
Annual Report of
Pharmaceutical Management Agency
(PHARMAC)

for the year ended
30 June 2006

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

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PHARMAC DIRECTORY

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<p>Board Members Richard Waddel – Chair Gregor Coster Kura Denness (from 1 July 2006) Karen Guilliland Helmut Modlik (to 30 June 2006) David Moore Adrienne von Tunzelmann</p>	<p>Chief Executive Wayne McNee (to 30 June 2006) Matthew Brougham (Acting, from 1 July 2006)</p>
<p>Pharmacology and Therapeutic Advisory Committee Carl Burgess, Chair</p>	<p>Consumer Advisory Committee Sandra Coney, Chair</p>
<p>Auditors Audit New Zealand Wellington</p>	<p>Bankers ASB Bank Limited</p>
<p>Solicitors Bell Gully Buddle Weir</p>	<p>Insurers Circle (underwritten by IAG NZ Limited) Lumley General Insurance (NZ) Limited American Home Assurance Company</p>

INTRODUCTION

PHARMAC is responsible for ensuring that all New Zealanders have access to a wide range of affordable medicines.

PHARMAC's main objective under the New Zealand Public Health and Disability Act 2000 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 has four main functions:

- managing the Pharmaceutical Schedule, which lists the medicines that are subsidised for patients. PHARMAC assists District Health Boards (DHBs) in their management of pharmaceutical expenditure;
- promoting the responsible use of medicines, including through PHARMAC's continued implementation of its Maori Responsiveness Strategy;
- assisting DHBs with national procurement initiatives to facilitate more consistency in the costs of hospital medicines (and some other procurement initiatives); and
- managing the Exceptional Circumstances (EC) scheme, which allows for medicines not normally subsidised to be funded for rare and unusual conditions. PHARMAC also administers a range of extremely high cost medicines.

PHARMAC may also engage in research to meet its statutory objectives, as well as perform any other functions it is given or authorised to perform by the Minister.

PHARMAC is internationally recognised as a leader in effective pharmaceutical management.

CHAIRMAN'S REPORT

I have been delighted with the highly professional way in which PHARMAC's staff have gone about their work in a year characterised by difficult and emotive issues.

PHARMAC faced a number of highly public decisions, some resulting in PHARMAC funding medicines and others not. While media attention tended to focus on those medicines not funded, such as Herceptin, there was a large amount of good PHARMAC news. PHARMAC made 41 new investments in pharmaceuticals during 2006, an increase on previous years underscoring our commitment to investing in the health of New Zealanders.

Pharmaceutical expenditure was \$563 million, including one-off effects that can, in effect, distort the overall outcome. During the year, PHARMAC received payments from suppliers to resolve disputes that amounted to around \$16 million. In practice, therefore, expenditure was approximately \$579 million.

These investments – both continuation of funding existing medicines on the Pharmaceutical Schedule and investment in new medicines – will deliver substantial health benefits to New Zealanders, now and in the future. Subsidised prescriptions grew 4.5% in the year, meaning a total of around 2.5 million New Zealanders benefited from PHARMAC's activity this year alone.

In addition to successful management of pharmaceutical expenditure, there were a number of other stand-out achievements, including:

- continued provision of extra value to District Health Boards from PHARMAC's hospital pharmaceutical assessments, and purchasing on behalf of DHBs. PHARMAC's involvement is adding considerable value to DHBs (in the form of savings) in this area;
- as part of national procurement on behalf of DHBs, PHARMAC initiated processes to secure national contracts for bulk intravenous fluids and radiological contrast media. PHARMAC welcomes the enthusiasm from DHBs for utilising PHARMAC's skills and processes in this way, underscoring the benefits to the whole health sector from effective cooperation;
- the One Heart Many Lives cardiovascular campaign was extended into Hawke's Bay, in conjunction with the Hawke's Bay District Health Board. This campaign is proving highly successful at motivating local communities to take ownership of addressing cardiovascular disease: New Zealand's number one killer;
- the electronic Special Authority project was launched, replacing a manual process that could take up to 2 weeks with a near real time electronic clearance while patients are still with the doctor. More efficient prescribing can only be better, significantly so, for health outcomes;
- close co-operation between PHARMAC and the Ministry of Health around the influenza vaccination campaign. A record 761,150 doses of influenza vaccine were distributed during the four-month subsidised campaign period.

While these results stem from a collective PHARMAC effort, I acknowledge the contribution of Wayne McNee who has recently been seconded to the Department of Prime Minister and Cabinet. The results this year are further testimony to the significant contribution that Wayne has made to PHARMAC over a number of years.

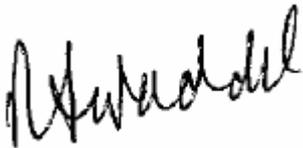
The Acting Chief Executive during Wayne's secondment is Matthew Brougham. This role builds on Matthew's long history with PHARMAC in a number of roles, most recently as manager of PHARMAC's analysis and assessment team.

I also acknowledge the valuable contribution of Helmut Modlik to the Board, including bringing an important perspective in the area of Maori and Pacific Island health. Kura Denness has now joined the Board.

Another significant change during the year was a new Minister of Health. PHARMAC valued its working relationship with Hon Annette King, and looks forward to furthering its working relationship with the new Minister, Hon Pete Hodgson.

In closing, I thank all PHARMAC staff, as well as Board and PHARMAC committee members, for their commitment and work during the year. PHARMAC is well positioned to look to the future with confidence and continue its work in improving the health of New Zealanders from access to and responsible use of subsidised medicines.

On behalf of the PHARMAC Board



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Richard A Waddel
Chairman

CHIEF EXECUTIVE'S REPORT

Public campaigns this year promoting the funding of high cost drugs, such as Herceptin, are a sign of things to come. PHARMAC will continue to be tested by the question of whether to fund very expensive drugs that only benefit a small number of people.

The drugs in question this year were predominantly for cancer, particularly temozolomide for brain tumours and trastuzumab (Herceptin) for early breast cancer. As always, PHARMAC needed to be as thorough as possible and focussed on evidence to ensure, for all New Zealanders, available funding was used in the best possible way.

PHARMAC has always faced this tough challenge: a dollar spent on one medicine is a dollar not available for another (or another health use). While saying "no" to funding a medicine is never easy, the positive side of those judgements is that there is a better outcome that can be achieved from an alternative decision. This more positive side of the equation, however, is seldom discussed.

This, of course, accepts there is a fixed amount of money available; a practical reality in PHARMAC's view, a healthy discipline to make quality decisions and something people are only too familiar with in terms of their own personal or household budgets. There is only so much to go around and difficult choices need to be made.

