

Inaugural report of

Pharmaceutical Management Agency

for the six month period ended
30 June 2001

*Presented to the House of Representatives pursuant to Section 44A of the Public
Finance Act 1989*

MINISTER OF HEALTH

In accordance with section 44A of the Public Finance Act 1989, I present, on behalf of the Pharmaceutical Management Agency Board, the report on the operations of Pharmaceutical Management Agency for the six month period ended 30 June 2001.

Richard A Waddel
Chairman
Pharmaceutical Management Agency

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DIRECTORY

Directors

Richard Waddel	Chairman
Ross Black	Director
Dr Gregor Coster	Director
Elizabeth Coutts	Director
Karen Guilliland	Director
David Moore	Director

Pharmacology and Therapeutic Advisory Committee

John Hedley	Chairman
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Chief Executive

Wayne McNee

Advisors

Solicitors:	Bell Gully Buddle Weir
Auditors:	Audit New Zealand on behalf of the Controller and Auditor-General
Bankers:	ASB Bank Limited
Insurers:	Circle / NRMA Insurance NZ Ltd

Physical address Level 1, Old Bank Chamber
 Corner Hunter Street and Customhouse Quay
 Wellington

Postal Address PO Box 10-254
 Wellington

Telephone: (04) 460 4990
 Facsimile: (04) 460 4995
 Website: www.pharmac.govt.nz

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF PURPOSE

For the six month period ended 30 June 2001

PHARMAC's Objective

PHARMAC's overall objective, as outlined in s.47 of the New Zealand Public Health and Disability Act 2000 (NZPHD Act), is 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.

PHARMAC's Statutory Functions

PHARMAC's functions under s.48 of the NZPHD Act are:

- 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 paragraph (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.

PHARMACEUTICAL MANAGEMENT AGENCY CHAIR'S REPORT

For the six month period ended 30 June 2001

This is the first report for this entity. It has been created under the NZPHD Act to carry on the business of the Pharmaceutical Management Agency Limited. That company was wound up on 1 January 2001.

Pharmaceuticals expenditure

District Health Board (DHB) expenditure on pharmaceuticals was \$662.7 million for the full year from 1 July 2000 to 30 June 2001 which is within the performance target of \$660.5 ± 2%.¹

STATEMENT SPECIFYING FINANCIAL PERFORMANCE

Operating results	<i>\$000</i>
Revenue	4,025
Expenditure	3,508
	<hr/>
Net surplus for the period	517
Public equity vested in PHARMAC at 1 January 2001	-
	<hr/>
Public equity carried forward 30 June 2001	1,856
	<hr/> <hr/>
Financial Position	
Current Assets	3,376
Less Current Liabilities	1,683
	<hr/>
	1,693
Plus Fixed Assets	163
	<hr/>
Equity at 30 June 2001	1,856
	<hr/> <hr/>
Operations	
Operating expenditure was within budget.	
Purchase of Fixed Assets	17
	<hr/> <hr/>

¹ Service expenditure is reported against the full year as specified in the Statement of Intent for Jan – June 2001 as the activities of the Pharmaceutical Management Agency Limited were wound up on 1 January 2001 and simultaneously the Pharmaceutical Management Agency was established as a Crown-owned entity to continue these activities.

PHARMACEUTICAL MANAGEMENT AGENCY CHAIR'S REPORT (Continued)

Board Members Remuneration

\$000

The Board members earned the following fees during the six month period:

- Richard Waddel (Chair)	18
- Ross Black	9
- Gregor Coster	9
- Elizabeth Coutts	9
- Karen Guilliland	9
- David Moore (employed by Ministry of Health)	-

Employees Remuneration

No employee has earned more than \$100,000 during the six months under review. Based on remuneration paid to employees during the period under review, PHARMAC expects the following outcome for annual remuneration:

Total remuneration and other benefits	Number of employees
\$110,000 - \$119,999	1
\$120,000 - \$129,999	1
\$130,000 - \$139,999	-
\$140,000 - \$149,999	2*

The Chief Executive's remuneration for the six month period ended 30 June 2001 was less than \$100,000.

*The Chief Executive's remuneration and benefits for one year is expected to be in the \$140,000 - \$149,999 band.

Conflict of interest

During the period under review, the Board received no notice from Directors that they had an interest in any transactions or proposed transactions by PHARMAC.

All Directors declare any potential general conflicts of interest. This is recorded in the minutes of the Board meeting and in the Interests Register held at PHARMAC. A Director may be asked to sign a confidentiality undertaking if they declare an actual or potential conflict of interest. Further, a Director may be excluded from voting or the meeting during discussion of a topic presenting a potential or actual conflict. If there is an actual or potential conflict of interest, the Director's exclusion or inclusion in that discussion or part of the meeting, and their contribution, will be recorded in the minutes.

**PHARMACEUTICAL MANAGEMENT AGENCY
CHAIR'S REPORT (Continued)**

Indemnity Insurance

Indemnity insurance is in place for all Directors.

For and on behalf of the Board

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Richard A Waddel
Chairman

PHARMACEUTICAL MANAGEMENT AGENCY CHIEF EXECUTIVE'S REPORT

For the six month period ended 30 June 2001

The first six months of 2001 have presented a number of opportunities for PHARMAC. Under the NZPHD Act, PHARMAC became a Crown entity with direct accountability to the Minister of Health. The Act also provided for PHARMAC to undertake a number of new functions including the management of the Exceptional Circumstances Scheme and promoting the responsible use of medicines.

