

**Pharmaceutical Management Agency
(PHARMAC)**

Statement of Intent

1 July 2002 to 30 June 2003

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FOREWORD

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

It outlines for Parliament the performance we have agreed with the Minister of Health (the Minister) to deliver for the year commencing 1 July 2002 to 30 June 2003.

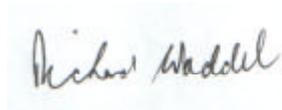
In particular, this document specifies:

- the performance that PHARMAC will seek to achieve from 1 July 2002 to 30 June 2003;
- the ownership performance PHARMAC will aim to achieve during this time, specified in terms of financial performance, capability and risk management; and
- financial forecasts.

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

The community pharmaceutical budget for 2002/03 was confirmed in September 2002 through the completion of a Crown Funding Agreement signed in December 2002.

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



Richard Waddell
Chairperson
PHARMAC

January 2003

PART 1 PHARMAC'S OBJECTIVES AND STRATEGIC PRIORITIES

PHARMAC's objectives, as outlined in section 47 of the NZPHD Act 2000, are to secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided.

PHARMAC's Statutory Functions

In accordance with section 48 of the NZPHD Act, the functions of PHARMAC are to perform the following functions within the amount of funding provided to it and in accordance with its annual plan and any directions given to it under section 65 of the NZPHD Act:

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

As a result of an authorisation from the Minister in September 2001, under section 48 (e) of the NZPHD Act 2000, PHARMAC is authorised to manage the purchasing of any or all pharmaceuticals, whether used either in a hospital or outside it, on behalf of District Health Boards (DHBs).

Strategic Priorities

PHARMAC is known for its ability to meet challenging targets and its primary focus will continue to be managing pharmaceutical expenditure on behalf of DHBs. However, an increasingly important part of PHARMAC's focus is programmes aimed at promoting the responsible use of pharmaceuticals.

In 2001/02 PHARMAC developed six Strategic Priorities to guide its business activities over a three-year period. These are outlined below.

Strategic Priority 1: Management of pharmaceutical expenditure

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

Strategic Priority 2: Promoting the responsible use of medicines

PHARMAC will engage in demand side management initiatives to influence clinician and patient behaviour to promote the cost effective, responsible use of pharmaceuticals in prescribing, and as an integrated part of the clinical decision making process.

Strategic Priority 3: Working with DHBs

PHARMAC will work with DHBs to build an understanding of their needs and develop a two-way flow of information, and have processes in place for working on joint projects.

Strategic Priority 4: Improving Maori utilisation of pharmaceuticals

PHARMAC will engage in initiatives to contribute to the appropriate use of pharmaceuticals by Maori to improve health outcomes and health status.

Strategic Priority 5: Improving relationships with stakeholders

PHARMAC will develop its relationships with stakeholders through regular meetings and a clear communications strategy aimed at achieving a better understanding of PHARMAC's objectives in the wider public arena. Key relationships include the Minister, all politicians, other government agencies, clinicians, pharmacists, patients and their representative groups, Maori, and the pharmaceutical industry.

Strategic Priority 6: Developing PHARMAC's internal capacity

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

During 2001/02 PHARMAC made significant progress on addressing these priority areas, specifically developing Relationship Agreements with 21 DHBs, finalising and commencing the implementation of a Maori Responsiveness Strategy and building internal capability through the recruitment of highly skilled staff and implementing a number of systems improvements. PHARMAC also sought to improve its relationship with stakeholders through improved information to the sector, regular relationship meetings and working with clinicians and patient groups on particular issues.

PHARMAC reviewed the Strategic Priorities identified above following planning sessions with staff and the Board and considering feedback from stakeholders throughout the 2001/02 year and has concluded that they continue to require specific organisational focus. Our aim in 2002/03 is to focus on:

- effectively managing the Pharmaceutical Schedule by listing products that will help achieve the objectives outlined in the New Zealand Health Strategy;
- working with DHBs so that optimal results are achieved from working cooperatively;

- contributing to improvements in the health status of Maori through the appropriate use of pharmaceuticals as outlined in PHARMAC's Maori Responsiveness Strategy;
- seeking consumer input through the Consumer Advisory Committee on the implementation of decisions and working with patient groups on specific issues;
- achieving the benefits of implementing nation-wide hospital pharmaceutical purchasing and seeking synergies between the community and hospital pharmaceutical sectors; and
- developing its role in promoting the responsible use of pharmaceuticals through effective education campaigns, distribution of information and developing tools to encourage appropriate prescribing.

