the day to day work we do – our outputs – which are grouped under the following four categories (Output Classes):

Output class	Description	Outputs
1. Decision-making	Work that leads to new medicines being funded and money being saved on older medicines.	1.1. Community Pharmaceutical Schedule 1.2. Pharmaceutical Cancer Treatments 1.3. Hospital Schedule 1.4. Special access panels 1.5. Exceptional Circumstances Schemes 1.6. Schedule Rules 1.7. Medical devices
2. Influencing medicines use	Promoting the optimal use of medicines and ensuring decisions are understood.	2.1. Explaining decisions/ sharing information 2.2. Population Health Programmes
3. Supply management	Ensuring the medicines that are funded are available for patients when they need them.	3.1. Contract management 3.2. Supply vigilance 3.3. Direct distribution
4. Policy, advice and support	Assisting the cohesiveness of the broader health sector.	4.1. Advice and support services to the health sector 4.2. Policy advice

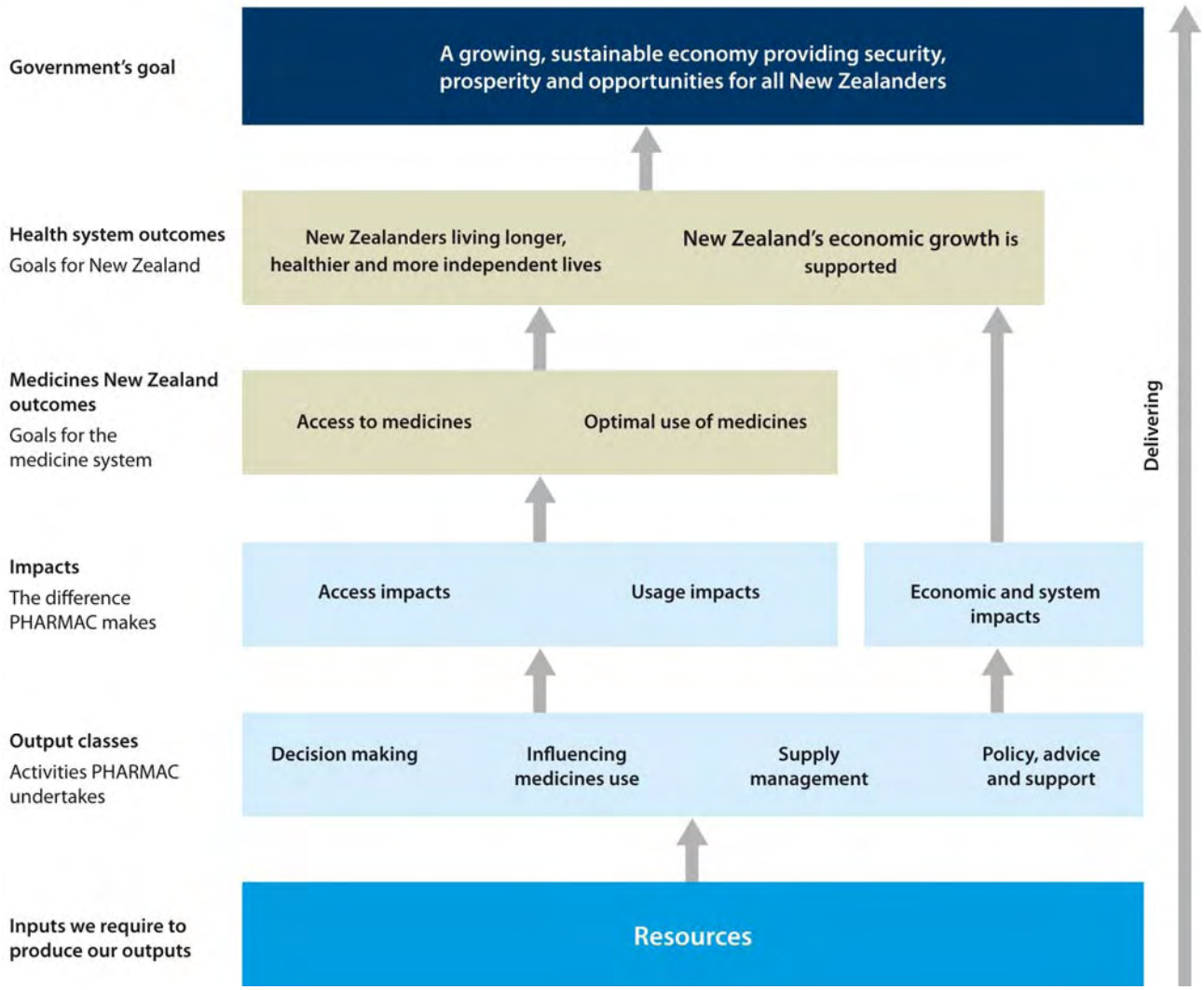
We require resources as inputs to enable us to deliver the outputs. These include an appropriate level of funding, which we receive from the Ministry of Health and District Health Boards, high-calibre staff, office space and access to information.

Changes to Outputs

We have further reviewed our operations in light of current economic conditions and Government expectations, and identified efficiencies to make further savings. This includes reducing our printing costs (in part by moving to electronic distribution of the Pharmaceutical Schedule), and reducing our internal spending on items such as travel, staff training and other costs.

As a result of Government reviews, we are prepared to undertake functions additional to our core roles, which fit with PHARMAC's areas of expertise. If this were required, the quantity and mix of outputs would also change slightly from previous years.