During this time of sectoral change, PHARMAC has remained focused on its core business of maintaining a nationally consistent Pharmaceutical Schedule and managing pharmaceutical expenditure. This has resulted in PHARMAC achieving its performance targets in these key areas. PHARMAC has also broadened out into other areas of operation such as commencing the development of a Maori Responsiveness Strategy, building relationships with the newly established District Health Boards, developing a strategy for managing Exceptional Circumstances and enhancing Demand Side activities to encompass promoting the responsible use of medicines.

At the beginning of the year, PHARMAC reviewed its organisational structure to ensure that it was best positioned to meet these new challenges. This has resulted in a functional structure with responsibilities aligned to key accountabilities. PHARMAC has also been actively recruiting staff with the skills and experience to ensure that we have the capability to meet our legislative obligations. This has been combined with reviews of our information systems, financial reporting and human resources policies and processes to ensure that we are working as effectively and efficiently as possible.

PHARMAC has developed and gives practical effect to a number of personnel policies that we consider assist in meeting our objective of being a good employer. For example, we have prepared and implemented a Health and Safety policy, a Remuneration policy, a Training and Development policy, Harassment policy, and a Smoke Free policy amongst others. Further, PHARMAC's Recruitment and Selection Guidelines and Toolkit sets out the policy, guidelines, tools, checklists and sample letters for the recruitment, selection and appointment of employees of PHARMAC.

The past six months have been a period of transition and over the next 12 months we will look to consolidate and build on our achievements to date.

Wayne McNee
Chief Executive

**PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF RESPONSIBILITY**

For the six month period ended 30 June 2001

1. The Board and management of Pharmaceutical Management Agency accepts responsibility for the preparation of the annual Financial Statements and the judgements used therein.
2. The Board and management of Pharmaceutical Management Agency accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non financial reporting.
3. In the opinion of the Board and management of Pharmaceutical Management Agency, the Financial Statements for the six month period ended 30 June 2001, fairly reflect the financial position and operations of Pharmaceutical Management Agency.

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Richard A Waddel
Chairman
26 October 2001

.....
Wayne McNee
Chief Executive
26 October 2001

REPORT OF THE AUDIT OFFICE

REPORT OF THE AUDIT OFFICE (Continued)

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE

For the six month period ended 30 June 2001

PHARMAC's performance as a purchasing agent for the six month period ended 30 June 2001

Direct performance measures

Performance against target

Target: PHARMAC will maintain pharmaceutical subsidy expenditure for the year ending 30 June 2001 within $\pm 2\%$ of \$660.5 million (GST exclusive). Pharmaceutical subsidy covers the cost of drugs and the cost of distribution and dispensing services. PHARMAC has direct management responsibility for only the ex-manufacture cost of drugs, which is approximately \$540 million (GST exclusive).

Outcome: Expenditure for the year ending June 2001 was approximately \$662.70 million. This included \$20.1 million in rebates paid for this period.

The drug cost for this period was \$535.5 million before taking account of rebates.

Decision Making Processes

PHARMAC made all of its decision relating to drug subsidies in accordance with its Operating Policies and Procedures, as amended from time to time. PHARMAC made a number of decisions that either resulted in savings, investments, or widened access, to pharmaceuticals.

Decisions made between July 2000 and June 2001 that reduced the subsidy of pharmaceuticals are estimated to have saved approximately \$50 million in the 2000/01 year which equates to savings of \$75 million in a full year. This is calculated by taking the difference between a full year's volume of the subsidies effective in June 2000 and a full year's volume of the subsidies effective June 2001. Estimated savings by therapeutic group are shown below.

The September 2000 quarter had a large number of subsidy reductions due to the implementation of tender decisions.

**PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE (Continued)**

	Quarter Ending				Annual
	Sep-00	Dec-00	Mar-01	Jun-01	Total
Alimentary Tract and Metabolism	\$3.30	\$0.00	\$0.00	\$12.92	\$16.22
Blood and Blood Forming Organs	\$6.47	\$0.00	\$10.31	\$0.01	\$16.80
Cardiovascular System	\$4.53	\$0.74	\$3.14	\$4.61	\$13.02
Dermatologicals	\$0.27	\$0.34	\$0.47	\$0.06	\$1.14
Infections - Agents for Systemic Use	\$4.23	\$1.40	\$0.00	\$0.71	\$6.34
Musculo-Skeletal System	\$2.08	\$0.24	\$0.41	\$0.00	\$2.73
Nervous System	\$5.63	\$0.87	\$0.65	\$0.76	\$7.90
Oncology Agents and Immunosuppressants	\$0.63	\$0.00	\$0.00	\$0.00	\$0.63
Respiratory System and Allergies	\$2.20	\$0.00	\$0.26	\$5.39	\$7.85
Sensory Organs	\$0.20	\$0.00	\$0.00	\$0.00	\$0.20
Special Foods	\$0.00	\$0.05	\$0.00	\$0.00	\$0.05
Systemic Hormone Preparations excluding Contraceptive Hormones	\$0.36	\$1.18	\$0.00	\$0.00	\$1.53
Total	\$29.90	\$4.81	\$15.24	\$24.46	\$74.41

