

P H A R M A C E U T I C A L M A N A G E M E N T A G E N C Y

(P H A R M A C)

Statement of Intent 2005/06

TABLE OF CONTENTS

Foreword	3
Part 1 PHARMAC's Objectives and Strategic Priorities	5
1.1 PHARMAC's Contribution to the Health Sector	5
1.2 PHARMAC's Statutory Functions	6
1.3 Strategic Priorities	6
1.4 PHARMAC's aim in 2005/06	10
1.5 Key Activities	11
1.6 Role of the Minister on behalf of the Crown	20
1.7 Board of PHARMAC on behalf of PHARMAC	21
1.8 Ownership Performance	21
Part 2 Statement of Planned Performance	24
2.1.0 Purchase Objectives - Output: Management of Pharmaceutical Schedule	24
2.1.1 Activity One: Management of Community Pharmaceutical Expenditure	25
2.1.2 Activity Two: Promotion of Responsible Use of Pharmaceuticals	28
2.1.3 Activity Three: Management of Hospital Pharmaceutical Purchasing	30
2.1.4 Activity Four: Procurement of the Influenza Vaccine and Process for the Management of Pharmaceutical Cancer Treatments	33
2.2.0 Ownership Performance	34
Part 3 Financial and Ownership Information	35
3.1.0 Statement of Accounting Policies	35
3.1.1 Reporting Entity	35
3.1.2 Measurement System	35
3.1.3 Accounting Policies	35
3.2.0 Financial Statements	37
3.2.1 Projected Statement of Financial Performance	37
3.2.2 Projected Statement of Financial Position	38
3.2.3 Projected Cash Flow Statement	39
3.2.4 Projected Movement in Equity	40
3.2.5 Reconciliation of Net Surplus to Cash Flow from Operating Activities	40
3.2.6 Key Assumptions	41
Part 4 Other Matters	42
4.1 Formal Monthly Reports	42
4.2 Formal Quarterly Reports	42
4.3 Informal Reports	42
4.4 Reports to Parliament	43
4.5 Information for Ministers	43

FOREWORD

The Pharmaceutical Management Agency (PHARMAC) has prepared this Statement of Intent (SOI) to meet the requirements of section 67(1) of the New Zealand Public Health and Disability Act 2000 (NZPHD Act).

The SOI outlines for Parliament the performance we have agreed with the Minister of Health (the Minister) to deliver for the year 1 July 2005 to 30 June 2006.

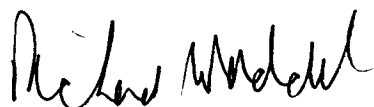
In particular, this document specifies:

- the performance that PHARMAC will seek to achieve from 1 July 2005 to 30 June 2006;
- the ownership performance PHARMAC will aim to achieve during this time; and
- financial forecasts.

This specification of performance will be used as a basis for comparison against our actual performance when our annual report is prepared at the end of the year.

The community pharmaceutical budget for 2005/06 was confirmed in June 2005 and has been reflected in the completion of a Crown Funding Agreement which will be signed in June 2005.

Should PHARMAC's purchasing intentions change significantly, PHARMAC will exercise its discretion under section 41H of the Public Finance Act 1989 (the PF Act) and produce a revised SOI.



Richard Waddel
Chairperson
PHARMAC

June 2005

INTRODUCTION

PHARMAC is responsible for fulfilling the Government's commitment to ensuring that New Zealanders have access to a comprehensive range of affordable medicines. PHARMAC is internationally recognised as a leader in effective pharmaceutical management, in what is a controversial and difficult area of health care due largely to the substantially rising prices of new medicines. The next three years will see PHARMAC build on the expertise it has developed in managing the Community Pharmaceutical Schedule, and using this knowledge to assist hospitals and other areas of the health sector.

PART 1 PHARMAC'S OBJECTIVES AND STRATEGIC PRIORITIES

1.1 PHARMAC's Contribution to the Health Sector

PHARMAC assists District Health Boards (DHBs) in their management of pharmaceutical expenditure. Under the New Zealand Public Health and Disability Act 2000, PHARMAC is responsible for ensuring that all New Zealanders have access to a wide range of affordable medicines. Specifically, the Act requires PHARMAC to:

"To secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceuticals treatment and from within the amount of funding provided"

PHARMAC has two main functions, managing the Pharmaceutical Schedule, which lists the medicines that are subsidised for patients (Supply Side), and promoting the responsible use of medicines (Demand Side).

In 2001, the Minister of Health authorised PHARMAC to extend its activity to assisting DHBs to procure medicines for their hospitals. The Hospital Pharmaceutical Strategy has been successfully implemented, and there is now more consistency in the costs of medicines around the country.

PHARMAC also manages the Exceptional Circumstances scheme (EC). This programme allows for medicines that are not normally subsidised for patients to have them funded for rare and unusual conditions. The EC team also administers a range of extremely high cost medicines.

As part of the Government's commitment to ensuring that all New Zealanders have access to affordable medicines, PHARMAC is undertaking its part in the successful implementation of He Korowai Oranga. PHARMAC's Maori Responsiveness Strategy will continue to be a focus of the next three years, ensuring that Maori enjoy the same benefits of affordable pharmaceutical treatments as other New Zealanders. In the next three years the focus will be on improving Maori uptake of medicines, focusing on the health priorities and working with providers and professionals to improve Maori health.

In 2005/06 and the following years, PHARMAC will work with DHBs to transfer the responsibility for managing the funding of all pharmaceutical cancer treatments from DHB Hospitals to include the costs of these medicines within the Community Pharmaceutical Budget. PHARMAC and DHBs are working together on the complicated processes required to achieve this by 1 July 2007.

PHARMAC will continue its focus on health improvement by sharing its knowledge and skills with other parts of the health sector and through learning from others in the health sector. PHARMAC will focus on developing strategic alliances to strengthen the sector's analysis and assessment capability.

PHARMAC will continue to provide regular reports on pharmaceutical expenditure to DHBs and continue to assess the form and content of these reports in response to feedback from DHBs. PHARMAC will also continue to meet regularly with its stakeholders in order to achieve a closer working relationship and play its part in shared goals and priorities.

1.2 PHARMAC's Statutory Functions

In accordance with section 48 of the NZPHD Act, the functions of PHARMAC are to perform the following within the amount of funding provided to it and in accordance with its annual plan and any directions given to it under section 103 of the Crown Entities Act:

- a) to maintain and manage a Pharmaceutical Schedule that applies consistently throughout New Zealand, including determining eligibility and criteria for the provision of subsidies;
- b) to manage incidental matters arising out of (a) including, in exceptional circumstances, providing for subsidies for the supply of pharmaceuticals not on the Pharmaceutical Schedule;
- c) to engage as it sees fit, but within its operational budget, in research to meet the objectives set out in section 47(a) of the NZPHD Act;
- d) to promote the responsible use of pharmaceuticals; and
- e) any other functions it is for the time being given by or under any enactment, or authorised to perform by the Minister by written notice to the Board of PHARMAC after consultation with it.

As a result of an authorisation from the Minister in September 2001, under section 48(e) of the NZPHD Act, PHARMAC is authorised to manage the purchasing of any or all pharmaceuticals, whether used either in a hospital or outside it, on behalf of District Health Boards (DHBs).

1.3 Strategic Priorities

PHARMAC's Strategic Priorities for 2005/06 and the following two years are outlined below. The first two priorities reflect PHARMAC's core statutory functions. Priorities 3, 4, 5 and 6 are important to enable PHARMAC to meet its core statutory functions. Finally, Strategic Priority 7 reflects new initiatives which are a short term priority but which are ultimately expected to either form part of PHARMAC's core activities or to fall away. PHARMAC expects that this priority will change annually over the three-year period covered by this SOI.

Strategic Priority 1 : Comprehensive management of pharmaceutical expenditure and use

PHARMAC will ensure that the Pharmaceutical Schedule is managed in a manner that ensures that treatments are appropriately prioritised and listed, and that maximises health outcomes from within the funding

available. PHARMAC will also engage in strategies to promote the cost effective, responsible use and prescribing of pharmaceuticals.

PHARMAC is known for its ability to meet challenging targets and its primary focus will continue to be managing pharmaceutical expenditure on behalf of DHBs. PHARMAC bases its decisions on the medical evidence available, sound independent clinical advice, and by considering the costs implications for other parts of the health sector. The processes PHARMAC uses to determine which medicines should be subsidised explicitly consider both the impact on the pharmaceutical budget and also the impact on hospital or related health budgets. Furthermore, PHARMAC also needs to consider the responsible use of medicines and has an important role in developing programmes aimed at promoting the effective and safe use of pharmaceuticals. This priority integrates PHARMAC's Supply Side and Demand Side activities to reflect the need for a holistic approach to managing pharmaceutical expenditure both by PHARMAC and across the sector.

PHARMAC will engage in activities with the aim of ensuring that patients have access to a wide range of subsidised pharmaceuticals and that patients and prescribers are aware of the appropriate use of those pharmaceuticals. PHARMAC Demand Side campaigns will work in partnership with local DHB initiatives to promote the responsible use of pharmaceuticals.