Fitting it all together: Delivering outputs to achieve outcomes



Mapping our outputs to the impacts we are seeking to have

Outputs	Access impacts	Usage impacts	Economic and system impacts
1.0 Decision-making			
1.1 Community Pharmaceutical Schedule	✓		✓
1.2 Pharmaceutical Cancer Treatments	✓		✓
1.3 Hospital Schedule	✓		✓
1.4 Special Access Panels	✓	✓	✓
1.5 Exceptional Circumstances Schemes	✓	✓	✓
1.6 Schedule Rules	✓	✓	✓
1.7 Medical devices	✓		✓
2.0 Influencing medicines use			
2.1 Explaining decisions/ sharing information	✓	✓	✓
2.2 Population Health Programmes	✓	✓	✓
3.0 Supply management			
3.1 Contract management	✓		✓
3.2 Supply vigilance	✓		✓
3.3 Direct distribution	✓	✓	✓
4.0 Policy, advice and support			
4.1 Advice and support services to the health sector			✓
4.2 Policy advice			✓

Our Working Environment

PHARMAC works within a funding environment that is dynamic and challenging. Funds available for pharmaceuticals are limited – yet there are ongoing demands on funding that require choices to be made for how funding is allocated. PHARMAC's role in making those choices can lead to disagreements. Some of the factors affecting our work, and our view on them, are outlined below.

Challenging economic conditions

Like most organisations, we are affected by prevailing economic conditions. With tight economic conditions comes an increased public focus on getting value for money, and spending government funding carefully. This applies both to our management of the pharmaceutical budget, and what we spend to run PHARMAC as an organisation.

Changing health system environment

The Government has commenced reviews of how the health system operates, and these will have an impact on PHARMAC. The reviews have led to the creation of the National Health Board and the Shared Services Establishment Board, with which PHARMAC will need to interact. PHARMAC may be asked to play a wider role in helping DHBs manage funding. Additional work arising from any wider role undertaken by PHARMAC will need to be carefully prioritised and managed to enable PHARMAC to continue to meet expectations from within its operating budget.

Tensions arising from funding choices

Every decision to fund one medicine means another may not be funded, no matter how big the budget is. In that context, all New Zealanders have an interest in ensuring our decisions are robust. However, there are often tensions about what choices to make. Making difficult choices is a fundamental part of our job, and those choices can please some but disappoint others. We don't always expect people to agree with our decisions. However, we always want to ensure our decisions are fully informed and, once made, well explained.

High public expectations of access to medicines

Most people accept the need for us to make funding choices, as there are always more choices of medicines to publicly fund than resources available to fund them. But that perspective can change if people personally face ill-health and a medicine is not funded. The internet has also made finding information about new medicines easier, sometimes before products are even for sale in New Zealand. This heightens expectations for the medicines system to move faster. While this pressure can be positive, it needs to be balanced against the fact that fast decisions are not always good ones and not all new medicines live up to their marketing. We need to examine carefully claims made about new medicines.

Working with others

We must work effectively with a range of people and organisations, including patients and consumers; health professionals; Medsafe (the government body that registers medicines); the Centre for Adverse Reactions Monitoring; pharmaceutical companies; DHBs; the Ministry of Health and other government agencies; and Minister of Health and Associate Ministers; and Members of Parliament. In addition, to support implementation of the PHARMAC Māori Responsiveness Strategy, PHARMAC works closely with a wide range of key Māori stakeholders. Many stakeholders have representative groups (e.g. NZ Medical Association, the Pharmaceutical Society, and the Researched Medicines Association) who we also work with.

Changing industry activity and trends

Internationally, pharmaceutical companies have gone through a period of mergers and acquisitions to maintain critical mass and access to high-revenue products. Some companies are also expanding their reach into generic medicines markets, as so-called "blockbuster medicines" (large market, high revenue products) come off patent. In addition, the price of new pharmaceuticals continues to be high, particularly the new-generation biologics and medicines for small patient populations.

Ensuring the overall system works well

As PHARMAC is only one part of the medicines system, the work we do is very dependent on the work of others in the system, from good quality medicines being produced and supplied from pharmaceutical companies; to robust safety and efficacy assessments of Medsafe; through to optimal prescribing decisions by doctors, dispensing services by pharmacists, and appropriate use by patients. We need to work effectively with, and think about the implications of our work for, other parts of the medicines system.

Government expectations

The Government's general expectations of the public sector have been outlined in letters of expectations. Our performance and aims for the period of this SOI are guided by the Government's Enduring Letter of Expectations issued December 2008, and the Minister of Health's letter of expectations to PHARMAC, January 2010. Expectations include a continued focus on value for money, setting realistic pay and working conditions, being financially sustainable, and having a 'no surprises' approach to our communications with the Minister. Within the Government's aim of providing 'better access to medicines, sooner' – and in addition to the aims of *Medicines New Zealand* – the Minister has informed PHARMAC of these expectations as a priority.[1] Key expectations, and Output Classes related to each expectation, are outlined below.

Expectation	Relevant output class
Achieve better access to medicines, which will include continuing to work with the Minister and key stakeholders around improving access to high cost, highly specialised medicines.	Output Class 1 – Decision-making
Ensure stakeholders, including clinicians and consumers, have the opportunity to provide perspectives that will contribute to PHARMAC's decision-making processes.	Output Class 2 – Influencing Medicines Use
Manage brand switches and high profile funding decisions in a way which enhances the confidence of consumers and clinicians.	Output Class 2 – Influencing Medicines Use
Handle communications proactively and improve the way PHARMAC engages with the public and key stakeholders, in order to build public confidence.	Output Class 2 – Influencing Medicines Use

[1] The Minister has set out the expectations of the Crown as owner of PHARMAC by way of a Letter of Expectations. This Statement of Intent is consistent with those expectations. However, to the extent of any inconsistency, the terms of the Minister's Expectations override this Statement of Intent.