Eight new medicines and four new foods were listed in the Pharmaceutical Schedule (the Schedule) in the 6 months to June 2001. A number of explicit new investments providing increased health benefit were made in the following areas:

Investment decision by Therapeutic Group 1	Effective Date	Estimated Gross Cost in First Full Year (\$000's)
Alimentary Tract and Metabolism		
Ascorbic Acid and Sodium Ascorbate	01-Feb-01	\$0
Blood and Blood Forming Organs		
Ferrous Gluconate with Ascorbic Acid	01-Feb-01	\$6
Cardiovascular System		
Quinapril with Hydrochlorothiazide	01-Jun-01	\$80
Dermatologicals		
Oil in Water Emulsion	01-Apr-01	\$417
Infections - Agents for Systemic Use		
Abacavir Sulphate	01-Jan-01	\$144
Efavirenz	01-Jan-01	\$425
Nervous System		
Gabapentin	01-Apr-01	\$595
Quetiapine	01-May-01	\$530
Special Foods		
Generaid Plus	01-May-01	\$35
Kindergen	01-May-01	\$12
Pepti Junior	01-May-01	\$253
Stresson Multi-Fibre	01-May-01	\$31

Note: Most of the new investments were either cost neutral or a negative net cost to the Schedule due to the substitution of the new investments with existing schedule items or reductions which offset the cost of the new investment.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Indirect performance indicators

Numbers of patients benefiting from specific PHARMAC investment decisions

Investment decision	Estimated no. new patients Jan-Jun/2001
gabapentin	42
quetiapine	208
abacavir	28
efavirenz	79

Patient numbers have been estimated from Health Benefits data, based on maximum monthly use for the six months January to June 2001.

Health benefits delivered from PHARMAC decisions

Health benefit can be defined as improvements in life expectancy and/or improvements in health related quality of life. A common measure of health benefit is the quality adjusted life year (QALY).

Measuring the health impact of PHARMAC actions, in terms of QALYs gained by patients using newly-listed or extended-access pharmaceuticals, is beyond our current monitoring capability. However, PHARMAC does consider value-for-money as part of its investment decisions. Value for money measures can indicate the impact of pharmaceutical expenditure, for instance discounted net costs to the public health sector per QALY gained (\$/QALY). This incorporates savings to other parts of district health board (DHB) budgets.

Estimates of QALY gains by patient groups are available for some of PHARMAC'S investments covering the full financial year 1 July 2000 to 30 June 2001. These include topiramate and gabapentin for refractory epilepsy, bambuterol for asthma symptom control, and quetiapine for schizophrenia. Investing in these drugs alone cost the Pharmaceutical Schedule \$730,000 for an estimate 2,650 new patients, but saved perhaps 24 (quality-adjusted) years of life. This is equivalent to saving 2.5 full (statistical) lives for each year's spending. In addition, this spending was matched by potential savings elsewhere in the Pharmaceutical Schedule or the rest of the public health sector of 17% (\$182,000 after discounting), meaning potential net health sector costs of \$495,000 for these 2,650 patients:

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

QALYs in 00/01 from key current Pharmac investment decisions

(where information available)

Investment decision, where indicative cost/QALY estimates available	No. patients	Gross Cost to Schedule in 00/01	Possible net costs to health sector, discounted	discounted net health sector \$/QALY	net present value of QALYs gained*
Listing of topiramate for refractory epilepsy	284	\$320,209	\$320,209	\$18,500	17.31
Listing of gabapentin for refractory epilepsy	42	\$35,870	\$35,870	\$15,000	2.39
Listing of bambuterol for asthma symptom control	2,117	\$265,891	\$205,402	\$40,000	5.14
Listing of quetiapine for schizophrenia	208	\$108,419	-\$66,349	\$74,995	-0.88
Listing of brimonidine for refractory glaucoma	800	\$287,462		n/avail	
Listing of abacavir for HIV/AIDS	28	\$48,334		n/avail	
Listing of efavirenz for HIV/AIDS	79	\$134,465		n/avail	
TOTAL	3,558	\$1,200,650	\$495,131	\$20,673	24.0
<i>(TOTAL, where QALY data available)</i>	<i>2,650</i>	<i>\$730,389</i>	<i>\$495,131</i>	<i>\$20,673</i>	<i>24.0</i>

No. lives saved**

2.5

Number of patients using brimonidine derives from a previous estimate by the relevant Therapeutic Group manager, based on their knowledge of the market for glaucoma pharmaceuticals.

*Total QALY gains in patient users over time horizon, at net present value (discounting at 10%)

**Where each life saved is a statistical life, and each saved life is equivalent to living a full quality of life for 36.4 remaining years expected for the average New Zealand citizen, = a present value of 9.7 years (discounted at 10%).

Note that further QALY gains were made for abacavir and efavirenz for HIV/AIDS, but these were not estimated as their listing resulted in net savings to the health sector.

