

**Pharmaceutical Management Agency
(PHARMAC)**

Statement of Intent

1 July 2003 to 30 June 2004

TABLE OF CONTENTS

PART 1	PHARMAC'S OBJECTIVES AND STRATEGIC PRIORITIES	4
	PHARMAC'S Statutory Functions	4
	Strategic Priorities	4
	PHARMAC's aim in 2003/04	6
	Key Activities	7
	PHARMAC's Contribution to the Health Sector	13
	Role of the Minister on behalf of the Crown	15
	Board of PHARMAC on behalf of PHARMAC	15
	Ownership Performance	16
PART 2	STATEMENT OF PLANNED PERFORMANCE	19
Part A	Purchase Objectives – Output: Management of Pharmaceutical Expenditure	19
	Activity One: Management of Community Pharmaceutical Expenditure	19
	Activity Two: Management of Hospital Pharmaceutical Purchasing	23
	Activity Three: Promotion of Responsible Use of Pharmaceuticals	24
Part B	Ownership Performance	26
PART 3	FINANCIAL AND OWNERSHIP INFORMATION	27
Part A	Statement of Accounting Policies	27
	Reporting Entity	27
	Measurement System	27
	Accounting Policies	27
Part B	Financial Statements	29
	Projected Statement of Financial Performance	29
	Projected Statement of Financial Position	30
	Projected Cash Flow Statement	31
	Projected Movement in Equity	31
	Reconciliation of Net Surplus to Cash Flow from Operating Activities	32
	Key Assumptions	32
	Actual Results may differ from Forecast	32
PART 4	OTHER MATTERS	33
	Formal Reports	33
	Informal Reports	33
	Reports to Parliament	33
	Information for Ministers	33

FOREWORD

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

The SOI outlines for Parliament the performance we have agreed with the Minister of Health (the Minister) to deliver for the year commencing 1 July 2003 to 30 June 2004.

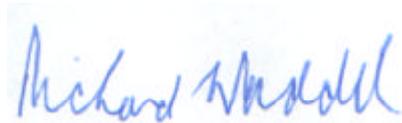
In particular, this document specifies:

- the performance that PHARMAC will seek to achieve from 1 July 2003 to 30 June 2004;
- 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 2003/04 was confirmed in June 2003 and will be reflected in the completion of a Crown Funding Agreement to be signed in July 2003.

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



Richard Waddell
Chairperson
PHARMAC

June 2003

PART 1 PHARMAC'S OBJECTIVES AND STRATEGIC PRIORITIES

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

PHARMAC's Statutory Functions

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

PHARMAC reviewed the strategic priorities identified above following planning sessions with staff and the Board of PHARMAC (Board) and considering feedback from stakeholders throughout the 2002/03 year and has concluded that those strategic priorities continue to require focus.

For 2003/04 PHARMAC has decided to expand strategic priority two to better reflect its current role. During 2003/04 PHARMAC's role in promoting the responsible use of pharmaceuticals will also include promoting the quality use of medicines, principally in a hospital context. Demand Side initiatives will also be aimed at influencing not only clinical behaviour but also the behaviour of other health practitioners.

PHARMAC has also identified two additional strategic priorities for 2003/04:

Strategic Priority 7: National Hospital Pharmaceutical Strategy

PHARMAC will further develop and implement the National Hospital Pharmaceutical Strategy to assist DHBs with the management of expenditure on hospital pharmaceuticals. This will include progression of initiatives to ensure DHB hospitals can purchase key pharmaceuticals at the best possible prices, on-

going assessment of the cost-effectiveness of new pharmaceuticals proposed to be used in hospitals, implementation of discretionary community supply provisions in the Pharmaceutical Schedule and further development and implementation of a quality use of medicines strategy for hospitals.

The introduction of this strategic priority recognises the consolidation of PHARMAC's role in managing the purchasing of hospital pharmaceuticals. This role was authorised by the Minister in September 2001 and has now become an established part of PHARMAC's business. PHARMAC expects this strategic priority to continue to be important in future years. From March 2004, PHARMAC will also conduct a review of the first 24 months of the National Hospital Pharmaceutical Strategy.

Strategic Priority 8: Pharmacy dispensing volumes strategy

PHARMAC will work with DHBs on initiatives to reduce pharmaceutical dispensing volumes.

In response to calls from pharmacists and patients, PHARMAC will continue to work with DHBs to develop and implement successful initiatives to address dispensing volumes and dispensing volume growth. The aim is to improve the quality of the service patients receive.

PHARMAC has already announced that it is considering implementing a partial return to 3 monthly or stat dispensing for approximately 50% of medicines currently subsidised. This could benefit patients by making it more convenient to get the full course of medicines prescribed by their health professional. This would aid compliance and lower the costs of access for many people, especially the old and those with mobility difficulties.