Act on any accepted recommendations of the High Cost Medicines Panel.	Output Class 1 - Decision-making Output Class 3 – Supply Management Output Class 4 – Policy Advice and Support
Work with the Ministry of Health and others to give effect to any relevant Cabinet decisions which relate to expanding PHARMAC's role in the sector.	Output Class 4 – Policy Advice and Support

Outcomes: health and disability system

PHARMAC is one of many Government agencies that influence the health of New Zealanders. Our roles in funding medicines, procurement for DHBs and promoting the optimal use of medicines influence health and disability system outcomes both directly and indirectly. These outcomes are:

Health and Disability System Outcome	Relevant output class
New Zealanders living longer, healthier and more independent lives.	Output Class 1 – Decision-making Output Class 2 – Influencing Medicines Use Output Class 3 – Supply Management Output Class 4 – Policy Advice and Support
New Zealand's economic growth is supported.	Output Class 1 – Decision-making Output Class 4 – Policy Advice and Support

Intermediate Outcomes: Medicines New Zealand

As a medicine funder, PHARMAC also plays a role within a subset of the health system, which is defined as the New Zealand Medicines System. Our effectiveness depends significantly on the work of others. We need pharmaceutical companies to supply effective products; Medsafe to approve medicines for use; and we rely on optimal prescribing decisions, dispensing services and consumer use to get the best health outcomes from medicines.

Medicines New Zealand defines three main outcomes for the medicine system, and we contribute to the first two through our output activities:

- Access: New Zealanders have access to the medicines they need, including equity of access to medicines;
- Optimal Use: medicines are used to their best effect; and
- Quality medicines that are safe and effective.

The third of these outcomes is largely the responsibility of Medsafe, so is not included in the diagram on Page 5.

Intermediate Outcome	Relevant output class
Access: New Zealanders have access to the medicines they need.	Output Class 1 – Decision-making
Optimal Use: medicines are used to their best effect.	Output Class 2 – Influencing Medicines Use

Impacts – the influence PHARMAC has

PHARMAC's work directly affects the lives of New Zealanders, many of whom rely on medicines to go about their daily lives. We also support others within the health sector to be well-informed about evidence-based medicines and we provide assistance to DHBs to achieve greater value for money in other procurement initiatives. These are the long-term impacts PHARMAC is working to achieve.

PHARMAC manages the community pharmaceutical budget – a notional supply of money set aside by DHBs to pay for medicines dispensed in community pharmacies. PHARMAC must manage spending within the budget provided. We seek to have the impacts outlined below from within this resource-constrained context.

Measuring our impact – the QALY

PHARMAC measures the impact of its decisions using QALYs (quality-adjusted life years). This is an international standard measure that takes into account the impact a pharmaceutical or other medical intervention has on quality and quantity of life.

For example, a person who regularly takes their asthma preventer inhaler as directed not only reduces their chance of premature death, they also may be more able to go about daily tasks such as walking the children to school, doing the housework or even being able to return to work. Such factors are all taken into account in the QALY measure.

1. Access impacts

This is the influence PHARMAC has over people's ability to have affordable and timely access to medicines.

How we influence access to medicines

PHARMAC's decisions to subsidise medicines mean they are affordable for people. And our work in managing contracts and keeping watch on the pharmaceutical supply chain helps ensure medicines are available when people need them. Sometimes when a medicine is funded it is subject to subsidy rules. While these may be seen as an administrative hurdle for clinicians, they do help ensure medicines are targeted to people who most need them. This helps to ensure funded medicines are used cost-effectively.

Information and health education programmes aim to improve people's knowledge of how to obtain funded medicines.

Measuring our impact on access to medicines

	Impact	Aim/target by 2012/13
1.1	Population health improves as a result of PHARMAC decisions.[2]	PHARMAC's decisions lead to: • an overall increase in the number of new patients treated compared with the previous 12 months; and • an increase in the extra life years gained (i.e. QALYs) over their lifetime.
1.2	The Pharmaceutical Schedule applies consistently throughout New Zealand.	Address all issues of 'Postcode' access, or subsidised medicines not being prescribed in accordance with Schedule rules.

2. Usage impacts

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

How we influence usage of medicines

We work to ensure health professionals are well informed about funded medicines and provide services to help clinicians become better informed about evidence-based medicine. This includes funding the Best Practice Advocacy Centre ($BPAC_{nz}$) and running the PHARMAC Seminar Series for health professionals.

Pharmacists play an important role in helping people understand their medicines, and we provide information to support pharmacists to help people adjust to brand changes.

Our Access and Optimal Use programmes and campaigns often include messages promoting access to, and the optimal use of, medicines.

Measuring our impact on usage of medicines

	Impact	Aim/target by 2012/13
2.1	Medicines are not misused, overused or underused.	Evaluations of our Access and Optimal Use programmes and campaigns provide evidence of their impact on use of medicines.

[2] Under PHARMAC's mandate to achieve best health outcomes within the funds available, the possible potential numbers of new medicines, new patients, QALY gains, and net savings that can be gained in any year will depend on the mix of funds and investment options (medicines and health needs) available during that year, where increases may be neither necessarily achievable nor desirable in terms of best health outcomes across the population.