Pharmaceutical indexes

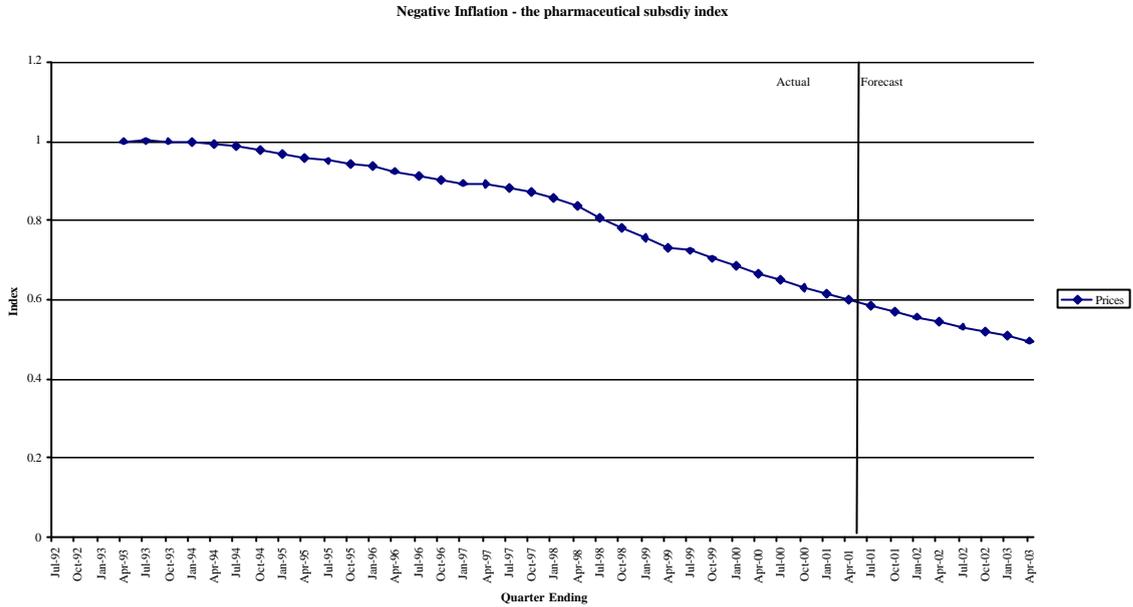
Expenditure trends can be broken into three components:

- price inflation;
- volume changes; and
- mix (usually a shift from older, cheaper drugs to newer, more expensive ones).

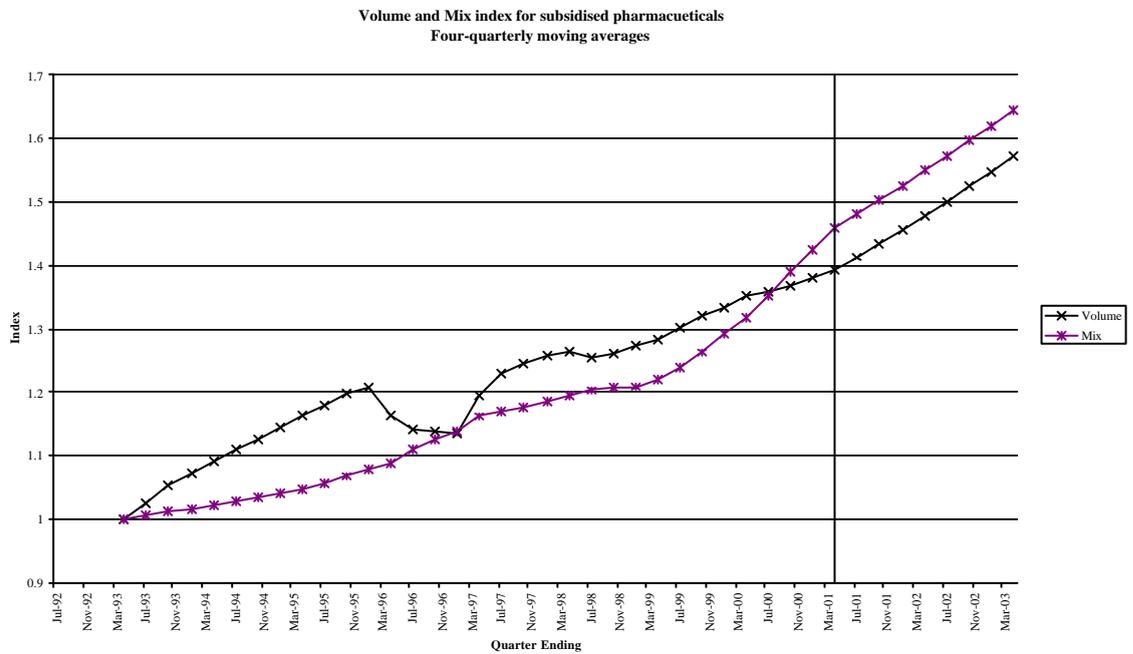
Subsidy Inflation Index

PHARMAC is continuing to lower subsidies across subsidised pharmaceuticals and the forecast is for this to continue.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)



Volume and Mix Index



Volumes are expected to continue to grow at historical rates. Major growth is found in the areas of Alimentary Tract and Metabolism, Cardiovascular System, Dermatologicals, Nervous System, and Oncology Agents and Immunosuppressants.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Mix had an upward burst that reflected the impact of the new antipsychotic drugs and is expected to continue growing but at a lesser rate. Other areas where mix is a strong factor include Infections – Agents for Systemic use, and Lipid Modifying Agents. Mix has now returned to normal growth patterns and this is forecast to continue.

