Pharmaceutical Management Agency

Statement of Intent

2013/14 – 2015/16

New Zealand Government

PHARMAC
Pharmaceutical Management Agency

PHARMAC Statement of Intent 2013/14—2015/16

INTRODUCTION

PHARMAC has defined five strategic goals – one of these, `value from extended functions', is our dominant theme in 2013/14.

PHARMAC's reputation is built on its long-term record of managing funding for community medicines (see details on page 15). Since 2000, PHARMAC has expanded the range of funded medicines, increased the number of patients receiving funded medicines, and managed funding within the Budget the Minister of Health sets for District Health Boards, the funders. At the same time, PHARMAC has achieved cumulative savings of around $4 billion over the last 10 years. It is this record of success that has led to PHARMAC being given its expanded role.

PHARMAC is now also responsible for the national immunisation schedule (vaccines), hospital medicines and is moving to take on responsibility for hospital medical devices.

The vaccines work began in 2012 and has been successfully integrated into PHARMAC's structure. A clinical advisory committee has been established and PHARMAC approved wider access to funding for a vaccine (pertussis) from 1 January 2013. Future decisions will be made using an assessment process similar to that PHARMAC uses for community medicines (see flow chart on page 18).

A new hospital Schedule will be published on 1 July 2013. This is the list of pharmaceuticals that all DHB hospitals will fund, and will help to achieve the goal of national consistency in access to hospital medicines, one of the policy drivers of the step. We anticipate that, as we progress the hospital medicines work, savings will also emerge. We include measures on anticipated savings for the first time in this Statement of Intent.

Our work on devices relies to a large degree on activity being led by Health Benefits Ltd (HBL), particularly with the establishment of a financial management information system for DHBs. We are working closely with HBL and in the meantime looking for areas where we can make `quick wins' – national procurement of certain types of medical device. This will give us further experience in working with hospital clinicians and will deliver a significant contribution to DHB savings. We include measures on these anticipated savings for the first time in this Statement of Intent.

To help us with these expanded areas of work, PHARMAC is increasing its internal capacity including taking on additional resources to work exclusively on the hospital-focussed projects. There is a strong emphasis on engaging clinicians – another of our strategic priorities.

While we have taken care to define our outputs and activity plans, the health sector is dynamic and subject to changes in Government policy and funding allocations. The outputs and impacts we are seeking to influence have been defined under policy and funding lines known at the time of writing.

Stuart McLauchlan
Chair
4 June 2013

Dr David Kerr
Board Member
4 June 2013

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PART 1

PHARMAC – our role and contribution to health outcomes

The Pharmaceutical Management Agency (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 making choices about how to spend taxpayers' money within a fixed budget: the Combined Pharmaceutical Budget (CPB) which funds vaccines, community and cancer medicines, and the Discretionary Pharmaceutical Fund. While PHARMAC manages the budget, the CPB funds continue to be held by DHBs and PHARMAC effectively acts as an agent, making funding and management decisions on behalf of DHBs. PHARMAC is also working towards budget management of hospital pharmaceuticals and medical devices.

PHARMAC's decisions are informed by robust processes involving consultation, advisory groups, assessment and analysis. While PHARMAC is responsible for managing pharmaceutical spending, during its decision-making PHARMAC takes into account the impact its decisions will have across the health sector, including such factors as potential reductions in hospital admissions or reductions on the demand for hospital services as a result of pharmaceutical funding.

PHARMAC's decisions affect the lives of almost every New Zealander in terms of their access to medicines, whether through medicines listed on the Pharmaceutical Schedule (the list of Government-funded medicines prescribed and dispensed in the community, the list of subsidised pharmaceutical cancer treatments, the national immunisation schedule and the list of hospital medicines where there are terms of supply); or access to medicines for individuals seeking medicines not funded on the Pharmaceutical Schedule (the Named Patient Pharmaceutical Assessment policy, or NPPA). As such, these decisions attract high degrees of public and clinical scrutiny. We work to involve stakeholders in our decision-making processes and will continue to focus on stakeholder engagement.

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.

Our functions

PHARMAC has oversight of the supply chain for products listed on the Pharmaceutical Schedule, arranges distribution of certain high-cost medicines and manages national contracts for some medicines and related products used in public hospitals. We also engage in research, policy work and support to others in the health sector.

Since 2010 PHARMAC has had greater responsibility for managing pharmaceuticals used in DHB hospitals and medical devices. The Government's immunisation schedule, the list of vaccines funded by DHBs, was added to the Pharmaceutical Schedule from 1 July 2012. PHARMAC has also begun work on national management of medical devices. This complex and long-term work will continue to develop in coming years.

PHARMAC is guided by relevant legislation (including the Public Health and Disability Act 2000 and the Crown Entities Act 2004), and current Government expectations, as outlined in Ministers' Letters of Expectations.

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 responds to the particular needs of Māori in relation to medicines.

PHARMAC's contribution to Government and sector goals

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:

- New Zealanders live longer, healthier, more independent lives; and
- The health system is cost effective and supports a productive economy.

Our contribution is primarily through 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 – positively influencing people's ability to obtain medicines;
- Usage impacts – influencing people's use of medicines to ensure they aren't under-, over- or misused; and
- Economic and System impacts – helping the health system work more effectively, and improving value for money

See pages 10-16 for details on how we work to achieve these impacts.

Output Classes

These impacts are made possible through the services we provide – our outputs – which are grouped under the following three categories (Output Classes):

Output class	Description	Outputs
1. Making decisions about pharmaceuticals	Work that leads to new medicines being funded and money being saved on older medicines.	1.1. Combined Pharmaceuticals 1.2. Other Pharmaceuticals 1.3. Special access panels 1.4. Named Patient Pharmaceutical Assessment
2. Influencing medicines access and use	Promoting access to and 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

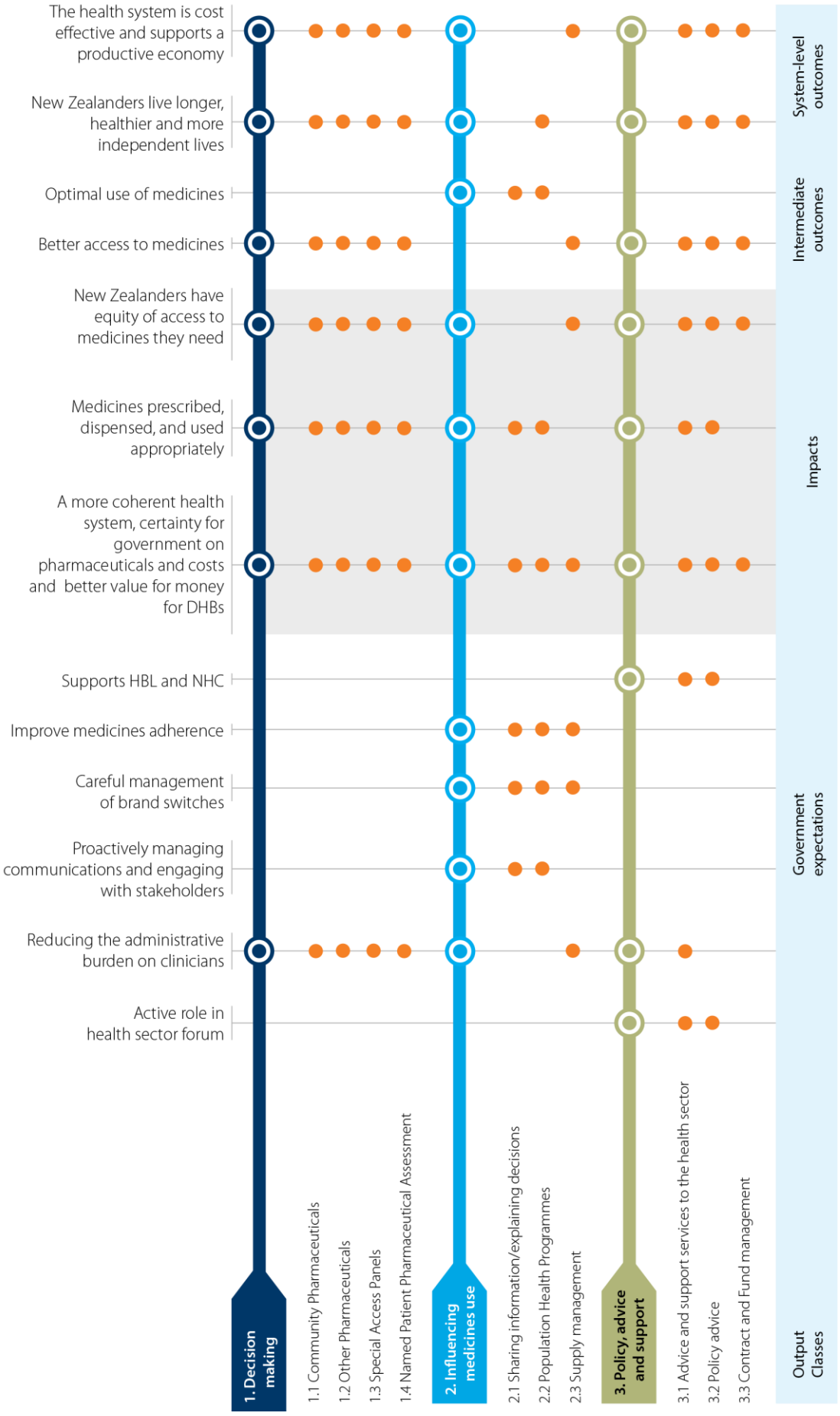
Changes to Output Classes

PHARMAC has defined three output classes for its work, which are outlined above. Two output classes that were used in the 2012/13 SOI have been removed. These are Contracts and Fund Management; and Managing Supply of Pharmaceuticals. Output Class 3 (providing policy, advice and support) now incorporates Contracts and Fund Management as an output.

Changes to Outputs

A number of Outputs from the 2012/13 SOI have been deleted: Output 1.2 Pharmaceutical Cancer Treatments has been deleted as this work now forms part of the Combined Pharmaceutical Schedule; Output 1.5 Schedule Rules has been deleted and this work is now incorporated into other outputs. Work on medical devices (Output 1.6 in the 2012/13 SOI) has been incorporated into Output 1.2 Other Pharmaceuticals.