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 manages expenditure of community pharmaceutical funds held by DHBs, and through effective negotiations and procurement initiatives reduce their expenditure on pharmaceutical cancer treatments and some hospital medicines. Through our legislative role to manage spending within budget, PHARMAC gives Government and DHBs certainty that this area of spending will be effectively managed. In addition, PHARMAC's work in achieving efficiencies in DHB hospital spending gives DHBs spending options they wouldn't otherwise have. PHARMAC's economic impact supports the government's overall fiscal management through tight budgetary control. At a time of fiscal restraint and tight budgets, PHARMAC's contribution is increasingly important. A conservative estimate is that, since 2000, PHARMAC has secured savings to the New Zealand government, which in the current year are worth in excess of $700 million. At the same time, the number of new medicines and patients receiving them have both increased.

Measuring our contribution to economic and system impacts

	Impact	Aim/target by 2012/13
3.1	Pharmaceutical spending is effectively managed.	Community pharmaceutical expenditure is within budget.
		Expenditure on pharmaceutical cancer treatments is managed.
3.2	Improved value for money across the health sector.*	All major PHARMAC decisions include estimates of: • The cost-effectiveness of new investments**, for those investments where QALYs have been estimated; and/or. • The percentage offsets of savings to the health sector by new investments, as a proportion of the gross new expenditure on those pharmaceuticals, for those investments where savings have been estimated.

* these measures do not have specific targets assigned. This is because, under PHARMAC's mandate to achieve best health outcomes within the funds available, the possible cost effectiveness and percentage savings that can be gained in any year will depend on the mix of funds and investment options (medicines and health needs) available during that year.

** the cost-effectiveness of new investments is estimated using the net costs to the health sector (which subtracts [savings from reduced spending on other pharmaceuticals and/or DHB services] from [the gross new expenditure on the pharmaceuticals themselves]) and associated QALY gains

Statement of Forecast Service Performance for 2010/11

Outputs – PHARMAC's activities

Our main activities for the financial year 1 July 2010 to 30 June 2011 are set out below. The output classifications align with those illustrated in the chart on page 5. We have also indicated the level of expenditure budgeted on each output class.

Output class 1 - Decision-making $7.70 million

We want to ensure our processes are as efficient and effective as possible, because good quality processes increase the likelihood of making the best possible decisions. Our decisions follow a standard process that involves economic analysis, clinical advice from the Pharmacology and Therapeutics Advisory Committee (PTAC), negotiations with pharmaceutical suppliers and, often, public consultation. In making its decisions PHARMAC uses nine decision criteria (see box panel).

Our decisions around whether to fund medicines are a major component of our role in securing for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided. PHARMAC is tasked with managing the notional budget set aside by DHBs for community pharmaceuticals. PHARMAC does not hold the funds – however, it monitors spending with the aim of ensuring that spending does not exceed that agreed budget.

Having a capped budget means each year PHARMAC has more spending options than can be funded, so choices have to be made. In addition to the measures in the tables below, our effectiveness as an organisation and the quality of our decisions can be assessed by reviewing the actual choices made, and not made, from the options before us. This information is important in any assessment of whether PHARMAC made the best decisions given the available information and budgetary constraints at the time.

One of our activities in support of effective decision making involves monitoring pharmaceutical patents and, where appropriate, questioning or challenging them.

PHARMAC'S DECISION CRITERIA:
PHARMAC uses the criteria set out below, where applicable and giving such weight to each criterion as PHARMAC considers appropriate, when making Pharmaceutical Schedule decisions:

- The health needs of all eligible people;
- The particular health needs of Māori & Pacific peoples;
- The availability and suitability of existing medicines, therapeutic medical devices and related products and related things;
- The clinical benefits and risks of pharmaceuticals;
- The cost-effectiveness of meeting health needs by funding pharmaceuticals rather than using other publicly funded health & disability support services;
- The budgetary impact (in terms of the pharmaceutical budget and the Government's overall health budget) of any changes to the Schedule;
- The direct cost to health service users;
- The Government's priorities for health funding, as set out in any objectives notified by the Crown to PHARMAC, or in PHARMAC's Funding Agreement, or elsewhere; *and*
- Such other criteria as PHARMAC thinks fit.

Not all of PHARMAC's decisions result in funding medicines – PHARMAC can also decline funding. These are decisions that also have impacts – for example, ensuring funding is available for other, more cost-effective medicines.

Output 1.1 Community Pharmaceutical Schedule

This is the list of medicines that are funded for all New Zealanders, and dispensed in the community. The Schedule is a comprehensive list of medicines covering the majority of New Zealanders' health needs.

Output 1.2 Pharmaceutical Cancer Treatments (PCTs)

PCTs are listed in the Schedule, although not all are included in the Community Pharmaceutical budget. PCTs are a 'basket' of medicines available for the treatment of cancer and are funded directly by DHBs. PHARMAC is also helping fund a multi-year international clinical trial to assess the relative efficacy of short or long duration (SOLD) treatment with the breast cancer medicine trastuzumab (Herceptin).

Output 1.3 Section H, Hospital Schedule

In addition to the Community Pharmaceutical Schedule, PHARMAC also manages Section H, a list of hospital medicines for which PHARMAC has negotiated national supply terms. Section H medicines are funded through DHB hospitals, so are not included in the Community Pharmaceutical budget.

Output 1.4 Special Access Panels

Some medicines are very expensive, and to help ensure these are appropriately targeted PHARMAC manages panels of expert doctors to make decisions on which patients can access treatment. Panels are maintained for:

- Cystic Fibrosis;
- Gaucher's Disease;
- Multiple Sclerosis;
- Pulmonary Arterial Hypertension;
- Human Growth Hormone (children and adult); and
- Treatments for chronic myeloid leukaemia (imatinib, dasatinib).