Strategic Priority 2 : National Hospital Pharmaceutical Strategy

Following the successful implementation and review of the National Hospital Pharmaceutical Strategy, PHARMAC will further develop and implement the Strategy to assist DHBs with the management of expenditure on hospital pharmaceuticals.

The National Hospital Pharmaceutical Strategy is enabling District Health Board hospitals to reallocate approximately \$10 million per annum to other priority health services. More than 40% of hospital pharmaceutical expenditure is now under PHARMAC national contracts. Continued contracting is likely to result in both increased efficiency and an increase in the percentage of medicines with a nationally consistent price.

In pursuing this priority over the next three years, PHARMAC will progress initiatives to ensure DHB Hospitals can purchase key pharmaceuticals at the best possible nationally consistent prices and will continue its on-going assessment of the cost-effectiveness of new pharmaceuticals proposed to be used in DHB Hospitals. During 2005/06 PHARMAC will continue to monitor the discretionary community supply provisions in the Pharmaceutical Schedule.

Strategic Priority 3 : Working with DHBs

PHARMAC will focus on improving information sharing and risk management and on developing and implementing specific initiatives that benefit DHBs.

The health sector is complex and dynamic, therefore PHARMAC will continue to look for ways to work with DHBs to improve the delivery of health services for all New Zealanders, including using social marketing techniques to ensure the best use of medicines.

Better use of PHARMAC's expertise in new pharmaceutical technology assessment, and collection of quality information have been identified as areas where the DHBs would benefit from PHARMAC's assistance.

PHARMAC will be undertaking procurement activity on behalf of DHBs for recombinant blood products, radiological contrast media, and Bulk IV Fluids. In addition, PHARMAC is working with DHBs to strengthen the management of the Cancer Basket, by transferring its management over time into the Community Pharmaceutical Budget.

Strategic Priority 4 : Ensuring all New Zealanders have similar access to subsidised pharmaceuticals

PHARMAC will engage in initiatives to promote the appropriate use of pharmaceuticals by disadvantaged populations, including Maori, to improve health outcomes and health status and ensure utilisation is similar across all groups of New Zealanders.

As part of the Government's commitment to reducing inequality between New Zealanders, PHARMAC will focus on reducing the variations in uptake of subsidised medicines between groups. Evidence suggests that some New Zealanders are enjoying less access to medicines than other people. The Maori Responsiveness Strategy is designed to address this, and PHARMAC will also consider a Pacific Peoples Responsiveness Strategy.

Equally, PHARMAC's Demand Side campaigns also focus on specific patient groups that could benefit from accessing subsidised medicines, for example the 'One Hearts Many Lives' campaign that targets men over 35 years at risk of cardiovascular disease.

Strategic Priority 5 : Improving relationships with stakeholders

Improving PHARMAC's relationships with stakeholders via improving the way we communicate, taking more opportunity to hear the views of others through regular meetings and addressing any confusion that exists about the roles and activities of PHARMAC. Key relationships include the Minister, District Health Boards, the Ministry of Health, all politicians, other government agencies, clinicians, pharmacists,

patients and their representative groups, Maori, and the pharmaceutical industry.

PHARMAC is committed to two-way communication with stakeholders. This involves getting out amongst interested groups and agencies and listening to their concerns. In response PHARMAC will work with stakeholders to address issues and misunderstandings.

Strategic Priority 6 : Developing PHARMAC's internal capacity

Pharmac will ensure that it has the capability to meet its business objectives through the recruitment of staff with appropriate skills, experience and knowledge, the provision of an attractive working environment and through demonstrating the value it places on staff.

Being a good employer, and ensuring that PHARMAC has the right resources is a priority. To maintain PHARMAC has a world leader we need to ensure we continue to have the best people for the job.

Strategic Priority 7 : New initiatives to assist DHBs

PHARMAC will extend its operational activity to include new initiatives that assist DHBs. From 2005/06, PHARMAC will begin to assume responsibility for the management of the pharmaceutical cancer treatments budget (the "Cancer Basket"). PHARMAC will also assist DHBs in the procurement of radiological contrast media, bulk IV fluids and recombinant blood products.

PHARMAC anticipates any national contracts for Recombinant Factor VIII will be implemented in 2005/06 following input from stakeholders and negotiations with suppliers. Continued investigation of bulk intravenous and radiological contract media markets will occur and, in conjunction with DHBs and interest groups, PHARMAC will develop mechanisms to assist DHBs with the procurement of these products should opportunities exist for gains to be made from national agreements.

PHARMAC will bring an evidence-based evaluation and decision-making approach to procurement of medical products which could deliver value to DHBs.

It is proposed that the management of funding for all pharmaceutical cancer treatments be transferred to PHARMAC. During the 2005/06 year PHARMAC will implement changes to the Pharmaceutical Schedule and Exceptional Circumstances policies to allow a transition to notional budget management. All pharmaceutical cancer treatments will be listed in the Pharmaceutical Schedule with associated subsidies. DHB Hospitals continue to purchase and pay for these cancer treatments as they currently do but would be required to submit claims for reimbursement via HealthPAC. PHARMAC will use the

information gathered from this process to agree with DHBs an amount by which to increase PHARMAC's indicative community pharmaceutical budget from July 2007, to reflect spending on pharmaceutical cancer treatments.

In 2005/06 PHARMAC will complete a review of the 2005 Influenza Vaccine purchasing. In 2005 Merck Sharpe and Dohme in conjunction with the manufacturer, Sanofi Pasteur failed to deliver the influenza vaccine on time and that met the standards required. PHARMAC will complete a comprehensive review of the process and use this review as the basis for its procurement decisions for the 2006 influenza programme.

As well as the key strategies outlined above, PHARMAC's future direction will focus on developing strategic alliances with others in the sector and maximising core competencies such as analysis and assessment tools which could be used as a blueprint for other areas of the health sector. These activities will ensure that PHARMAC continues to achieve excellent results in managing New Zealand's community pharmaceutical budget while building relationships across the sector and offering its expertise to improve health and fiscal outcomes for New Zealand.

1.4 PHARMAC's aim in 2005/06

PHARMAC's aim in 2005/06 is to focus on:

- continuing to manage the Pharmaceutical Schedule effectively by listing products that will help achieve the objectives outlined in the New Zealand Health Strategy (Strategic Priority 1);
- improving PHARMAC's work in promoting the responsible use of pharmaceuticals by focussing on projects with measurable outputs and/or outcomes over the medium term (Strategic Priority 1);
- ensure that DHBs are committed to the on-going funding of programmes that promote the responsible use of medicines.
- continuing to seek ongoing benefits through nation-wide hospital pharmaceutical purchasing and looking for synergies between the community and hospital pharmaceutical sectors (Strategic Priority 2);
- developing increasingly closer working relationships with DHBs through improved information sharing and risk management (Strategic Priority 3);
- contributing to improvements in the health status of all New Zealanders by helping to ensure that all New Zealanders have similar access to subsidised pharmaceuticals (Strategic Priority 4);
- working to identify representative groups which will be impacted by PHARMAC's activities and decisions and, where possible, communicating with those groups prior to significant decisions (Strategic Priority 5);

- reviewing internal structures and skill sets to ensure that PHARMAC is best placed to achieve its aims in promoting the responsible use of pharmaceuticals (Strategic Priority 6);
- taking steps to transfer the management of the Cancer Basket (Strategic Priority 7);
- implementing procurement strategies that benefit DHBs (Strategic Priority 7);
- continuing the implementation of the Maori Responsiveness Strategy; and
- considering developing a Pacific Peoples Responsiveness Strategy.

PHARMAC's plans for each of these strategic priority areas are set out in more detail below and in section 3 of PHARMAC's Annual Plan. In planning for these strategic priorities, PHARMAC has made a distinction between those priorities which encompass funding responsibilities (Strategic Priorities 1 and 2) and those priorities which are intended to enable PHARMAC's performance of its core statutory function (Strategic Priorities 3, 4, 5 and 6). Strategic Priority 7 of this SOI is more closely aligned with PHARMAC's funding responsibilities. However, this could change depending on the nature of initiatives on which PHARMAC and DHBs decide to work together. For the purposes of this SOI, PHARMAC has dealt with Strategic Priority 7 as a funding responsibility.

This distinction has also been used by PHARMAC in setting its performance targets for the year. Strategic priorities 1, 2 and 7 relate to purchase objectives which are set out in Section A of Part 2 of this Statement of Intent. Strategic priorities 3, 4, 5 and 6 relate to ownership performance objectives which are set out in Section B of Part 2 of this Statement of Intent.

1.5 Key Activities

Managing pharmaceutical expenditure

PHARMAC's success in managing the community pharmaceutical budget has been predominantly as the result of Supply Side initiatives managing price and, to some degree, the volume and mix components of pharmaceutical expenditure. Volume growth has been affected by targeting tools such as the Special Authority mechanism and mix growth has been affected by reference pricing and tendering. PHARMAC's activities in promoting the responsible use of pharmaceuticals are also a key tool in managing the pharmaceutical budget.