Continued price reductions will be needed to continue to maintain expenditure at sustainable levels.

Number of decisions made

PHARMAC made 221 decisions that affected the Pharmaceutical Schedule in 2000/01 compared to 463 in the previous year. The major changes were new product listings arising from price competition initiatives that are designed to stimulate increased generic competition.

Listing changes to the Pharmaceutical Schedule

Decision type	1997/98	1998/99	1999/00	2000/01
New Chemical entity listed	14	32	18	20
New Presentation listed	33	40	21	13
New Product listed	53	56	39	28
Total new listings	100	128	78	61
Derestriction or expanded access	14	34	17	19
Changes that restrict or limit access	7	3	6	6
Delistings	106	51	362	135

Note:

- The higher than normal new chemicals listed in 1998/99 was the result of a review of the Special Foods Therapeutic Group where 13 new chemicals were listed.
- A higher than usual number of products were de-listed in 1999/00 due to sole supply arrangements and the completion of the review of Extemporaneously Compounded Preparations.

Other Direct Performance Measures

Performance against target

Stakeholder Engagement Process

Target: PHARMAC will implement a stakeholder engagement process, so as to establish working relationships with DHBs and other key stakeholders. Meetings will be held with all

DHBs on an individual or regional basis by 31/3/01. In addition, PHARMAC will establish a Consumer Advisory Group by 30/6/01.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Outcome: PHARMAC has successfully developed its engagement process with DHBs and met with all regional groupings by 31/03/01. Moving on from these initial meetings PHARMAC now has regular meetings with DHBs through District Health Boards New Zealand. PHARMAC has also developed standard monthly reports for DHBs on pharmaceutical expenditure and has responded to a number of ad hoc queries. During the review period PHARMAC has held a number of relationship meetings and provided presentations to a range of stakeholder groups including Members of Parliament, government agencies clinicians, pharmaceutical companies, patient groups, the Pharmacy Guild and the Pharmaceutical Society. PHARMAC was unable to establish the Consumer Advisory Committee by 30/6/01 and this has been incorporated in the 2001/02 Statement of Intent.

Development of a Maori Health Strategy

Target: PHARMAC will develop a strategy for engaging with Maori. Milestones for implementing the strategy will be agreed with the Ministry of Health by 30/6/01.

Outcome: PHARMAC has developed a draft Maori Responsiveness Strategy which covers both a process for engaging with Maori and reflects PHARMAC's commitment to promoting the appropriate use of pharmaceuticals by Maori. PHARMAC has developed a consultation process on the draft strategy including holding hui around the country. Other milestones for the development of the strategy and its implementation have been agreed with the Ministry of Health.

Forecasts for Out-Year Growth in Pharmaceutical Expenditure

Target: PHARMAC is required to provide the Ministry of Health with a 1-3 year forecast of pharmaceutical expenditure. Any potential deviation from the forecasts will be promptly notified to the Ministry.

Outcome: PHARMAC supplied 1-3 year forecasts of pharmaceutical expenditure to the Ministry of Health in February 2001. Any changes in forecast expenditure were provided to the Ministry as part of PHARMAC's monthly report.

Evaluation of at least one significant decision

Target: In order to monitor the quality of its decisions, in relation to the Pharmaceutical Schedule, PHARMAC will, by 30/06/01, report on progress with the evaluation of at least one significant decision it has made.

Outcome: PHARMAC is currently undertaking an independent evaluation of the 2000/01 Tender. The Tender is a supply side initiative, which has been used to make significant savings of over \$100 million since its inception.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Exceptional Circumstances

The Exceptional Circumstances Scheme provides for subsidies for pharmaceuticals used in the community setting, but not subsidised via the Pharmaceutical Schedule.

Target: By 30/6/01 PHARMAC will review the current Scheme and present the findings to the Ministry of Health.

Outcome: By 30 June 2001 PHARMAC had, following discussion with the Ministry of Health and District Health Board New Zealand established a strategy and mechanism for assuming responsibility for, and managing the Exceptional Circumstances scheme. The strategy involved PHARMAC establishing a panel of clinicians (nominated by relevant professional bodies) and appointing a panel co-ordinator by to assess applications and make decisions on patient eligibility according to established criteria and administer the Scheme by 1 October 2001.

Nationwide Programmes - for High Cost Pharmaceuticals

Target: PHARMAC will coordinate and provide management and support to national programmes and expert panels that encourage the cost-effective use of particular high cost pharmaceuticals.

There are currently reviews being undertaken on the approach to funding hospital drugs and contracting with pharmacies. PHARMAC will provide high quality advice during the reviews, with a view to ensuring that the best outcomes are achieved.

Outcome: PHARMAC has continued to successfully manage access to funding for four high cost pharmaceuticals (human growth hormone, dornase alpha, beta-interferon and imiglucerase) via its expert panels (the Growth Hormone Committee, the Dornase Alpha Treatment Advisory Panel, the Multiple Sclerosis Treatments Advisory Committee, and the Gaucher Treatment Panel). These panels were established by PHARMAC to provide independent assessments of individual applications for subsidies against access criteria set by PHARMAC, in conjunction with medical experts. These programmes have ensured that funding for these pharmaceuticals is targeted to those patients who obtain the most clinical benefit from them and has enabled PHARMAC to manage expenditure on these treatments within the limited budgets available.