Approximately 4000 panel applications are received each year.

Output 1.5 Exceptional Circumstances (EC) Schemes

This is the mechanism that gives individual patients access to medicines that are not otherwise funded through the Pharmaceutical Schedule or through DHB Hospitals. PHARMAC administers three Exceptional Circumstances schemes: for community (CEC), hospital (HEC), and cancer (CaEC) medicines. More than 3000 applications are received each year.

Exceptional Circumstances Schemes

The Community EC scheme provides funding for medicines for people with rare or unusual clinical circumstances. Access is subject to approval by a panel of clinicians. Expenditure on CEC is part of the overall Community Pharmaceutical budget.

Hospital EC has been running since July 2003. This mechanism enables DHB hospitals to fund medicines in the community (not already funded through the Pharmaceutical Schedule) where it is more cost-effective for the DHB to do so than the most likely alternative intervention or outcome.

Cancer EC was set up in 2005. This mechanism allows DHB hospitals to fund, on application to PHARMAC, cancer medicines that are not funded through the Pharmaceutical Cancer Treatments 'basket' – a list of cancer medicines that all DHB hospitals must fund.

Output 1.6 Schedule Rules

Once a medicine is listed, it may be prescribed for a patient within the Schedule rules. Community pharmaceuticals are dispensed by pharmacists, who are contracted by their DHBs to provide services. Pharmacy claims are paid by Ministry of Health Sector Services, on behalf of DHBs.

Output 1.7 Medical devices

We are responsible for a small number of medical devices. In the community these include:

- Pregnancy test kits;
- Blood glucose testing and management (i.e. test strips/meters and insulin needles/syringes);
- Asthma management (Peak flow meters, spacers, masks);
- Contraception/IUDs; and
- Urine testing for blood/protein.

In DHB Hospitals we administer contracts for volatile anaesthetic agents which require a vaporiser device (Sevoflurane, Isoflurane, Desflurane). The device is supplied under the contract for the anaesthetic agent. We also procure radiological contrast media.

Decision-making output measures

Impact	Output		2009/10 estimate	2010/11 target
Access Economic and system	1.1	Community pharmaceutical Schedule decisions.	Support the Pharmacology and Therapeutics Advisory Committee through holding a minimum four meetings.	Support the Pharmacology and Therapeutics Advisory Committee through holding a minimum four meetings.
			All funding applications subject to economic analysis, typically cost utility analysis.	All funding applications subject to economic analysis, typically cost utility analysis (including an assessment of clinical evidence).
			Decisions on >90% of line items (excluding bids held open while awaiting Medsafe registration) made within 6 months of the tender closing.	Decisions on >90% of line items (excluding bids held open while awaiting Medsafe registration) made within 6 months of the tender closing.
Access Economic and system	1.5	Exceptional Circumstances Scheme decisions.	Applications for Exceptional Circumstances funding are processed within: • 2 weeks (Community EC) • 48 hours (hospital EC) • 72 hours (Cancer EC)	Complete a review of Exceptional Circumstances.

* Note: Not all outputs are measured and reported on.

Output class 2 - Influencing medicines use $9.17 million

Making decisions to subsidise medicines is only part of the pathway in medicines reaching New Zealanders. We have a legislative role to promote the responsible use of medicines. To do this, we communicate our decisions and provide information and support to help ensure medicines are prescribed and used well. This helps people to understand the reasons behind decisions. It also helps ensure that the health outcomes sought through the funding decision are realised, and that medicines aren't overused, underused or misused by patients. Beyond providing information, this work includes workforce development, seeking community input, information for the public and working with health professionals to deliver the programmes so that the medicines that are funded for people are used optimally.

Output 2.1 Explaining decisions/ sharing information

We work to better explain our decisions through our notification letters, the PHARMAC website and information sent to health professionals and patients to help them adjust to the introduction of new medicines or brand changes. Our Consumer Advisory Committee provides advice to PHARMAC from a patient or consumer point of view on obtaining consumer views, communicating and engaging with them.

Our Population Health Programmes

One Heart Many Lives - This campaign aims to increase awareness of cardiovascular risk and provide tools for reduction of cardiovascular risk, particularly among Māori and Pacific men aged over 35.

Space to Breathe - This campaign aims to reduce hospitalisations among Māori and Pacific children with asthma through education and the use of preventer medication and self management plans.

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

Output 2.2 Population Health Programmes

Sometimes decision implementation is supported by information provided to health professionals and consumers through our health education programmes**.**

We also work to share information and promote evidence-based prescribing through our management of the PHARMAC Seminar Series and the work of bpac[nz].

Influencing medicines use output measures

Impact	Output		2009/10 estimate	2010/11 target
Access Usage	2.1	Explaining decisions/ sharing information.	Hold a PHARMAC Forum by 31 December 2009.	Implement Forum workplan within business as usual.
Access Usage	2.2	Population health programmes.	Programme / Campaign evaluations demonstrate effectiveness.	Programme / Campaign evaluations demonstrate effectiveness against specific campaign measures.

Output class 3 - Supply management $0.86 million

When a medicine is funded, this usually results in a supply contract that is negotiated between PHARMAC and the supplier.

Output 3.1 Contract management

PHARMAC has dedicated **contract management** resources which have led to benefits such as being more aware of when supply shortages might arise, and taking action to mitigate them. Better contract management has also enabled PHARMAC to more effectively manage rebate payments from pharmaceutical suppliers.

Output 3.2 Supply vigilance

We're also aware that medicines not on contract are important to patients and need to be monitored. This requires ongoing vigilance of the supply chain to ensure adequate supplies between pharmaceutical companies, wholesalers, pharmacists and patients.