The stat dispensing initiative has arisen from a successful working relationship with DHBs that looks at improving the delivery of services across the different health agencies. It also represents an important opportunity to reallocate health dollars in priority areas. If the proposal goes ahead, PHARMAC estimates that DHBs will be able to invest around an extra \$35m a year (after the initial implementation transition costs) in improving current health services, or fund new initiatives with this money.

The stat dispensing initiative is consistent with the overall New Zealand Health Strategy, especially as it is based on co-operation across the health sector and because it allows additional services in priority areas to be funded. It is also consistent with the Primary Health Care strategy, as it lowers the costs of access to primary health care.

The PHARMAC Board will consider the stat dispensing proposal at a meeting in early July 2003. Regardless of the outcome of that meeting, PHARMAC will continue to work with DHBs in considering ways in which to address this strategic priority over the course of the 2003/04 year.

PHARMAC's aim in 2003/04

PHARMAC's aim in 2003/04 is to focus on:

- continuing to manage the Pharmaceutical Schedule effectively by listing products that will help achieve the objectives outlined in the New Zealand Health Strategy (Strategic Priority 1);

- developing increasingly closer working relationships with DHBs so that optimal results are achieved from working co-operatively (Strategic Priority 3);
- developing further new initiatives with DHBs to support them in achieving their objectives (Strategic Priority 3);
- continuing to contribute to improvements in the health status of Maori through the appropriate use of pharmaceuticals in line with PHARMAC's Maori Responsiveness Strategy (Strategic Priority 4);
- continuing to seek consumer input through the Consumer Advisory Committee on the implementation of decisions and working with patient groups on specific issues (Strategic Priority 5);
- securing the ongoing benefits of nation-wide hospital pharmaceutical purchasing and continuing to seek synergies between the community and hospital pharmaceutical sectors (Strategic Priority 7);
- building on its role in promoting the responsible use of pharmaceuticals through continued use of effective education campaigns, distribution of information and developing tools to encourage appropriate prescribing and through the promotion of quality use of medicines in hospitals (Strategic Priority 2); and
- progressing the consideration of the dispensing volumes strategy (Strategic Priority 8).

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

PHARMAC's plans for each of these strategic priority areas are set out in more detail below and in section 3 of PHARMAC's Annual Plan. In planning for these strategic priorities, PHARMAC has made a distinction between those priorities which encompass funding responsibilities (strategic priorities 1, 2 and 7) and those priorities which are intended to optimise PHARMAC's performance (strategic priorities 3, 4, 5, 6 and 8).

This distinction has also been used by PHARMAC in setting its performance targets for the year. Strategic priorities 1, 2 and 7 relate to purchase objectives which are set out in Section A of Part 2 of this Statement of Intent. Strategic priorities 3, 4, 5, 6 and 8 relate to ownership performance objectives which are set out in Section B of Part 2 of this Statement of Intent.

Key activities

➤ Managing Pharmaceutical Expenditure

PHARMAC's success in managing the community pharmaceutical budget has been predominantly as the result of supply side initiatives managing price and, to some degree, the volume and mix components of pharmaceutical expenditure. Volume growth has been affected by targeting tools such as the Special Authority mechanism and mix growth has been affected by reference pricing and tendering.

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

- exploiting market opportunities to reduce the unit cost of pharmaceuticals, so that DHBs obtain better value on existing medicines and so that new investments can be funded;
- listing pharmaceuticals that are assessed as offering value for money within the budget that is available, so that health outcomes for the New Zealand population are improved;
- monitoring and managing our supplier contracts, so that DHBs receive the full benefit of our supply agreements;
- managing and enhancing our relationships with all our stakeholders, so that our stakeholders perceive PHARMAC as an effective and valuable organisation.

PHARMAC is focusing on obtaining the most value from the tender for 2003/04. In particular, when key products in therapeutic groups come off patent, we will be looking to ensure maximum value by reviewing opportunities to apply reference pricing, or to use other aspects of PHARMAC's negotiation strategies in an effort to get the best value for DHBs' investment in medicines.

Whether we are able to make significant new investments in medicines during 2003/04 will depend on:

- the available budget;
- the success of our negotiation strategies in managing the existing budget; and
- whether any additional funds are released from the proposed strategy to manage dispensing volumes.