The key strategic approaches that PHARMAC will continue to use to manage the supply aspects of the pharmaceutical budget are:

- exploiting market opportunities to reduce the unit cost of pharmaceuticals, so that DHBs obtain better value on existing medicines and so that new investments can be funded;

- listing pharmaceuticals that are assessed as offering value for money within the budget that is available, so that health outcomes for the New Zealand population are improved;
- monitoring and managing our supplier contracts, so that DHBs receive the full benefit of our supply agreements;
- managing and enhancing our relationships with all interested groups, so that they perceive PHARMAC as an effective and valuable organisation; and
- contracting for services to promote the responsible use of pharmaceuticals.

PHARMAC now has a three-year community pharmaceutical funding path including a provision for new investments. Each year the Minister reviews the funding path, taking into consideration changes in access to doctors services, changes in Government policy and other aspects that are forecast to impact on the Community Pharmaceutical Budget. Year one is set by the Minister of Health and years two and three are indicative only. This allows both PHARMAC and suppliers to plan investments into the future with more confidence. Suppliers have been asking for this signal as part of the Government's commitment to the pharmaceutical industry. It also links into the three-year funding path for DHBs.

While there is a commitment to new investments, the extent of the investment is dependent on:

- the available budget; and
- the success of our negotiating strategies in managing the existing budget.

The investment opportunities that we have identified to date for 2005/06 fall within the following therapeutic groups:

- Oncology
- Infections
- Diabetes
- Blood and blood forming
- Musculoskeletal
- Mental Health
- Asthma

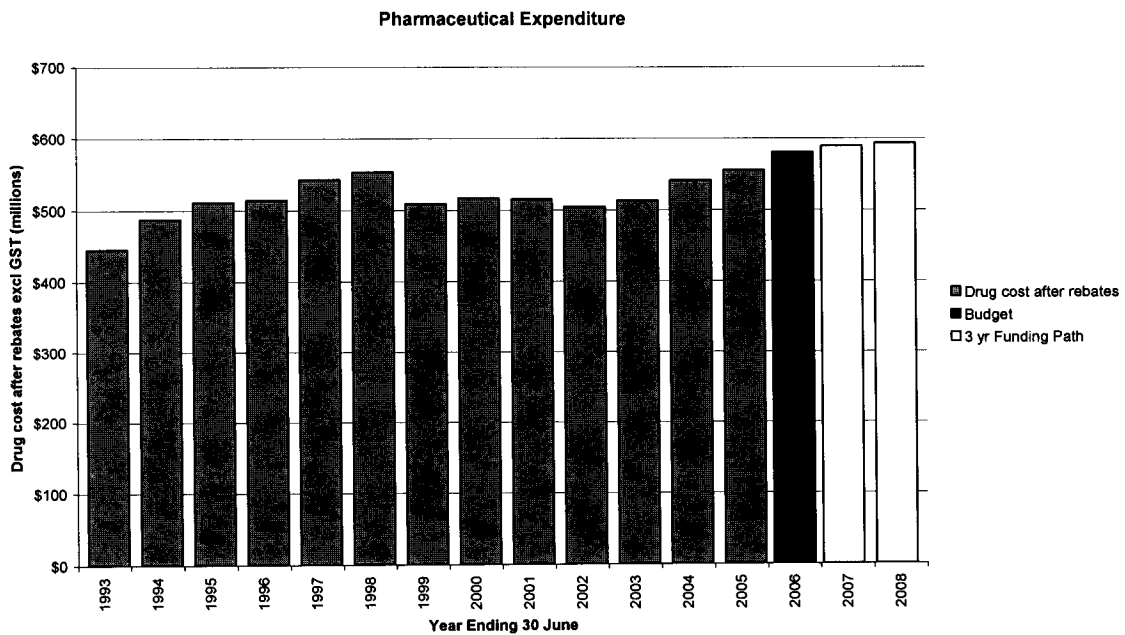
PHARMAC is focusing on obtaining the most value from the tender for 2005/06. In particular, when key products in therapeutic groups come off patent, we will be looking to ensure maximum value by reviewing opportunities to apply reference pricing or to use other aspects of PHARMAC's negotiation strategies in an effort to get the best value for DHBs' investment in medicines.

The drug cost portion of pharmaceutical expenditure, after rebates, is budgeted to be \$582.86 million (excluding GST) during 2005/06. This represents about 4.5% growth from projected actual expenditure in 2004/05.

This includes the \$3 million allocated to widen access to oncology medicines announced as part of the Cancer Control Strategy. A further \$1 million has been allocated to widen access to hospital administered oncology drugs.

The underlying growth in the Community Pharmaceutical Budget results from using newer more expensive medicines and volumes are forecast to continue trending upward. These increases will, to some extent, continue to be offset by savings and rebates.

The following graph shows actual expenditure for the past 10 years, the projected out-turn for 2005, the budget for the current year, and forecast expenditure for the following two years.



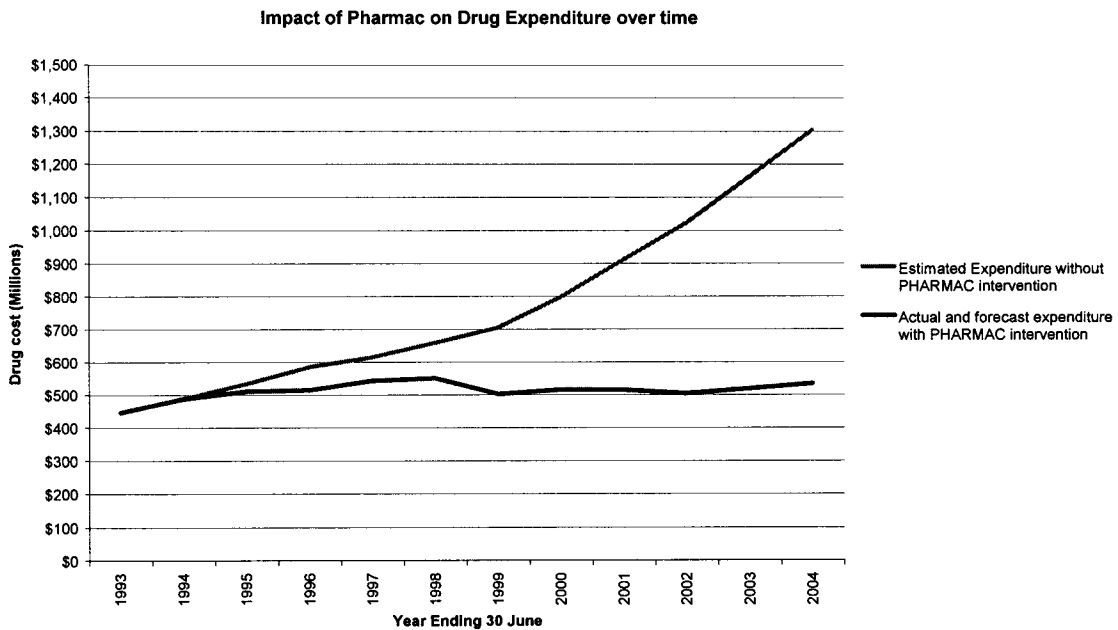
The focus of Supply Side transactions (PHARMAC defines transactions as agreements with suppliers to reduce prices or manage expenditure of individual or groups of pharmaceuticals) is to improve the value of the Government's expenditure on pharmaceutical subsidies. This is achieved by improving value for money by lowering subsidies and improving the quality of expenditure by investing in superior medicines.

This year PHARMAC will again apply rigorous attention to management of new investments and savings with a view to managing expenditure within target. This activity allows us to lower subsidies, counteracting the 11% underlying growth in the market due to increasing volumes and a shift from the use of cheaper to more expensive drugs.

New pharmaceuticals will continue to be evaluated using our pharmacoeconomic tools. Priorities for funding will be established based on the projected cost to quality adjusted life years (QALY) ratio, with low ratio products having higher priority. We will also consider the other features of the products, such as how well they meet the other PHARMAC Decision Criteria.

Rebates are an increasingly important part of PHARMAC's financial performance, increasing from \$20.1 million in 2000/2001 to a projected \$104 million in 2004/05. Rebates are forecast to be about \$128 million in 2005/06. This represents an increase on rebates for 2004/05 as a consequence of continued use of the rebate mechanism by pharmaceutical companies.

The following chart shows the impact of the successful implementation of a range of savings transactions. The line showing estimated expenditure without PHARMAC intervention highlights the strong underlying growth, of 11% per annum, that exists for pharmaceuticals. This line is calculated by assuming that without PHARMAC's intervention, subsidies would have remained at the same level as those applying in 1993.



Demand Side activities

PHARMAC's Demand Side activities fulfil PHARMAC's legislative function to promote the responsible use of pharmaceuticals. Demand Side activities, in conjunction with the Supply Side team, enable PHARMAC to meet its strategic priority to comprehensively manage pharmaceutical expenditure and use. Activities are aligned with key health strategies. Campaigns must have tangible outcomes in terms of either health gains and/or fiscal efficiency. Campaigns scheduled to be undertaken in 2005/06 include:

- continuation of the very successful "Wise Use of Antibiotics" campaign;
- education campaign promoting the responsible use of proton pump inhibitors;
- education campaign promoting the responsible use of anti-depressant agents; and

- education campaign promoting the responsible use of ACE Inhibitors and Angiotensin II antagonists.