Fitting it all together: Linking PHARMAC's activities to Government expectations and health system outcomes



Mission

Our mission is the same as our legislative 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.*

"Pharmaceuticals" are medicines, vaccines, medical devices, related products, or related things.

Our Working Environment

PHARMAC works within an environment that is dynamic and challenging. Funds available for pharmaceuticals are limited – yet there are on-going demands that require choices to be made for how funding is allocated. Some of the factors affecting our work, and our view on them, are outlined below.

Bedding in expanded functions

During 2010 PHARMAC's role expanded to encompass managing all hospital medicines and, eventually, medical devices. Since 1 July 2012, PHARMAC has had responsibility for management of vaccines, including assessment and prioritisation of future vaccines. PHARMAC has received funding for these additional roles and there is a challenge to continue business as usual activities while also expanding into wider roles.

High public expectations of access to medicines

There are always more demands for medicines to be publicly funded than resources available to pay for them, so choices need to be made. 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. This pressure 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 carefully examine claims made about new medicines. We always want to ensure our decisions are fully informed and, once made, well implemented.

Challenging economic conditions

There is an increased public focus and Government expectation (see pages 6-8) on getting value for money, and spending government funding carefully. This applies both to our pharmaceutical budget management, and what we spend to keep PHARMAC operating.

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); Health Benefits Ltd; the Centre for Adverse Reactions Monitoring; pharmaceutical companies; DHBs; the Ministry of Health and other government agencies (including the Health Quality and Safety Commission, and the National Health Committee); the Minister of Health and Associate Ministers; and Members of Parliament. In addition, PHARMAC works closely with a wide range of Māori stakeholders. Many stakeholders have representative groups (e.g. NZ Medical Association, the Pharmaceutical Society, Medical Technology Association of New Zealand and Medicines New Zealand) with whom we also work.

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

PHARMAC forms one part of the medicines system, which includes good quality medicines being produced and supplied by pharmaceutical companies; robust safety and efficacy assessments by Medsafe; optimal prescribing decisions by clinicians, dispensing services by pharmacists, and appropriate use by patients. It also includes a substantial dependency on health IT systems including those managed by DHBs, the Ministry of Health and the private sector. We contribute actively to the successful development of a wide range of IT-related initiatives. We need to work effectively with, and think about the implications of our work for, other parts of the medicines system.

Responding to the needs of population groups

While PHARMAC provides funded access to medicines for all New Zealanders regardless of geographic location, age or ethnicity, we recognise that some population groups have higher burdens of disease than others. PHARMAC has a Māori Responsiveness Strategy (Te Whaioranga) and Pacific Responsiveness Strategy that guide our work in considering these populations groups' needs when we are thinking about funding medicines, or providing information or services. One of our decision criteria relates specifically to the health needs of Māori and Pacific Peoples.

Government expectations

PHARMAC's Statement of Intent is guided by the Government's Enduring Letter of Expectations, which was issued in July 2012, and the Minister of Health's letter of expectations to PHARMAC dated February 2013. Expectations include a continued focus on being financially sustainable, demonstrating a strong understanding of what we do and how it relates to the rest of the health sector, being aware of public concerns over Government agencies' expenditure, setting realistic pay and working conditions, and providing value for money.

The Minister has reiterated the Government's expectation that agencies should maintain careful financial management while lifting productivity, providing high-quality service and adhering to the "no surprises" approach to communication between PHARMAC, the Ministry and the Minister.

Key expectations, and the outputs related to each expectation, are outlined below:

Expectation	Comment
PHARMAC is expected to maintain a thorough understanding of [its] business and cost drivers, look for service improvements, and take opportunities to work with other entities to maximise system-wide efficiency and effectiveness	PHARMAC has identified Strategies for Future Success, one of which we define as `Core Strength'. This strategy includes a focus on those elements that have enabled PHARMAC to achieve best health outcomes and effective budget management. More on our Strategies for Future Success can be found on pages 26-28.
Throughout 2013/14, PHARMAC will continue to support Government priorities for the health sector, as it did in 2012/13.	PHARMAC's commitment to Government Health priorities is embedded in our decision making through our Decision Criteria (see text box on page 17).
PHARMAC assists DHBs and other Crown health entities to achieve their goals and the wider goals of Government.	Our work in hospital medicines, hospital medical devices and vaccines includes new partnerships and working relationships with

	other Crown health entities. We have completed Memoranda of Understanding with District Health Boards and the National Health Committee. Output Class 3 (Policy Advice and Support) requires a focus on working closely with other agencies.
PHARMAC has made good progress in the past year with respect to managing hospital pharmaceuticals, vaccine procurement and medical devices. The diabetes meter process [has] shown how difficult change can be in this space and reinforced the need for strong engagement with patients and clinicians on medical devices. [It is expected that] levels of engagement to be high with these groups.	Relationships with secondary care health professionals will be an important ingredient of success in our hospital medicines and hospital medical devices work. We have increased our capacity in this area and are developing processes to build the appropriate advice into our work. This expectation is reflected in PHARMAC's Strategies for Future Success, Improved Clinical Leadership (page 26). See page 21 for a description of PHARMAC's consumer engagement. PHARMAC will engage proactively with patients and patient groups to ensure the successful management of medical devices. Relates to Output: 2.1
2013/14 will be a significant one for Health Benefits Limited's Finance, Procurement and Supply Chain programme. Given the importance of this programme to bending the cost curve in the sector, and to enabling future medical device procurement functions, PHARMAC will give this initiative a high level of attention [and will strengthen our] relationship with the National Health Committee, as it begins to move out of its establishment phase.	We have agreed a Memorandum of Understanding with the National Health Committee and are progressing an MOU with Health Benefits Ltd. As part of developing our medical devices management capacity, PHARMAC will work closely with HBL to ensure the FMIS is delivered on time to support the development of a national catalogue and Pharmaceutical Schedule. Relates to Output: 3.1
PHARMAC will look at new ways of improving adherence, including innovative approaches.	PHARMAC began a process to examine information technology solutions to improve patients' medicines adherence in 2013 (see text box on page 22). Relates to Outputs: 2.2
Expectations also continue around PHARMAC's successful management of brand switches and high profile funding decisions.	We will continue to provide resources and evidence-based information to support brand switches and high profile funding decisions. Relates to Output: 2.1

Expectations also continue around proactive engagement with the public, clinicians and other key stakeholders.	PHARMAC recognises the need to engage clinicians and stakeholders. Our routine engagement includes face to face meetings with clinical and consumer groups, attendance at conferences and business relationships with pharmaceutical suppliers (see page 21). Relates to Output: 2.1
Expectations also continue around lowering the administrative burden on clinicians.	We anticipate that the number of medicines requiring Special Authority approval will continue to fall in the coming three years. We are also moving to more closely integrate Schedule listings with the Named Patient Pharmaceutical Assessment (NPPA) Policy. Over time this should reduce the need for clinicians to make repeated NPPA applications for medicines. This is supported by our Policy, Advice and Support output class, outlined on pages 23-24. Relates to Outputs: 1.1, 1.2, 1.3, 1.4, 3.1
PHARMAC is expected to play an active role as a member of the Health Sector Forum.	We have regular on-going contact with sector agencies and will participate in major projects, such as those outlined above, as they progress. For example, PHARMAC's work on medical devices is closely aligned, and interdependent with, HBL's Funding, Procurement and Supply Chain work. Relates to Output: 3.1

Outcomes: Health and disability system

PHARMAC is one of many Government agencies that influence the health of New Zealanders. Our roles in pharmaceutical assessment, funding, procurement for DHBs and promoting the optimal use of medicines influence health and disability system outcomes both directly and indirectly (the linkages of how PHARMAC's work intersects and influences these outcomes is illustrated on page 4). These outcomes are:

- New Zealanders live longer, healthier, more independent lives; and
- The health system is cost effective and supports a productive economy.

PHARMAC's place in the health system

PHARMAC cannot do its job effectively without establishing positive working relationships across the health sector. Some of the key interactions PHARMAC has are with:

District Health Boards (DHBs)

DHBs hold the funding for most health services provided by the Government, including the Combined Pharmaceutical Budget. PHARMAC manages this budget on behalf of DHBs. DHBs also provide funding for some of the population health programmes managed by PHARMAC.

PHARMAC has negotiated prices (and other supply terms) for some hospital medicines on behalf of District Health Boards since 2001. This role was expanded in 2010 to encompass all hospital medicines and medical devices, so that in future PHARMAC will assess and negotiate nationwide supply terms for these within a fixed budget that PHARMAC will manage.

Ministry of Health

The Ministry acts on behalf of the Minister, in monitoring PHARMAC's performance. It is also responsible for providing policy advice to the Minister and Associate Ministers.

Medsafe

Medsafe, part of the Ministry of Health, is the New Zealand medicines regulator. Medsafe decides which pharmaceuticals are safe and effective for New Zealanders to use, and also manages post-marketing surveillance through the Centre for Adverse Reactions Monitoring. PHARMAC works closely with Medsafe and usually only considers a medicine for subsidy after it has been approved by Medsafe.

Health Sector Forum

The Government has created new bodies to perform functions following recommendations in the 2010 Ministerial Review Group report. These and other organisations (including PHARMAC) are brought together by the Ministry of Health as the Health Sector Forum. PHARMAC has important inter-linkages with these organisations:

- **Health Benefits Ltd (HBL)** – HBL is a Crown-owned company established to reduce costs and deliver savings in administrative, support and procurement services for the health sector.
- **Health Quality and Safety Commission** – The Health Quality & Safety Commission is a Crown entity that works with clinicians and providers of health services to improve the quality and safety of health and disability services.
- **National Health Committee** – This is a national advisory committee on health and disability, to advise the Minister on the kinds, and relative priorities, of services that should be publicly funded. The advice to the Minister is formulated following consultation.

Intermediate Outcomes: *Medicines New Zealand* strategy

As a medicine funder and decision-maker, PHARMAC also plays a role within a subset of the health system, 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 is the strategy for the medicines system. It defines three main outcomes for the medicine system, and we contribute to the first two through our outputs:

- 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.

