

PHARMACEUTICAL MANAGEMENT AGENCY

(P H A R M A C)

Statement of Intent 2006/07

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FOREWORD

The Pharmaceutical Management Agency (PHARMAC) has prepared this Statement of Intent (SOI) to meet the requirements of the Crown Entities Act 2004. The SOI sets out PHARMAC's strategic priorities over the medium term, as well as the performance we have agreed with the Minister of Health (the Minister) for 1 July 2006 to 30 June 2007.

PHARMAC has an exciting future that brings new challenges. PHARMAC has always faced tough trade-offs to live within budget; the increasing emergence of new medicine technologies, some very high cost, will ensure this challenge remains. As always, we will make the necessary decisions as quickly and robustly as we practically can.

The year ahead will see medicines policy, including PHARMAC's role, under review as part of the development of the Government's medicines strategy. PHARMAC is an organisation committed to continual improvement, so we welcome this strategy work.

In the year ahead, PHARMAC will also:

- effectively manage the Pharmaceutical Schedule by listing products and making other changes that help deliver health outcomes for New Zealanders;
- promote the responsible use of pharmaceuticals; an important complement to PHARMAC's medicines subsidisation work;
- improve the health status of all New Zealanders by helping ensure equitable access to subsidised pharmaceuticals, including through the Maori Responsiveness Strategy;
- seek ongoing benefits through nationwide hospital pharmaceutical purchasing (including continuing steps to transfer management of the Cancer Basket from District Health Boards (DHBs)); and
- work closely with others in the health sector, recognising the interdependencies of the health system and benefits of collaborative work. PHARMAC has a particularly important relationship with DHBs given the work it undertakes on their behalf.

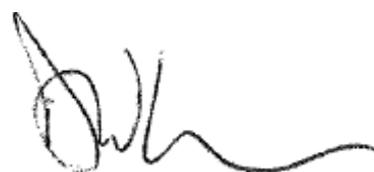
PHARMAC is also committed to communicating effectively with stakeholders, recognising the importance of communication to building and maintaining confidence in PHARMAC.

You have our assurance that PHARMAC is very focussed on maximising its contribution to achieving health outcomes for New Zealanders; as well as ensuring PHARMAC remains internationally recognised as a leader in effective pharmaceutical management.

Signed on behalf of the PHARMAC Board by:



Richard Waddell
Chairperson



David Moore
Board Member

PART ONE: PHARMAC OVERVIEW AND STRATEGIC DIRECTION

INTRODUCTION

The SOI is divided into two parts. This part of the SOI sets out:

- PHARMAC's business and operating environment;
- ownership expectations of PHARMAC and governance information; and
- the strategic priorities PHARMAC is pursuing for the next three financial years (including how it intends to achieve these).

The next three years will see PHARMAC build on the expertise it has developed in managing the Community Pharmaceutical Budget, and use this expertise to help achieve health outcomes, including through promoting the responsible use of medicines.

The second part of the SOI sets out PHARMAC's forecast performance for the 2006/07 year, including financials (although out-year indications are also provided).

PHARMAC'S BUSINESS AND OPERATING ENVIRONMENT

Summary of PHARMAC's role and functions

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

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

PHARMAC has four main functions:

- managing the Pharmaceutical Schedule, which lists the medicines that are subsidised for patients (Supply Side);
- promoting the responsible use of medicines (Demand Side), including through PHARMAC's continued implementation of the Maori Responsiveness Strategy;
- assisting DHBs with national procurement initiatives.¹ As a result of this activity, there is now more consistency in the costs of hospital medicines throughout the country. In the year ahead, PHARMAC will also be investigating additional procurement initiatives on behalf of DHBs; and
- managing the Exceptional Circumstances (EC) scheme, which allows for medicines not normally subsidised to be funded for rare and unusual conditions. PHARMAC also administers a range of extremely high cost medicines.

PHARMAC may also engage, as it sees fit (within operational budget), in research to meet its statutory objectives, as well as perform any other functions it is given or authorised to perform by the Minister.

¹ 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).

PHARMAC is internationally recognised as a leader in effective pharmaceutical management. PHARMAC operates in a difficult area of health care, largely due to the substantially rising prices of new medicines.

Further information on PHARMAC's functions is set out in Part 2 of this SOI (in the context of the statement of forecast performance for 2006/07).

Key stakeholders

PHARMAC's key stakeholders include (in no particular order):