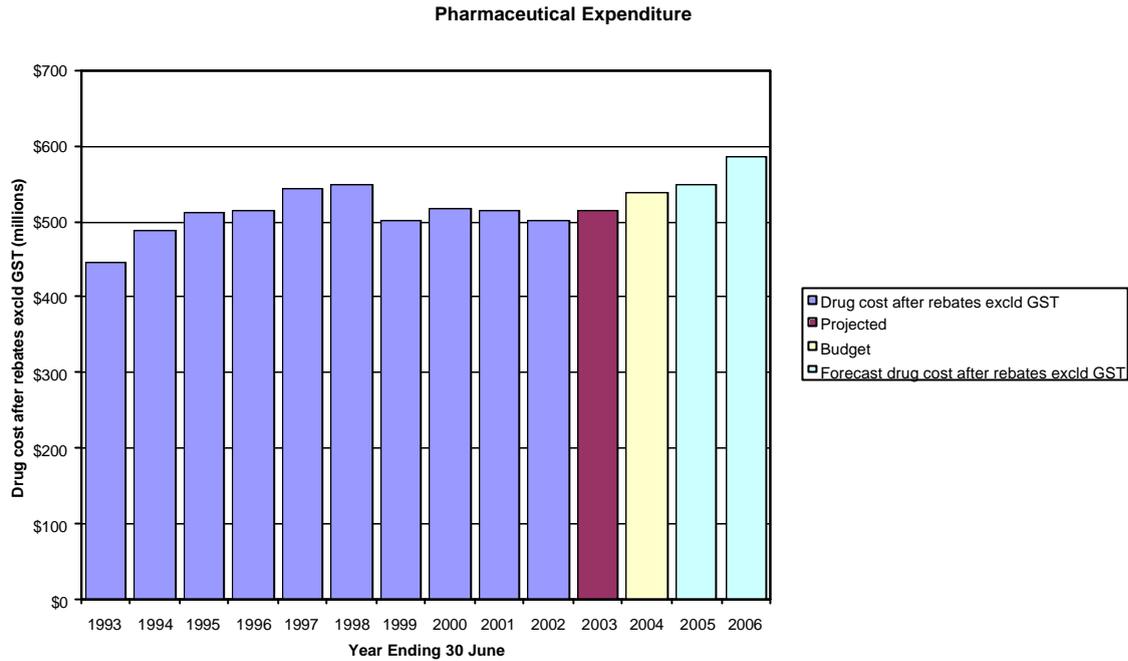
The investment opportunities that we have identified for 2003/04 fall within the following therapeutic groups:

- Oncology and Immunosuppression
- Nervous System
- Infections
- Diabetes
- Musculoskeletal

The drug cost portion of pharmaceutical expenditure - after rebates - is budgeted to be \$539 million (excluding GST) during 2003/04. This represents just under 5% growth from projected actual expenditure in 2002/03.

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 projected out-turn 2003, the budget for the current year, and forecast expenditure for the following two years.



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

This year PHARMAC will 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.

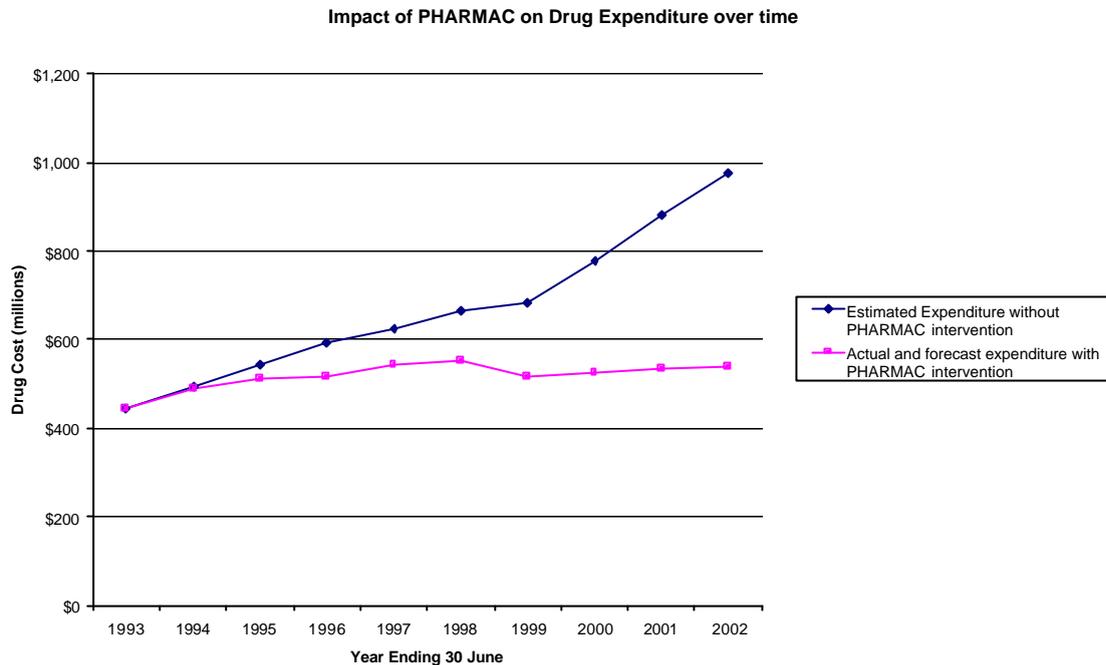
PHARMAC will aim to continue to achieve significant savings as a result of price reductions for at least another one to two years.

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 \$67.8 million in 2002/03. Rebates are forecast to be \$55.4 million in 2003/2004. This represents a slight decrease on rebates for 2002/03 as a consequence of the expiry of a patent on a product that currently provides a major rebate.