Most PHARMAC staff, through their personal connections, know the very real effects of illnesses on individuals and families. PHARMAC's role, however, necessitates a strong focus on evidence and weighing up the benefits and risks of investing in medicines, including relative to other choices. A rigorous approach is critical to making the best health choices for all New Zealanders.

The approach also means that, in some cases, a low-cost treatment for a large number of patients is the best decision. In other cases, it will mean funding a medicine at a high cost per patient but for only a small patient group. Both of these outcomes occurred at different times during 2006.

PHARMAC provided new or enhanced access to 41 medicines during the year. New investments included relatively inexpensive medicines for a large group of patients (over 100,000 people now take subsidised low dose aspirin to prevent heart attacks and strokes) and high cost therapies for small numbers of people (such as temozolomide to improve life expectancy for people with brain tumours). Other key decisions included:

Adalimumab – a new type of disease-modifying drug to treat rheumatoid arthritis;
Adefovir (and widened access to lamivudine) – decisions to improve the availability of treatments for Hepatitis C;
Alendronate – up to 100,000 people now able to access a treatment for osteoporosis;
Entacapone and ropinirole – new treatments listed for the treatment of Parkinsons Disease;
Oxycodone – a new type of opioid analgesic for the relief of severe pain;
Glatiramer – an alternative to beta-interferon for the treatment of multiple sclerosis;
Mycophenolate – wider access to this treatment for organ transplant rejection; and
Serevent – wider access to a long-acting asthma preventer.

Our focus on health outcomes has also seen PHARMAC strengthen involvement in public information campaigns promoting the appropriate use of medicines. Making the best use of the pharmaceutical budget depends on both price impacts (such as PHARMAC's price

negotiations with suppliers) and volume effects (the quantity of medicines use). PHARMAC's "demand side" work seeks to influence volume, up or down depending on the circumstances.

This includes the One Heart Many Lives campaign, a campaign focussed on reducing the impact of New Zealand's number one killer, cardiovascular disease. One Heart Many Lives continues to take an innovative and successful approach to a key health area – including promoting strong community buy-in to addressing the problem – and continues to be one of PHARMAC's flagship public health campaigns.

Our work in this area sees us working with and alongside a wide range of groups, including consumer organisations, professional medical associations, health providers and District Health Boards. Wide collaboration is essential to campaign success, and to the health sector achieving health outcomes as efficiently and effectively as it can.

Finally, I acknowledge Wayne McNee's significant contribution to this year's results. With Wayne's secondment, I am delighted with the opportunity to lead PHARMAC for the coming months. It is a privilege to lead such a high quality team committed to promoting the health of New Zealanders. I also look forward to further strengthening PHARMAC's relationships with a wide range of stakeholders.



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Matthew Brougham
Chief Executive (Acting)

PHARMAC'S ROLES AND RESPONSIBILITIES

Role of the Board

The PHARMAC Board is accountable to the Minister of Health for PHARMAC's performance. The Board consists of six members appointed by the Minister of Health. The Board:

- makes all decisions relating to the operation of PHARMAC, either directly or through delegating its authority to the Chief Executive;
- ensures PHARMAC meets performance measures outlined in its Crown Funding Agreement;
- is responsible for agreeing PHARMAC's accountability documents with the Minister of Health;
- complies with duties and requirements placed on it by the New Zealand Public Health & Disability Act, Public Finance Act and the Crown Entities Act.

Management of PHARMAC

The Chief Executive is responsible for managing PHARMAC's day-to-day operations. In addition to the Chief Executive, PHARMAC has a six-member management team responsible for each core area of PHARMAC's operations (Medical, Funding & Procurement, Schedule and Contract Maintenance, Demand Side, Analysis & Assessment, Corporate).

Advisory Committees

PHARMAC has a number of advisory committees that provide expert advice.

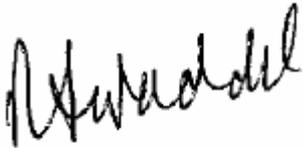
Committee	Meets	Primary role
Pharmacology and Therapeutic Advisory Committee (PTAC)	Quarterly	Provides clinical advice on pharmaceuticals being considered for funding
PTAC Sub-committees	As required	Clinical advice on specialist areas (e.g. cancer, cardiovascular disease)
Consumer Advisory Committee (CAC)	Twice yearly and as required	Input from a consumer and patient perspective
Hospital Pharmaceuticals Advisory Committee (HPAC)	As required	Advice on pharmaceuticals used in hospitals

STATEMENT OF RESPONSIBILITY

The Board and management of PHARMAC accept responsibility for the preparation of the annual Financial Statements and for the judgments in them.

The Board and management of PHARMAC accept 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.

In the opinion of the Board and management of PHARMAC, the Financial Statements for the year ended 30 June 2006 fairly reflect the financial position and operations of PHARMAC.



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Richard A Waddel

Chairman

25 October 2006



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Matthew Brougham

Chief Executive (Acting)

25 October 2006

AUDIT REPORT



**TO THE READERS OF THE
PHARMACEUTICAL MANAGEMENT AGENCY'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

The Auditor-General is the auditor of the Pharmaceutical Management Agency (Pharmac). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of Pharmac, on his behalf, for the year ended 30 June 2006.

Unqualified opinion

In our opinion the financial statements of Pharmac on pages 14 to 43:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - Pharmac's financial position as at 30 June 2006;
 - the results of its operations and cash flows for the year ended on that date; and
 - its service performance achievements measured against the performance targets adopted for the year ended on that date.

The audit was completed on 25 October 2006, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;

verifying samples of transactions and account balances;

performing analyses to identify anomalies in the reported data;

reviewing significant estimates and judgements made by the Board;

confirming year-end balances;

determining whether accounting policies are appropriate and consistently applied; and

determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of Pharmac as at 30 June 2006. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. The Board's responsibilities arise from the Public Finance Act 1989 and the New Zealand Health and Disability Act 2000.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in Pharmac.

A handwritten signature in black ink, appearing to read 'S B Lucy', written in a cursive style.

S B Lucy
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

STATEMENT OF SERVICE PERFORMANCE

This Statement of Service Performance (SSP) records the performance of PHARMAC against the performance measures outlined in the 2005-06 Statement of Intent (SOI).

PHARMAC has one output class “securing the best achievable health outcomes from pharmaceutical treatment, within the amount of funding provided”. The activities within that output are:

- Management of Community Pharmaceutical Expenditure;
- Management of Hospital Pharmaceutical Procurement; and
- Promotion of the Responsible Use of Medicines.