During 2002/03 PHARMAC will develop reports for DHBs on the management of the Exceptional Circumstances Committee, which was established during 2001/02 to consider applications for pharmaceuticals that are not listed on the Schedule and for which there is a very high level of individual need. During 2002/03 the role of the Exceptional Circumstances Committee will also be expanded to include the consideration of applications from DHBs' hospitals to fund from their own budgets, for particular patients, pharmaceuticals which are not listed in the Pharmaceutical Schedule.

PHARMAC has developed strong links with DHBs through the development of the PHARMAC/DHB Relationship Agreement and on-going discussions on a wide range of issues. During 2002/03 issues which will continue to be relevant are the process for setting the pharmaceutical budget, including forecast expenditure, new investments and management of rebates; management of the Exceptional Circumstances Scheme; provision of information; joint initiatives; and hospital pharmaceutical purchasing. DHBs have also shown a willingness to work with PHARMAC on initiatives to promote the responsible use of pharmaceuticals, such as contributing to the development work on projects aimed at improving access to prescribing information. PHARMAC will be looking for further opportunities to work with DHBs in this area during 2002/03. In 2002/03 PHARMAC will also work on improving the provision and exchange of information with DHBs.

PHARMAC continues to expect underlying growth from the use of newer more expensive drugs rather than older less expensive alternatives. PHARMAC is committed to influencing the volume and mix of drugs prescribed. That is, ensuring that New Zealanders have access to medicines listed on the Pharmaceutical Schedule and they are taken appropriately. The implementation of a Maori Responsiveness Strategy and the continuation of the work of the Consumer Advisory Committee are tangible mechanisms through which PHARMAC will seek further community engagement and analyse issues. The Consumer Advisory Committee provides input to the PHARMAC Board from a patient or consumer perspective and is expected to focus primarily on issues around PHARMAC's Demand Side activities. PHARMAC's Demand Side team undertake activities to address PHARMAC's legislative function to promote the responsible use of pharmaceuticals

PHARMAC will continue with Demand Side initiatives, such as the "Wise Use of Antibiotics" Campaign and act upon requests from clinicians and communities or initiatives which are aligned with the New Zealand Health Strategy. Examples already underway are the development of a brochure on the treatment of gout and a

public education campaign on cardiovascular risk management called "Take Control of your Cholesterol".

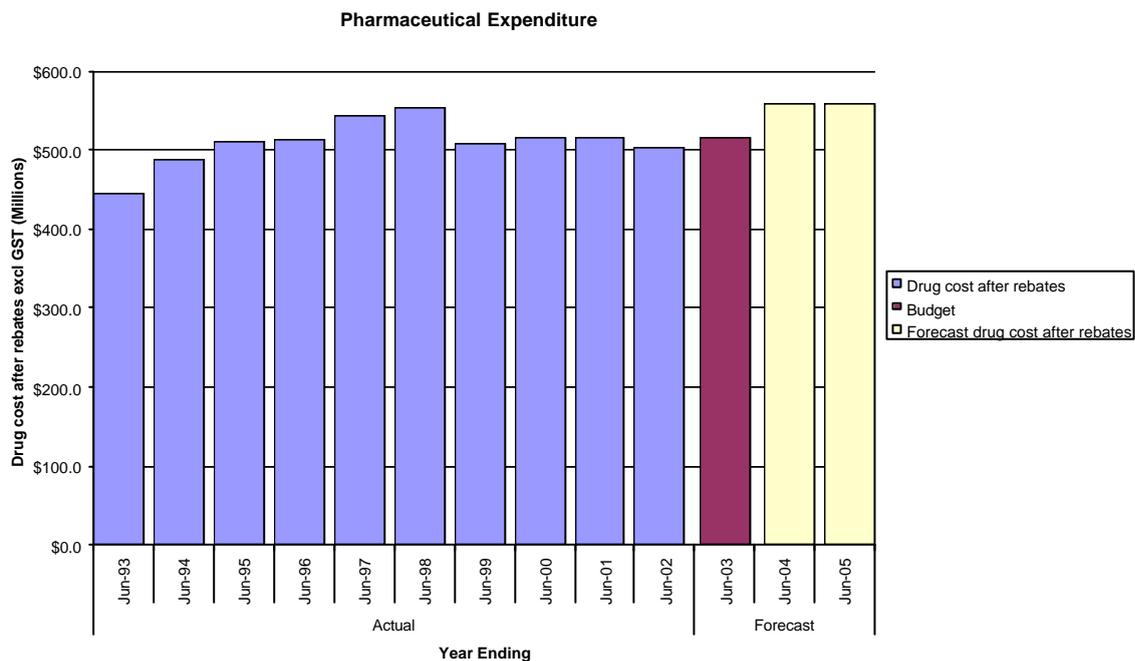
Changing attitudes, expectations and behaviour of individuals and agencies takes time. PHARMAC is committed to projects in this area that have measurable outputs and/or outcomes over the medium term and aim to change prevailing paradigms.