Our work in contributing to these outcomes is illustrated in the diagram on page 4. The third of these outcomes is largely the responsibility of Medsafe, so is not included in the diagram.

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 the health sector to be well-informed about evidence-based medicines and we assist DHBs to achieve greater value for money in other procurement initiatives. These are the long-term impacts PHARMAC is working to achieve.

To understand PHARMAC's impact on health funding, it's useful to look back at its history. New Zealand has had a pharmaceutical management agency since 1993. During the 1980s medicine prices were increasing at a faster rate than other healthcare spending, and were one of the fastest growing items of Government expenditure. Growth of more than 20 per cent each year meant medicine prices were threatening to crowd out other healthcare funding. A response was needed, and in 1993 the Pharmaceutical Management Agency (PHARMAC) was created[1] to actively manage Government spending on medicines. Since its inception, PHARMAC has managed pharmaceutical expenditure growth to an average 3 per cent, while growing the range of pharmaceuticals available.

PHARMAC's objective was to introduce price competition to a market where it had not previously existed. PHARMAC's role was, in effect, to get better value for medicines so that the best health outcomes could be achieved from the public money spent on medicines. This is now being applied to managing expenditure growth in hospital medicines and medical devices.

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1. Access impacts

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

How we influence access to medicines

PHARMAC's decisions to subsidise medicines mean they are equally affordable for people, regardless of their geographic location. Many medicines are expensive and priced outside people's reach. This is particularly the case for new technology medicines such as biologics (these are medicines that treat conditions such as auto-immune diseases and some forms of cancer). When a medicine is fully funded by PHARMAC, patients will typically only pay the co-payment that is set by the Government. This reduces the cost factor which is the main barrier to people accessing medicines.

PHARMAC isn't the only agency that has an impact on access to medicines. The Government regulator Medsafe, DHB funders, doctors and pharmacists all have an impact on access. PHARMAC's particular impact is on negotiating contracts that apply nationally and make medicines affordable. In addition, by managing funds we manage risk and optimise cashflow within the system.

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 help ensure medicines are targeted to people who most need them. This helps to ensure funded medicines are used cost-effectively.

Measuring our impact on access to medicines

The data for the current year, and future year projections, indicate that we expect the number of people receiving funded medicines, the number of prescriptions funded (and the average number of prescriptions per patient) will all rise. PHARMAC will influence this by:

[1] PHARMAC existed as a Limited Liability Company until 1 January 2001 when it became a Crown entity under the NZ Public Health and Disability Act 2000.

- Continuing to run commercial processes to extract value from currently-funded medicines; and
- Investing in new medicines (and widening access to medicines) where PHARMAC considers this leads to improved health outcomes for New Zealanders.

This is consistent with our desired impact of increasing people's ability to have equitable access to funded medicines.

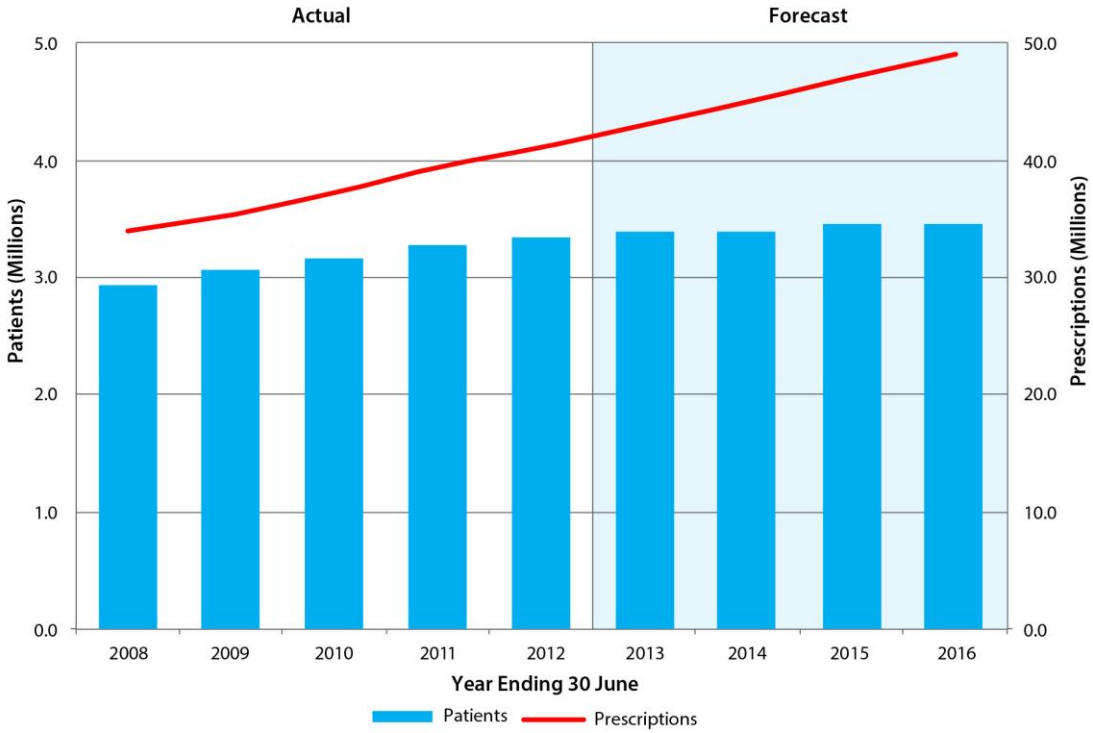
Estimated target numbers; patients receiving subsidised medicines, number of subsidised prescriptions under the Combined Pharmaceutical Budget:

	2011/12 actual	2012/13 estimate	2013/14 target	2014/15 projection	2015/16 projection
Patients	3.3 million	3.4 million	3.4 million	3.4 million	3.5 million
Prescriptions	41.1 million	43.1 million	45.1 million	47.1 million	49.1 million

The graph below illustrates that the number of patients gaining access to community medicines has increased (blue bars). The red line shows the number of prescriptions rising at a steeper rate. This indicates that the average number of prescriptions per patient is rising, and that more people are receiving more subsidised prescriptions (medicines). Note that this does not include the number of items per prescription, which varies depending on health need and to a certain extent, age. PHARMAC's impact in this area is to manage funding and make savings to create `headroom' for the growth in funded prescription numbers. In this way PHARMAC's savings and budget management work provides increased access to funded medicines for patients.

PHARMAC forecasts an on-going increase in both the number of patients receiving funded medicines, and in the number of prescriptions per patient. PHARMAC influences this through growth in the pharmaceutical budget (leading to more new medicines being funded); and on-going savings activity (freeing up funding for further investment), while external factors like population growth; and demographic changes such as an ageing population (an older population being associated with higher usage of medicine) also play a part in the trend.

Prescription numbers and patient numbers, actual and predicted 2008-2016



2. Usage impacts

We want medicines to be prescribed, dispensed and used by patients as well as possible. If medicines are over-, under- or misused, 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 provision of high quality evidence-based prescriber educational materials (currently provided via competitive tender by 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 population health programmes and campaigns often include messages promoting access to, and the optimal use of, medicines. Each of these programmes has targets and measures to gauge the programme's success, and we evaluate them to see whether those targets have been met.

Health literacy – patients understanding about their health and the role played by pharmaceuticals – is also an important part of the usage of medicines mix. Medicines adherence, people taking their prescribed medicine and obtaining the full benefit, helps ensure medicine subsidies are effective and obtain the desired health outcomes. PHARMAC is exploring innovative tools to assist patients to effectively manage their medicines and get the maximum benefit.

Measuring our impact on usage of medicines

PHARMAC has some control over medicine usage through the access criteria it defines for funded medicines. The most widely-used instrument is Special Authority, which requires clinicians to apply on the basis that their patient meets the criteria for funding specified in the Pharmaceutical Schedule.

Special Authority is a targeting mechanism to ensure expensive medicines are used by patients with the greatest health need, while also controlling growth in prescribing and ensuring expensive medicines are used cost-effectively.

The graph below shows that prescribing growth for medicines covered by Special Authority is lower than for those medicines not covered by Special Authority criteria. This illustrates the impact that this mechanism has in managing prescribing, and therefore spending, growth. This is one of the ways in which PHARMAC influences the usage of medicine - specifically higher-cost medicines or those

Te Whaioranga – responding to Maori health needs

PHARMAC has had a Māori Responsiveness Strategy since 2002. The current action plan – Te Whaioranga – aims to ensure equitable access to medicines for Māori. This was developed after extensive consultation with the Māori community, and guides us on how to best meet the needs of Māori. The six strategic goals are:

- incorporate Māori strategic priorities into wider PHARMAC work
- improve human resources
- improve ethnicity data collection and analysis
- improve our performance in negotiating with suppliers and assessing new drug applications
- improve our performance in informing Māori about available subsidised medicines
- improve Māori representation and participation in PHARMAC's work.

The Strategy has led to activities to improve our responsiveness to Māori. There is Māori representation on PHARMAC's Board and in advisory bodies. One specific campaign, He Rongoa Pai, He Oranga Whānau, has been developed to help improve use of medicines by Māori. This campaign delivers education sessions to high-needs communities and the health professionals who service these communities to empower management of health at a community level.

PHARMAC's Pacific Responsiveness Strategy developed in 2010 has commenced implementation.

requiring closer prescriber monitoring. This is consistent with PHARMAC's legislative objective, as over-prescribing of expensive medicines would limit PHARMAC's ability to use the pharmaceutical budget cost-effectively by reducing its ability to invest in new medicines. At the same time, PHARMAC is cautious about inappropriate use of Special Authority as this can be perceived as an administrative burden for clinicians.