Other Nationwide Initiatives

Target: PHARMAC will provide high quality advice on the reviews of funding hospital drugs and contracting with pharmacies.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Outcome: PHARMAC has contributed high quality advice on a range of pharmaceutical-related issues associated with national initiatives led by other agencies, including pharmacy contracting and a review of access to cancer treatments. PHARMAC will also lead in the development of a nationwide strategy for hospital pharmaceuticals purchasing.

Demand Side Management Activities

Target: PHARMAC aims, through proactive demand-side management, to have an impact on the volume and mix of drugs prescribed such as the appropriate use of antibiotics and informing prescribers of Proton Pump Inhibitors subsidy arrangement.

PHARMAC will promote the responsible use of medicines through national or regional campaigns and will report on its finding in one key area by 30/6/01.

Outcome:

“Wise Use of Antibiotics” campaign

In conjunction with 25 IPAs (comprising over 2,500 general practitioners) PHARMAC undertook a campaign promoting the “Wise Use of Antibiotics”. The campaign was also supported by the Royal New Zealand College of General Practitioners and ran from May – September 2001. The Programme focused on reducing the unnecessary prescribing of antibiotics for viral conditions. The success of previous campaigns is reflected in a reduction of 14.8% in antibiotic dispensings from 3.348 million to 2.850 million (year-end Dec 1999 compared with year-end Dec 2000 data). As well as this, there has been a shift in prescribing from broad to narrow spectrum antibiotics. An independent evaluation of consumer response to the campaign was undertaken, and the results of this are due in October 2001.

Support for supply side initiatives

PHARMAC demand-side management develops implementation programmes for supply side changes that either affect large numbers of patients or are complicated to implement. PHARMAC has provided clinicians with information regarding the increased access to long acting beta agonists (an asthma management treatment). PHARMAC has also developed a patient support pamphlet designed to explain medicine changes called “My Medicine Looks Different”.

Referred Services Contracts

Target: PHARMAC will encourage the responsible and cost effective use of medicines through the management and monitoring of referred services contracts and will review quarters 2 and 3 reports from service providers by 30/6/01.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Outcome: BPAC and the PreMeC deliver individual feedback and best practice information to general practitioners.

The Green Prescription Programme promotes increasing the level of physical activity among New Zealanders through prescriptions for exercise.

PreMeC, BPAC and the Hillary Commission provide quarterly reports to PHARMAC, which are reviewed and sent to the Ministry of Health with a supporting commentary. Reports for quarters one, two and three have all been provided to the Ministry of Health.

PHARMAC's performance in managing statutory roles

Promulgation of information from the Pharmaceutical Schedule

PHARMAC aims to maintain, and where possible improve, the information regularly sent to pharmacists, prescribers and other interested parties. Proactive, timely and accurate information will be promulgated through the media and other sources about significant changes.

PHARMAC reprinted and distributed the Pharmaceutical Schedule to all prescribers and pharmacists on its mailing list every four months.

PHARMAC's electronic schedule was delivered to subscribers monthly, and is the basis for the pharmacy electronic claiming.

PHARMAC printed and distributed monthly updates to the Pharmaceutical Schedule to all pharmacists and prescribers on its mailing list.

PHARMAC produced a Dispatch every month with a brief summary of subsidy changes. This was sent to the pharmacies earlier than the update.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF ACCOUNTING POLICIES

For the six month period ended 30 June 2001

Reporting Entity

Pharmaceutical Management Agency (PHARMAC) is a Crown Entity in terms of the Public Finance Act 1989, created under the New Zealand Public Health and Disability Act 2000.

PHARMAC acts as an agent of the Ministry of Health for the purpose of meeting its obligations in relation to the operation and development of a national Pharmaceutical Schedule.

The financial statements have been prepared in accordance with the requirements of the New Zealand Health and Disability Act 2000 and the Public Finance Act 1989.

In addition, funds administered on behalf of the Crown are included as a note to the financial statements.

Measurement System

The financial statements have been prepared on an historical cost basis.

Accounting Policies

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

Comparative figures

Pharmaceutical Management Agency was formed on 1 January 2001 and this is its first report. Accordingly there are no comparative figures for the previous financial year. PHARMAC's functions combine the function of its predecessor, Pharmaceutical Management Agency Limited, and the new requirements under the New Zealand Public Health and Disability Act 2000.

Budgeted Figures

The budget figures are those approved by the Board at the beginning of the period in the initial Statement of Intent. The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Board for the preparation of the financial statements.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF ACCOUNTING POLICIES (Continued)

For the six month period ended 30 June 2001

Fixed Assets

Fixed assets vested from Pharmaceutical Management Agency Limited

Under Section 95(3) of the New Zealand Public Health and Disability Act 2000, the assets of Pharmaceutical Management Agency Limited vested in Pharmaceutical Management Agency on 1 January 2001. Accordingly, assets were transferred to Pharmaceutical Management Agency at their net book values as recorded in the books of Pharmaceutical Management Agency Limited. In effecting this transfer, the Board has recognised the cost and accumulated depreciation amounts from the records of Pharmaceutical Management Agency Limited. The vested assets will continue to be depreciated over their remaining useful lives.