PHARMAC's activities in the area of supply side (negotiations with pharmaceutical companies on the listing of pharmaceuticals and subsidy levels) are aimed at reducing the ex-manufacturer price of pharmaceuticals to make it possible to subsidise more pharmaceuticals within the pharmaceutical budget. This may be through new pharmaceutical investments that are cost effective and will contribute to health gain or through other health initiatives.

The drug cost portion of pharmaceutical expenditure - after rebates - is budgeted to be \$516 million (excluding GST) during 2002/03. This represents just under 2.5% growth from actual expenditure in 2001/02.

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

The graph below shows actual expenditure for the past 10 years, the budget for the current year, and forecast expenditure for the 2 years.



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

This year PHARMAC will apply rigorous attention to management of new investments and savings with a view to managing expenditure within target. This activity allows us to lower subsidies, counteracting the 10% underlying growth in the

market due to increasing volumes and a shift from the use of cheaper to more expensive drugs.

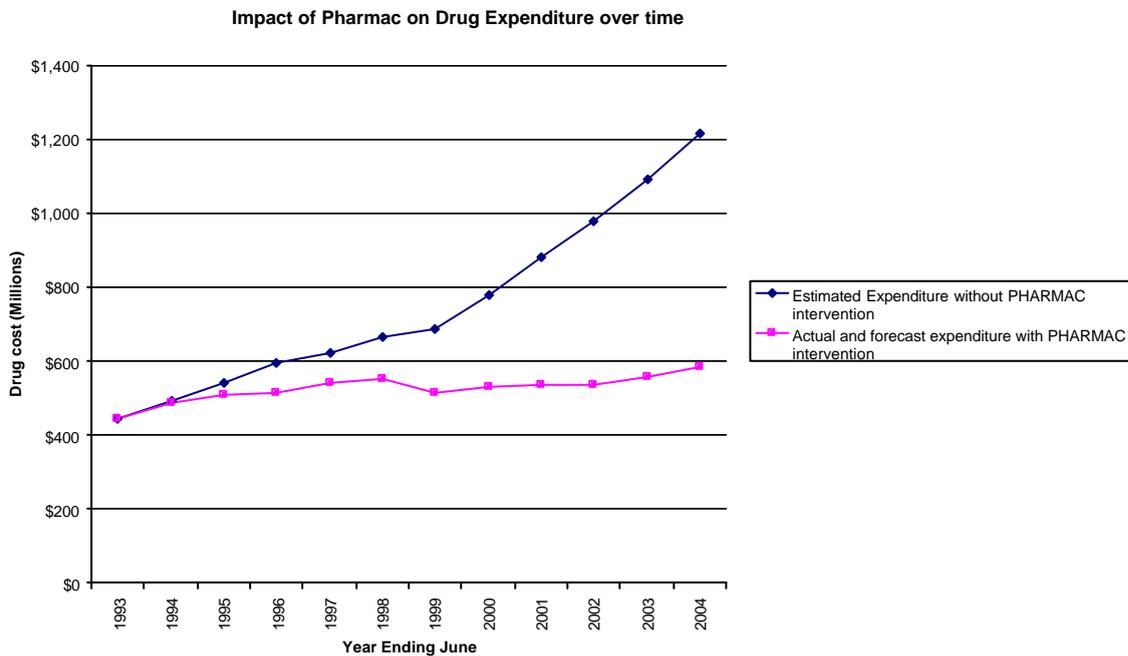
PHARMAC will aim to continue to achieve significant savings as a result of price reductions for at least another one to two years.

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

The following chart shows the impact of the successful implementation of a range of savings transactions as well as continuing to earn rebates. Rebates are an increasingly important part of PHARMAC's financial performance increasing from \$20.1 million in 2000/2001 to \$34.4 million in 2001/2002 and forecast to increase to \$63.1 million in 2002/2003

The status quo forecasts are an indication of expenditure with interventions from PHARMAC. They highlight the strong underlying growth, of 10% per annum, that exists for pharmaceuticals.

The graph below shows pharmaceutical expenditure compared with expected expenditure if PHARMAC not reduced subsidies. This is calculated by holding subsidies constant and recalculating expenditure.



PHARMAC's contribution to the Health Sector

PHARMAC continues to have a role in acting as an agent of DHBs to manage pharmaceutical expenditure. This role will continue to evolve through the implementation of the hospital pharmaceutical strategy; PHARMAC's management of the Exceptional Circumstances Scheme; and joint projects with DHBs aimed at improving health outcomes through the appropriate use of pharmaceuticals.