In addition to these purchase objectives, PHARMAC has also been set ownership performance targets.

Modifications to purchase intentions during the financial year

During 2005/06, PHARMAC made certain modifications to the purchase intentions set out in its published SOI. The changes were consistent with the general intent of the SOI, and largely aimed at improving communication with stakeholders as supported in principle by then Minister of Health, Hon Annette King.

PHARMAC considered, in consultation with its Auditor and the Ministry of Health, whether the modified intentions were sufficiently material to warrant a revision to the SOI and decided they were not. Material changes necessitate a modified SOI to be tabled in Parliament, but this was not considered necessary. PHARMAC considered that a revised SOI would have very little, if any, effect on the public accountability around PHARMAC’s operations, particularly given the general alignment of the changes with initial intentions; and the modified intentions would be reported to the Ministry as part of PHARMAC’s ongoing reporting and described in PHARMAC’s Annual Report (this document).

The changes (summarised below) resulted in additional operating expenditure to that set out in the SOI; expenditure funded from PHARMAC’s existing financial reserves. This amendment is detailed in Note 12 to the Financial Statements.

The specific changes made during the year are detailed in the table on the following page (some of the commentary in the Statement of Service Performance is also relevant to these areas).

Change	Amount allocated	Deliverable	Outcome
GP Forum	\$80K	Establish a forum for GPs to provide input to PHARMAC	This initiative has been delayed and is identified as a key task for the 2006-07 financial year.
PHARMAC Foundation	\$500K	Establish an education Foundation for GPs, specialists, nurses education programme including annual conference and disease-specific training	Achieved. The PHARMAC Seminar Series Board was appointed to oversee operations and a number of seminars have been held.
Special Authority roll out	\$500K	Implement an electronic Special Authority approval system.	Achieved. Fully operational from June 2006.
Hospital new initiatives	\$165K	PHARMAC will assist DHBs to manage their expenditure on pharmaceutical related products used in hospitals.	Project is progressing. Further scoping and development work and specific projects are being developed in the 2006-07 financial year.
Healthpac (cancer management)	\$300K	PHARMAC will assume management of pharmaceutical cancer treatments by 1 July 2007.	Progressing. Project due for completion July 2007.
Knowledge management system	\$214K	PHARMAC will enhance its capacity to manage internal information by implementing a new Knowledge Management System.	Project is in progress and due for completion 2006-07.
Consequential addition to salaries and related costs	\$201K	PHARMAC will maintain its staff capacity.	Achieved.

PART A – PURCHASE OBJECTIVES

Activity One: Management of Community Pharmaceutical Expenditure

Deliverable

1.1 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.

Subject to deliverable 1.2 below, quarterly pharmaceutical expenditure targets on a cumulative basis, (excluding GST) before the deduction of rebates were:

Quarter	Target (millions)
One	\$183
Two	\$370
Three	\$539
Four	\$717

Result

Expenditure on subsidised community pharmaceuticals for the year ending June 2006 is likely to be \$563.45 million, \$19.41 million within the budget of \$582.86 million. The expenditure figure includes:

- \$99.3 million in rebates already paid;
- a potential further \$16.5 million of rebates;
- one off rebates and other receipts of \$16.0 million; and
- \$5.59 million in agreed spending on antibiotics for use in the event of an influenza pandemic

There were 28.5 million prescriptions written during the year ending June 2006 for medicines for at least 2.48 million individual New Zealanders, a 4.5% increase in the number of prescriptions compared with the previous financial year.

The following table outlines the cumulative expenditure throughout the year, as compared to the pharmaceutical expenditure targets.

Cumulative expenditure (\$ millions)

Quarter	Cumulative Target	Cumulative Actual	Variance
One	\$183	\$170.19	-\$12.81
Two	\$370	\$347.11	-\$22.89
Three	\$539	\$513.37	-\$25.63
Four	\$717	\$695.35	-\$21.65
Rebates	\$134.14	\$132.02	-\$2.12
Year End Total	\$582.86	\$563.45	-\$19.41

Savings and Increases

PHARMAC has continued to achieve savings on currently subsidised medicines. This is achieved through a variety of purchasing methods, including tendering for off-patent medicines and reference pricing. Subsidy reductions in the 2005/06 financial year resulted in savings of approximately \$24.45 million. Subsidy increases in the 2005/06 financial year resulted in an additional cost of \$2.65 million. Changes in subsidies can occur through either changes in pharmaceutical prices, or through an increase/decrease in the number of patients receiving medicines (volume). Primarily, changes in subsidy levels are the result of price changes, as prescribing volumes tend to increase each year (as outlined above).

Subsidy reductions and increases by therapeutic group (\$ million)

	Increase	Decrease	Net
Alimentary Tract and Metabolism	\$0.58	-\$7.54	-\$6.96
Blood and Blood Forming Organs	\$0.05	-\$0.51	-\$0.46
Cardiovascular System	\$0.28	-\$0.36	-\$0.08
Dermatologicals	\$0.19	-\$0.22	-\$0.02
Hormone Preparations - Systemic Excluding Contraceptive Hormones	\$0.17	-\$2.64	-\$2.47
Infections - Agents for Systemic Use	\$0.18	-\$2.69	-\$2.51
Nervous System	\$0.36	-\$7.43	-\$7.07
Oncology Agents and Immunosuppressants		-\$0.23	-\$0.23
Respiratory System and Allergies	\$0.42	-\$0.98	-\$0.56
Sensory Organs	\$0.01	-\$0.86	-\$0.85
Musculo-skeletal System	\$0.04	-\$0.04	\$0.00
Special Foods		-\$0.09	-\$0.09
Genito-Urinary System	\$0.09	-\$0.06	\$0.03
Tender	\$0.27	-\$0.79	-\$0.52
Grand Total	\$2.65	-\$24.45	-\$21.80

Decisions made

Decision type	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
New Chemical entity listed	18	20	7	3	15	9	14
New Presentation listed	21	13	11	15	27	14	42
New Product listed	39	28	60	45	49	51	49
Total new listings	78	61	78	63	91	74	105
Derestriction or expanded access	17	19	17	7	9	16	24
Changing access to improve outcomes							1
Changes that restrict or limit access	6	6	4	1	2	3	0
Delistings	362	135	89	196	72	59	43

PHARMAC added 14 new products and 42 new presentations of existing products to the Pharmaceutical Schedule during 2005/06. These included treatments for schizophrenia (risperidone including long-acting injections), rheumatoid arthritis (adalimumab), strong opioid analgesic painkillers (oxycodone), Parkinson's disease (entacapone and ropinirole), multiple sclerosis (glatiramer), cardiovascular risk (low-dose aspirin), and aggressive brain tumours (temozolomide).