Anticipated future performance

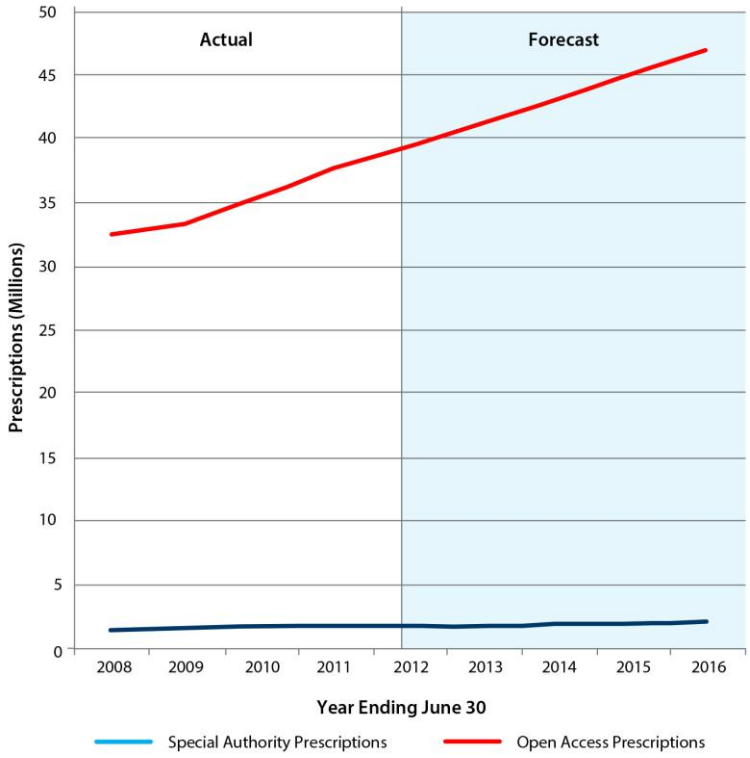
Given current policy settings and trends, we anticipate on-going gradual increases in spending on Special Authority medicines. However, these are expected to increase at a slower rate than overall pharmaceutical spending. As outlined on p11, medicine prescribing is anticipated to grow due to a number of factors, including PHARMAC's management of the pharmaceutical budget (funding more new medicines and making savings in existing medicines to free up further funding), while external factors such as population growth; and demographic changes such as an ageing population (an older population being associated with higher usage of medicine) are also influential.

Current performance and expected future targets within the Combined Pharmaceutical Budget are illustrated in the table below.

	2011/12 actual	2012/13 estimate	2013/14 target	2014/15 projection	2015/16 projection
Number of prescriptions for Special authority medicine	1.7 million	1.8 million	1.9 million	2.0 million	2.0 million
Number of prescriptions for medicines with open access	39.4 million	41.3 million	43.2 million	45.1 million	47.0 million

The expected trend is illustrated in the graph below (lines illustrate numbers of prescriptions for open access and special authority medicines)

Prescription trends actual and predicted – open access and Special Authority medicines



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. This is particularly important at a time of fiscal restraint and tight budgets.

We estimate health gain in terms of Quality Adjusted Life Years (QALYs – see description in box opposite). Each year PHARMAC is faced with a list of medicines seeking funding, and prioritises how best to spend the available funding in order to maximise health outcomes. Prioritisation is necessary because the demand for funding is always greater than the amount of available funding. We do this by using our decision criteria (see box on page 17).

We can measure our decision-making effectiveness by calculating the average value of the funding options we had available (our prioritisation list), and comparing that figure with the average value of the funding decisions actually made. Value will be expressed in terms of the number of QALYs gained per million dollars spent. We will aim to out-perform the average value of the funding options available, and in so doing illustrate our performance in selecting the best-value funding options available to use during the year.

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.

Measuring our contribution to economic and system impacts

In 2013/14 PHARMAC's operating budget will increase, and the Combined Pharmaceutical Budget (CPB) will grow to accommodate a minimum of $10 million spent on new medicines and widened access to medicines. PHARMAC's management activity, including investing in new medicines and making savings on existing products, is expected to lead to growth in the volume of medicines funded by 6-7 per cent, and the number of new medicines will also grow. So through PHARMAC's activity, more New Zealanders will receive funded medicines and the range will grow.

Our work has meant that, since 2002, we have saved District Health Boards a cumulative total of $3.8 billion. At the same time, the number of new medicines and patients receiving them has increased. This estimate is based on pharmaceutical prices in 2002 mapped onto actual prescribing activity, and compares actual spending with what would have happened had PHARMAC taken no action. If not for PHARMAC, this funding would have had to come from other areas of health spending.

In short, PHARMAC's work gives District Health Boards funding choices they wouldn't otherwise have.

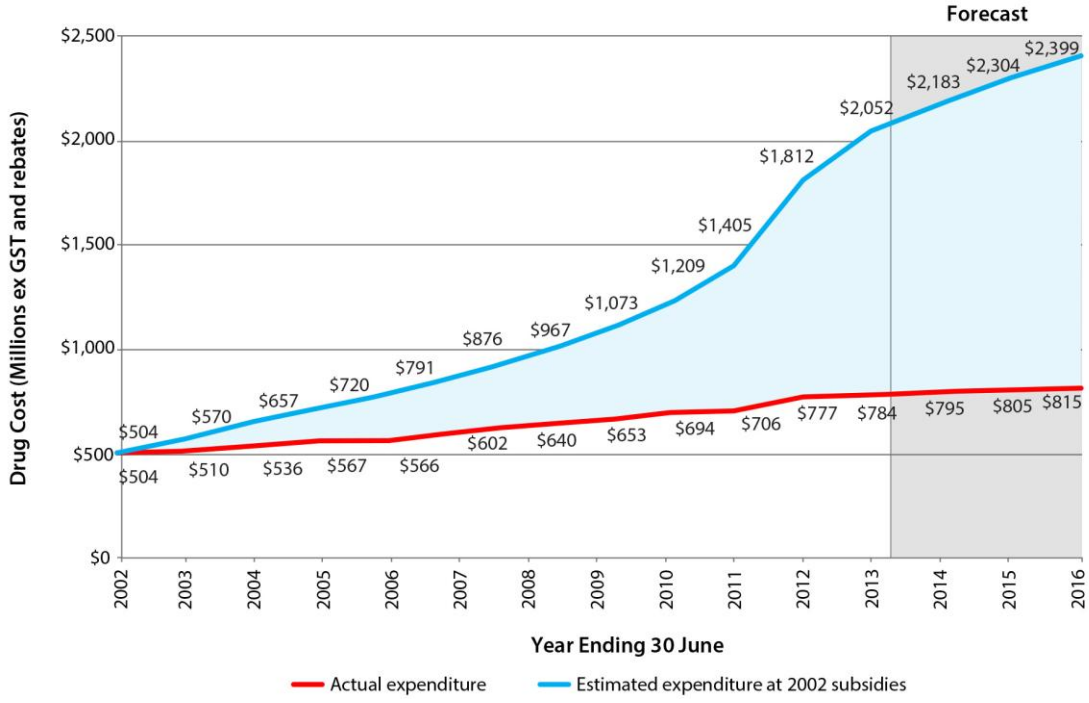
PHARMAC's activity will include:

- Seeking clinical advice on potential new pharmaceutical investments;
- Reviewing (where appropriate) access to currently funded medicines and removing access barriers where possible;
- Working with pharmaceutical suppliers to reach cost-effective and mutually acceptable agreements for new pharmaceuticals
- Continuing to run commercial processes to extract value from currently-funded medicines; and
- Investing in new medicines (and widening access to medicines) where PHARMAC considers this leads to improved health outcomes for New Zealanders.

Economic and System Impact	Measure	2011/12 actual	2012/13 estimate	Target by 2015/16
DHBs get best value for money	Average value of funding decisions is greater than the average value of all opportunities.	Achieved. Funded proposals provided a weighted average of 22 QALYs per $1m, compared to an average of 13 QALYs/$1m from all proposals considered.	We estimate that the average value of funding decisions made will be greater than the average value of funding opportunities we could have chosen during the year.	The average value of funding decisions is greater than the average value of funding opportunities we could have chosen during that year.

The graph below shows the impact of PHARMAC on drug expenditure in the CPB. PHARMAC's influence has been in negotiating lower prices for existing pharmaceuticals while maintaining and widening access for New Zealand patients. Cost management of pharmaceutical has been achieved through competition which has led to price reductions, rather than by restricting access to medicines or limiting patient choice. Through this work, PHARMAC has managed funding at a lower level of growth than would otherwise have occurred.

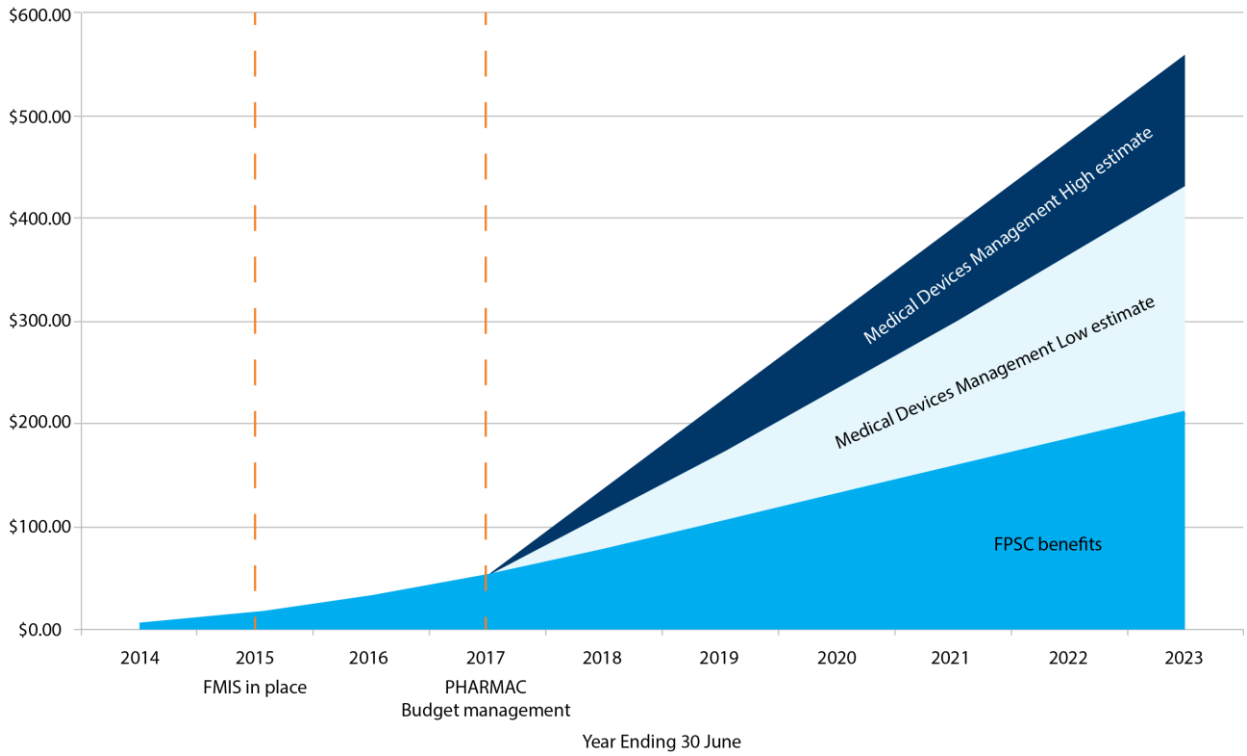
Impact of PHARMAC on drug expenditure over time (actual and predicted 2002 to 2016)



The shaded area between the graph's lines indicates the total amount saved since 2002. This is the difference between estimated spending without savings, and actual spending.