As part of its role in managing hospital pharmaceuticals, PHARMAC is helping to develop a Quality Use of Medicines strategy that aims for a better coordinated approach to the quality use of pharmaceuticals in hospitals. The aim of the strategy is to ensure that patients have access to the highest standard of care and best possible health outcomes from pharmaceuticals used in hospitals. Longer term the strategy could be integrated with similar strategies in the primary care sector and with initiatives in the community already developed by PHARMAC as part of its role to promote the responsible use of medicines.

PHARMAC has also started to implement its Maori Responsiveness Strategy with the aim of improving PHARMAC's responsiveness to Maori. Two key areas of the strategy are improving business planning processes by establishing Maori health priorities and ensuring focus on those priorities and increasing PHARMAC's responsiveness to Maori health issues by improving data collection processes to explicitly address Maori issues and by improving consultation processes so that the expertise of more Maori providers and health professionals is included. PHARMAC intends to involve and engage more with Maori in its decision-making processes and improve the flow of data to show if, and where, Maori have less access to pharmaceuticals than other New Zealanders.

PHARMAC will continue to develop its relationships with its key stakeholders. PHARMAC has significant links with DHBs and will continue to work on developing its relationships with DHBs to ensure that any gains from working together are achieved. PHARMAC will continue to provide regular reports on pharmaceutical expenditure to DHBs and continues to assess the form and content of these reports in response to feedback from DHBs. PHARMAC will also continue to meet regularly with its stakeholders in order to achieve a better understanding of both PHARMAC's objectives and the objectives of its stakeholders. It will be a challenge in the future in working with DHBs to ensure that there are adequate annual budget increases so that pharmaceutical expenditure plays its part in improving the overall health of the population.

PHARMAC will continue to develop its capability and seek to advance health improvement through sharing its knowledge base with other parts of the health sector and through learning from others in the health sector. PHARMAC will focus on developing strategic alliances with others in the sector and maximising core competencies such as analysis and assessment tools which could be used as a blueprint for other areas of the health sector.

Role of the Minister on behalf of the Crown

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

As set out in the PHARMAC Crown Funding Agreement for 2002/03, the role of the Minister in relation to the performance of PHARMAC is to:

- indicate priority areas for Government through various strategy documents such as the New Zealand Health Strategy, New Zealand Disability Strategy and related strategies;
- obtain Parliamentary appropriations with which to fund PHARMAC;
- set expectations that inform and guide PHARMAC's high level planning as part of the process of preparing, and agreeing to, any Annual Plan and Crown Funding Agreement and commenting on any Statement of Intent;

- agree to the performance measures contained in the Crown Funding Agreement;
- monitor the performance of PHARMAC against the Crown Funding Agreement;
- hold the Board of PHARMAC accountable for its performance;
- require compliance by DHBs with legislative requirements and other obligations specified in their Crown Funding Agreements with respect to the Pharmaceutical Schedule; and
- undertake the duties and exercise the powers of a Responsible Minister as set out in the PF Act 1989.

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

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

Board of PHARMAC on behalf of PHARMAC

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

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

The Board of PHARMAC will comply with the duties and requirements placed on it by the Public Finance Act 1989.

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

Ownership Performance

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

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

- acknowledging the special relationship between Maori and the Crown under the Treaty of Waitangi;
- good health and well-being for all New Zealanders throughout their lives;

- an improvement in health status of those currently disadvantaged;
- collaborative health promotion and disease and injury prevention by all sectors;
- timely and equitable access for all New Zealanders to a comprehensive range of health and disability services, regardless of ability to pay;
- a high-performing system in which people have confidence; and
- active involvement of consumers and communities at all levels.

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

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

PHARMAC has been particularly successful at managing growth in expenditure on pharmaceuticals. This has chiefly been through supply side initiatives (negotiations with pharmaceutical companies on the listing of pharmaceuticals and subsidy levels), although over the past three years PHARMAC has been broadening its focus to include programmes aimed at promoting the responsible use of pharmaceuticals.

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

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

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

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

Financial Management and Financial Performance: PHARMAC will comply with the PF Act 1989 and the NZPHD Act and meet all of the financial management and financial performance requirements set out in the Crown Funding Agreement and the NZPHD Act. This includes ensuring the prudent and wise use of financial resources.