The line showing estimated expenditure without PHARMAC intervention highlights the strong underlying growth, of 10% per annum, that exists for pharmaceuticals. This line is calculated by assuming that without PHARMAC's intervention, subsidies would have remained at the same level as those applying in 1993. It, therefore, does

not show the effect PHARMAC has had on expenditure as a result of exercising control of new listings.



➤ **Demand Side activities**

PHARMAC’s Demand Side team undertakes activities to address PHARMAC’s legislative function to promote the responsible use of pharmaceuticals. PHARMAC will continue with Demand Side initiatives which are aligned with the New Zealand Health Strategy and other key health strategies. Campaigns being run in 2003/04 include:

- the very successful annual “Wise Use of Antibiotics” Campaign;
- the cardiovascular risk management campaign “One Heart Many Lives” which is being piloted in Gisborne (Maori and mainstream focus) and Porirua (Pacific peoples focus), and which will be evaluated in 2003/04 before consideration is given to it being launched nationally; and
- the national Asthma Management campaign, promoting the responsible use of inhaled corticosteroids.

PHARMAC also contracts for services to promote the responsible use of pharmaceuticals, and ensures that the contracted services are aligned with activities undertaken by DHBs in their contracting with IPAs and PHOs. An example of this is the asthma campaign launched in February 2003 which was co-ordinated by PHARMAC, funded with the support of the DHBs and supported by a broad cross section of the medical community including general practitioners, asthma educators, nurses and pharmacists. PHARMAC is also working with DHBs to ensure that external agencies contracted to undertake pharmaceutical demand services are aligned.

Where possible, PHARMAC will work in collaboration with key stakeholders. Examples of campaign collaboration include involving pharmacy groups, general practice organisations, the NZ Guidelines Group and the Asthma and Respiratory Foundation of NZ in the Asthma Management Campaign; and the National Heart Foundation and Sport and Recreation NZ in the “One Heart Many Lives” campaign

pilot. PHARMAC will act upon requests from clinicians and communities for clinical resources; assist in the implementation of PHARMAC Supply Side contracting initiatives and assist in implementation of PHARMAC's Maori responsiveness strategy through the development of culturally appropriate resources.

PHARMAC recognises the developing role of PHOs and the growing role of various health professionals, such as nurse prescribers, in the prescribing continuum. To this end, PHARMAC is working closely with the Ministry of Health and DHBs to ensure that PHARMAC Demand Side management and the pharmaceutical referred services component of PHO contracts are aligned.

Changing attitudes, expectations and behaviour of individuals and agencies takes time. PHARMAC will use recognised adult education techniques to elicit behaviour change in health professionals and social marketing techniques to elicit behaviour change in patient groups. 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.

➤ **Hospital Purchasing**

In the 10 months following the Minister of Health's approval of the National Hospital Pharmaceutical Strategy, PHARMAC has implemented national procurement contracts for DHB Hospitals that are expected to produce savings of about \$9.5 million per year (of an approximately \$140 million total spend on hospital pharmaceuticals). Further savings are expected from a tender currently in progress, involving savings of approximately \$2 million in the year ending 30 June 2004 and \$3.5 million in the year ending 30 June 2005. PHARMAC and the Hospital Pharmaceutical Advisory Committee (HPAC) will consider further pricing initiatives and/or an expansion of these initiatives during this year.

PHARMAC has also established processes for assessing the cost-effectiveness of pharmaceuticals that DHB Hospitals are considering adding to their formularies. DHB Hospitals are not obliged to follow any recommendations made by PHARMAC. However, the process is aimed at improving DHB Hospitals' own assessments, encouraging debate about the relative merits and disadvantages of new pharmaceuticals, and enhancing overall decision-making. Following a review of the newly established assessment processes in May 2003, PHARMAC will continue to promote and develop these processes, the effect of which will be evaluated with the rest of the National Hospital Pharmaceutical Strategy after March 2004.

In order to collate national hospital pharmaceutical utilisation data without imposing onerous IT or data coding requirements on DHB Hospitals, PHARMAC is developing a reporting system which enables DHB Hospital pharmacy sites to report their monthly usage of pharmaceuticals to PHARMAC. All DHB Hospitals sites are now regularly reporting usage to PHARMAC.

(a) Discretionary Community Supply provisions

DHB Hospitals have been dispensing a number of pharmaceuticals for use in the community that are not listed on the Pharmaceutical Schedule. This practice is inconsistent with the NZPHD Act which requires that DHBs comply with the Pharmaceutical Schedule. PHARMAC recognises that there are some pharmaceuticals not currently listed on the Pharmaceutical Schedule the use of which in the community by hospital out-patients is justifiable on the grounds of cost-effectiveness (whether generally or in individual cases). To cover these

cases, PHARMAC's Board has approved two new provisions of the Pharmaceutical Schedule for implementation on 1 July 2003. The provisions, which are detailed in Section H of the Pharmaceutical Schedule, are known as "Discretionary Community Supply (DCS)" and "Hospital Exceptional Circumstances (Hospital EC)."