The value of the CPB includes nicotine replacement therapy from 2010/11, pharmaceutical cancer treatments from 2011/12, and vaccines from 2012/13. The inclusion of these additional items makes predictions of future expenditure trends less certain. Expenditure beyond 2013 is estimated and actual figures are subject to change. Predictions of future expenditure do not take into account the possibility of further spending being included, such as hospital medicines or of additional savings being made.

Potential savings to DHBs from PHARMAC's medical devices activity



In 2011/12 DHBs were spending around $880 million on medical devices, with the cost growth estimated at around 7 per cent per annum. Cabinet's expectation is that PHARMAC will deliver savings to DHBs from the full management of these medical devices. This includes assessment, prioritisation, standardisation, and procurement of all hospital medical devices within a fixed budget. PHARMAC is moving towards achieving this in a carefully sequenced way (refer to box panel, page 19). In the meantime, Cabinet agreed to adoption of an accelerated plan for PHARMAC to assume responsibility for the procurement of some medical device categories immediately, as a first step to full PHARMAC management within the Pharmaceutical Schedule. This procurement work is expected to deliver net savings to DHBs from 2013/14 and these are shown in the performance measures on page 20. The gross savings are reduced through the costs incurred by PHARMAC for its medical devices activity.

By 2021/2022 PHARMAC expects to return benefits of between $363 million and $472 million to the sector, some of which may be reinvested in new devices/health services. However, to achieve this greater level of savings, PHARMAC is dependent on the work of Health Benefits Limited (HBL) in establishing a Financial Management Information System (FMIS) across 20 DHBs by 2015/16. The FMIS system will support compliance with section H of its Pharmaceutical Schedule, which lists medical devices that may be used in hospitals. The FMIS system is part of a Finance, Procurement and Supply Chain (FPSC) Business Case that HBL is implementing on behalf of DHBs. A major portion of the procurement savings within the FPSC relates to medical devices procurement. From 2017/18, PHARMAC will take on responsibility for full budget management of hospital medical devices. While PHARMAC's procurement work will contribute to the FPSC anticipated level of medical devices procurement savings, the savings of PHARMAC's broader medical devices management represent more than double the cumulative benefits over the FPSC. This estimate is based on PHARMAC's experience in managing pharmaceuticals, rather than on any robust data set. However, as we get data and further experience on these markets we expect to modify these estimates up, or down.

Outputs – PHARMAC's activities

Our main activities for the financial year 1 July 2013 to 30 June 2014 are set out below. The output classifications align with those illustrated in the chart on page 4. We have also indicated the level of expenditure budgeted on each output class. Expenditure figures relate to spending from PHARMAC's operational budget, not the $795 million Combined Pharmaceutical Budget (CPB). Note that not all outputs are measured and reported on.

Output class 1 – Making decisions about pharmaceuticals $15.8 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).

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 and 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.

PHARMAC has a defined set of operating guidance that describes how it goes about its work, the Operating Policies and Procedures (OPP). A review of the OPP began in 2012/13 and will continue into the 2013/14 financial year. This includes a review of the decision criteria.

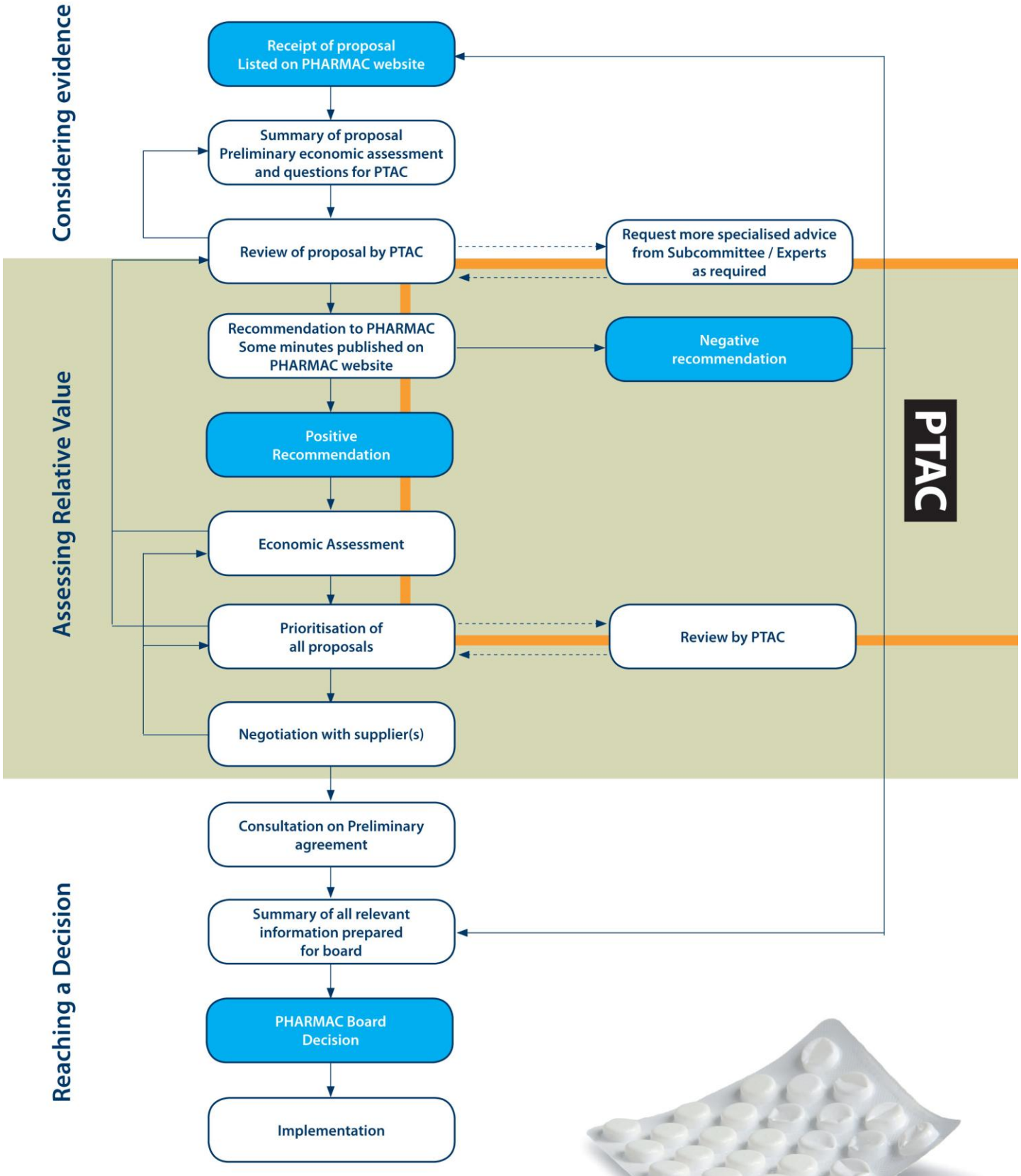
The decision criteria take into account the factors we think are relevant to making medicine funding decisions in a New Zealand context. There is a specific reference to the affordability of decisions (reflecting PHARMAC's limited budget), and the particular health needs of Māori and Pacific peoples is identified. This aligns the decision criteria with Te Whaioranga, PHARMAC's Māori Responsiveness Strategy. Cost-effectiveness, as measured by Quality Adjusted Life Years (see page 14) is another important consideration.

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. From 2011/12 funding for pharmaceutical cancer treatments was met from within the expanded CPB. From 2012/13, the CPB also included funds for vaccines. PHARMAC does not hold these funds – however, it monitors spending with the aim of ensuring that spending does not exceed that agreed notional budget. PHARMAC also has a Discretionary Pharmaceutical Fund that supports pharmaceutical decision-making. The Pharmaceutical Schedule is a comprehensive list of medicines covering the majority of New Zealanders' health needs. The Schedule decision-making process is outlined in the diagram on page 18.

Decisions involve choice. One of the ways in which PHARMAC's performance can be measured is in considering the average value for money of the choices it makes compared with the average value of all available choices. Assurance to the question, "is PHARMAC making good choices" is met through the robust inputs PHARMAC uses to manage its decision-making processes.

Schedule decision making process

The process set out in this diagram is intended to be indicative of the process that may follow where a supplier or other applicant wishes a pharmaceutical to be funded on the Pharmaceutical Schedule. PHARMAC may, at its discretion, adopt a different process or variations of the process (for example, decisions on whether or not it is appropriate to undertake consultation are made on a case-by-case basis).



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

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. An online Application Tracker on PHARMAC's website (www.pharmac.govt.nz) enables consumers, clinicians and industry representatives to track the progress of population-based funding applications.

Output 1.1 Community Pharmaceuticals

The Schedule contains a list of medicines funded for all New Zealanders, and dispensed in the community, including vaccines.