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

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

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

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

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

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

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

PART 2 STATEMENT OF PLANNED PERFORMANCE

A PURCHASE OBJECTIVES – OUTPUT: MANAGEMENT OF PHARMACEUTICAL EXPENDITURE

As set out in the Crown Funding Agreement, PHARMAC has one output class “securing the best achievable health outcomes from pharmaceutical treatment, within the funding provided”. There are three business activities within this one output class:

The three business activities include, but are not limited to:

- 1) Management of Community Pharmaceutical Expenditure, including:
 - management of community pharmaceutical expenditure on behalf of DHBs;
 - management of Pharmaceutical Schedule to determine eligibility for access to subsidised pharmaceuticals;
 - operation of the Exceptional Circumstances Scheme; and
 - management of National Programmes for High Cost Pharmaceuticals.
- 2) Management of Hospital Pharmaceutical Purchasing, including:
 - negotiating supply contracts for some hospital pharmaceuticals on behalf of DHBs;
 - establishing an elective national process for assessing applications to fund new pharmaceuticals in hospitals; and
 - developing a Quality Use of Medicines Strategy for hospital pharmaceuticals in consultation with DHBs.
- 3) Promotion of the Responsible Use of Pharmaceuticals, including:
 - demand side projects;
 - referred services contracts; and
 - support of the Consumer Advisory Committee.

PHARMAC has sole responsibility for maintaining and managing the Pharmaceutical Schedule, which applies consistently throughout New Zealand.

Activity One: Management of Community Pharmaceutical Expenditure

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

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

- a) the health needs of all eligible people within New Zealand;
- b) the particular health needs of Maori and Pacific peoples;

- c) the availability and suitability of existing medicines, therapeutic medical devices and related products and related things;
- d) the clinical benefits and risks of pharmaceuticals;
- e) the cost-effectiveness of meeting health needs by funding pharmaceuticals rather than using other publicly funded health and disability support services;
- f) the budgetary impact (in terms of the pharmaceutical budget and the Government's overall health budget) of any changes to the Pharmaceutical Schedule;
- g) the direct cost to health service users;
- h) the Government's priorities for health funding, as set out in any objectives notified by the Crown to PHARMAC, or in the Crown Funding Agreement, or elsewhere; and
- i) such other matters as PHARMAC thinks fit. PHARMAC will carry out appropriate consultation when it intends to take any such "other matters" into account.

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

- independent advice from the PTAC to PHARMAC on pharmaceuticals and their benefits;
- information received from PHARMAC's Consumer Advisory Committee;
- assessment of significant new investments, using the principles outlined in PHARMAC's Prescription for Pharmaco-Economic Analysis, as updated from time to time;
- cost utility analysis, used to assess some current investments of poor value, with subsequent dis-investment, where appropriate;
- consulting on matters that relate to the management of pharmaceutical expenditure with any sections of the public, groups, or individuals that, in the view of PHARMAC, may be affected by decisions on those matters, (which may according to the circumstances include DHBs, pharmaceutical suppliers, PTAC, health professionals, community or patient groups, Maori, Pacific Peoples and other groups); and
- take measures to inform the public, groups and individuals of PHARMAC's decisions concerning the Pharmaceutical Schedule.

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

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

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

- **Operation of the Exceptional Circumstances Scheme**

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

The purpose and eligibility criteria for the Exceptional Circumstances Scheme are outlined below:

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

The Exceptional Circumstances Committee will make decisions based on criteria which may be changed from time to time following consultation.

- **National Programmes for High Cost Pharmaceuticals**

As part of managing pharmaceutical expenditure, PHARMAC will establish, maintain and/or manage national programmes and expert panels that encourage the cost effective use of particular high cost pharmaceuticals. These programmes involve targeting the provision of subsidies for certain pharmaceuticals (currently dornase alpha, beta-interferon, imiglucerase and human growth hormone) to patients meeting defined entry and exit criteria.

Activity One: Performance Measures for Management of Community Pharmaceutical Expenditure

	Expectation	Deliverable	Target Date
1.1	PHARMAC will manage expenditure on community pharmaceuticals within the levels agreed in the Crown Funding Agreement.	PHARMAC will maintain expenditure on subsidised community pharmaceuticals for the year ending 30 June 2003 within \$516 million (excl GST), after deduction of rebates from pharmaceutical suppliers. Quarterly pharmaceutical expenditure targets (excluding GST) on a cumulative basis, before the deduction of rebates are: Quarter One \$142,146,488.00 Quarter Two \$288,650,323.00 Quarter Three \$427,583,563.00 Quarter Four \$574,916,634.00	30 September 2002 31 December 2002 31 March 2003 30 June 2003
1.2	PHARMAC will forecast pharmaceutical expenditure.	PHARMAC will provide the Ministry of Health with a 1-3 year forecast of pharmaceutical expenditure.	31 December 2002
1.3	PHARMAC will monitor pharmaceutical expenditure in the community against forecast.	Any potential deviation from the forecasts will be promptly notified to the Ministry.	Identified in monthly reports if required.
1.4	Review the use of the Exceptional Circumstances Scheme to ensure that the Scheme is working effectively and its objectives are being met including an outline of expenditure by DHB timeliness of processing applications and any issues associated with the Scheme's operation.	Completion of report for the PHARMAC Board who will consider the report's recommendations and consult DHBs on any proposed amendments to the Exceptional Circumstances Scheme. A copy of the report to the PHARMAC Board will be provided to the Ministry of Health for its information	30 May 2003