(b) Quality Use of Medicines Strategy

Since approval of the National Hospital Pharmaceutical Strategy, PHARMAC has, in conjunction with HPAC, further developed the third initiative of the Strategy – a Quality Use of Medicines (QUM) Strategy for DHB Hospitals. PHARMAC will establish a National QUM Advisory Committee with which it will, in consultation with DHBs, develop a programme of QUM projects for DHB Hospitals aimed at optimising medicines outcomes and minimising medication-related risks for patients. PHARMAC's role will be to develop nationally consistent material in relation to each project to assist DHB Hospitals with their implementation and to monitor participation and outcomes.

➤ Exceptional Circumstances

PHARMAC has responsibility for the management of exceptional circumstances (EC) which enables the approval of treatment for patients who have a high need for pharmaceuticals that are not otherwise subsidised and who meet certain criteria.

During 2003/04 new Discretionary Community Supply (DCS) and Hospital Exceptional Circumstances (Hospital EC) provisions will be implemented to recognise that there are some pharmaceuticals not currently listed on the Pharmaceutical Schedule the use of which in the community by hospital out-patients is justifiable on grounds of cost-effectiveness (whether generally or in individual cases). The EC Panel will expand its role to also deal with applications for Hospital EC.

➤ Building Relationships

PHARMAC and DHBs have been developing a co-operative relationship since their inception in 2000. PHARMAC has extended its working relationship with DHBs during 2002/03 to examining new opportunities as part of the Budget negotiation. In setting the 2003/04 pharmaceutical budget, a new level of co-operation was agreed with the inclusion of disease statement and efficiency related activities in our shared work programme.

This co-operation builds on the PHARMAC/DHB Relationship Agreement which was entered into in January 2002. During 2003/04 PHARMAC expects to work with DHBs to update the Relationship Agreement reflecting new initiatives and the increasing amount of interaction between PHARMAC and DHBs. PHARMAC will continue to work with DHBs in connection with 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 will also 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 worked with DHBs on the proposal to implement changes to Section F of the Pharmaceutical Schedule, to allow the increased use of 'stat' or one off dispensing. If this proposal goes ahead it is expected to allow DHBs to reinvest money into other priority health services. Other initiatives that PHARMAC is

considering in conjunction with DHBs and the Ministry of Health include the possibility of PHARMAC assisting with overall health management such as by taking responsibility for laboratory supply side activities; laboratory demand side activities; vaccine purchasing; and negotiating the purchase of other hospital consumables.

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 continued implementation of a Maori Responsiveness Strategy and the ongoing 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 also has a very important relationship with the Ministry of Health. The Ministry acts as the agent of the Minister in negotiating, communicating and clarifying the Minister's expectations and in monitoring PHARMAC's performance against the Annual Plan and the Crown Funding Agreement. PHARMAC works closely with HealthPAC and NZHIS (which are divisions of the Ministry) in carrying out its statutory objectives.

PHARMAC's performance in a number of areas is dependent upon receiving data from HealthPAC and upon HealthPAC's assistance in implementing new initiatives. The performance of PHARMAC therefore depends upon HealthPAC meeting agreed deliverables in a timely manner. Data received from HealthPAC is stored on PHARMAC's behalf within the Pharmhouse data warehouse by NZHIS. PHARMAC's continued timely access to this data and involvement in the processes surrounding the structure and governance of the data warehouses are critical to PHARMAC's ongoing performance.

PHARMAC has service agreements with each of HealthPAC and NZHIS which set out the expectations of each party in dealing with the other. HealthPAC has recently indicated its intention to charge PHARMAC for the costs of implementing proposals that necessitate changes to HealthPAC's systems. These costs have not been provided for in PHARMAC's operating budget for 2003/04. To the extent that PHARMAC and the Ministry agree that PHARMAC should bear these costs, PHARMAC and the Ministry will also need to agree on how these costs will be funded.

PHARMAC's contribution to the Health Sector

PHARMAC continues to have a critical 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. Timely availability of expenditure data is vital to PHARMAC's management of pharmaceutical expenditure.

As noted above, 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 co-

ordinated 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 pharmaceuticals.

PHARMAC continues to implement the 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 has improved representation of Maori across the organisations, with the appointment of a Maori Board Member, a Maori member of PTAC, and three Maori members of the Consumer Advisory Committee. This will be further strengthened with internal appointments and specific PTAC subcommittee appointments on Maori health priority areas.

PHARMAC is also aware that this is an on-going and adaptive process and will continue to look for opportunities to improve the delivery and responsiveness to Maori in the provision of pharmaceuticals and quality health advice.

PHARMAC will continue to develop its relationships with its key stakeholders. PHARMAC is working with DHBs to ensure increased efficiency in the sector, particularly in the delivery of medicines, and with disease state management activities. In response to calls from pharmacists and patients, PHARMAC will continue to work with DHBs to consider initiatives to address dispensing volumes and dispensing volume growth. The aim is to improve the quality of the service patients receive. The stat dispensing proposal is consistent with the overall New Zealand Health Strategy, especially as it would allow additional services in priority areas to be funded. It is also consistent with the Primary Health Care Strategy, as the proposal would lower the costs of access to primary health care for patients.