The book value of furniture and equipment was transferred to PHARMAC from the Health Funding Authority when the assets and liabilities of that entity were also vested in new health sector entities.

Fixed assets acquired since the establishment of Pharmaceutical Management Agency

Assets acquired by Pharmaceutical Management Agency since its establishment, other than those vested from the Pharmaceutical Management Agency Ltd, are recorded at cost. This includes all appropriate costs of acquisition and installation.

Disposal of fixed assets

When a fixed asset is disposed of, any gain or loss is recognised in the Statement of Financial Performance and is calculated as the difference between the sale price and the carrying value of the fixed asset.

Accounts Receivable

Accounts Receivable are valued at net realisable value after providing for doubtful and uncollectable debts.

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.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF ACCOUNTING POLICIES (Continued)

For the six month period ended 30 June 2001

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

	Estimated useful life	Depreciation rate
Office Equipment	2.5 - 5 years	20% - 40%
EDP Equipment	2.5 years	40%
Furniture and Fittings	5 years	20%

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.

Revenue Recognition

PHARMAC derives revenue through the provision of outputs to the Crown, for services to third parties and income from investments. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Goods and Services Tax

All items in the financial statements are exclusive of goods and services tax (GST), with the exception of debtors and creditors, which are shown GST inclusive.

Taxation

PHARMAC is a public authority in terms of the Income Tax Act 1994 and consequently is exempt from income tax.

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 (as an agent of Ministry of Health) 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.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF ACCOUNTING POLICIES (Continued)

For the six month period ended 30 June 2001

Employment Entitlements

Provision is made in respect of PHARMAC's liability for employees' annual leave and has been calculated on an entitlement basis at current rates of pay.

Leases

The Company leases office premises and office equipment. 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.

Statement of Cash Flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which PHARMAC invests as part of its day-to-day cash management.

Operating activities include cash received from all income sources of PHARMAC and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of PHARMAC.

Cost of Service Statements

The cost of service statements, as reported in the statement of objectives and service performance, reports the net cost of services for the outputs of PHARMAC and are represented by the cost of providing the output less all the revenue that can be allocated to these activities.

Changes in Accounting Policies

This is the first period of operation. All accounting policies have been applied on a consistent basis throughout the period and correspond to the accounting policies specified in the Statement of Intent at the beginning of the period.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF FINANCIAL PERFORMANCE
for the six month period ended 30 June 2001

	<i>Note</i>	<i>Actual</i> <i>2001</i> <i>\$000</i>	<i>Budget</i> <i>2001</i> <i>\$000</i>
REVENUE			
Ministry of Health – Operating	1	3,054	3,239
Ministry of Health – Referred Services		824	824
Other Income		68	-
Interest		79	-
<i>Total Revenue</i>		<u>4,025</u>	<u>4,063</u>
EXPENDITURE			
Operating Costs		1,578	2,062
Referred Services Costs		824	824
Personnel Costs		902	937
Audit Fees		13	10
Directors Fees		54	66
Depreciation		53	74
Rentals and Leases		84	90
<i>Total Expenditure</i>		<u>3,508</u>	<u>4,063</u>
<i>Net Surplus</i>		<u>517</u>	<u>-</u>

The accompanying accounting policies and notes form part of these financial statements.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF MOVEMENTS IN EQUITY
for the six month period ended 30 June 2001

	<i>Actual</i> <i>2001</i> <i>\$000</i>	<i>Budget</i> <i>2001</i> <i>\$000</i>
Equity at beginning of period	-	783
Net surplus for the period (Total Recognised Revenues and Expenses for the period)	517	-
Other movements:		
Contributions from owners *	1,238	-
Fixed assets transferred from the Health Funding Authority **	101	-
Equity at end of period	<u>1,856</u>	<u>783</u>

* This represents the net assets of Pharmaceutical Management Agency Limited that were vested in PHARMAC effective 1 January 2001 (refer note 6)

** This represents the book value of furniture and equipment transferred to PHARMAC from the Health Funding Authority when the assets and liabilities of that entity were also vested in new health sector entities.

The accompanying accounting policies and notes form part of these financial statements.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF FINANCIAL POSITION
as at 30 June 2001

	<i>Note</i>	<i>Actual</i> <i>2001</i> <i>\$000</i>	<i>Budget</i> <i>2001</i> <i>\$000</i>
<hr/>			
Public Equity			
Reserves	2	1,856	783
<i>Total Public Equity</i>		<u>1,856</u>	<u>783</u>
Represented By:			
Current Assets			
Cash and Bank		903	735
Accounts Receivable	3	<u>2,473</u>	<u>575</u>
Total Current Assets		<u>3,376</u>	<u>1,310</u>
Less Current Liabilities			
Accounts Payable	4	1,599	637
Annual Leave Accruals		<u>84</u>	<u>80</u>
Total Current Liabilities		<u>1,683</u>	<u>717</u>
<i>Working Capital</i>		<u>1,693</u>	<u>593</u>
Non Current Assets			
Fixed Assets	5	<u>163</u>	<u>190</u>
<i>Net Assets</i>		<u>1,856</u>	<u>783</u>