Activity Two: Management of Hospital Pharmaceutical Purchasing

PHARMAC has been authorised to manage the purchasing of hospital pharmaceuticals on behalf of DHBs. The performance measures for this area in 2002/03 are given in the following table.

	Expectation	Deliverable	Target Date
2.1	PHARMAC will collect hospital pharmaceutical utilisation data to inform the development of future purchasing arrangements.	Establishment of a national hospital data reporting system capturing brand, volume and, where possible, expenditure data in relation to pharmaceutical utilisation for each DHB and collated in a national database. Data base to be developed in consultation with DHBs.	30 April 2003
2.2	PHARMAC will establish purchase arrangements in areas where the greatest savings are likely to be made.	National contracts in place for 30 pharmaceuticals within the top 90% (by expenditure) of those funded by DHB hospitals.	30 June 2003
2.3	PHARMAC will develop an evaluation plan for the Hospital Pharmaceutical Strategy to assess its performance against the stated goals and any identified issues.	Report to the Minister of Health seeking approval for the evaluation plan. PHARMAC will discuss the development of the plan with the Ministry of Health. The evaluation plan will set out the proposed assessment methodology including. <ul style="list-style-type: none"> • the impact of national contracts on prices paid for pharmaceuticals (where measurable); • the impact on the availability of adequate choice of pharmaceuticals where national contracts are in place; and • the impact of PHARMAC's initiatives on the administrative burden on hospital clinicians and management in relation to pharmaceuticals. 	30 June 2003
2.4	PHARMAC will develop a process for assessing new technology in hospitals to monitor the process for accessing new hospital pharmaceuticals across DHBs.	Set up systems and process for collating, recording and promulgating to DHBs, information about DHBs' and PHARMAC's assessment of new pharmaceuticals, or new indications for existing pharmaceuticals, used in the hospital sector. 6-8 Cost Utility Analyses completed and shared with DHBs.	Promulgation of information to DHBs commences October 2002 30 June 2003
2.5	PHARMAC will promote the Quality Use of Medicines in the hospital setting.	A hospital quality use of medicines Strategy will be developed in consultation with DHBs. Draft Strategy document prepared with input from HPAC, circulated for DHB and Ministry of Health comment and PHARMAC Board approval.	Draft 31 December 2002 Final 30 June 2003

Activity Three: Promotion of the Responsible Use of Pharmaceuticals

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

	Expectation	Deliverable	Target Date
3.1	PHARMAC will provide information to patients to assist with patient compliance with medication usage.	PHARMAC will sponsor and distribute a patient information booklet on the management of gout. The booklet will be developed in conjunction with a key rheumatologist and field tests with patient focus groups.	English version: 30 October 2002 Other languages: 31 December 2002
3.2	PHARMAC will promote the responsible use of pharmaceuticals by aiming to influence the volume and mix of drugs prescribed.	PHARMAC will liaise with the Ministry of Health and undertake a campaign to increase public awareness about cardiovascular risk management, including promotion of lifestyle modification and the role of cholesterol lowering drugs. PHARMAC will contract an external party to undertake the work. The campaign will be tested as a regional pilot, which will be reviewed and then implemented nationally in 2003/04. PHARMAC will evaluate the campaign following its completion.	Regional pilot programme be completed by 30 June 2003 Evaluation to be completed by 31 December 2003
3.3	PHARMAC will contract with external parties to provide services which promote the responsible use of pharmaceuticals.	Request for Proposals (RFP) for a 2003/04 contract to promote the responsible use of pharmaceuticals complete Following Responsible Use of Pharmaceuticals RFP referred to above, contracts agreed and relevant services in place for 2003/04 PHARMAC will evaluate the Green Prescription Programme and review on-going funding, considering findings of the independent evaluation project "Justification of Green Scripts study (JOGS)". Recommendation to the PHARMAC Board following completion of the review of on going funding to the Green Prescription Programme. A copy of the Board paper and Board Decision will be provided to the Ministry of Health for its information.	30 April 2003 30 June 2003 Evaluation complete 30 April 2003 31 May 2003