In addition to these new investment decisions, PHARMAC widened access to a further 24 medicines. These included extending treatments to more patients who had osteoporosis (alendronate), neuropathic pain (gabapentin), asthma (salmeterol), glaucoma (prostaglandin analogues), organ transplants (mycophenolate), bladder and bowel cancers (gemcitabine;

oxaliplatin), hepatitis B and C (lamivudine; pegylated interferon alpha-2a/2b with/without ribavirin), and diabetes (pioglitazone).

In addition to new listings and expanded access, PHARMAC amended the eligibility criteria for beta-interferon to achieve greater health gain for the same number of patients. Two of the new presentations listed this year also produced measurable health gains over previously funded treatments.

In 2005/06 new investments and widening of access cost \$12.0 million. The largest new investments in terms of cost were extending access to terbinafine, costing a further \$2.7 million for the 10 months after the change, and extending access to gabapentin to include neuropathic pain (further \$2.4 million).

These new spending decisions in 2005/06 saw an estimated 180,000 new patients treated with these subsidised medicines. These numbers will increase significantly in coming years, as many of the new medicines listed had not yet been subsidised for a full year. The largest numbers of new patients were 137,000 using low-dose aspirin by June 2006 (four months following listing), followed by salmeterol (6,800 by June – eight months), and with 5,000 new patients using gabapentin for neuropathic pain.

In the first full year of these decisions being implemented, PHARMAC estimates that there would be 236,000 new patients using these medicines - including 180,000 new patients using aspirin and 10,000 new users of salmeterol.

PHARMAC also assesses the health gains obtained through its investments. PHARMAC uses cost-utility analysis and measures outcomes in quality adjusted life years (QALYs). This measure enables medicines that perform different functions (such as extending or improving quality of life) to be compared.

Data are available for 19 new investments to show the impact on District Health Board (DHB) budgets, and on people's health. The data are for:

- risperidone depot microspheres (Risperdal Consta)
- entacapone
- glatiramer
- ferrous fumarate
- aspirin 100mg
- adefovir
- temozolomide
- gabapentin for neuropathic pain
- lopinavir with ritonavir
- aromatase inhibitors (letrozole and anastrozole)
- pioglitazone
- atorvastatin
- venlafaxine
- alendronate (osteoporosis)
- pegylated interferon alpha-2a and alpha-2b with or without ribavirin
- salmeterol
- lamivudine
- gemcitabine
- beta-interferon

The data show investing in these 19 drugs or groups alone cost the Pharmaceutical Schedule \$5.9 million for an estimated 159,000 new patients during 2005/06. These patients gained the equivalent of 1449 full years of extra life (i.e. QALYs). This included 785 QALYs for aspirin and 485 QALYs for gabapentin. After 12 months, these nineteen medicines should provide 1800 QALYs for 211,000 patients, costing \$7.5 million.

In addition, this spending was matched by potential nominal savings elsewhere in the Pharmaceutical Schedule or the rest of Vote:Health of \$3.0 million. This equated to nominally saving \$51 for every \$100 spent on these drugs. This included \$1.2 million nominal savings for Risperidone consta and \$1.1 million for aspirin. After 12 months, nominal savings should reach \$4.1 million. These figures do not include the health benefit and savings which would have been gained from the other investments.

Numbers of patients benefiting from specific PHARMAC investment decisions, 2005/06

Decision	Month of implementation	Estimated no. new patients by June 2006	Estimated no. new patients by 12 months' implementation
new listings			
oxycodone	August 2005	4,061	4,800
risperidone Risperdal Quicklet	October 2005	49	80
risperidone tab 0.5 mg	October 2005	6,456	6,900
risperidone depot microspheres Risperdal Consta	October 2005	529	720
entacapone	November 2005	245	380
ropinirole	November 2005	684	950
glatiramer	December 2005	3	3
ferrous fumarate	December 2005	2,332	5,200
adalimumab	January 2006	160	220
brimonidine with timolol	January 2006	399	990
oral feed with fibre 1.5 kcal/ml	January 2006	280	400
ezetimibe with simvastatin (Vytorin)	February 2006	97	580
aspirin 100mg	March 2006	136,977	180,000
capsaicin	March 2006	773	940
temozolomide	May 2006	82	170
adefovir	May 2006	44	110
dapsone	June 2006	38	150
access widening			
antiretrovirals	July 2005	0	0
gabapentin for neuropathic pain	July 2005	5,007	5,007
lopinavir with ritonavir	July 2005	0	0
aromatase inhibitors (letrozole and anastrozole)	August 2005	26	30
pioglitazone	August 2005	957	1,000
pyridoxine	August 2005	n/a	n/a
atorvastatin	September 2005	480	580
glaucoma preparations - prostaglandin analogues - bimatoprost, latanoprost, travoprost	September 2005	3,703	4,500
terbinafine	September 2005	3,812	4,600
venlafaxine	September 2005	538	650
alendronate (osteoporosis)	October 2005	4,622	6,200
azithromycin	October 2005	n/a	n/a
ceftriaxone	October 2005	n/a	n/a
ciprofloxacin	October 2005	n/a	n/a
mycophenolate	October 2005	249	330
pegylated interferon alpha-2a and alpha-2b with or without ribavirin	November 2005	12	20
salmeterol	November 2005	6,830	10,300
oxaliplatin	December 2005	71	100
leuprorelin	January 2006	0	0
amiodarone	May 2006	n/a	n/a
amlodipine	May 2006	n/a	n/a
lamivudine	May 2006	0	0
gemcitabine	June 2006	45	500
changing access to improve outcomes			
beta-interferon	December 2005	0	0
Total		179,560	236,410

Notes:

- Patient numbers have been estimated from HealthPAC data, based on maximum monthly use for the year ending June 2006 beyond expected levels had investments not been made.
- Blank entries or "n/a" mean that patient numbers cannot be estimated.
- Zeros ("0") mean that patient numbers were lower than predicted had investments not been made, hence numbers are not estimated.

Deliverable	Result
1.2 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. PHARMAC, in discussion with DHBs, will review the spend target mid way through the year, and recommend any adjustments to the Minister.	No changes were made to expenditure targets during 2005-06. No recommendations for change were made.
1.3 PHARMAC will provide the Ministry of Health with a 1-3 year forecast of pharmaceutical expenditure.	PHARMAC provided the Ministry of Health with a 1-3 year forecast of pharmaceutical expenditure in December 2005.
1.4 Any potential deviation from the 2005-06 forecasts will be promptly notified to the Ministry.	Deviations from the forecast were reported to the Ministry and Minister each month.