Signed this

day of

2001

Chairman

The accompanying accounting policies and notes form part of these financial statements.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF CASH FLOWS
for the six month period ended 30 June 2001

	<i>Note</i>	<i>Actual June 2001 \$000</i>	<i>Budget June 2001 \$000</i>
Cash Flows from Operating Activities			
Cash was provided from:			
- Ministry of Health		3,808	4,571
- Interest		79	-
- Other		68	-
- Net GST		-	577
Cash was disbursed to:			
- Payments to suppliers and employees		(2,324)	(6,046)
- Referred Services Contract Organisations		(824)	-
- Net GST		(2,122)	-
<i>Net Cash Flow from Operating Activities</i>	6	<u>(1,315)</u>	<u>(898)</u>
Cash Flows from Investing Activities			
Cash was disbursed to:			
- Purchase of Fixed Assets		(17)	(100)
<i>Net Cash Flows from Investing Activities</i>		<u>(17)</u>	<u>(100)</u>
Cash Flows from Financing Activities			
Cash was provided from:			
- Ministry of Health		2,235	1,733
<i>Net Cash Flows from Financing Activities</i>		<u>2,235</u>	<u>1,733</u>
Net Increase/(Decrease) in Cash Held		903	(998)
Add Opening Cash Brought Forward		-	-
<i>Closing Cash Balance</i>		<u><u>903</u></u>	<u><u>735</u></u>

The accompanying accounting policies and notes form part of these financial statements.

PHARMACEUTICAL MANAGEMENT AGENCY NOTES TO THE FINANCIAL STATEMENTS

Note 1: Related Parties

PHARMAC is a wholly owned entity of the Crown. The Crown, through the Ministry of Health, significantly influences the role of PHARMAC and is its major source of revenue.

PHARMAC also conducts business with other government entities on an “arms length” basis in the normal course of business. These transactions are not considered to be related party transactions.

Note 2: Public Equity

Pharmaceutical Management Agency, a Crown-owned entity, was created on 1 January 2001 under the New Zealand Public Health and Disability Act 2000. This occurred following, and as a consequence of, the voluntary winding up of Pharmaceutical Management Agency Limited on that date.

Note 3: Accounts Receivable

	<i>Actual</i>
	<i>2001</i>
	<i>\$000</i>
GST	2,280
Prepayments	45
Ministry of Health and others	147
	2,473

Note 4: Accounts Payable

	<i>Actual</i>
	<i>2001</i>
	<i>\$000</i>
Trade Payables	730
Accruals	422
Income in Advance	394
Ministry of Health	53
	1,599

**PHARMACEUTICAL MANAGEMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Note 5: Fixed Asset Schedule

	<i>Cost</i> <i>30-06-01</i> <i>\$000</i>	<i>Accum</i> <i>Depn.</i> <i>30-06-01</i> <i>\$000</i>	<i>Net Book</i> <i>Value</i> <i>30-06-01</i> <i>\$000</i>
Office Equipment	18	10	8
EDP Equipment	415	358	57
Furniture & Fittings	195	97	98
	628	465	163

Fixed assets owned by Pharmaceutical Management Agency Limited on 31 December 2000 were vested in Pharmaceutical Management Agency on 1 January 2001 at book value.

Note 6: Reconciliation of the Net Operating Surplus with Net Cash Flows from Operating Activities

	<i>Actual</i> <i>June 2001</i> <i>\$000</i>	<i>Budget</i> <i>June 2001</i> <i>\$000</i>
Net Surplus	517	-
Add Non Cash Items:		
Depreciation	53	74
Add/(less) Working Capital Movements:		
Decrease (increase) in Receivables	(2,219)	1,076
Increase (decrease) in Payables	334	(2,048)
<i>Net Cash Flows from Operating Activities</i>	<u>(1,315)</u>	<u>(898)</u>

**PHARMACEUTICAL MANAGEMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Note 7: Commitments

	<i>Actual</i>
	<i>2001</i>
	<i>\$000</i>
Future Commitments in respect of office rentals and service contracts	
<i>Not later than one year</i>	20
<i>One – two years</i>	17
<i>Two - five years</i>	23
Total operating commitments	<u><u>60</u></u>
Capital Commitments	<u><u>-</u></u>

Note 8: Contingent Liabilities

PHARMAC has a contingent liability of \$250,000 for legal costs for potential litigation.

Future costs of defending the actions or damages arising from the legal actions have not been recognised in the Statement of Financial Performance for the six month period ended 30 June 2001.

Note 9: Financial Instruments

(i) **Credit Risk** Financial instruments which potentially expose PHARMAC to credit risk consist of bank balances and accounts receivable.

Bank balances are held with New Zealand registered banks.

The values disclosed in the Financial Statements represent the maximum exposures on these financial instruments. No collateral is held for any of these financial instruments.

(ii) **Concentration of Credit Risk** There is no significant concentration of credit risk.

(iii) **Credit Facilities** PHARMAC does not have a bank overdraft facility.

(iv) **Fair Values** The fair value of financial instruments is equivalent to the carrying amount disclosed in the financial statements at 30 June 2001.