	Expectation	Deliverable	Target Date
3.4	PHARMAC will promote the responsible use of pharmaceuticals by making the Pharmaceutical Schedule (and if appropriate prescribing information) readily available to GPs.	<p>Develop and launch a pilot CD version of Pharmaceutical Schedule</p> <p>Review pilot with key users</p> <p>Issue request for Expressions of Interest for medical database to make the Pharmaceutical Schedule and appropriate prescribing information available to GPs.</p> <p>Recommendation to PHARMAC Board following completion of evaluation of Expressions of Interest on next steps. A copy of the Board paper and Board decision will be provided to the Ministry of Health for its information.</p>	<p>31 October 2002</p> <p>31 March 2003</p> <p>30 September 2002</p> <p>31 January 2003</p>

B OWNERSHIP PERFORMANCE

Service Description:

PHARMAC will deliver the ownership performance in Part 1 of this Statement of Intent and in particular will meet the following performance measures.

	Expectation	Deliverable	Target Date
4.1	PHARMAC will monitor the communications process undertaken as part of the implementation of PHARMAC's tender process.	PHARMAC Board will consider recommendations resulting from the evaluation of the impact of the 2000/01 pharmaceutical tender Implementation of recommendations as appropriate.	31 October 2002 2003 tender process
4.2	PHARMAC works effectively with DHBs.	Review of effectiveness of joint working practices with DHBs	Completed by 31 March 2003
4.3	Update PHARMAC's Business Continuity Plan to ensure that it covers all key business areas.	Business Continuity Plan revised	30 June 2003
4.4	PHARMAC will consider input from a consumer or patient point of view.	PHARMAC will establish and operate a Consumer Advisory Committee consistent with Section 50 (1)(b) of the NZPHD Act. Committee appointed Initial meeting held	31 July 2002 30 September 2002
4.5	PHARMAC will monitor the process for developing key strategies to ensure they are effective and seek opportunities to improve working practices.	Develop an evaluation plan for the development of the Maori Responsiveness Strategy Evaluation Complete	31 January 2002 31 March 2003

PART 3 FINANCIAL AND OWNERSHIP INFORMATION

A STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

PHARMAC is a body corporate owned by the Crown with perpetual succession and is responsible for securing for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided. It has sole responsibility for managing the Pharmaceutical Schedule.

Forecast financial statements in this document have been prepared in accordance with section 67(1) of the NZPHD Act 2000 and the PF Act 1989, as amended.

Measurement System

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

Accounting Policies

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

(a) Valuation of Assets

(i) Fixed Assets

Fixed Assets are valued at cost less accumulated depreciation.

(ii) Accounts Receivable

Accounts receivable are valued at net realisable value.

(b) Depreciation

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

Major depreciation periods are:

Office equipment	2.5 - 5 years
EDP equipment	2.5 years
Furniture and fittings	5 years
Leasehold improvements	3 years

(c) Revenue Recognition

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

(d) Goods and Services Tax (GST)

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

(e) Taxation

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

(f) Financial Instruments

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

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

(g) Employment Entitlements

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

(h) Budgeted Figures

The 2002/03 budget figures, and 2003/04 and 2004/05 forecast figures have been prepared in accordance with generally accepted accounting policies adopted by the Board and agreed with the Minister.

(i) Leases

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

Changes in Accounting Policies

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

B FINANCIAL STATEMENTS

Projected Statement of Financial Performance

	For the period of 1 July 2002 to 30 June 2003 \$000 (GST excl)	For the period of 1 July 2003 to 30 June 2004 \$000 (GST excl)	For the period of 1 July 2004 to 30 June 2005 \$000 (GST excl)
Revenue			
Crown:			
Operating	6,103	7,142	7,499
Responsible use of pharmaceuticals	2,788	3,861	4,054
High Cost Medicines	-	420	441
Interest received	120	120	120
Total Revenue	9,011	11,543	12,114
Operating Expenditure			
Operating costs	3,707	3,892	4,087
Salaries and related costs	2,607	2,876	3,034
Audit fees	15	15	18
Directors fees	123	123	120
Depreciation	250	250	250
Rentals and leases	100	105	110
High cost medicines	400	420	441
Responsible use of pharmaceuticals	3,677	3,861	4,054
Total Expenditure	10,879	11,543	12,114
Net surplus/(deficit)	(1,868)¹	0	0

Note: The above statement should be read in conjunction with the accounting policies on pages 21-22.

¹ PHARMAC has forecast a deficit of \$1,868,000 (excluding GST) for the 2002/03 year. This deficit will be funded by PHARMAC from equity reserves which will reduce PHARMAC's reserves to an appropriate level and contribute to managing financial pressures in the health sector.