Output 1.2 Other Pharmaceuticals

PHARMAC manages pharmaceutical expenditure for DHBs in areas outside the community setting including an expanded role with hospitals. This includes managing Section H of the Schedule. In past years this was a list of hospital medicines for which PHARMAC negotiated national supply terms. From 2013/14 this includes a Hospital Medicines List of medicines that may be used in DHB hospitals (see box panel).

PHARMAC is responsible for a small number of medical devices used in the community and DHB hospitals. During 2013/14 we will work on national procurement of certain types of hospital medical devices. Eventually all medical devices used in DHB hospitals will be listed on the Pharmaceutical Schedule.

Section H medicines are funded through DHB hospitals, so are not included in the CPB.

Output 1.3 Special Access Panels

Some pharmaceuticals are very expensive, and to help ensure these are appropriately targeted PHARMAC manages panels of expert doctors to apply the criteria on which patients can access treatment. Around 4000 panel applications are received each year.

Panels are maintained for:

- Cystic Fibrosis;
- Gaucher's Disease;
- Human Growth Hormone (children and adult);
- Insulin Pumps;

HOSPITAL MEDICINES LIST AND MEDICAL DEVICES

During 2010 the Government gave PHARMAC expanded roles, including taking a greater role in managing hospital medicines, and in planning for the management of medical devices. These are multi-year projects that will see changes being implemented over the next two to three years.

Hospital Medicines

There has historically been variation in the hospital medicines that each DHB funds for its patients. The introduction of a new hospital Schedule (Section H) will standardise the funding of medicines in DHB hospitals throughout the country, and new hospital medicines will be introduced on a nationally-consistent basis. This aims to eliminate the phenomenon known as postcode prescribing, and may also create greater efficiencies through using a central agency (PHARMAC).

This multi-year project has involved a staged approach to information-gathering and engagement with hospital clinicians, DHB managers, consumers and industry.

Medical Devices

We are responsible for a small number of medical devices in the community. These include:

- Asthma management (peak flow meters, spacers, masks);
- Blood glucose testing and management (i.e. test strips/meters, insulin needles/syringes, and insulin pumps and consumables);
- Contraception/IUDs;
- Pregnancy test kits; 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.

During 2010/11 PHARMAC was given greater responsibility to begin assuming responsibility for purchasing medical devices. During 2012/13 we have worked with Health Benefits Limited to support their work to deliver on the Finance, Procurement and Supply Chain (FPSC) Business Case that will see a range of shared services for 20 DHBs delivering national savings. PHARMAC has a key role to play in delivering the benefits relating to procurement of medical devices. Some savings will be returned to DHBs as reductions in expenditure. Other savings secured by PHARMAC will be used for funding growth and new investments. The national implementation plan approved by Cabinet for PHARMAC's work in medical devices is:

2013/14	interim procurement activity
2013/14 to 2014/15	transition to Schedule
2015/16 to 2016/17	steady state assessment of new devices, health technology assessments, active category management, category reviews and tendering
2017/18	budget management

- Multiple Sclerosis;
- Pulmonary Arterial Hypertension; and
- Treatments for chronic myeloid leukaemia (imatinib, dasatinib).

Output 1.4 Named Patient Pharmaceutical Assessment

This is the mechanism that assesses applications for individual patients to receive funding of medicines that are not otherwise funded through the Pharmaceutical Schedule or through DHB Hospitals. PHARMAC introduced the NPPA scheme in 2012 following a comprehensive review of the previous Exceptional Circumstances schemes for community, hospital, and cancer medicines. Expenditure for NPPA community and cancer treatments continues to be drawn from the CPB, while hospital pharmaceuticals in the community approvals are funded by individual DHB hospitals.

Making decisions about pharmaceuticals output measures

Impact	Output		Measure	2011/12 actual	2012/13 estimate	2013/14 target	2015/16 target
Access Economic and system	1.1	Community Pharmaceuticals decisions.	Percentage of funding decisions supported by evidence and made using PHARMAC's nine decision criteria.	Achieved all PHARMAC funding decision papers (to PHARMAC Board or Chief Executive) also include information on how the decision aligns with the nine decision criteria.	We estimate that all funding decisions will be supported by evidence and made using PHARMAC's nine decision criteria.	All funding decisions are supported by evidence and made using PHARMAC's nine decision criteria.	All funding decisions are supported by evidence and made using PHARMAC's nine decision criteria.
			Percentage of decisions on line items (excluding bids held open while awaiting Medsafe registration) made within 6 months of the tender closing.	Achieved. Decisions on 99% of line items made (excluding bids held open while awaiting Medsafe registration) by the end of April 2012.	We estimate that decisions on more than 90% of line items (excluding bids held open while awaiting Medsafe registration) will be made within 6 months of the tender closing.	Decisions on more than 90% of line items (excluding bids held open while awaiting Medsafe registration) will be made within 6 months of the tender closing.	Decisions on more than 90% of line items (excluding bids held open while awaiting Medsafe registration) will be made within 6 months of the tender closing.
Access Economic and system	1.2	Other pharmaceutical decisions (including medical devices).	Savings returned to the health sector.	Establishment work commences (no savings).	Clinical engagement consultation information-seeking phase completed. Interim procurement activity scoped (no savings, PHARMAC costs $1.4 m).	Clinical engagement consultation on proposal completed. Gross savings: $9.42 m Savings net of PHARMAC's costs returned to DHBs: $3.77 m	Gross savings: $9.98 m (14/15) $20.78 m (15/16) Savings net of PHARMAC's costs returned to DHBs: $4.33 m (14/15) $14.76 m (15/16)

Impact	Output		Measure	2011/12 actual	2012/13 estimate	2013/14 target	2015/16 target
		Hospital pharmaceuticals decisions.	Savings to DHB hospitals.	Establishment work commences (no savings).	Schedule developed. Consultation on Schedule rules and updated NPPA policy completed.	New investments made in hospital pharmaceuticals within financial limits agreed with DHBs, with all funding decisions supported by evidence and made using PHARMAC's nine decision criteria.	New investments made in hospital pharmaceuticals within financial limits agreed with DHBs, with all funding decisions supported by evidence and made using PHARMAC's nine decision criteria.

Output class 2 - Influencing medicines access and use $8.4 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. Medicine adherence – ensuring patients take the medicine prescribed for them in the way intended by their prescriber – is a further important component. Beyond providing information, this work includes workforce development, seeking community input, and working with health professionals to deliver the programmes so that the medicines that are funded for people are used optimally. Projects in this area are also considered within the context of Te Whaioranga, PHARMAC's Māori Responsiveness Strategy.

Output 2.1 Sharing information/explaining decisions

Along with prescribers, we rely on feedback from pharmacists on the practicality of Schedule changes. We regularly meet with medical groups and seek their input through our consultation processes. We also work alongside some medical groups in developing our Access and Optimal Use activities. We maintain regular contact with patient and consumer groups and welcome dialogue on medicine funding, or other issues. To make sure we are asking the right questions of the right people, we take advice from our Consumer Advisory Committee on our engagement plans and practices and, from time to time, PHARMAC undertakes engagement and consultation activities with the community through regional and national forums.

We work to 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. As well as notifying about our decisions, we also work to implement our decisions in a way that supports both health professionals and patients. This can be through targeted provision of clinical advice, or through more widespread provision of information about the changes.

Our Population Health Programmes

One Heart Many Lives - 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 - 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 - aims to reduce the concerns people have about generic medicines, such as effectiveness, safety, side effects and country of manufacture.

Antipsychotics in dementia - aims initially to assess the extent of inappropriate prescribing of antipsychotics for behavioural and psychological symptoms of dementia in residential care facilities. This review will inform development of an appropriate education, resource and support programme to address inappropriate prescribing of antipsychotics in this setting.

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 optimal use of medicines. Key projects to be advanced in 2012/13 are outlined in the box opposite.

Sometimes decision implementation is supported by information provided to health professionals and consumers through our health education programmes, such as He Rongoā Pai He Oranga Whānau, a programme that provides seminars to Māori Community Health Workers and Primary Care Nurses.

We also work to share information and promote evidence-based prescribing to health professionals through our management of the PHARMAC Seminar Series and the work of $bpac_{nz}$ who currently provide (following a competitive tender) services to promote appropriate prescribing through high-quality educational materials and resources.

Adherence programmes

Adherence programmes also play an important role in PHARMAC's business. The decision-making around which medicines are subsidised is one element of PHARMAC's work, but we also promote the responsible use of medicines. This involves ensuring medicines are prescribed and used as intended. The work PHARMAC does in this area helps ensure that the health outcomes sought through funding decisions are realised, and that medicines are not overused, underused or misused by patients. This is called 'adherence'. In January 2013, PHARMAC issued a Request for Information for technology based offerings on adherence that may have the potential to support the work of PHARMAC. See the box panel at right for more information.

New ways of promoting adherence

Poor adherence to medication regimens has the potential to negatively affect health outcomes. PHARMAC is currently investigating ways in which technology can support, promote and improve medication adherence. This might include mobile, digital, telecommunication, or other device-type approaches.
A Request for Information was issued in January 2013 and PHARMAC is currently evaluating the close to 60 responses received. PHARMAC is particularly interested in evidence around the effectiveness of technology interventions and the ability to evaluate them, including their effectiveness with different population groups, health conditions, and/or medications.

Output 2.3 Supply management

PHARMAC has dedicated resources which enable us to be more aware of when supply shortages might arise, and to take action to mitigate them. We're also aware that medicines not on contract are important to patients and need to be monitored. This requires on-going vigilance of the supply chain to ensure adequate supplies between pharmaceutical companies, wholesalers, pharmacists and patients. Currently, PHARMAC also manages direct distribution of some complex medicines direct to patients. This includes some medicines used to treat leukaemia, multiple sclerosis and enzyme deficiency disorders. PHARMAC is considering moving distribution back into the normal supply chain, through community pharmacies. There is a one to two year time frame for this process and it will be achieved in stages, starting with leukaemia treatments. DHB and pharmacy approval would be needed to establish some parts of this service and we are working with these organisations to achieve this. A greater number of medicines could be considered under an alternative distribution process if established.