With the use of expenditure data provided by HealthPAC, PHARMAC will continue to provide regular reports on pharmaceutical expenditure to DHBs and continue to assess the form and content of these reports in response to feedback from DHBs. PHARMAC will also continue to meet regularly with its stakeholders in order to achieve close working together and ensure that the sector works co-operatively on shared goals and priorities. Part of this co-operation has been ensuring that increased sector efficiency is recognised in an improved pharmaceutical budget. This will ensure that access to needed medicines will continue to improve.

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 2003/04, the role of the Minister in relation to the performance of PHARMAC is to:

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

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

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

Board of PHARMAC on behalf of PHARMAC

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

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

Ownership Performance

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

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

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

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

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

PHARMAC has been particularly successful at managing growth in expenditure on pharmaceuticals. This 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 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 the Pharmaceutical Schedule to determine eligibility for access to subsidised pharmaceuticals;
 - operation of the Exceptional Circumstances Scheme; and
 - management of national programmes for High Cost Pharmaceuticals.This activity encompasses Strategic Priority 1.
- 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.This activity encompasses Strategic Priority 7.
- 3) Promotion of the Responsible Use of Pharmaceuticals, including:
 - Demand Side projects;
 - referred services contracts; and
 - support of the Consumer Advisory Committee.This activity encompasses Strategic Priority 2.

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:

- the health needs of all eligible people within New Zealand;

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

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

- independent advice from PTAC to PHARMAC on pharmaceuticals and their benefits;
- information received from PHARMAC's Consumer Advisory Committee;
- assessment of significant new investments, using the principles outlined in PHARMAC's Prescription for Pharmaco-Economic Analysis, as updated from time to time;
- cost utility analysis, used to assess some current investments of poor value, with subsequent dis-investment, where appropriate;
- consulting on matters that relate to the management of pharmaceutical expenditure with any sections of the public, groups, or individuals that, in the view of PHARMAC, may be affected by decisions on those matters, (which may according to the circumstances include DHBs, pharmaceutical suppliers, PTAC, health professionals, 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 (EC Scheme) consistent with section 48(b) of the NZPHD Act "in exceptional circumstances providing for subsidies for the supply of pharmaceuticals not on the Pharmaceutical Schedule".

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

As noted above, the new DCS and Hospital EC provisions take effect from 1 July 2003. PHARMAC expects that there will be an increase in administrative costs in connection with the new provisions due to additional meeting requirements as well as the additional staff required to manage the process.

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

- **National Programmes for High Cost Medicines**

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 - Pulmozyme, beta-interferon, imiglucerase – Cerezyme and human growth hormone) to patients meeting defined entry and exit criteria.

Decisions on funding are based on published access criteria and are taken by panels of expert clinicians involved in the various areas of treatment.

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.	<p>Subject to deliverable 1.2 below, PHARMAC will maintain expenditure on subsidised community pharmaceuticals for the year ending 30 June 2004 within \$539 million (excl GST), after deduction of rebates from pharmaceutical suppliers.</p> <p>Subject to deliverable 1.2 below, quarterly pharmaceutical expenditure targets on a cumulative basis, (excluding GST) before the deduction of rebates are: Quarter One \$151 million Quarter Two \$306 million Quarter Three \$449 million Quarter Four \$594 million</p>	30 September 2003 31 December 2003 31 March 2004 30 June 2004
1.2	PHARMAC will review the expenditure target on a quarterly basis in the light of decisions made regarding the proposed changes to monthly dispensing and the change in spending caused by the implementation of access policies.	PHARMAC will review the quarterly pharmaceutical expenditure targets set out in deliverable 1.1 above and propose appropriate amendments to those deliverables to DHBs and the Ministry.	30 September 2003 31 December 2003 31 March 2004
1.3	PHARMAC will forecast pharmaceutical expenditure.	PHARMAC will provide the Ministry of Health with a 1-3 year forecast of pharmaceutical expenditure.	31 December 2003
1.4	PHARMAC will monitor pharmaceutical expenditure in the community against forecast.	Any potential deviation from the forecasts will be promptly notified to the Ministry.	Identified in monthly reports if required

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 in 2003/04 are given in the following table.