Output 3.3 Direct distribution

PHARMAC also manages direct distribution of some high cost medicines directly to patients. This includes some medicines used to treat leukaemia, multiple sclerosis and enzyme deficiency disorders. In these cases, PHARMAC's active management helps ensure patients have timely access to the medicines they need, and that wastage of these expensive medicines is kept to a minimum. This helps ensure public funding for these medicines is used efficiently.

Supply management output measures

Impact	Output		2009/10 estimate	2010/11 target
Economic and system	3.1	Contract management.	Monitor DHB hospital compliance with restricted brand contracts. Provide a report to DHBs and pharmaceutical suppliers by 31 December 2009.	Monitor DHB hospital compliance with restricted brand contracts. Provide a report to DHBs and pharmaceutical suppliers by 31 December 2010.
			Monitor and manage Community and Hospital Rebates.	All rebates due are collected.
Access Usage Economic and system	3.3	Direct distribution.	Manage stock and reduce wastage of high cost medicines. Work with suppliers to minimise the risks of out of stocks occurring.	Manage stock to reduce wastage and ensure that low volume high cost medicines are available when needed.

* Note: Not all outputs are measured and reported on.

Output class 4 – Policy, Advice and Support $1.22 million

Output 4.1 Advice and support services to the health sector

PHARMAC provides advice and support work for other health sector agencies to improve the cost effectiveness of health spending. This includes management of pharmaceutical spending in the community. PHARMAC also provides advice to DHBs through its Technology Assessment Reports on the cost effectiveness of new hospital medicines. This assists DHBs with their decision-making on purchasing hospital medicines.

We undertake work to assist health sector procurement where it fits with PHARMAC's skills, for example with the influenza vaccine and some blood products. Government-commissioned reports have identified further potential value-for-money initiatives that PHARMAC can contribute to – either through its activities or through providing advice and support to DHBs or the Ministry of Health.

Output 4.2 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.

Policy, advice and support output measures

Impact	Output		2009/10 estimate	2010/11 target
Economic and system	4.1	Advice and support services to the health sector.	No target	Assist DHBs with pharmacy contracting when requested.
Economic and system	4.2	Policy advice.	No target	Provide comment on all relevant policies and papers as requested by sector agencies.

Our Capability

Our success depends on adequate capability in a number of areas. Our people are our biggest asset (about 60 staff in total), so our ability to attract and retain skilled staff, be a good employer, and enhance our attractiveness as a place to work, are critically important.

Enhancing PHARMAC as a good employer

With general fiscal restraint, there is an even greater need to ensure other factors affecting employee engagement and satisfaction are well-managed. While the current economic climate may encourage job retention, balanced against this is the high-performing nature of our staff (and therefore increased employment prospects), and the need to develop and retain key capability in areas where particular skills are in short supply. We will continue to focus on key areas relevant to being a good employer, including:

- *leadership, accountability and culture* – we believe we have the necessary leadership capability, and treat our accountability requirements with high priority. Drawing on internal and external feedback, we continue to build an organisational culture fit for current and future challenges;

- *recruitment, selection and induction* – our recruitment process remains an important focus to fill vacancies quickly with appropriately skilled staff. Our induction programme covers all key aspects of our business for new recruits to quickly improve their understanding of our work;

- *employee development, promotion and exit* – our performance review process includes a focus on personal and career development. Exit interviews are conducted for most finishers to learn how we can further improve as an employer;

- *flexibility and work design* – we have a flexible working policy that offers flexible working conditions. This includes part-time work and remote working, provided business needs can be met;

- *remuneration, recognition & conditions* – remuneration is performance-based, using a 'total remuneration' policy with reference to external market benchmarks and remuneration expectations of the public sector;

- *harassment and bullying prevention* – we have policies in place to manage harassment and bullying, and such behaviour is not tolerated; and

- *safe and healthy environment* – the health and safety of our working environment is monitored, including workstation audits, business continuity planning and emergency preparedness.

Other important areas of capability focus

Capability in all areas needs to be monitored and, where necessary, improved. We have strengthened our focus on business improvement with dedicated internal processes related to identifying and addressing improvements. We consider the following capability areas are priorities to enable us to meet current and future challenges:

- *governance* – PHARMAC has a strong focus on effective governance, including use of clear decision making criteria. In the past year, the PHARMAC Board has completed work on a Governance Manual;

- *communications and stakeholder engagement* – we continue to work on improving how we better understand stakeholder views, and better explain our own. While recognising other important relationships, including the pharmaceutical industry with whom we engage extensively, we have prioritised engagement with clinicians, pharmacists and consumers;

- *advisory committees* – we take advice from clinical and consumer advisory committees. The advice from our clinical committees is an important input to our decisions, and an important way to benefit from expert clinical views. The advice from our Consumer Advisory Committee ensures our consultation and communications activities are appropriate and relevant;

- *Māori responsiveness* – as a Government agency PHARMAC has a commitment to upholding the principles of the Treaty of Waitangi. PHARMAC's Māori Responsiveness Strategy provides a framework for ensuring that PHARMAC is aware of, and responding to, the needs of Māori in relation to pharmaceuticals;

- *risk management* – our operating environment generates many risks. Some of these could, if not identified early and appropriately managed, delay our decisions or increase expenditure, losing health outcomes that would otherwise be possible. We operate a risk management framework requiring regular screening of risks and reporting to the Board; and

- *information systems and information technology* – we rely on timely and easy access to information, including through use of appropriate technology, both within and outside PHARMAC's office. PHARMAC's business can now operate without paper, increasing our efficiency and effectiveness; lowering other costs; and setting us up well for future compliance assessments against the Public Records Act.