Campaigns undertaken in 2004/05 which may extend into 2005/06 include:

- supporting community-based activities resulting from the “One Heart Many Lives” cardiovascular risk awareness campaign;
- extension of the asthma management campaign;
- “Staying Well with Diabetes” campaign promoting the responsible use of diabetes test strips as part of overall diabetes management; and
- education campaign promoting the responsible use of anti-psychotic agents (a pilot implementing demand side initiatives in secondary care).

Where possible PHARMAC works proactively with health professional organisations and consumer groups on campaigns. This has included working with the New Zealand Guidelines Group, Royal NZ College of General Practitioners, NZ College of Pharmacists, the Pharmaceutical Society and Pharmacy Guild, Asthma and Respiratory Foundation and Plunket.

PHARMAC also has two key external contracts to assist in promoting the responsible use of pharmaceuticals:

- Best Practice Advocacy Centre NZ; and
- Sport and Recreation NZ for co-funding the Green Prescription programme (prescriptions for exercise).

PHARMAC ensures that wherever possible Demand Side activities undertaken both in-house and by its contracted suppliers are aligned and coordinated with DHBs and activities contracted through PHOs.

PHARMAC's Demand Side also assists with implementing PHARMAC's Maori Responsiveness Strategy; and coordinates PHARMAC's speaking engagements and conference activities.

PHARMAC funds its Demand Side activities through a combination of Ministry of Health funding and funding from either reserves or DHBs. Each campaign has specific measurable outcome targets indicating savings that DHBs may expect from investing in the campaigns. Anticipated savings from 2005/06 campaigns is in the order of \$2.7m.

Maori Responsiveness Strategy

In addressing the priorities in the New Zealand Health Strategy and He Korowai Oranga, PHARMAC will continue to implement the Maori Responsiveness Strategy. There are two aspects; the first relates closely to the work of the Demand Side team implementing the Maori Use of Medicines programme. This programme is designed to increase Maori uptake of medicines, and also ensure that medicines are used appropriately. The second part relates to improving PHARMAC's internal processes to better meet the needs of Maori patients.

The Maori use of medicines programme has a number of aspects, including strengthening the links between PHARMAC and providers of health services to Maori; partnering with local health providers and organisations in developing and distributing materials specifically for Maori patients. In addition, PHARMAC will be developing specific training resources and a course for nurse educators and other health professionals that are aimed at improving uptake and appropriate use of medicines.

The second aspect of the Responsiveness Strategy relates to how PHARMAC considers the needs of Maori, both the range of medicines that are considered, and also within its decision making process. Improved ethnicity data has already highlighted that while Maori, along with all New Zealanders have the same access to subsidised medicines regardless of their location, Maori uptake is lower. Furthermore, epidemiological information reveals that the burden of disease, especially cardiovascular, asthma and diabetes are disproportionate amongst Maori. To ensure equity, and reduce the disparities between Maori and other New Zealanders, PHARMAC needs to ensure that these considerations are taken into account.

PHARMAC staff will investigate options and models that can be used to improve the use of current ethnicity data. PHARMAC intends to seek advice from external experts in addressing this area.

PHARMAC has already ensured representation of Maori across the organisation, with the appointment of a Maori Board Member, a Maori member of PTAC, four Maori members of the CAC and a Maori Health Manager responsible for the implementation of the Responsiveness Strategy. This position will be further strengthened with the appointment of a Maori health analyst.

Hospital pharmaceutical purchasing

In the time since the Minister's approval of the National Hospital Pharmaceutical Strategy in September 2001, PHARMAC has implemented national procurement contracts for DHB Hospitals that are expected to produce savings of about \$12 million per year (of an estimated \$140 to \$150 million total spend on hospital pharmaceuticals).

It is early days, and PHARMAC will continue to improve the data collection. This will be vital to accurately calculate expenditure, and also to assist DHBs with their management of medicines in their hospitals.

Following an internal review of the flu vaccine contracting process, PHARMAC will continue to work with DHBs and the Ministry to provide the vaccine to those eligible for the winter of 2006. The review will be completed in time for the procurement of the influenza vaccine for 2006.

PHARMAC will continue working with DHBs and clinicians to ensure ongoing availability of and access to Recombinant Factor VIII. PHARMAC will ensure national contracts for Recombinant Factor VIII are negotiated and

implemented and it will monitor contract compliance and performance as necessary.

PHARMAC will work with DHBs as it scopes new projects where it may be able to add benefit; these include bulk intravenous fluids and radiological media. PHARMAC has begun investigating these markets and during 2005/06 it will develop strategies to best assist DHBs with procurement in these areas.

PHARMAC will consider other areas of DHB hospital procurement where appropriate.

Exceptional Circumstances (Community and Hospital)

PHARMAC has responsibility for the management of Community and Hospital Exceptional Circumstances (EC) programmes which enables the approval of treatment for patients who have a high need for pharmaceuticals that are not otherwise subsidised, and who meet certain criteria. The criteria for Community EC are based upon rare and unusual clinical situations (where rare and unusual are defined as single figures nationally).

The EC Panel meet fortnightly by teleconference to deal with Community Exceptional Circumstances (CEC) applications. Hospital Exceptional Circumstances uses separate criteria and the turn around of applications is made within 48 hours. PHARMAC will continue to work to improve the efficiency of the EC programmes, including reducing the time it takes for an application to be considered.

As part of the Cancer Project, PHARMAC will establish a Cancer Exceptional Circumstances process. PHARMAC will work closely with DHBs to ensure this programme meets the needs of both patients and clinicians.

Discretionary Community Supply provisions

In the past, DHB Hospitals have dispensed a number of pharmaceuticals for use in the community that were not listed on the Pharmaceutical Schedule. This practice was inconsistent with the NZPHD Act which requires that DHBs comply with the Pharmaceutical Schedule. PHARMAC recognised that there were some pharmaceuticals not listed on the Pharmaceutical Schedule, the use of which in the community by hospital out-patients was justifiable on the grounds of cost-effectiveness (whether generally or in individual cases). To cover these cases, PHARMAC's Board approved two new provisions of the Pharmaceutical Schedule for implementation on 1 July 2003. The provisions, which are detailed in Section H of the Pharmaceutical Schedule, are known as "Discretionary Community Supply (DCS)" and "Hospital Exceptional Circumstances (Hospital EC)."

PHARMAC will work closely with the Ministry of Health to ensure DHB compliance with the provisions of DCS.

Building Relationships

PHARMAC will continue to focus on improving its relationship with stakeholders.

The priorities are:

- improving links with DHBs and other health providers;
- strengthening the voice of consumers in PHARMAC decision making;
- improving links with, and use of the expertise of health professionals; and
- working constructively with the industry.

Improving the links with DHBs and other health providers

PHARMAC has concentrated on the relationships with District Health Boards in recent years, and this will continue to be a key priority.

PHARMAC and DHBs have successfully agreed a budget recommendation process for the Community Pharmaceutical Budget since 2004/05. The next step will be improving the information sharing of expenditure, and increased sophistication in expenditure management.

The Pharmaceutical Cancer Treatments Project, whereby the management of the notional Cancer Basket Budget is transferred to PHARMAC, is part of a wider move to improve access to pharmaceuticals and reduce regional variability in access. PHARMAC and DHBs will work closely together to resolve the logistical and clinical challenges that it poses.

PHARMAC has a Relationship Agreement with each DHB which was entered into in 2002. Since that time DHBs and PHARMAC have worked together on pharmaceutical budget, including forecast expenditure, new investments and management of rebates; management of the Exceptional Circumstances Scheme; provision of information; joint initiatives; and hospital pharmaceutical purchasing. DHBs also work with PHARMAC on initiatives to promote the responsible use of pharmaceuticals. It is time for the Relationship Agreement to be updated and reflect the mutually beneficial relationships that DHBs and PHARMAC have.

Ministry of Health

The Ministry acts as the agent of the Minister in negotiating, communicating and clarifying the Minister's expectations and in monitoring PHARMAC's performance against the Annual Plan and the Crown Funding Agreement. PHARMAC works closely with HealthPAC and NZHIS (which are divisions of the Ministry) in carrying out its statutory objectives.

PHARMAC's performance in a number of areas is dependent upon receiving data from the Ministry and upon the Ministry's assistance in implementing new initiatives. PHARMAC and the Ministry will continue to improve the

sharing of information. Pharmaceutical transaction data are stored on PHARMAC's behalf within the Pharmhouse data warehouse by the Ministry. PHARMAC's continued timely access to this data and involvement in the processes surrounding the structure and governance of the data warehouses are critical to PHARMAC's ongoing performance.

PHARMAC and the Ministry are developing a Memorandum of Understanding regarding the relationship between PHARMAC, HealthPAC and NZHIS. This document will replace the service level agreements which PHARMAC had with each party and will set out the expectations of each party in dealing with the other.

Strengthening the voice of consumers in PHARMAC decisions making

Health services only work if they consider what happens to the patient or consumer. The PHARMAC Consumer Advisory Committee (CAC) has a broad representation, including those with Maori, mental illness, disability and age related issues. It forms a vital role improving the way PHARMAC seeks the views of patients, and also developing material for the sector to consider such as the role of industry funding for patient groups. The CAC is but one part, PHARMAC will focus on strengthening the connections between patients, and groups that represent them; as well as supporting key groups in delivering health information and resources to patients. PHARMAC see this as a two-way relationship; wanting to learn from patients what it is they need, and working with patient groups to deliver this.