Activity Two: Promoting The Responsible Use Of Pharmaceuticals

PHARMAC has a legislative responsibility to promote the responsible use of pharmaceuticals which involves the development of relationships with key stakeholders and strategies to ensure appropriate prescribing behaviour and usage of pharmaceuticals.

Deliverable	Measure	Outcome
<p>2.1 PHARMAC will promote the responsible use of pharmaceuticals by aiming to influence the volume and mix of medicines prescribed.</p>	<p>An evaluation report on the diabetes test strip campaign to be provided to the Ministry of Health by 31 March 2006.</p>	<p>This campaign was delayed and revised as changes to the supply of diabetes test strips removed the justification for a testing strips campaign. PHARMAC worked with Diabetes NZ to develop resources to help people with Type 2 diabetes manage their health. This involved advice on appropriate nutrition and medications. Resources were developed and distributed by June 2006; a national launch of the resources occurred on 3 July 2006. Feedback received from nurses and health workers about the diabetes resource has been very positive. A PHARMAC diabetes website has been developed www.diabetes.pharmac.govt.nz.</p>
	<p>An evaluation report on the Atypical Antipsychotic campaign to be provided to the Ministry by 31 March 2006.</p>	<p>Achieved. 128 psychiatrists, psychiatric registrars and mental health pharmacists attended the workshops. Evaluation indicated the workshops were positively received as a suitable forum to discuss and debate treatment issues and in particular local issues in relation to best practice.</p> <p>84 psychiatrists and psychiatric registrars participated in the CPD case studies. The case studies demonstrated a good medium to explore clinical decision making and compare practice with clinical opinion leaders. In general, responses to the case study were in line with evidence based practice; however, there was some hesitancy in the use of clozapine for treatment resistant schizophrenia.</p> <p>The project was received positively by participants and stakeholders, including specialists.</p>
	<p>PHARMAC will undertake the "Wise Use of Antibiotics" campaign during winter 2006. An evaluation report will be provided to the Ministry.</p>	<p>The evaluation of the 2005 campaign included a survey of primary care health professionals, media analysis and analysis of PharmHouse prescribing data. The key findings of the 2005 evaluation demonstrate that:</p> <ul style="list-style-type: none"> • the campaign is well received by primary healthcare providers and is considered to be beneficial in particular by providing materials to remind and promote discussion about the appropriate use of antibiotics. • the campaign continues to receive a high level of media interest, which is effective in communicating key messages. • PharmHouse data demonstrates that there has been a slight increase in the number of antibiotic prescriptions, and also in the associated pharmaceutical costs. <p>The campaign was again run in winter of 2006.</p>

Deliverable	Measure	Outcome
	Report to the Board on Proton Pump Inhibitor campaign completed by April 2006.	A report was prepared for the Board outlining a proposed strategy to address prescribing of proton pump inhibitors. A campaign is likely to occur in the 2006-07 year.
	PHARMAC will conduct an evaluation report on the pilot training programme for Māori community nurses and community health workers by 30 June 2006.	A training manual has been developed and two of six pilot training programmes were run by 30 June 2006. Evaluations were completed for each workshop and these have shown that the participants felt they benefited from the training materials and that the presenters were of a high standard.
	PHARMAC will undertake a national roll out of the train the trainer programme for community based nurses and health workers by 30 June 2006.	Achieved. Programme content, implementation, promotion and registration for the first block training session was completed by 30 June 2006. The first pilot training block occurred in Otautahi (Christchurch).
	PHARMAC will produce patient education resources in Māori health priority areas as appropriate.	Patient information on diabetes medications was developed in Te Reo Maori and Pacific Island languages by 30 June 2006.
2.2 PHARMAC will contract with external parties which promote the responsible use of pharmaceuticals.	PHARMAC will contract with BPAC New Zealand to deliver services in 2005/06. Quarterly reports will be provided to PHARMAC by the 20 th of the month following each quarter, detailing whether it has met the output and outcome targets agreed to in the contract and service plan.	BPAC has provided quarterly reports as agreed. BPAC has met the agreed performance targets.
	PHARMAC will evaluate the current contract with BPAC NZ and inform the Ministry of its decision regarding future funding by 30 June 2006.	An evaluation of the BPAC NZ contract & services was reported to the PHARMAC Board in February 2006. The evaluation was very positive. PHARMAC requested expressions of interest in the contract to provide services to promote the responsible use of medicines in December 2005, and requested proposals in March 2006. As a result of this process, PHARMAC recommended that BPAC NZ continue to be contracted for future services.
	PHARMAC will work with DHBs to ensure that services provided by BPACNZ are aligned with the PHO performance framework.	The Ministry of Health and District Health Boards were informed of the contracting process for BPAC NZ through members of the PHO Performance Management Programme group. A DHB representative was included on the evaluation committee. DHB & DHB NZ staff are providing input into future contract and services.
	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 20 th of the month following each	SPARC has met all targets specified in the funding contract with PHARMAC.

Deliverable	Measure	Outcome
	quarter detailing whether the programme has met agreed targets in the contract.	
2.3 PHARMAC will promote the responsible use of pharmaceuticals by making the Pharmaceutical Schedule readily available to GPs.	PHARMAC will work with the Ministry, DHBs and PHOs to determine options for providing electronic prescriber support by 30 June 2006.	Improvements to the interactive Pharmaceutical Schedule were launched and promoted by June 2006.

Activity Three: Management of Hospital Pharmaceutical Procurement

PHARMAC has been authorised to manage hospital drug purchases on behalf of DHBs.

Deliverable	Measure	Outcome
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 taken by 1 November 2005.	Completed March 2006, delayed due to implementation of new data management systems.
	Complete any actions required to be taken by 30 June 2006.	Completed April 2006
3.2 Rebates under hospital pharmaceutical contracts calculated and distributed to DHBs within 6 months of the end of each rebate period.	Rebates calculated and distributed to DHBs within 6 months of the end of each rebate period.	Most payments received from suppliers are not contested and are paid in due course. However, due to difficulties in calculating and distributing hospital rebates the payment schedule is generally longer than 6 months. For payments that are received and are disputed the payment schedule can be significantly longer while the discrepancy is investigated.
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.	Four Cost Utility Analyses were completed and shared with DHBs by 30 June 2006. During the year PHARMAC had lower than optimal staffing for this work area. An increase in the community pharmaceutical budget and a higher demand for cost utility analyses for community medicines also saw resources diverted from hospital assessments. PHARMAC is seeking further resourcing to enable a greater number of technology assessments for hospital medicines to be carried out.
3.4 PHARMAC will consider the contracting options for the procurement of radiological contrast media for DHB Hospitals.	PHARMAC will seek nominations from DHBs for an advisory committee on radiological Contrast Media and the requirements of the DHBs by 31 December 2005.	The advisory committee was established in September 2005.
	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 by December 2005.	The procurement strategy and process was approved by the Board by December 2005.
	PHARMAC will consult with DHBs and suppliers of radiological contrast media by 1 October 2005 when considering possible national procurement strategies.	Consultation was completed in September 2005.