PART 2

Technical information about PHARMAC

Our form and functions

PHARMAC is a Crown Entity, with a statutory objective to *"secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided"*.[3]

Accountability

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

Governance

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

In addition to the work undertaken by PHARMAC itself, the Board takes objective advice from two statutory advisory committees: the Pharmacology and Therapeutics Advisory Committee (PTAC – a committee of practicing clinicians) and the Consumer Advisory Committee (CAC – a committee of people experienced in consumer issues).[4] The Board also has an Audit Committee and a Forecast Committee (comprised of Board members), which provide assistance to the Board on relevant issues.

Reporting

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

[3] New Zealand Public Health and Disability Act, 2000

[4] PTAC members are independently appointed by the Director-General of the Ministry of Health. CAC members are appointed by the PHARMAC Board. PTAC also seeks input as required from specialist subcommittees, whose members are also practicing clinicians.

PART 3

Financial Information

Declaration by the Board

The Board acknowledges its responsibility for the information contained in PHARMAC's forecast financial statements. The financial statements should also be read in conjunction with the statement of accounting policies set out in Appendix 1.

Key assumptions

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

- *2010/11 operating costs not approved* – at the time of publication, our expenditure and funding for 2010/11 had not been approved by the Minister of Health and is subject to change. As earlier noted, our Statement of Forecast Service Performance is contingent on appropriate funding and depending on funding decisions, PHARMAC's activities and associated measures for 2010/11 may change;

- *expenditure decreases generally* – a number of budget lines have assumed cost decreases (or forgone increases that would normally apply) to generate expenditure savings with pressure on government resources; however, the exact extent of savings in practice is uncertain;

- *personnel costs* – expenditure in training and development has been maintained at 2008/09 levels, and no increase in salary costs risks understating efficient costs in these areas, given PHARMAC's personnel are its key asset;

- *future costs* – out-year costs in the operating budget more generally are based on a general inflationary adjustment and no assessment of additional costs associated with any changes in PHARMAC's functions;

- *future funding not agreed* – the financial forecasts are dependent on the outcome of future negotiations for out-year funding (yet to be conducted);

- *prudential reserve* – the level of PHARMAC's prudential reserve of $1.6m;

- *Herceptin SOLD trial* – a best estimate of the spreading of PHARMAC's contribution to the administration costs of an international Herceptin trial (the SOLD trial). As the timing of recruitment in to the trial is based on estimates, actual payments will likely differ in practice; and

- *Legal Risk Fund* – the balance of the Legal Risk Fund is assumed to remain the same in out-years based on an assumption that fund use is offset by replenishment (interest and transfer of any unspent litigation money in the operating budget).

Projected Financial Statements

Projected Statement of Comprehensive Income

	For the period of 1 July 2010 to 30 June 2011	For the period of 1 July 2011 to 30 June 2012	For the period of 1 July 2012 to 30 June 2013
	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Revenue			
Crown Contribution	14,359	13,822	13,822
Crown Additional Funding*	1,000	1,317	1,515
DHB Contribution	2,920	2,950	2,980
Other Revenue	405	365	315
Interest Revenue	120	130	140
LRF-Interest Revenue	280	280	280
-Other Revenue	0	0	0
Total Revenue	**19,084**	**18,864**	**19,052**
Expenditure			
Personnel Costs	7,054	7,222	7,368
Operating	10,924	10,444	10,620
Herceptin Sold Trial	541	724	683
Depreciation	417	417	417
LRF payments for litigation costs	280	280	280
Finance costs	9	9	10
Total Expenditure	**19,225**	**19,096**	**19,378**
Net Surplus/(deficit)	**(141)**	**(232)**	**(326)**
Other Comprehensive Income	0	0	0
Total Comprehensive Income	**(141)**	**(232)**	**(326)**

Note: The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
* Subject to approval by Minister

Projected Statement of Comprehensive Income, by Output Class

Output Expenditure Budget 2010/11	Funding MOH	Funding DHB	Funding Other	Output Expenditure	Net surplus/ (deficit)
Decision Making	6,963	300	425	(7,701)	(13)
Influencing Medicine Use	6,977	2,100	50	(9,169)	(42)
Supply Management	627	120	50	(859)	(62)
Policy Advice and support	792	400	0	(1,216)	(24)
Total Expenditure	**15,359**	**2,920**	**525**	**(18,945)**	**(141)**

Output Expenditure Budget 2011/12	Funding MOH	Funding DHB	Funding Other	Output Expenditure	Net surplus/ (deficit)
Decision Making	5,911	300	405	(6,857)	(241)
Influencing Medicine Use	7,738	2,130		(9,833)	35
Supply Management	652	120	80	(872)	(20)
Policy Advice and support	838	400	10	(1,254)	(6)
Total Expenditure	**15,139**	**2,950**	**495**	**(18,816)**	**(232)**

Output Expenditure Budget 2012/13	Funding MOH	Funding DHB	Funding Other	Output Expenditure	Net surplus/ (deficit)
Decision Making	5,983	300	365	(7,136)	(488)
Influencing Medicine Use	7,841	2,160		(9,833)	168
Supply Management	661	120	90	(872)	(1)
Policy Advice and support	852	400		(1,257)	(5)
Total Expenditure	**15,337**	**2,980**	**455**	**(19,098)**	**(326)**