	Expectation	Deliverable	Target Date
2.1	PHARMAC will collect hospital pharmaceutical utilisation data to monitor national contracts and inform the development of future purchasing arrangements.	<p>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.</p> <p>Quantitative ability to monitor, report on DHB compliance with national contracts for hospital pharmaceuticals and act upon non-compliance identified.</p> <p>Calculation and payment to DHB Hospitals of rebates and/or financial compensation payable under national contracts for hospital pharmaceuticals.</p>	Coding and collation of data will be completed by 29 February 2004.
2.2	PHARMAC will identify new areas where national purchase arrangements would result in greatest benefits to DHBs and implement such arrangements.	Specific deliverables to be defined when areas are identified and may be subject to further authorisation from Minister of Health.	New areas will be defined by 31 May 2004 as part of the review of the National Hospital Pharmaceutical Strategy to be commenced in March 2004.
2.3	PHARMAC will evaluate the National Hospital Pharmaceutical Strategy to assess its performance against the stated goals.	A report to Minister of Health including recommendations for the future of the Strategy.	31 May 2004
2.4	PHARMAC will promote and further develop processes for assessing new pharmaceutical technology in hospitals.	6-8 Cost Utility Analyses completed and shared with DHBs.	30 June 2004
2.5	PHARMAC will promote the Quality Use of Medicines in the hospital setting.	<p>Development of a programme of QUM projects for DHB Hospitals to undertake.</p> <p>Interim report on DHB participation and outcomes.</p>	<p>31 December 2003</p> <p>30 June 2004</p>

Activity Three: Promoting the responsible use of pharmaceuticals

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

	Expectation	Deliverable	Target Date
3.1	PHARMAC will provide information to patients to assist with patient compliance with medication usage.	<p>Development of an implementation strategy for the stat dispensing proposal if approved. Resources to be provided to health professionals and patients about the changes and information to assist patient compliance with medication usage.</p> <p>PHARMAC will inform Maori about availability of subsidised medicines (strategy 5 of the Maori Responsiveness Strategy).</p>	<p>Resources distributed by date set for implementation of stat dispensing proposal if approved.</p> <p>Undertake qualitative research to identify key issues facing Maori by 31 March 2004.</p> <p>Development and distribution of further information to Maori by 30 June 2004.</p>
3.2	PHARMAC will promote the responsible use of pharmaceuticals by aiming to influence the volume and mix of drugs prescribed.	<p>A report evaluating the CVS Management campaign pilot to be provided to the Ministry of Health.</p> <p>Depending upon the evaluation outcome, PHARMAC will consider whether to roll out the campaign nationally.</p> <p>PHARMAC will undertake the "Wise Use of Antibiotics" campaign during winter 2003. A report evaluating the campaign to be provided to the Ministry of Health.</p>	<p>31 January 2004</p> <p>30 April 2004</p> <p>31 December 2003</p>
3.3	PHARMAC will contract with external parties to provide services which promote the responsible use of pharmaceuticals.	PHARMAC will contract with a partnership representing the University of Otago, Southlink Health IPA, IPAC & First Health to deliver services in 2003/04.	Quarterly reports will be provided by the partnership 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.

	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.	A recommendation to the PHARMAC Board regarding the feasibility of producing the Schedule on CD on an ongoing basis.	30 Sept 2003

B OWNERSHIP PERFORMANCE

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

	Expectation	Deliverable	Target Date
1	PHARMAC works effectively with DHBs.	As part of the Relationship Agreement, set key initiatives to be jointly worked on.	Completed 30 November 2003
2	Improving Maori utilisation of pharmaceuticals	Implementing initiatives in line with the PHARMAC's Maori Responsiveness Strategy: <ul style="list-style-type: none"> ➤ Develop cultural training plan for staff and implement ➤ Establish and document processes for assessment of new applications affecting Maori health priorities ➤ Initiate work on improving the collection and use of ethnicity data in decision making processes at PHARMAC ➤ Work with the Ministry of Health to develop relationships with Maori. 	Report to the PHARMAC Board quarterly on progress against implementation of initiatives. All initiatives to be completed by 30 June 2004.
3	PHARMAC will consider input from a consumer or patient point of view.	PHARMAC will review the terms of reference of the Consumer Advisory Committee and undertake an evaluation of that Committee	31 May 2004
4	PHARMAC will monitor the process for developing key strategies to ensure they are effective and seek opportunities to improve working practices.	Develop a Strategic Initiatives process that reports regularly to the Board on progress.	31 December 2003

PART 3 FINANCIAL AND OWNERSHIP INFORMATION

A Statement of accounting policies

(a) 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.

(b) Measurement system

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

(c) Accounting policies

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

➤ Valuation of assets

(i) Fixed Assets

Fixed Assets are valued at cost less accumulated depreciation.

(ii) Accounts Receivable

Accounts receivable are valued at net realisable value.

➤ Depreciation

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

Major depreciation periods are:

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

➤ **Revenue recognition**

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

➤ **Goods and Services Tax (GST)**

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

➤ **Taxation**

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

➤ **Financial instruments**

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

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

➤ **Employment entitlements**

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

➤ **Budgeted figures**

The 2003/04 budget figures, and 2004/05 and 2005/06 forecast figures have been prepared in accordance with generally accepted accounting policies adopted by the Board.