The Supply Side team will identify representative groups most likely to be affected by activities during the year ahead and communicate with these groups prior to significant developments. PHARMAC also recognises the value in maintaining regular contact with representative groups beyond the processes triggered by particular developments.

Improving links with, and use of the expertise of health professionals

A key aspect of the health system is that decisions regarding individual patients are entrusted to health professionals with the power to determine the appropriateness of treatments or interventions. PHARMAC sees its role as assisting health professionals by providing information and resources, and also working with them to achieve getting the best healthcare available within the budget provided. Given this, PHARMAC will continue to build on its relationships with health professionals and their representative bodies.

A meeting programme will be developed along with continued attendance and participation in local, regional and national meetings/conferences. PHARMAC wants to hear the views of health professionals and work with them to improve the delivery of care.

Working constructively with the industry

The pharmaceutical sector is dynamic, with a number of new companies entering the New Zealand market, while some existing companies face downsizing. Changes in the sector will continue, and PHARMAC will continue to encourage new and existing companies to compete to access government subsidises. PHARMAC will focus on working with individual companies.

1.6 Role of the Minister on Behalf of the Crown

The Minister is accountable to Parliament for the overall performance of PHARMAC.

As set out in the PHARMAC Crown Funding Agreement for 2005/06, the role of the Minister in relation to the performance of PHARMAC is to:

- indicate to PHARMAC priority areas for Government through various strategy documents such as the New Zealand Health Strategy, the New Zealand Disability Strategy and related strategies;
- obtain Parliamentary appropriations with which to fund PHARMAC;
- set expectations that inform and guide PHARMAC's high level planning as part of the process of preparing, and agreeing to, any Annual Plan and Crown Funding Agreement and commenting on any Statement of Intent;
- agree to the performance measures contained in the Crown Funding Agreement;
- monitor the performance of PHARMAC against the Crown Funding Agreement;
- appoint members of the Board;
- hold the Board accountable for its performance;
- require compliance by DHBs with legislative requirements and with other obligations specified in their Crown Funding Agreements with respect to the Pharmaceutical Schedule; and
- undertake the duties and exercise the powers of a Responsible Minister as set out in the PF Act.

The Minister is not responsible for the day-to-day activities of PHARMAC. That is the responsibility of the Board.

The Ministry acts as the Minister's agent in the Minister's relationship with PHARMAC, with respect to negotiating, communicating and clarifying the Minister's expectations and in negotiating the Annual Plan and Crown Funding Agreement and commenting on the Statement of Intent. The Ministry also acts as the Minister's agent in monitoring PHARMAC's performance against these documents, including the management of risk.

The Minister has expressed the expectations of the Crown as owner of PHARMAC within the Crown's Statement of Ownership Expectations (SOE), dated 12 September 2003. Those expectations are consistent with the terms

of this Statement of Intent. However, to the extent of any inconsistency the terms of the SOE will override.

1.7 Board of PHARMAC on behalf of PHARMAC

The Board is accountable to the Minister for the performance of PHARMAC.

All decisions relating to the operation of PHARMAC are made by or under the authority of the Board. The Board has all powers necessary for the governance and management of PHARMAC. The Board is to ensure that PHARMAC delivers its output, achieves its financial performance and provides the reports specified in its Crown Funding Agreement and complies with all other requirements associated with its objectives, powers, obligations and functions under the NZPHD Act and CE Act. The Board is responsible for agreeing PHARMAC's accountability documents with the Minister.

The Board will comply with the duties and requirements placed on it by the PF Act and CE Act.

The Board remains accountable for the delivery of any part of the Output or any part of its operations that has been subcontracted to a third party.

1.8 Ownership Performance

The Crown, as owner of PHARMAC, has the following expectations with respect to how PHARMAC will carry out its functions and the development of its organisational capability.

PHARMAC will focus on Government priorities as outlined in the New Zealand Health Strategy, the New Zealand Disability Strategy, He Korowai Oranga and other related strategies. The seven principles outlined in the New Zealand Health Strategy are:

- acknowledging the special relationship between Maori and the Crown under the Treaty of Waitangi;
- good health and well-being for all New Zealanders throughout their lives;
- an improvement in health status of those currently disadvantaged;
- collaborative health promotion and disease and injury prevention by all sectors;
- timely and equitable access for all New Zealanders to a comprehensive range of health and disability services, regardless of ability to pay;
- a high-performing system in which people have confidence; and
- active involvement of consumers and communities at all levels.

PHARMAC's activities contribute to these Government priorities in a number of ways:

- consulting and collaborating with Maori as Treaty partners with the Crown to address issues relating to pharmaceuticals that affect Maori as outlined in PHARMAC's Maori Responsiveness Strategy;
- pharmaceuticals are instrumental in improving the health and well-being of New Zealanders throughout their lives;
- access to subsidised pharmaceuticals is part of ensuring equitable access for all New Zealanders to a comprehensive range of health services, regardless of ability to pay;
- PHARMAC's evaluation of new drug technologies and investment in superior technologies contributes to a high-performing system;
- PHARMAC's efforts to obtain the optimum value from pharmaceutical funding assist with the process of meeting need within the funds available;
- consulting with PHARMAC's Consumer Advisory Committee as representatives of patients and to provide input from health consumers' points of view on PHARMAC's processes;
- PHARMAC's encouragement of the responsible and cost-effective use of pharmaceuticals through its activities to promote the responsible use of pharmaceuticals, contributes to the health of New Zealanders and enhances the quality of healthcare provided; and
- PHARMAC's hospital strategy encourages co-operative purchasing arrangements amongst DHBs.

PHARMAC has been particularly successful at managing growth in expenditure on pharmaceuticals. This success has been achieved through Supply Side initiatives (negotiations with pharmaceutical companies on the listing of pharmaceuticals and subsidy levels) and through programmes aimed at promoting the responsible use of pharmaceuticals.

Over the next three years PHARMAC will contribute further to improving outcomes in priority areas for Government.

PHARMAC's business has significant links with, and implications for, DHBs and PHARMAC will work on developing its relationships with DHBs to ensure that any gains from working together are achieved. PHARMAC will ensure that appropriate discussion and consideration of the impact of PHARMAC decisions on DHBs takes place.

Governance: The PHARMAC Board will provide high quality and effective governance of PHARMAC.

Integrity: PHARMAC will meet the standards of accountability, conduct and behaviour that are appropriate for a public entity. This includes compliance with the Public Service Code of Conduct and the Board Appointment and Induction Guidelines produced by the State Services Commission.

Financial Management and Financial Performance: PHARMAC will comply with the PF Act, CE Act and the NZPHD Act and meet all of the financial management and financial performance requirements set out in the Crown

Funding Agreement, CE Act and the NZPHD Act. This includes ensuring the prudent and wise use of financial resources.

Risk Management: PHARMAC will manage financial and non-financial risks effectively, and keep the Minister informed of such risks. PHARMAC will:

- continue to manage risks by maintaining effective and timely risk management strategies and processes within the constraints set by the Crown, including budget and financial operating constraints, and which are consistent with recognised standards;
- continue to maintain a risk register; and
- fully inform the Minister and the Ministry, as early as possible, of significant financial and non-financial risks facing PHARMAC and how it intends to manage those risks.

Capability: PHARMAC will function effectively in terms of human resources, organisational systems and processes, and responsiveness. PHARMAC will ensure that it has the capability to:

- ensure the performance specified in the Crown Funding Agreement is delivered as specified;
- ensure that all of PHARMAC's statutory, legislative, and other regulatory functions and obligations are met.

Relationships: PHARMAC will take reasonable steps to maintain constructive relationships with all stakeholders. DHBs are critical stakeholders for PHARMAC. PHARMAC will further develop its relationships and standard business practices to link more closely with DHBs. Input from DHBs will inform PHARMAC's decision processes. This is particularly so in the areas of:

- responsible use of pharmaceuticals;
- hospital pharmaceuticals; and
- setting of pharmaceutical expenditure targets.

As it considers appropriate PHARMAC will also consult, inform or work with any organisations, sections of the public, groups or individuals that, in the view of PHARMAC, may be affected by any of PHARMAC's wider activities, including those involved in the delivery of the outputs in the Crown Funding Agreement. According to the circumstances, this may include DHBs, the Ministry, pharmaceutical suppliers, the Pharmacology and Therapeutic Advisory Committee (PTAC), health professionals, CAC, community or patient groups, Maori, Pacific peoples and other groups.

PHARMAC's Statutory Objectives

PHARMAC's objectives, as outlined in section 47 of the NZPHD Act, are 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.

PART 2 STATEMENT OF PLANNED PERFORMANCE

2.1.0 PURCHASE OBJECTIVES - OUTPUT : MANAGEMENT OF PHARMACEUTICAL SCHEDULE

PHARMAC has one output class "securing the best achievable health outcomes from pharmaceutical treatment, within the funding provided". There are four business activities within this one output class. The four business activities include, but are not limited to:

- 1) **Management of Community Pharmaceutical Expenditure, including:**
 - management of community pharmaceutical expenditure on behalf of DHBs;
 - management of the Pharmaceutical Schedule to determine eligibility for access to subsidised pharmaceuticals;
 - operation of the Exceptional Circumstances Scheme; and
 - management of national programmes for High Cost Pharmaceuticals.