Influencing medicines use output measures

Impact	Output		Measure	2011/12 result	2012/13 estimate	2013/14 target	2015/16 target
Access Usage	2.1	Explaining decisions and sharing information	Amount of campaign materials distributed compared with previous year.	Achieved greater amount than previous year. Resource orders from www.pharmaconline.co.nz for 1 July 2011 to 30 June 2012 totaled 1195 with an average of 2.7 different types of resource per	We estimate that demand for campaign materials will be equal to or greater than previous year.	Amount of campaign materials distributed is greater than previous year.	Amount of campaign materials distributed is greater than previous year.

Impact	Output		Measure	2011/12 result	2012/13 estimate	2013/14 target	2015/16 target
				order. In the 2010/11 financial year, there were 1241 orders received. In addition to online orders, campaign materials were distributed at public events such as the Regional Forums held with consumers throughout the country.			
	2.2	Population health programmes	Surveys of Seminar Series attendees showing respondents' satisfaction with the Seminars out of five (1 = poor, 5 = excellent)	92.3% of respondents indicated their satisfaction with the service was at least four out of five.	We estimate that at least 90% of surveyed attendees will rate their satisfaction with the Seminars at least four out of five.	Surveys of attendees show at least 90% of surveyed attendees rate their satisfaction with the Seminars at least four out of five.	Surveys of attendees show at least 90% of surveyed attendees rate their satisfaction with the Seminars at least four out of five.
Access Usage	2.3	Supply management.	Low medicine stock situations identified and managed.	All low medicine stock situations were identified and managed.	Respond to low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.	Respond to low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.	Respond to low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.

Output class 3 – Providing policy advice and support $3.2 million

Output 3.1 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, advice and support to DHBs on a range of matters including pharmacy contracting and medicines distribution, and contribution to the development of a NZ Universal List of Medicines and National Formulary, amongst other sector-wide initiatives including those that seek to reduce the administrative workload of clinicians.

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

PHARMAC has worked with the pharmacy sector on changes to the Community Pharmacy Services Agreement (CPSA) that was implemented in 2012/13. PHARMAC will consider the impact on wider sector arrangements, including the CPSA, when making Schedule decisions.

Output 3.2 Policy advice

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

Output 3.3 Contracts and Fund management

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

PHARMAC also has access to a legal risk fund, with a value of $6.653 million in 2013/14, which is used to meet litigation costs that are not otherwise met from PHARMAC's regular operational spending on legal services.

From 2010/11 PHARMAC established the Discretionary Pharmaceutical Fund, a funding mechanism to enable more effective use of the pharmaceutical budget across financial years.

Providing policy advice and support output measures

Impact	Output		Measure	2011/12 result	2012/13 estimate	2013/14 target	2015/16 target
Economic and system	3.2	Policy advice.	Survey of policy requesters indicates satisfaction with timeliness and quality of PHARMAC's policy advice, out of five (1 = poor, 5 = excellent).	PHARMAC surveyed policy requesters in June/July 2012. The results of the survey give PHARMAC an average, out of a possible score of 5. Scores, with baseline from the 2011 survey in brackets, showed no significant difference in results: • 4.88 (4.33) for timeliness; • 4.50 (4.78) for quality of analysis given; • 4.50 (4.89) for relevance; • 4.63 (4.56) for thoroughness; • 4.25 (4.33) for clarity; and • 4.75 (4.56) for informal policy support and availability.	We estimate an average survey score of at least 4.5 in each area.	An average survey score of at least 4.5 in each area.	An average survey score of at least 4.5 in each area.
Economic and system	3.3	Rebates distribution	All rebates are collected and distributed to DHBs in accordance with PHARMAC policy.	Achieved. All rebates collected were distributed to DHBs in accordance with PHARMAC policy.	We estimate all fund use will be in accordance with PHARMAC policy.	All fund use is in accordance with PHARMAC policy.	All fund use is in accordance with PHARMAC policy.

Our Capability

Our success depends on adequate capability in a number of areas. PHARMAC's unique skill lies in our ability to synthesise and create unique knowledge to help us achieve our legislative objective. We have also identified four areas of strategic importance in coming years – these are described in detail below. Our people are our most important asset as they are integral to our ability to deliver on our functions, 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 to enable us to continue to meet our legislative objective. In February 2013, PHARMAC had about 80 staff, and this number is expected to grow as we build capability to take on PHARMAC's expanded role in hospital medicines and medical devices management.

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 the environment at PHARMAC which facilitates development of sought after skills (and therefore increased employment prospects). We need to develop and retain key capability in areas where particular skills are in short supply. PHARMAC's expanded role in hospital medicines and medical devices will also require recruiting further employees with the appropriate specialised skills. With skills in economic assessment and commercial procurement in the medical field already in short supply in New Zealand, this makes it even more critical that PHARMAC attracts and retains good staff.

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. We aim to enhance this capability through skills development and succession planning. Drawing on internal and external feedback, we continue to build an organisational culture fit for current and future challenges. PHARMAC reviewed and republished its Vision, Mission and Values in 2011/12;

- *recruitment, selection and induction* – our recruitment process remains an important focus to fill vacancies quickly with appropriately skilled staff. Recruitment activity increased during 2012/13 and this is expected to continue in 2013/14. Our induction programme covers all key aspects of our business for new recruits to quickly build new employees' understanding of our work, and expectations;

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

- *flexibility and work design* – we offer flexible working conditions, including part-time work and remote working, provided business needs can be met. There is significant uptake of these options by employees;

- *remuneration, recognition & conditions* – remuneration is performance-based, using a 'total remuneration' policy with reference to external market benchmarks and remuneration expectations of the state 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, and emergency preparedness (including business continuity planning).

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;

- *communications and stakeholder engagement* – we continue to work on improving how we better understand stakeholder views, and better explain our own. The PHARMAC Forum, a face to face conference of leaders in the pharmaceutical sector, is now a regular event;

- *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. Our Māori Responsiveness Strategy provides a framework for ensuring that PHARMAC is aware of, and responding to, the needs of Māori in relation to pharmaceuticals;

- *Pacific responsiveness* – PHARMAC has developed a Pacific Responsiveness Strategy to guide its internal and external engagement and operations affecting Pacific peoples;

- *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.

Our Strategies for Future Success

PHARMAC has strategic priorities to ensure its continued focus on achieving its objectives.

Improved Clinical Leadership

Our ability to gather the right information from the right people, make good decisions and obtain buy-in substantially depends on our performance in the area of clinical leadership. Part of our work in improving how we interact with stakeholders is about ensuring that we have the right networks and advice across each activity. Communicating and implementing our decisions is clearly essential.

Our extended functions in the area of secondary care (hospital medicines and medical devices) require us to ensure that we are appropriately resourced in this area.

We will work to:

- develop relationships and networks with secondary care clinicians;
- maintain existing clinical relationships and networks; and
- understand and contribute to policy development around primary care ‘clinical extenders’ such as pharmacy prescribing and clinical services initiatives.

Developing these areas will ensure that:

- PHARMAC is able to predict issues, and seek advice and contributions from secondary care on areas of relevance to them;
- clinician perspectives are well-understood and integrated within decision-making and implementation processes; and
- PHARMAC’s perspective is sought on policy initiatives relating to the role of pharmacy and other extensions of primary care.

Enhancing E-Influence

Opportunities exist through the better use of technology to obtain (and create) knowledge, more smoothly implement PHARMAC's activities, and communicate more broadly. Opportunities exist to maximise benefits through connecting in with sector IT initiatives including data systems, and developing and delivering our own solutions.

A key enabler for success is connectedness in IT and Information Management strategy within the organisation and between PHARMAC and the wider sector.

We will work to:

- support and influence sector IT initiatives including data systems;
- develop and maintain effective networks with private software vendors, health IT, DHB systems providers;
- participate in Steering Groups and working groups for NZMT, NZULM, e-prescribing and other related initiatives;
- develop and maintain PHARMAC's Information Systems Strategic Plan and Information Management Strategy; and
- ensure human resources strategy is aligned with seeking, retaining and developing staff with information management skills (see above re good employer and capability work).

Developing these areas will ensure that:

- health sector IT developments work seamlessly with pharmaceutical-related systems;
- PHARMAC's perspective is sought on health IT-related policy and process;
- integration of data related to PHARMAC's extended roles in medical devices and hospital medicines is seamless;
- PHARMAC's internal systems and processes are robust and able to respond to changes in sector health IT parameters; and
- staff and stakeholders are able to access high-quality information in usable formats in a timely manner.

Core Strength

Value is created through PHARMAC's management of medicines. In evaluating opportunities for change and improvement we must ensure continued delivery of the best health outcomes, combined with budget management. Gains can be made through developing improved ways of measuring our performance, and communicating this to interested parties in relevant ways.

Enhancing our capability and good employer work, as outlined above, is also important to achieving this strategy. In order to deliver on its strategies in a manner consistent with its organisational values PHARMAC often requires people with relatively rare skill sets and particular attitudes and personal attributes.

We will work to:

- continue to improve PHARMAC as a good employer and attractive place to work;
- embed the PHARMAC values and core competency within the performance planning framework; and
- develop and implement a research/publication strategy.

Developing these areas will ensure that:

- PHARMAC is able to integrate extended functions into the organisation without loss of culture or values (which are important factors in the success of our current approach);
- new staff are a good fit, and understand PHARMAC's values and core competency. Existing staff buy-in to the new identity statements and demonstrate the behaviours outlined in the revised Framework for Success;

- quality of PHARMAC analysis and decisions continue to lead to greater health gains than the alternative; and
- "The PHARMAC model" continues to be referenced in external reviews as best-practice within the sector.

Value from Extended Functions

Evaluation of the external environment and PHARMAC's capabilities indicates that we can add value in a number of new areas. Greater management of hospital medicines, managing funding for vaccines and assessing future vaccines, and reorganising (with other entities) the management of medical devices are areas with which we have been tasked.

In line with Government expectations, PHARMAC will give a high level of attention to these areas, in particular with medical devices.

In order to enable the required action (and protect the core activity from distraction), we have built a small establishment team with the requisite capabilities, including medical, programme management and analytical capabilities.

We will work to:

- obtain quick wins from new activities; and
- ensure a robust process for management is developed between responsible agencies.