Projected Statement of Financial Position

	For the period of 1 July 2010 to 30 June 2011	For the period of 1 July 2011 to 30 June 2012	For the period of 1 July 2012 to 30 June 2013
	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
PUBLIC EQUITY			
Retained Earnings & Reserves	1,600	1,600	1,600
Herceptin Sold Trial Reserve	558	326	0
Legal Risk Fund	6,100	6,100	6,100
TOTAL PUBLIC EQUITY	**8,258**	**8,026**	**7,700**
Represented by:			
Current Assets			
Cash and bank	9,908	9,676	9,350
Receivables and prepayments	100	100	100
Total current assets	10,008	9,776	9,450
Non-current assets			
Property, Plant and Equipment	600	600	600
Intangible assets	250	250	250
Total non-current assets	850	850	850
Total assets	**10,858**	**10,626**	**10,300**
Current Liabilities			
Creditors and other payables	2,120	2,120	2,120
Employee entitlements	480	480	480
Total current liabilities	2,600	2,600	2,600
NET ASSETS	**8,258**	**8,026**	**7,700**

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

Projected Cash Flow Statement

	For the period of 1 July 2010 to 30 June 2011	For the period of 1 July 2011 to 30 June 2012	For the period of 1 July 2012 to 30 June 2013
	$000 (GST incl)	$000 (GST incl)	$000 (GST incl)
Cash flows – Operating activities			
Cash was provided from:			
- Crown Contribution	15,359	15,139	15,337
- DHB Contribution	2,920	2,950	2,980
- Interest Received	120	130	140
- LRF Interest revenue	280	280	280
- Other Income	405	365	315
	19,084	18,864	19,052
Cash was disbursed to:			
- Cash outflow to suppliers and employees	(18,158)	(18,029)	(18,311)
- Net GST	(650)	(650)	(650)
	(18,808)	(18,679)	(18,961)
Net cash flow from operating activities	**276**	**185**	**91**
Cash flows – Investing activities			
Cash was disbursed to:			
- Purchase of fixed assets	(417)	(417)	(417)
Net cash flow from investing activities	**(417)**	**(417)**	**(417)**
Cash flows – Financing activities	0	0	0
Net cash flow from financing activities	**0**	**0**	**0**
Net increase/(decrease) in cash held	(141)	(232)	(326)
Add opening cash brought forward	10,049	9,908	9,676
Closing cash balance	**9,908**	**9,676**	**9,350**

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

Projected Movement in Equity

	For the period of 1 July 2010 to 30 June 2011	For the period of 1 July 2011 to 30 June 2012	For the period of 1 July 2012 to 30 June 2013
	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Public equity at the beginning of the period	8,399	8,258	8,026
Net surplus/(deficit)	(141)	(232)	(326)
Public equity as at the end of the period	**8,258**	**8,026**	**7,700**

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

Reconciliation of Net Surplus to Cash Flow from Operating Activities

	For the period of 1 July 2010 to 30 June 2011	For the period of 1 July 2011 to 30 June 2012	For the period of 1 July 2012 to 30 June 2013
	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Net operating surplus (deficit)	**(141)**	**(232)**	**(326)**
Add non-cash items:			
Depreciation	417	417	417
Total	**276**	**185**	**91**
Add/(less) working capital movements:			
Decrease (increase) in receivables	0	0	0
Increase (decrease) in payables	0	0	0
Working Capital Movement – net	0	0	0
Net cash flow from operating activities	**276**	**185**	**91**

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

APPENDIX 1 – STATEMENT OF ACCOUNTING POLICIES

Reporting entity

We act as a Crown agent to meet our obligations in relation to the operation and development of a national Pharmaceutical Schedule. PHARMAC has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS").

Basis of preparation

Our financial statements have been prepared in accordance with New Zealand generally accepted accounting practices (NZ GAAP), the requirements of the Crown Entities Act 2004, and the New Zealand Public Health and Disability Act 2000. These financial statements have been prepared in accordance with, and comply with, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit entities.

Standards etc

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted – the financial statements have been prepared on an historical cost basis. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000).

Revenue

Revenue is measured at the fair value of consideration received. Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned. Interest income is recognised using the effective interest method.

Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Financial instruments

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

Cash and cash equivalents

Cash includes cash on hand and funds on deposit with banks.

Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Impairment of a receivable is established when there is objective evidence that PHARMAC will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, and default in payments are considered objective evidence of impairment. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the statement of financial performance. Overdue receivables that are renegotiated are reclassified as current.

Property, plant and equipment

Property, plant and equipment consist of leasehold improvements, furniture and office equipment. Property, plant and equipment are shown at cost less accumulated depreciation and impairment losses. All property, plant and equipment, or groups of assets forming part of a network which are material in aggregate, are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the statement of financial performance.

- *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.

- *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 included in the statement of financial performance.

- *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.

Depreciation

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

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

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

Creditors and other payables

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

Employment entitlements

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

Provisions

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

Public equity

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

Commitments

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

Goods and Services Tax (GST)

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

Income Tax

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

Pharmaceutical Management Agency

Level 9, 40 Mercer Street, PO Box 10-254, Wellington 6143, New Zealand
Phone: 64 4 460 4990 - Fax: 64 4 460 4995 - www.pharmac.govt.nz
Freephone Information line (9am-5pm weekdays) 0800 66 00 50

ISSN 1179-3737 (Print)
ISSN 1179-3740 (Online)

PHARMAC is the Government agency responsible for deciding which medicines are subsidised for New Zealanders. It manages spending on pharmaceuticals for the District Health Boards, and ensures that a comprehensive list of medicines (the Pharmaceutical Schedule) is subsidised for New Zealanders, and that the list of medicines continues to grow to meet the needs of patients.