This activity contributes to Strategic Priority 1.
- 2) **Promoting the Responsible Use of Pharmaceuticals, including:**
 - Demand Side projects;
 - referred services contracts; and
 - support of the Consumer Advisory Committee.

This activity contributes to Strategic Priority 1.
- 3) **Management of Hospital Pharmaceuticals, including:**
 - negotiating supply contracts for hospital pharmaceuticals on behalf of DHBs;
 - establishing an elective national process for assessing applications to fund new pharmaceuticals in hospitals.

This activity contributes to Strategic Priority 2.
- 4) **Procurement of influenza vaccine and process for management of pharmaceutical cancer treatments.**

This activity contributes to Strategic Priority 7.

2.1.1 Activity One : Management of Community Pharmaceutical Expenditure

PHARMAC manages community pharmaceutical expenditure on behalf of DHBs and uses the Pharmaceutical Schedule to determine eligibility for access to subsidised pharmaceuticals. PHARMAC's management of the Pharmaceutical Schedule involves assessing the clinical benefits and economic impacts of listing particular drugs, undertaking reviews of currently listed pharmaceuticals, negotiating with drug companies and producing the Pharmaceutical Schedule.

In determining whether or not a drug should be listed on the Pharmaceutical Schedule, PHARMAC will follow the Decision Criteria in PHARMAC's Operating Policies and Procedures, as amended from time to time. This requires the following factors to be considered:

- the health needs of all eligible people within New Zealand;
- the particular health needs of Maori 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 and disability support services;
- the budgetary impact (in terms of the pharmaceutical budget and the Government's overall health budget) of any changes to the Pharmaceutical 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 the Crown Funding Agreement, or elsewhere; and
- such other matters as PHARMAC thinks fit. PHARMAC will carry out appropriate consultation when it intends to take any such "other matters" into account.

PHARMAC will support its decisions by the following strategies, which aim to improve the value of pharmaceutical expenditure:

- independent advice from PTAC to PHARMAC on pharmaceuticals and their benefits;
- information received from PHARMAC's Consumer Advisory Committee;
- assessment of significant new investments, using the principles outlined in PHARMAC's Prescription for Pharmaco-Economic Analysis, as updated from time to time;
- cost utility analysis, used to assess some current investments of poor value, with subsequent dis-investment, where appropriate;
- consulting on matters that relate to the management of pharmaceutical expenditure with any sections of the public, groups, or individuals that, in the view of PHARMAC, may be affected by decisions on those matters,

- (which may according to the circumstances include DHBs, pharmaceutical suppliers, PTAC, health professionals, CAC, community or patient groups, Maori, Pacific Peoples and other groups); and
- take measures to inform the public, groups and individuals of PHARMAC's decisions concerning the Pharmaceutical Schedule.

PHARMAC will use a number of strategies for negotiating with drug companies to achieve the set pharmaceutical expenditure goals, including:

- reference pricing;
- capped expenditure contracts;
- rebate arrangements;
- price/volume arrangements;
- package deals; and
- tendering for sole supply.

The 'Management of Community Pharmaceutical Expenditure' business activity also includes:

- **Operation of the Exceptional Circumstances Scheme**

PHARMAC will manage the operation of the Exceptional Circumstances Scheme (EC Scheme) consistent with section 48(b) of the NZPHD Act "in exceptional circumstances providing for subsidies for the supply of pharmaceuticals not on the Pharmaceutical Schedule".

The purpose of the EC Scheme is to provide funding for outpatient medication in circumstances where the provision of a funded medication is appropriate, but the funding is not able to be provided through the Pharmaceutical Schedule. Consistent with the Medicines Act 1981 and the eligibility criteria for the EC Scheme, EC is also used to fund medications that have not received MedSafe approval, for example, where supplies are brought into New Zealand under section 29 of the Medicines Act or where a patient is treated for an indication which was not a specified indication in the MedSafe approval.

The EC Panel will make decisions based on criteria which may be changed from time to time following consultation.

- **National Programmes for High Cost Pharmaceuticals**

PHARMAC establishes and maintains expert panels that encourage the cost effective use of particular high cost pharmaceuticals. These programmes involve targeting the provision of subsidies for certain pharmaceuticals (currently dornase alpha - Pulmozyme, beta-interferon, imiglucerase – Cerezyme, human growth hormone and imatinib – Glivec) to patients meeting defined entry and exit criteria. Decisions on funding are based on published access criteria and are taken by panels of expert clinicians involved in the various areas of treatment. There are currently 15 clinicians appointed to the four panels and three administrative staff.

Activity One : Management of Community Pharmaceutical Expenditure

	Expectation	Deliverable	Target Date
1.1	PHARMAC will manage expenditure on community pharmaceuticals within the levels agreed in the Crown Funding Agreement.	<p>Subject to deliverable 1.2 below, PHARMAC will maintain expenditure on subsidised community pharmaceuticals for the year ending 30 June 2006 within \$582.86 million (excl GST), after deduction of rebates from pharmaceutical suppliers.</p> <p>Subject to deliverable 1.2 below, quarterly pharmaceutical expenditure targets on a cumulative basis, (excluding GST) before the deduction of rebates are: Quarter One \$183 million Quarter Two \$370 million Quarter Three \$539 million Quarter Four \$717 million</p>	30 September 2005 31 December 2005 31 March 2006 30 June 2006
1.2	PHARMAC will review the expenditure target for the following quarters on a quarterly basis.	<p>PHARMAC will review the quarterly pharmaceutical expenditure targets phasing set out in deliverable 1.1 above and if appropriate propose amendments to those deliverables to DHBs and the Ministry.</p> <p>PHARMAC, in discussion with DHBs, will review the spend target mid way through the year, and recommend any adjustments to the Minister.</p>	30 September 2005 31 December 2005 31 March 2006 31 December 2005
1.3	PHARMAC will forecast pharmaceutical expenditure.	PHARMAC will provide the Ministry of Health with a 1-3 year forecast of pharmaceutical expenditure.	31 December 2005
1.4	PHARMAC will monitor pharmaceutical expenditure in the community against forecast.	Any potential deviation from the forecasts will be promptly notified to the Ministry.	Identified in monthly reports if required.

2.1.2 Activity Two : Promoting the Responsible Use of Pharmaceuticals

As noted above, this requires the development of relationships with key stakeholders and strategies to ensure appropriate prescribing behaviour and usage of pharmaceuticals.

	Expectation	Deliverable	Target date
2.1	PHARMAC will promote the responsible use of pharmaceuticals by aiming to influence the volume and mix of medicines prescribed.	An evaluation report on the diabetes test strip campaign to be provided to the Ministry	31 March 2006
		An evaluation report on the Atypical Antipsychotic campaign to be provided to the Ministry	31 March 2006
		PHARMAC will undertake the "Wise Use of Antibiotics" campaign during winter 2005. An evaluation report will be provided to the Ministry	31 December 2005
		Report to the Board on Proton Pump Inhibitor campaign	30 April 2006
		An evaluation report on the pilot training programme for Māori community nurses and community health workers	30 June 2006
		A national roll out of train the trainer programme for community based nurses and health workers	30 June 2006
		PHARMAC will produce patient education resources in Maori health priority areas as appropriate.	

<p>2.2</p>	<p>PHARMAC will contract with external parties which promote the responsible use of pharmaceuticals.</p>	<p>PHARMAC will contract with BPAC New Zealand to deliver services in 2005/06. Quarterly reports will be provided to PHARMAC by the partnership by the 20th of the month following each quarter, detailing whether it has met the output and outcome targets agreed to in the contract and service plan.</p> <p>PHARMAC will evaluate the current contract with BPAC NZ and inform the Ministry of its decision regarding future funding</p> <p>PHARMAC will work with DHBs to ensure that services provided by BPACNZ are aligned with the PHO performance framework.</p> <p>PHARMAC will contract for the delivery of the Green Prescription programme in 2005/06. Quarterly reports will be provided to PHARMAC by SPARC by the 20th of the month following each quarter detailing whether the programme has met agreed targets in the contract.</p>	<p>BPACNZ to meet quarterly performance target specified in funding contracts with PHARMAC.</p> <p>30 June 2006</p> <p>Ongoing</p> <p>SPARC to meet quarterly performance targets specified in funding contract with PHARMAC</p>
<p>2.3</p>	<p>PHARMAC will promote the responsible use of pharmaceuticals by making the Pharmaceutical Schedule readily available to GPs.</p>	<p>PHARMAC will work with the Ministry, DHBs and PHOs to determine options for providing electronic prescriber support</p>	<p>30 June 2006</p>

2.1.3 Activity Three : Management of Hospital Pharmaceuticals

PHARMAC has been authorised to manage the purchasing of hospital pharmaceuticals on behalf of DHBs.

The performance measures for this activity in 2005/06 are given in the following table.