Developing these areas will ensure that:

- quality of PHARMAC analysis and decisions mirrors that seen for medicines;
- real sector value can be observed and is reported to stakeholders; and
- improved management of technology adoption occurs.

Great reputation

This area is seen as essential to our future success. The Minister of Health has set a clear expectation that PHARMAC has some existing business as usual challenges in areas requiring strong engagement with consumers and clinicians. As we begin our work with hospital pharmaceuticals and medical devices, we require a much higher level of engagement with, and responsiveness to, our stakeholders.

PHARMAC has long had a culture of achieving the targets set for it and effectively managing subsidies for medicines. This is the foundation of our reputation. A focus on this for the future means continuing to do the things we do well for the benefit of District Health Boards and taxpayers, and delivering high-quality services that are valued by New Zealanders.

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"*.[2]

Our core business processes are published on the PHARMAC website www.pharmac.govt.nz. These include our:

- Operating Policies and Procedures
- Prescription for Pharmacoeconomic Analysis
- consultation and notification documents
- minutes of the Board's advisory committees.

Information about pharmaceutical funding applications, including minutes of the clinical advisory committee PTAC, is available through our online Application Tracker.

Accountability

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

Governance

The Minister 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).[3] 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.

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

Prospective Financial Information

Key assumptions

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

- *our Statement of Forecast Service Performance* is contingent on appropriate funding and depending on funding decisions, PHARMAC's activities and associated measures for 2012/2013 may change;

- *expenditure increases generally* – a number of budget lines have assumed cost increases due to changes in PHARMAC's functions;

- *personnel costs* – expenditure in personnel has been increased to maintain consistency with other state sector organisations, given PHARMAC's personnel are its key asset;

- *future costs* – out-year costs in the operating budget are due to planned increases in new responsibilities;

- *prudential reserve* – the level of PHARMAC's prudential reserve of $3.0m;

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

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

- *Discretionary Pharmaceutical Fund (DPF)* – the balance of the Discretionary Pharmaceutical Fund is based on the forecast of pharmaceutical expenditure; and

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

Prospective Financial Statements

Prospective Statement of Comprehensive Income

	Note	For the period of 1 July 2013 to 30 June 2014	For the period of 1 July 2014 to 30 June 2015	For the period of 1 July 2015 to 30 June 2016
	1	$000 (GST excl)	$000 (GST excl)	$000 (GST excl)
Revenue				
Crown Contribution		15,135	15,135	21,343
Additional sector Funding		5,650	5,650	0
Discretionary Pharmaceutical Fund (DPF)		2,198	2,050	1,950
DHB Contribution		3,395	3,425	3,455
Other Revenue		160	60	60
Interest Revenue		314	314	314
Legal Risk Fund (LRF)-Interest Revenue	2	260	260	260
Total Revenue		**27,112**	**26,894**	**27,382**
Expenditure				
Personnel Costs		11,958	12,827	13,234
Operating Costs		12,043	11,855	11,841
Herceptin Sold Trial		396	374	249
Depreciation		668	668	668
DPF payments to DHBs	3	2,050	1,950	1,850
LRF payments for litigation costs		260	260	260
Finance costs		9	12	12
Total Expenditure		**27,384**	**27,946**	**28,114**
Net Surplus/(deficit)		**(272)**	**(1,052)**	**(732)**
Other Comprehensive Income		0.00	0.00	0.00
Total Comprehensive Income		**($272)**	**($1,052)**	**($732)**

1. The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
2. LRF interest rate calculation 4.00% on an average balance $6,700k.
3. DPF forecast is linked to CPB forecast.

Prospective Statement of Financial Position

	Note	For the period of 1 July 2013 to 30 June 2014	For the period of 1 July 2014 to 30 June 2015	For the period of 1 July 2015 to 30 June 2016
		$000	$000	$000
	1	(GST excl)	(GST excl)	(GST excl)
PUBLIC EQUITY				
Retained Earnings & Reserves		4,306	3,528	2,945
Herceptin Sold Trial Reserve		693	319	70
Discretionary Pharmaceutical Fund	2	7,950	8,050	8,150
Legal Risk Fund		6,653	6,653	6,653
TOTAL PUBLIC EQUITY		**$19,602**	**$18,550**	**$17,818**
Represented by:				
Current Assets				
Cash and bank		13,717	12,565	11,733
DPF monies deposited into rebate account		7,950	8,050	8,150
Receivables and prepayments		100	100	100
Total current assets		**21,767**	**20,715**	**19,983**
Non-current assets				
Property, Plant and Equipment		715	715	715
Intangible assets		120	120	120
Total non-current assets		**835**	**835**	**835**
Total assets		**22,602**	**21,550**	**20,818**
Current Liabilities				
Creditors and other payables		2,290	2,277	2,264
Employee entitlements		500	500	500
Total current liabilities		**2,790**	**2,777**	**2,764**
Non-Current Liabilities				
Provisions		210	223	236
Total liabilities		**3,000**	**3,000**	**3,000**
NET ASSETS		**$19,602**	**$18,550**	**$17,818**

Note:
1. The above statement should be read in conjunction with the accounting policies set out in Appendix 1.
2. Discretionary Pharmaceutical Fund forecast is linked to CPB forecast.

Prospective Cash Flow Statement

	For the period of 1 July 2013 to 30 June 2014	For the period of 1 July 2014 to 30 June 2015	For the period of 1 July 2015 to 30 June 2016
	$000 (GST incl)	$000 (GST incl)	$000 (GST incl)
Cash flows – Operating activities			
Cash was provided from:			
- Crown Contribution	15,135	15,135	21,343
- Additional Sector Contribution	5,650	5,650	0
- DPF Funding from DHBs	2,198	2,050	1,950
- DHB Contribution	3,395	3,425	3,455
- Interest Revenue	314	314	314
- LRF Interest revenue	260	260	260
- Other Income	160	60	60
	27,112	**26,894**	**27,382**
Cash was disbursed to:			
- Cash outflow to suppliers and employees	(25,994)	(26,978)	(27,146)
- Net GST	(400)	(400)	(400)
	(26,394)	**(27,378)**	**(27,546)**
Net cash flow from operating activities	**$718**	**($484)**	**($164)**
Cash flows – Investing activities			
Cash was disbursed to:			
- Purchase of fixed assets	(668)	(668)	(668)
Net cash flow from investing activities	**($668)**	**($668)**	**($668)**
Cash flows – Financing activities	0	0	0
Net cash flow from financing activities	**0**	**0**	**0**
Net increase/(decrease) in cash held	(420)	(1,152)	(832)
Add opening cash brought forward	14,137	13,717	12,565
Closing cash balance	**$13,717**	**$12,565**	**$11,733**

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

Prospective Movement in Equity

	For the period 1 July 2013 to 30 June 2014	For the period 1 July 2014 to 30 June 2015	For the period 1 July 2015 to 30 June 2016
RETAINED EARNINGS	$000	$000	$000
Balance at 1 July	4,330	4,306	3,528
Net surplus/(deficit)	(272)	(1,052)	(732)
Net transfer from/(to) Herceptin SOLD trial fund	396	374	249
Net transfer from/(to) discretionary pharmaceutical fund	(148)	(100)	(100)
Net transfer from/(to) legal risk fund	0	0	0
Balance at 30 June	**$4,306**	**$3,528**	**$2,945**
HERCEPTIN SOLD TRIAL FUND	$000	$000	$000
Balance at 1 July	1,089	693	319
Add:Net transfer from/(to) retained earnings	(396)	(374)	(249)
Balance at 30 June	**$693**	**$319**	**$70**
LEGAL RISK FUND	$000	$000	$000
Balance at 1 July	6,653	6,653	6,653
Add: Interest received transferred from/(to) retained earnings	260	260	260
Less: Litigation expenses transferred from/(to) retained earnings	(260)	(260)	(260)
Balance at 30 June	**$6,653**	**$6,653**	**$6,653**
DISCRETIONARY PHARMACEUTICAL FUND	$000	$000	$000
Balance at 1 July	7,802	7,950	8,050
Add: Income received transferred from/(to) retained earnings	2,198	2,050	1,950
Less: Pharmaceutical expenses transferred from/(to) retained earnings	(2,050)	(1,950)	(1,850)
Balance at 30 June	**$7,950**	**$8,050**	**$8,150**
TOTAL PUBLIC EQUITY	**$19,602**	**$18,550**	**$17,818**

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 2013 to 30 June 2014	For the period of 1 July 2014 to 30 June 2015	For the period of 1 July 2015 to 30 June 2016
	$000 (GST incl)	$000 (GST incl)	$000 (GST incl)
Net operating surplus/(deficit)	(272)	(1,052)	(732)
Add non-cash items: Depreciation	668	668	668
Total	**396**	**(384)**	**(64)**
Add/(less) working capital movements:			
Decrease (increase) in receivables	322	(100)	(100)
Increase (decrease) in payables	0	0	0
Working Capital Movement – net	322	(100)	(100)
Net cash flow from operating activities	**718**	**(484)**	**(164)**

Prospective Statement of Comprehensive Income, by Output Class

SOI 2013/14 $000	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	7,010	7125	1988	(15,810)	313
Influencing Medicine Use	6,042	1,547	340	(8,389)	(460)
Policy advice and support	2083	843	134	(3,185)	(125)
Total	**15,135**	**9,515**	**2,462**	**(27,384)**	**(272)**

SOI 2014/15 $000	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	7,010	6,685	2310	(16,222)	(217)
Influencing Medicine Use	6,042	1,547	240	(8,539)	(710)
Policy advice and support	2,083	843	134	(3,185)	(125)
Total	**15,135**	**9,075**	**2,684**	**(27,946)**	**(1,052)**

SOI 2015/16 $000	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	12,968	1,035	2210	(16,510)	(297)
Influencing Medicine Use	6,192	1,577	200	(8,400)	(431)
Policy advice and support	2,183	843	174	(3,204)	(4)
Total	**21,343**	**3,455**	**2,584**	**(28,114)**	**(732)**

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, whichever is shorter. Capital work in progress is not depreciated. The total cost of a project is transferred to the asset class on its completion and then depreciated. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

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.

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