Deliverable	Measure	Outcome
	PHARMAC will conduct a procurement strategy to establish national contracts for certain radiological contrast media by 31 December 2005.	Completed April 2006. Board approval of the proposed process December 2005, procurement process issued April 2006. Additional time was required to seek clinical advice on the process.
	Subject to agreement to proceed by the PHARMAC Board, completion of certain radiological contrast media contracts by 30 June 2006.	The contracting processes were not completed. The complexities of the proposals received meant that analysis took longer than expected.
	PHARMAC will investigate possible options to ensure continued monitoring of any national contracts for radiological contrast media by 30 June 2006.	Investigation of options was completed by June 2006. This is ongoing and dependant on completed contracts.
3.5 PHARMAC will consider the contracting options for the procurement of bulk intravenous fluids for DHB Hospitals.	PHARMAC will examine options for procurement of dialysis fluids and Bulk Intravenous Fluids by December 2005.	Options for procuring dialysis fluids and bulk intravenous fluids were examined by December 2005.
	PHARMAC will seek nominations from DHBs for an advisory committee on bulk intravenous fluids by 31 December 2005.	The advisory committee was established in September 2005.
	PHARMAC will consult with DHBs and suppliers of bulk intravenous fluids by 1 October 2005 when considering possible national procurement strategies.	Consultation was completed in September 2005.
	PHARMAC will conduct a procurement strategy to establish national contracts for certain bulk intravenous fluids by 31 December 2005.	Completed February 2006 Board approval of the proposed process December 2005, procurement process issued February 2006. Additional time used to seek clinical advice on the process.
	Subject to agreement to proceed by the PHARMAC Board, completion of certain bulk intravenous fluids by 30 June 2006.	The contracting processes were completed by 30 June 2006.
	PHARMAC will investigate how to monitor national contracts for bulk intravenous fluids by 30 June 2006.	Investigation of how to monitor contracts was completed by June 2006.
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.	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. Supply contracts implemented by 1 July 2005.	National supply contracts for Recombinant Factor VIII were completed and implemented in May 2005.

Deliverable	Measure	Outcome
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 CEOs and Chairpersons and respond to requests made by these groups by 31 March 2006.	Information was presented to DHB CEOs and Chairs in February 2006.

Activity Four: Procurement of the Influenza Vaccine and Process for the Management of Pharmaceutical Cancer Treatments

Deliverable	Measure	Outcome
<p>4.1 PHARMAC will assist DHBs by procuring the influenza vaccine.</p>	<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, product to be supplied by 1 March 2006.</p>	<p>Product was secured and was supplied in time for the beginning of the subsidised influenza vaccination programme from 1 March 2006.</p>
	<p>PHARMAC to review the system for contracting for Influenza Vaccine for the Annual National Influenza Vaccine Campaign by 1 October 2005.</p>	<p>A review was completed in June 2005. As a result of the review more than one supplier was contracted for 2006, and more than one supplier will be contracted in future years.</p>
<p>4.2 PHARMAC will assist DHBs by managing the expenditure of Pharmaceutical Cancer Treatments (PCT).</p>	<p>PHARMAC will work with DHB Hospitals to enable DHBs to submit PCT claims to HealthPAC by 1 July 2005.</p>	<p>Mechanisms were established with DHB Hospitals to enable them submit claims for PCTs to HealthPAC by 1 July 2005.</p>
	<p>PHARMAC will publish the first edition of the Pharmaceutical Schedule including PCTs and new Schedule rules by 31 August 2005.</p>	<p>The first edition of the Pharmaceutical Schedule including PCTs and new rules was published in July 2005.</p>
	<p>DHBs to submit PCT claims to HealthPAC by 1 January 2006.</p>	<p>Some DHBs have begun submitting some 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 by 1 July 2007.</p>	<p>This remains dependant on the co-operation of DHB hospitals supplying the necessary data.</p>

PART B – OWNERSHIP PERFORMANCE OBJECTIVES

Deliverable	Measure	Outcome
5.1 PHARMAC will ensure that all New Zealanders have similar access to subsidised pharmaceuticals. Quarterly reports on progress provided to the PHARMAC Board.	PHARMAC will investigate the need for and feasibility of a Pacific Peoples Responsiveness strategy by 30 April 2006.	PHARMAC considered the need for and feasibility of a Pacific Peoples Responsiveness Strategy. Preliminary scoping was undertaken. A number of existing PHARMAC initiatives already promote Pacific Island health, particularly the One Heart Many Lives campaign. Given the emphasis on other priority areas, as outlined in this Annual Report, this project was not further progressed. Additional work is likely to be undertaken in the 2006-07 financial year.
5.2 PHARMAC will ensure that all New Zealanders have similar access to subsidised pharmaceuticals by implementing its Māori Responsiveness Strategy.	PHARMAC will produce a report on each of the Māori health priority areas that outlines pharmaceutical prescribing/uptake and utilisation (Strategic priority 1) by 30 June 2006.	Whakapono: Implementing Maori Responsiveness Report completed February 2006.
	PHARMAC will increase internal capacity by engaging a Māori health analyst by 30 November 2005.	A Maori health analyst was employed in September 2005.
5.3 PHARMAC will develop with DHBs an ongoing mechanism for funding Demand Side Activity.	PHARMAC will develop, consult and agree with DHBs the ongoing funding of Demand Side initiatives by 31 March 2006.	The ongoing funding of Demand Side initiatives was agreed with DHBs by 31 March 2006.

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These are the financial statements of the Pharmaceutical Management Agency (PHARMAC), a Crown entity in terms of the Public Finance Act 1989 (PF Act).

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

These financial statements have been prepared in accordance with the requirements of section 41 of the PF Act, and the NZPHD Act.

Measurement Base

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

Some prior period figures have been reclassified due to changes made to the presentation of the current year's Financial Statements.

Budget Figures

The budget figures are those approved by the Board at the beginning of the financial year.

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.

Revenue

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

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of accounts receivable and accounts payable which are stated with GST included. Where GST is irrecoverable as an input tax, then it is recognised as part of the related asset or expense.