➤ **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 2003 to 30 June 2004 \$000 (GST excl)	For the period of 1 July 2004 to 30 June 2005 \$000 (GST excl)	For the period of 1 July 2005 to 30 June 2006 \$000 (GST excl)
Revenue			
Crown:			
Operating ¹	7,605	8,212	8,626
High Cost Medicines	456	479	503
Responsible use of pharmaceuticals	2,895	3,040	3,192
Interest received	120	120	120
Other revenue			
Total Revenue	11,076	11,851	12,441
Operating Expenditure			
Operating costs	4,279	4,493	4,743
Salaries and related costs	3,084	3,238	3,400
Audit fees	15	17	19
Directors fees	124	124	124
Depreciation	250	250	250
Rentals and leases	210	210	210
High cost medicines	456	479	503
Responsible use of pharmaceuticals	4,715	3,040	3,192
Total Expenditure	13,133	11,851	12,441
Net surplus/(deficit)	(2,057)²	0	0

Note: The above statement should be read in conjunction with the accounting policies on pages 27-28.

¹ As noted in Part 1 – Key Activities above, PHARMAC is not currently funded for systems development changes that HealthPAC has indicated it intends to charge. If it is agreed between PHARMAC and the Ministry that PHARMAC will pay these charges, the Ministry and PHARMAC will need to agree on a mechanism for funding the charges.

² PHARMAC has forecast a deficit of \$2,057,000 (excluding GST) for the 2003/04 year. This deficit will be funded by PHARMAC from equity reserves which will reduce PHARMAC's equity reserves to an appropriate level and contribute to managing financial pressures in the health sector.

Projected Statement of Financial Position

	At 30 June 2004 \$000 (GST excl)	At 30 June 2005 \$000 (GST excl)	At 30 June 2006 \$000 (GST excl)
PUBLIC EQUITY			
Retained Earnings & Reserves	1,090	1,090	1,090
TOTAL PUBLIC EQUITY	1,090	1,090	1,090
Represented by:			
Current Assets			
Cash and bank	2,001	2,001	2,001
Receivables and prepayments	1,056	1,139	1,139
Total current assets	3,057	3,140	3,140
Non-current assets			
Fixed assets	510	510	510
Total non-current assets	510	510	510
Total assets	3,567	3,650	3,650
Current liabilities			
Payables	2,477	2,560	2,560
Total current liabilities	2,477	2,560	2,560
NET ASSETS	1,090	1,090	1,090

Note: The above statement should be read in conjunction with the accounting policies on pages 27-28.

Projected Cash Flow Statement

	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)	For the period of 1 July 2005 to 30 June 2006 \$000 (GST incl)
Cash flows – Operating activities			
Cash was provided from :			
- Ministry of Health	12,326	12,942	13,589
- Interest	120	120	120
	12,446	13,062	13,709
Cash was disbursed to:			
- Payments to suppliers and employees	(14,229)	(12,431)	(13,078)
- Net GST	(364)	(381)	(381)
	(14,593)	(12,812)	(13,459)
Net cash flow from operating activities	(2,147)	250	250
Cash flows – Investing activities			
Cash was disbursed to:			
- Purchase of fixed assets	(266)	(250)	(250)
Net cash flow from investing activities	(266)	(250)	(250)
Cash flows – Financing activities			
Net cash flow from financing	-	-	-
Net increase/(decrease) in cash held	(2,413)	0	0
Add opening cash brought forward	4,414	2,001	2,001
Closing cash balance	2,001	2,001	2,001

Note: The above statement should be read in conjunction with the accounting policies on pages 27-28.

Projected Movement in Equity

	2003 / 2004 \$000 (GST excl)	2004 / 2005 \$000 (GST excl)	2005 / 2006 \$000 (GST excl)
Public equity at the beginning of the period	3,148	1,091	1,091
Net surplus/(deficit)	(2,057)	0	0
Total recognised revenues and expenses for the period	(2,057)	0	0
Public equity as at the end of the period	1,091	1,091	1,091

Note: The above statement should be read in conjunction with the accounting policies on pages 27-28.

Reconciliation of Net Surplus to Cash Flow from Operating Activities

	2003 / 2004 \$000 (GST excl)	2004 / 2005 \$000 (GST excl)	2005 / 2006 \$000 (GST excl)
Net operating surplus (deficit)	(2,057)	0	0
<i>Add non-cash items:</i>			
Depreciation	250	250	250
Total non-cash items	250	250	250
<i>Add/(less) working capital movements:</i>			
Decrease (increase) in receivables	(625)	(83)	0
Increase (decrease) in payables	285	83	0
Working capital movement - net	(340)	0	0
Net cash flow from operating activities	(2,147)	250	250

Note: The above statement should be read in conjunction with the accounting policies on pages 27-28.

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;
- 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; and
- for each monthly report which falls in the month following the end of a quarter (ie the monthly reports for October, January, April and July):
 - PHARMAC will provide the Ministry with an update on price, volume, mix and expenditure indices; and
 - a statement of cashflows for the immediately preceding quarter.

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 2004/05 and Annual Report for the year July 2004 to June 2005.

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

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.