	Expectation	Deliverable	Target Date
3.1	PHARMAC will collect hospital pharmaceutical utilisation data to monitor national contracts.	Provide a report about DHB compliance with restricted brand contracts to DHBs and the supplier annually.	By 1 November 2005
		Complete any actions required to be taken.	30 June 2006
3.2		Rebates under hospital pharmaceutical contracts calculated and distributed to DHBs.	Within six months of the end of each rebate period whether quarterly, six-monthly or annually.
3.3	PHARMAC will promote and further develop processes for assessing new pharmaceutical technology in hospitals.	6-8 Cost Utility Analyses completed and shared with DHBs.	Three by 31 December 2005.
			four to eight by 30 June 2006.

	Expectation	Deliverable	Target Date
3.4	<p>PHARMAC will consider the contracting options for the procurement of radiological contrast media for DHB Hospitals.</p>	<p>PHARMAC will seek nominations from DHBs for an advisory committee on radiological Contrast Media and the requirements of the DHBs</p> <p>PHARMAC will collate data received from DHBs and advice received from the advisory committee to form the basis of a procurement strategy and process for radiological contrast media.</p> <p>PHARMAC will consult with DHBs and suppliers of radiological contrast media when considering possible national procurement strategies.</p> <p>PHARMAC will conduct a procurement strategy to establish national contracts for certain radiological contrast media.</p> <p>Subject to agreement to proceed by the PHARMAC Board, completion of certain radiological contrast media contracts.</p> <p>PHARMAC will investigate possible options to ensure continued monitoring of any national contracts for radiological contrast media.</p>	<p>Advisory Committee established by 31 December 2005.</p> <p>Consideration of proposed process by PHARMAC Board December 2005</p> <p>Consultation 1 October 2005</p> <p>31 December 2005</p> <p>30 June 2006</p> <p>30 June 2006</p>

	Expectation	Deliverable	Target Date
3.5	PHARMAC will consider the contracting options for the procurement of bulk intravenous fluids for DHB Hospitals.	<p>Examine options for procurement of dialysis fluids and Bulk Intravenous Fluids.</p> <p>PHARMAC will seek nominations from DHBs for an advisory committee on bulk intravenous fluids.</p> <p>PHARMAC will consult with DHBs and suppliers of bulk intravenous fluids when considering national procurement strategies.</p> <p>PHARMAC will implement the procurement strategy to establish national contracts for certain bulk intravenous fluids.</p> <p>Subject to agreement to proceed by the PHARMAC Board, completion of certain bulk intravenous fluids contracts.</p> <p>PHARMAC will investigate how to monitor national contracts for bulk intravenous fluids.</p>	<p>Consideration by PHARMAC Board December 2005</p> <p>Advisory Committee established by 31 December 2005.</p> <p>Consultation 1 October 2005</p> <p>31 December 2005</p> <p>31 June 2006</p> <p>30 June 2006</p>
3.6	PHARMAC will continue to work with the New Zealand Blood Service and the DHB Haemophilia Working Group to implement a national arrangement for the supply of recombinant factor VIII.	<p>PHARMAC will work with the New Zealand Blood Service (NZBS), the Ministry of Health, DHBNZ and the DHB Haemophilia working group on the strategy and future contracting for supply and implementation and monitoring of contracts for recombinant factor VIII.</p> <p>Implementation of supply contracts</p>	<p>1 July 2005</p>
3.7	PHARMAC will consider in consultation with DHB CEOs and Chairpersons other areas of DHB Hospital Procurement where it could be of assistance to DHBs to have a centralised contracting process.	PHARMAC will present information to DHB CEO's and Chairpersons and respond to requests made by these groups.	31 March 2006

2.1.4 Activity Four : Procurement Of The Influenza Vaccine And Process For The Management Of Pharmaceutical Cancer Treatments

PHARMAC has been authorised to procure the influenza vaccine on behalf of District Health Boards, and over time assume responsibility for the management of both community and hospital cancer treatments.

The performance measures for this activity in 2005/06 are given in the following table.

	Expectation	Deliverable	Target Date
4.1	PHARMAC will assist DHBs by procuring the influenza vaccine.	<p>PHARMAC will monitor supply contracts for influenza vaccine and work with the Ministry of Health to co-ordinate the timing of supply with the annual influenza vaccine campaign.</p> <p>PHARMAC to review the system for contracting for Influenza Vaccine for the Annual National Influenza Vaccine Campaign.</p>	<p>Supply of product to be in place by 1 March 2006.</p> <p>1 October 2005</p>
4.2	PHARMAC will assist DHBs by managing the expenditure of Pharmaceutical Cancer Treatments (PCT).	<p>Work with DHB Hospitals to enable DHBs to submit PCT claims to HealthPAC</p> <p>Publish the first edition of the Pharmaceutical Schedule including PCTs and new Schedule rules</p> <p>Require DHBs to submit PCT claims to HealthPAC</p> <p>PHARMAC Board to assume responsibility for making decisions regarding access to PCTs (where budgetary impact is cost-neutral or cost-savings) without requirement for prior agreement of 21 DHBs.</p>	<p>1 July 2005</p> <p>31 August 2005</p> <p>1 January 2006</p> <p>1 July 2007</p>

2.2.0 OWNERSHIP PERFORMANCE

PHARMAC will deliver the ownership performance in Section Three of its Funding Agreement and in particular will meet the following performance measures.

	Expectation	Deliverable	Target Date
5.1	PHARMAC will ensure that all New Zealanders have similar access to subsidised pharmaceuticals Report to PHARMAC Board quarterly on progress	PHARMAC will investigate the need for and feasibility of a Pacific Peoples Responsiveness strategy.	30 April 2006
5.2	PHARMAC will ensure that all New Zealanders have similar access to subsidised pharmaceuticals by implementing its Maori Responsiveness Strategy	I: PHARMAC will produce a report on each of the Maori health priority areas that outlines pharmaceutical prescribing / uptake and utilisation (Strategic priority I) II: PHARMAC will increase internal capacity by engaging a Maori health analyst	30 June 2006 30 November 2005
5.3	PHARMAC will develop with DHBs an on-going mechanism for funding Demand Side Activity	Develop, consult and agree with DHBs the on-going funding of Demand Side initiatives	31 March 2006

3.1 PART 3 FINANCIAL AND OWNERSHIP INFORMATION

3.1.0 Statement of accounting policies

3.1.1 Reporting entity

PHARMAC is a body corporate owned by the Crown with perpetual succession and is responsible for 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. It has sole responsibility for managing the Pharmaceutical Schedule.

Forecast financial statements in this document have been prepared in accordance with section 67(1) of the NZPHD Act 2000 and the PF Act.

3.1.2 Measurement system

The general accounting policies, recognised as appropriate for the measurement and reporting of financial performance and position on a historical cost basis, have been followed in the preparation of the projected financial statements.

3.1.3 Accounting policies

The following particular accounting policies, which materially affect the measurement of results and financial position, have been applied.

Valuation of assets

(i) Fixed Assets

Fixed assets are valued at cost less accumulated depreciation.

(ii) Accounts Receivable

Accounts receivable are valued at net realisable value.

Depreciation

Depreciation of fixed assets is calculated using the straight line method to allocate the historical cost over the estimated useful life of each asset.

Major depreciation periods are:

Office equipment	2.5 - 5 years
EDP equipment	2.5 years
Furniture and fittings	5 years
Leasehold improvements	5 years

Revenue recognition

Revenue received from the Crown to cover operating costs is recognised as the revenue falls due.

Goods and Services Tax (GST)

All amounts shown are exclusive of goods and services tax, with the exception of debtors and creditors, which are shown GST inclusive.

Taxation

For the purposes of the Inland Revenue Acts, PHARMAC is a “public authority” as stated in clause 32(1) of Schedule 6 of the NZPHD Act 2000.

Financial instruments

There are no financial instruments that expose PHARMAC to foreign exchange risk or off balance sheet risks, although PHARMAC has entered into contracts with pharmaceutical suppliers that provide for limited variations in price according to exchange rate fluctuations.

All financial instruments, including bank accounts, accounts receivable and accounts payable are disclosed at their fair value. Revenue and expenses, in relation to the financial instruments, are recognised in the Statement of Financial Performance.

Employment entitlements

PHARMAC's liability for annual leave has been provided for and has been calculated on an entitlement basis at current rates of pay.

Budgeted figures

The 2004/05 budget figures, and 2005/06 and 2006/07 forecast figures have been prepared in accordance with generally accepted accounting policies adopted by the Board.

Leases

PHARMAC leases office premises. As all the risks of ownership are retained by the lessor, these leases are classified as operating leases. Operating leases are expensed in the period in which they are incurred.

Changes in accounting policies

There are no changes in accounting policies. All accounting policies have been applied on a consistent basis.