Taxation

PHARMAC is a public authority in terms of the Income Tax Act 2004 and consequently is exempt from income tax.

Accounts Receivable

Accounts Receivable are stated at their expected realisable value after providing for doubtful and uncollectable debts.

Property, Plant and Equipment

All fixed assets, or groups of assets forming part of a network which are material in aggregate are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the statement of financial performance.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment, at a rate which will write off the cost (or valuation) of the assets to their estimated residual value over their useful lives.

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

Item	Estimated useful life	Depreciation rate
Leasehold Improvements	3 years	33 ¹ / ₃ %
Office Equipment	2.5 - 5 years	20% - 40%
EDP Equipment	2.5 years	40%
Furniture and Fittings	5 years	20%

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter.

Capital work in progress is not depreciated. The total cost of a project is transferred to the asset class on its completion and then depreciated.

Employment Entitlements

Provision is made in respect of PHARMAC's liability for employees' annual leave. Annual leave is measured at nominal values on an actual entitlement basis at current rates of pay.

Leases

Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease expenses are recognised on a systematic basis over the period of the lease.

Financial instruments

PHARMAC is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors and creditors. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

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 the District Health Boards) that provide for limited variations in price according to exchange rate fluctuations.

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 all activities other than investing and financing activities. The cash inflows include all receipts from the sale of goods and services and other sources of revenue that support PHARMAC's operating activities. Cash outflows include payments made to employees, suppliers and for taxes.

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

Financing activities are those activities relating to changes in equity and debt capital structure of PHARMAC and those activities relating to the cost of servicing PHARMAC's equity capital.

Changes in accounting policies

There have been no changes in accounting policies since the date of the last audited financial statements.

All policies have been applied on a basis consistent with previous years.

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2006

	Note	Actual 2006 \$000	Budget 2006 \$000	Actual 2005 \$000
Revenue				
Crown:				
Operating	7	8,060	8,060	8,060
Responsible use of pharmaceuticals		2,895	2,895	2,928
DHB:				
Operating		600	600	-
Responsible use of pharmaceuticals		1,000	1,000	-
Other:				
Interest received		579	300	470
Interest received – legal risk fund		298	-	286
Proceeds of legal settlement-legal risk fund		20	-	125
Other revenue		88	-	500
Total revenue		13,540	12,855	12,369
Expenditure				
Operating costs		4,201	6,168	4,265
Salaries and related costs		4,342	4,263	3,502
Audit fees		27	27	25
Directors fees		124	121	124
Depreciation		211	210	203
Rentals and leases		216	194	191
High cost medicines		270	253	301
Responsible use of pharmaceuticals		3,843	4,335	3,070
Total expenditure		13,234	15,571	11,681
Net surplus/(deficit) for the period	1	306	(2,716)	688

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

For information on major variances against budget, refer to note 13 (page 46)

STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2006

	Note	Actual 2006 \$000	Budget 2006 \$000	Actual 2005 \$000
Public equity at the beginning of the period	2	9,907	10,370	9,219
Net surplus/(deficit)		<u>306</u>	<u>(2,716)</u>	<u>688</u>
Public equity as at the end of the period		10,213	7,654	9,907

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

For information on major variances against budget, refer to note 13 (page 46)

STATEMENT OF FINANCIAL POSITION

As at 30 June 2006

	Note	Actual 2006 \$000	Budget 2006 \$000	30 June 2005 \$000
PUBLIC EQUITY				
Retained earnings & reserves	2	5,310	3,182	5,435
Legal Risk Fund	2	4,903	4,472	4,472
TOTAL PUBLIC EQUITY		10,213	7,654	9,907
Represented by:				
Current assets				
Cash and bank		11,066	9,889	11,492
Receivables and prepayments	3	75	750	1,712
Total current assets		11,141	10,639	13,204
Non-current assets				
Fixed assets	4	737	300	365
Total non-current assets		737	300	365
Total assets		11,878	10,939	13,569
Current liabilities				
Payables, accruals and provisions	5	1,493	3,115	3,495
Employee entitlements		172	170	167
Total current liabilities		1,665	3,285	3,662
NET ASSETS		10,213	7,654	9,907

Signed this 27th day of October 2006

Chairman

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

For information on major variances against budget, refer to note 13 (page 46)

STATEMENT OF CASH FLOWS

for the year ended 30 June 2006

	Note	Actual 2006 \$000	Budget 2006 \$000	Actual 2005 \$000
CASH FLOWS - OPERATING ACTIVITIES				
Cash was provided from:				
- Ministry of Health		10,955	10,955	10,988
- DHBs		1,600	1,600	-
- Interest		877	300	756
- Other		20	-	458
- Net GST		-	-	203
		<u>13,452</u>	<u>12,855</u>	<u>12,405</u>
Cash was disbursed to:				
- Payments to suppliers and employees		(12,210)	(15,361)	(13,157)
- Net GST		(1,085)	(400)	-
		<u>(13,295)</u>	<u>(15,761)</u>	<u>(13,157)</u>
Net cash flow from operating activities	6	<u>157</u>	<u>(2,906)</u>	<u>(752)</u>
CASH FLOWS - INVESTING ACTIVITIES				
Cash was disbursed to:				
- Purchase of fixed assets		(583)	(210)	(187)
Net cash flow from investing activities		<u>(583)</u>	<u>(210)</u>	<u>(187)</u>
Net increase/(decrease) in cash held		(426)	(3,116)	(939)
Add opening cash brought forward		11,492	13,005	12,431
Closing cash balance		<u>11,066</u>	<u>9,889</u>	<u>11,492</u>

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

For information on major variances against budget, refer to note 13 (page 46)

STATEMENT OF COMMITMENTS

as at 30 June 2006

	2006	2005
	\$000	\$000
Capital commitments approved and contracted	-	-
Other non-cancellable contracts		
At balance date PHARMAC had entered into non-cancellable contracts for the provision of services including lease on premises. Commitments under these contracts are as follows:		
Not later than one year	248	191
Later than one year and not later than two years	248	191
Later than two years and not later than five years	21	191
Later than five years	-	-
	<u>517</u>	<u>573</u>
Total commitments	<u>\$517</u>	<u>\$573</u>

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

For information on major variances against budget, refer to note 13 (page 46)

STATEMENT OF CONTINGENT LIABILITIES

as at 30 June 2006

PHARMAC had no contingent liabilities at 30 June 2006 (2005:NIL).