Projected Statement of Financial Position

	At 30 June 2003 \$000 (GST excl)	At 30 June 2004 \$000 (GST excl)	At 30 June 2005 \$000 (GST excl)
Assets			
Cash & bank	2,900	2,001	2,001
Accounts Receivable	431	1,317	1,400
Liabilities			
Creditors & Accruals	2,382	2,369	2,452
Working Capital	949	949	949
Long Term Assets			
Fixed Assets	474	474	474
TOTAL ASSETS	1,423	1,423	1,423
Represented by:			
Capital			
Retained Earnings & Reserves	1,423	1,423	1,423
TOTAL EQUITY	1,423	1,423	1,423

Note: The above statement should be read in conjunction with the accounting policies on pages 21-22.

Projected Cash Flow Statement

	For the period of 1 July 2002 to 30 June 2003 \$000 (GST incl)	For the period of 1 July 2003 to 30 June 2004 \$000 (GST incl)	For the period of 1 July 2004 to 30 June 2005 \$000 (GST incl)
Cash Provided by the Crown	10,002	12,851	13,493
Interest Received	120	120	120
Cash as applied to purchases			
Net GST to IRD	(120)	(364)	(381)
Net Cashflows from Operating Activities	(10,945)	(13,256)	(12,982)
Net Cashflows from Investing	(250)	(250)	(250)
Net Cashflows from Financing			
Overall Increase/(Decrease) in Cash & Investments	(1,193)	(899)	0
Opening Cash & Investments at bank	4,093	2,900	2,001
Closing Cash & Investments at bank	2,900	2,001	2,001

Note: The above statement should be read in conjunction with the accounting policies on pages 21-22.

Projected Movement in Equity

	2002 / 2003 \$000 (GST excl)	2003 / 2004 \$000 (GST excl)	2004 / 2005 \$000 (GST excl)
Opening Equity	3,291	1,423	1,423
plus Surplus (Deficit)	(1,868)	0	0
Closing Equity	1,423	1,423	1,423

Note: The above statement should be read in conjunction with the accounting policies on pages 21-22.

Reconciliation of Net Surplus to Cash Flow from Operating Activities

	2002 / 2003 \$000 (GST excl)	2003 / 2004 \$000 (GST excl)	2004 / 2005 \$000 (GST excl)
Net operating surplus (deficit)	(1,868)	0	
Add non-cash items:			
Depreciation	250	250	250
Add/(less) Working Capital Movements:			
Decrease (Increase) in Receivables	(86)	(886)	(83)
Increase (Decrease) in Payables	761	(13)	83
Net Cash Flows from Operating Activities	(943)	(649)	250

Note: The above statement should be read in conjunction with the accounting policies on pages 21-22.

Key Assumptions

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

Actual results may differ from Forecast

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

PART 4 OTHER MATTERS

Formal Reports

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

- pharmaceutical subsidy expenditure and rebates compared with budget and revised forecasts of expenditure and rebates when appropriate and for each monthly report which falls at the end of a quarter PHARMAC will provide the Minister with an update on price, volume, mix and expenditure indices;
- major Schedule decisions;
- significant issues or developments that the Minister or Ministry should be aware of;
- any potential non-performance against the Crown Funding Agreement;
- PHARMAC's operational financial performance showing:
 - Year to date: actual, budget, variance (\$), variance (%), with commentary to explain significant variances;
 - Year to date financial performance;
 - Year to date financial position;
 - Year end forecast; and
 - Year end budget.
- PHARMAC's performance against all performance measures contained in this SOI that fell due in the previous month. PHARMAC may also outline progress made towards achievement of significant milestones due in later months.

Informal Reports

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

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

Reports to Parliament

PHARMAC will prepare a Statement of Intent for 2003/04 and Annual Report for the year July 2002 to June 2003.

The content and timing of the production of these documents shall comply with the requirements of the NZPHD Act 2000 and the PF Act 1989.

Information for Ministers

On request, PHARMAC will provide:

- the Ministry with information that will enable the Ministry to prepare Ministerial briefings and draft speech notes in writing and, where practicable, in agreed form;

- the Ministry will information (in writing and in an agreed form) that will enable the relevant Minister to, in a timely manner:
 - (i) respond to Parliamentary questions;
 - (ii) deal with routine Ministerial correspondence; and
 - (iii) deal with select committee inquiries.

- the Ministry with information relating to its activities that enables the Ministry to conduct special reviews and audits on its activities, which may be carried out as often as the Crown reasonably believes those reviews and audits are necessary.