3.2.0 FINANCIAL STATEMENTS

3.2.1 Projected Statement of Financial Performance

	FOR THE PERIOD OF 1 JULY 2005 TO 30 JUNE 2006	FOR THE PERIOD OF 1 JULY 2006 TO 30 JUNE 2007	FOR THE PERIOD OF 1 JULY 2007 TO 30 JUNE 2008
	\$000 (GST EXCL)	\$000 (GST EXCL)	\$000 (GST EXCL)
REVENUE			
CROWN:			
OPERATING ¹	8,060	8,503	8,888
RESPONSIBLE USE OF PHARMACEUTICALS	2,895	2,895	2,895
INTEREST RECEIVED	300	200	100
DHB CONTRIBUTION	1,600	1,000	1,000
TOTAL REVENUE	12,855	12,598	12,883
OPERATING EXPENDITURE			
OPERATING COSTS	4,409	4,541	4,678
SALARIES AND RELATED COSTS	4,062	4,184	4,309
AUDIT FEES	27	27	28
DIRECTORS FEES	121	121	121
DEPRECIATION	210	200	200
RENTALS AND LEASES	194	200	200
HIGH COST MEDICINES	253	430	452
RESPONSIBLE USE OF PHARMACEUTICALS	4,335	3,895	3,895
TOTAL EXPENDITURE	13,611	13,598	13,883
NET SURPLUS/(DEFICIT)	(756)²	(1,000)	(1,000)

¹ PHARMAC is funded for High Cost Medicines within its operating budget.

² PHARMAC has forecast a deficit of \$756,000 (excluding GST) for the 2005/06 year. This deficit will be funded by PHARMAC from equity reserves. This will reduce PHARMAC's equity reserves to an appropriate level and contribute to managing financial pressures in the health sector.

3.2.2 PROJECTED STATEMENT OF FINANCIAL POSITION

	AT 30 JUNE 2005/2006	AT 30 JUNE 2006/2007	AT 30 JUNE 2007/2008
	\$000 (GST EXCL)	\$000 (GST EXCL)	\$000 (GST EXCL)
PUBLIC EQUITY			
RETAINED EARNINGS & RESERVES	9,614	8,614	7,614
TOTAL PUBLIC EQUITY	9,614	8,614	7,614
REPRESENTED BY:			
CURRENT ASSETS			
CASH AND BANK	11,849	10,849	9,849
RECEIVABLES AND PREPAYMENTS	750	750	750
TOTAL CURRENT ASSETS	12,599	11,599	10,599
NON-CURRENT ASSETS			
FIXED ASSETS	300	300	300
TOTAL NON-CURRENT ASSETS	300	300	300
TOTAL ASSETS	12,899	11,899	10,899
CURRENT LIABILITIES			
PAYABLES	3,285	3,285	3,285
TOTAL CURRENT LIABILITIES	3,285	3,285	3,285
NET ASSETS	9,614	8,614	7,614

NOTE: THE ABOVE STATEMENT SHOULD BE READ IN CONJUNCTION WITH THE ACCOUNTING POLICIES ON PAGE 35.

3.2.3 PROJECTED CASH FLOW STATEMENT

	FOR THE PERIOD OF 1 JULY 2005 TO 30 JUNE 2006	FOR THE PERIOD OF 1 JULY 2006 TO 30 JUNE 2007	FOR THE PERIOD OF 1 JULY 2007 TO 30 JUNE 2008
	\$000 (GST EXCL)	\$000 (GST EXCL)	\$000 (GST EXCL)
CASH FLOWS - OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
- MINISTRY OF HEALTH	10,955	11,398	11,783
- INTEREST	300	200	100
-DBH CONTRIBUTION	1,600	1,000	1,000
	12,855	12,598	12,883
CASH WAS DISBURSED TO:			
- CASH OUTFLOW TO SUPPLIERS AND EMPLOYEES	(13,401)	(12,998)	(13,283)
- NET GST	(400)	(400)	(400)
	(13,801)	(13,398)	(13,683)
NET CASH FLOW FROM OPERATING ACTIVITIES	(946)	(800)	(800)
CASH FLOWS - INVESTING ACTIVITIES			
CASH WAS DISBURSED TO:			
- PURCHASE OF FIXED ASSETS	(210)	(200)	(200)
NET CASH FLOW FROM INVESTING ACTIVITIES	(210)	(200)	(200)
CASH FLOWS - FINANCING ACTIVITIES			
NET CASH FLOW FROM FINANCING ACTIVITIES	0	0	0
NET INCREASE/(DECREASE) IN CASH HELD	(1,156)	(1,000)	(1,000)
ADD OPENING CASH BROUGHT FORWARD	13,005	11,849	10,849
CLOSING CASH BALANCE	11,849	10,849	9,849

NOTE: THE ABOVE STATEMENT SHOULD BE READ IN CONJUNCTION WITH THE ACCOUNTING POLICIES ON PAGE 35.

3.2.4 PROJECTED MOVEMENT IN EQUITY

	2005 / 2006	2006 / 2007	2007 / 2008
	\$000 (GST EXCL)	\$000 (GST EXCL)	\$000 (GST EXCL)
PUBLIC EQUITY AT THE BEGINNING OF THE PERIOD	10,370	9,614	8,614
NET SURPLUS/(DEFICIT)	(756)	(1,000)	(1,000)
PUBLIC EQUITY AS AT THE END OF THE PERIOD	9,614	8,614	7,614

NOTE: THE ABOVE STATEMENT SHOULD BE READ IN CONJUNCTION WITH THE ACCOUNTING POLICIES ON PAGE 35.

3.2.5 RECONCILIATION OF NET SURPLUS TO CASH FLOW FROM OPERATING ACTIVITIES

	2005 / 2006	2006 / 2007	2007 / 2008
	\$000 (GST EXCL)	\$000 (GST EXCL)	\$000 (GST EXCL)
NET OPERATING SURPLUS (DEFICIT)	(756)	(1,000)	(1,000)
<i>ADD NON-CASH ITEMS:</i>			
DEPRECIATION	210	200	200
TOTAL NON-CASH ITEMS	210	200	200
<i>ADD/(LESS) WORKING CAPITAL MOVEMENTS:</i>			
DECREASE (INCREASE) IN RECEIVABLES	0	0	0
INCREASE (DECREASE) IN PAYABLES	(400)	0	0
WORKING CAPITAL MOVEMENT – NET	(400)	0	0
NET CASH FLOW FROM OPERATING ACTIVITIES	(946)	(800)	(800)

NOTE: THE ABOVE STATEMENT SHOULD BE READ IN CONJUNCTION WITH THE ACCOUNTING POLICIES ON PAGE 35

3.2.6 Key Assumptions

The operating budget has been based upon the continuation of PHARMAC's existing level of activity, provision for new activities, future work plans and estimated costs.

Demand Side budget is based on estimated future activity.

Actual results may differ from Forecast

This summarised financial information is forward looking and based on prudent assumptions which may or may not eventuate. The financial forecasts are dependent on the outcome of funding negotiations for the out-years. Accordingly, the actual financial performance, financial position and cash flows are likely to vary from the projected information presented.

PART 4 OTHER MATTERS

4.1 Formal Monthly Reports

PHARMAC will provide the Minister and the Director-General of Health with a monthly report by the 20th working day of the following month covering, at a minimum:

- (a) pharmaceutical subsidy expenditure and rebates compared with budget and revised forecasts of expenditure and rebates when appropriate;
- (b) major Schedule decisions;
- (c) significant issues or developments that the Minister or Ministry should be aware of;
- (d) any potential non-performance against the Crown Funding Agreement;
- (e) PHARMAC's operational financial performance showing:
 - (i) Year to date: actual, budget, variance (\$), variance (%), with commentary to explain significant variances;
 - (ii) Year to date financial performance;
 - (iii) Year to date financial position;
 - (iv) Year end forecast; and
 - (v) Year end budget.

4.2 Formal Quarterly Reports

PHARMAC will provide a quarterly report to the Ministry of Health comprising:

PHARMAC's performance against all performance measures contained in Schedule B of this Agreement that fell due in the previous month. PHARMAC may also outline progress made towards achievement of significant milestones due in later months;

- an update on price, volume, mix and expenditure indices;
- a statement of cashflows for the immediately preceding quarter; and
- PHARMAC's use of the Legal Risk Fund, including: litigation expenditure; confirmation that PHARMAC has used the monies in the Fund in accordance with the model set out in the Ministers letter of 6 November 2003 and, following the end of each financial year, identification of any unspent operating litigation budget added to the Fund.

4.3 Informal Reports

In addition to the formal reports the Board, will, at any time necessary:

- alert the Minister and the Ministry to any emerging factors that PHARMAC is aware of that could preclude the achievement of any expectation set out in the Crown Funding Agreement; and
- inform the Minister and the Ministry of any issue likely to be of significance to the Minister.

4.4 Reports to Parliament

PHARMAC will prepare a Statement of Intent for 2006/07 and Annual Report for the year July 2004 to June 2005.

The content and timing of the production of these documents shall comply with the requirements of the NZPHD Act and the PF Act.

4.5 Information for Ministers

On request, PHARMAC will provide:

- the Ministry with information that will enable the Ministry to prepare Ministerial briefings and draft speech notes in writing and, where practicable, in agreed form;
- the Ministry will information (in writing and in an agreed form) that will enable the relevant Minister to, in a timely manner:
 - respond to Parliamentary questions;
 - deal with routine Ministerial correspondence; and
 - deal with select committee inquiries; and
- the Ministry with information relating to its activities that enables the Ministry to conduct special reviews and audits on its activities, which may be carried out as often as the Crown reasonably believes those reviews and audits are necessary.