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

For information on major variances against budget, refer to note 13 (page 46)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

Note 1: Net Surplus/(Deficit)

	2006	2005
	\$000	\$000
<hr/>		
The net surplus (deficit) is after charging for:		
Fees paid to auditors		
- external audit	27	25
- other services	-	18
Board members' fees	124	124
Depreciation:		
Furniture and fittings	30	29
Computer equipment	91	89
Office equipment	48	39
Leasehold improvements	42	46
<i>Total depreciation for the year</i>	211	203
Rental expense on operating leases	216	191

Note 2: Public equity

General funds

	2006	2005
	\$000	\$000
<hr/>		
Opening balance	5,435	4,918
Net surplus/(deficit)	306	688
Net transfer to legal risk fund	(431)	(171)
Closing balance	<u>5,310</u>	<u>5,435</u>

Legal risk fund

	2006	2005
	\$000	\$000
<hr/>		
Opening balance	4,472	4,301
Transfer from Ministry of Health	-	-
Add: Interest received transferred from General funds	298	286
Plus: Litigation expenses transferred from General funds	113	(240)
Plus: Proceeds of legal settlement	20	125
Closing balance	<u>4,903</u>	<u>4,472</u>

Note 3: Receivables and prepayments

	2006 \$000	2005 \$000
Receivables	26	1,709
GST receivable	3	-
Prepayments	46	3
Total	<u>75</u>	<u>1,712</u>

Note 4: Property, plant and equipment

	Cost \$000	Accumulated Depreciation \$000	Net Book Value \$000
2005			
Furniture and fittings	322	254	68
Computer equipment	690	554	136
Office equipment	251	158	93
Leasehold improvements	136	75	61
Fixed asset work in progress	7	-	7
Total	<u>1,406</u>	<u>1,041</u>	<u>365</u>
2006			
Furniture and fittings	362	281	81
Computer equipment	766	628	138
Office equipment	251	205	46
Leasehold improvements	193	117	76
Fixed asset work in progress	396	-	396
Total	<u>1,968</u>	<u>1,231</u>	<u>737</u>

Note 5: Payables, accruals and provisions

	2006 \$000	2005 \$000
Trade creditors	1,008	1,095
Accrued expenses	485	480
Project funding received in advance	0	1,785
GST payable	0	135
Total payables and accruals	<u>1,493</u>	<u>3,495</u>

Note 6: Reconciliation of the net surplus from operations with the net cashflows from operating activities

	2006 \$000	2005 \$000
Net surplus/(deficit) from operations	306	688
<i>Add non-cash items:</i>		
Depreciation	<u>211</u>	<u>203</u>
Total non-cash items	<u>211</u>	<u>203</u>
<i>Add (less) movements in working capital items:</i>		
Decrease/(increase) in receivables	1,683	(1,424)
Decrease/(increase) in prepayments	(43)	29
(Decrease)/increase in payables	(82)	38
(Decrease)/increase in project funding received in advance	(1,785)	(272)
(Decrease)/increase in employee entitlements	5	(15)
(Decrease)/increase in net GST	<u>(138)</u>	<u>1</u>
Working capital movements – net	<u>(360)</u>	<u>(1,643)</u>
Net cash flow from operating activities	<u>157</u>	<u>(752)</u>

Note 7: Related party information

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 8: Financial instruments

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.

Concentration of credit risk

There is no significant concentration of credit risk.

Credit facilities

PHARMAC does not have a bank overdraft facility.

Fair value

The fair value of financial instruments approximate the carrying amount disclosed in the financial statements at 30 June 2006.

Note 9: Employee Remuneration

Total Remuneration and Benefits \$000	Number of Employees	
	2006	2005
100 – 110	5	1
110 – 120	1	-
120 – 130	1	-
130 – 140	1	1
140 – 150	2	2
150 – 160	-	-
160 – 170	1	-
170 – 180	-	1
180 – 190	-	-
190 – 200	-	-
200 – 210	1	-
210 – 220	-	-
220 – 230	-	-
230 – 240	-	-
240 – 250	-	1
280 – 290	1	-

The chief executive's remuneration and benefits is in the \$280,000 - \$290,000 band (2005: \$240,000 - \$250,000 band)

Note 10: Board Fees

Board members earned the following fees during the year:

Member	Fees	
	2006	2005
	\$000	\$000
Mr Richard Waddel (Chair)	36	36
Prof Gregor Coster	18	18
Ms Karen Guilliland	18	18
Mr David Moore	18	18
Mr Helmut Modlik	17	17
Ms Adrienne von Tunzelmann	17	17

Note 11: Cessations

This information is presented in accordance with section 152(d) of the Crown Entities Act 2004. Cessation payments include payments that the person is entitled to under contract on cessation such as retirement payment, redundancy and gratuities. During the year PHARMAC made no payments to former employees in respect of cessation of employment with PHARMAC. (2005: \$NIL)

Note 12: Reconciliation between SOI and adjusted budget

Original SOI deficit	\$ (756,000)
Additional Operating Costs	\$1,759,000
Additional Salaries & related costs	\$ 201,000
Adjusted budget deficit for the year	\$(2,716,000)

During 2005/06, the PHARMAC Board resolved to make changes to its operating budget to reflect modified activity and associated expenditure intentions. These changes, summarised below, are discussed elsewhere in the Annual Report.

The specific changes embedded in the summary figures:

<i>GP Forum</i>	<i>\$ 80,000</i>
<i>PHARMAC Foundation</i>	<i>\$ 500,000</i>
<i>Special Authority roll out</i>	<i>\$ 500,000</i>
<i>Hospital New Initiatives</i>	<i>\$ 165,000</i>
<i>Healthpac(cancer management)</i>	<i>\$ 300,000</i>
<i>KMS</i>	<i>\$ 214,000</i>
<i>Total Operational Costs</i>	<i><u>\$1,759,000</u></i>

Note 13: Major Budget Variations

Statement of Financial Performance

The net surplus for the year ended 30 June 2006 of \$306,000 is \$3,022,000 more than the budgeted deficit of \$(2,716,000). The main reasons for the difference are:

- Interest received was higher than budgeted by \$577,000 due to higher cash reserves being held and higher interest rates.
- Operating costs were \$1,978,000 less than budget mainly due to decrease in legal, information management, HealthPAC, PTAC, Foundation and Forum seminar costs and hospital new initiatives.
- Postponement or reduction of activity for some project initiatives in responsible use of pharmaceuticals resulted in this area being \$492,000 less than budget. These initiatives have been rescheduled for the 2006/07 year.

Statement of Financial Position

- Public equity has increased owing to the increase in the legal risk fund.

Statement of Cash Flows

- Cash disbursed is less than budget mainly owing to the decrease in operating costs.