- **Minister of Health** – the Minister is responsible for PHARMAC's overall performance; agreement of the SOI and Crown Funding Agreement; appointment of PHARMAC's Board; and determining the Community Pharmaceutical Budget (on the recommendation of PHARMAC and DHBs). PHARMAC regularly updates the Minister on activity. The role of the Minister is further discussed below;
- **Ministry of Health** – the Ministry acts as the agent of the Minister in negotiating and communicating the Minister's expectations and monitoring PHARMAC's performance. PHARMAC works closely with HealthPAC and NZHIS (divisions of the Ministry) in carrying out its statutory objectives. Pharmaceutical transaction data is stored in the Pharmhouse data warehouse administered by the Ministry. PHARMAC and the Ministry will continue to improve the sharing of information;
- **Members of Parliament** – MPs approach PHARMAC with a range of questions, including on behalf of constituents. PHARMAC will continue to work closely with MPs and their electorate offices;
- **District Health Boards** – DHBs hold the funding for the Community Pharmaceutical Budget. PHARMAC also acts as a purchasing agent for DHBs for some hospital supplies. PHARMAC regularly engages with DHBNZ (on issues affecting DHBs), and regularly briefs DHB Boards and other DHB groups (such as the CEO group and Service Improvement Group);
- **the pharmaceutical industry** – PHARMAC works with suppliers of pharmaceutical products to reach agreements to subsidise medicines for New Zealand patients, as well as with the body that represents many suppliers, the Researched Medicines Industry Association;
- **clinicians and pharmacists** – PHARMAC works with a range of stakeholders in this area, including NZMA, RNZCGP, College of Pharmacists, and the Pharmacy Council; and
- **patients, and patient and consumer (including Maori) groups** – PHARMAC consults and actively works with a range of such groups. PHARMAC also utilises the Consumer Advisory Committee (CAC) to provide input into PHARMAC's decision-making from a health consumer or patient perspective. CAC has broad representation, including mental illness, Maori, Pacific, and age related issues.

OWNERSHIP EXPECTATIONS AND GOVERNANCE

Crown expectations

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

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

- good health and well-being for all New Zealanders throughout their lives;
- an improvement in health status of those currently disadvantaged;
- acknowledging the special relationship between Maori and the Crown under the Treaty of Waitangi;
- 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.

Role of the Minister of Health

The Minister of Health, on behalf of the Crown, is accountable to Parliament for the overall performance of PHARMAC. The Minister has expressed the expectations of the Crown as owner of PHARMAC within the Crown's Statement of Ownership Expectations (SOE). Those expectations are consistent with the terms of this Statement of Intent. However, to the extent of any inconsistency the terms of the SOE will override.

The role of the Minister is to:

- indicate priority areas to PHARMAC through Government strategy documents;
- obtain Parliamentary appropriations with which to fund PHARMAC;
- set the Community Pharmaceutical Budget and PHARMAC's operating budget;
- set expectations of PHARMAC, such as in this document, including to agree to performance measures (as set out in the Crown Funding Agreement);
- monitor the performance of PHARMAC against the Crown Funding Agreement;
- appoint the Board and hold it accountable for PHARMAC's performance;
- require compliance by DHBs with their performance measures relevant to the Pharmaceutical Schedule; and
- carry out the duties, and exercise the powers, as required of a Responsible Minister as set out in the Crown Entities Act.

The Minister is also able to formally direct PHARMAC in some circumstances. There are currently no Ministerial directions related to PHARMAC's performance.

This document outlines the performance we have agreed with the Minister. If PHARMAC's purchasing intentions change significantly, PHARMAC will exercise its discretion and, if necessary, produce a revised SOI.

The Ministry acts as the Minister's agent in the Minister's relationship with PHARMAC, including monitoring PHARMAC's performance.

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

Role of the PHARMAC Board

The Board is accountable to the Minister for the performance of PHARMAC. The Board will comply with the duties and requirements placed on it by the Crown Entities Act, and provide high quality and effective governance. The Board has all powers necessary for the governance and management of PHARMAC.

All decisions relating to the operation of PHARMAC are made by or under the authority of the Board. The Board is to ensure that PHARMAC delivers its outputs, achieves its financial performance and provides the reports specified in its Crown Funding Agreement and complies with all other requirements associated with its objectives, powers, obligations and functions under relevant legislation. The Board is responsible for agreeing PHARMAC's accountability documents with the Minister. Other important matters related to the Board's role and oversight of PHARMAC are:

- **accountability** – the Board remains accountable for the delivery of any part of its operations that has been subcontracted to a third party;
- **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 all of the financial management and financial performance requirements set out in the Crown Entities and NZ Public Health and Disability Acts, as well as the Crown Funding Agreement. This includes ensuring the prudent and wise use of financial resources; and
- **risk management** – PHARMAC will manage financial and non-financial risks effectively, and keep the Minister informed of such risks as early as possible. This includes maintaining effective and timely risk management strategies and processes.

PHARMAC's STRATEGIC PRIORITIES

Introduction

PHARMAC's strategic priorities for 2006/07 and the following two years are set out in the table below. PHARMAC has made changes to its priorities from the 2005/06 SOI; in particular there is now a clearer breakdown of priorities across each key element of PHARMAC's activity.

PHARMAC has also adopted strategic priorities related to further improving stakeholder relationships and organisational capability, given the importance of relationships and

capability to achieving other priorities. PHARMAC has a particularly important working relationship with District Health Boards given PHARMAC's management of the Community Pharmaceutical Budget and hospital procurement.

PHARMAC has developed its strategic priorities with reference to the health outcome framework developed by the Ministry of Health (discussed below). PHARMAC makes an important contribution to achieving health outcomes, but it cannot achieve them alone. For example, while PHARMAC may subsidise a particular medicine, the role of District Health Boards, clinicians, General Practitioners, pharmacists and patients will have important implications for whether improved health outcomes are ultimately achieved.

PHARMAC cannot, therefore, be measured alone for the achievement of health outcomes. It is necessary to define PHARMAC's *contribution* to outcome achievement, and measure PHARMAC's performance on how effective and efficient that contribution is over time.

PHARMAC also notes the relevance of the Government's medicines strategy work, which will be undertaken during 2006/07. PHARMAC welcomes the Government's work in this area, and will actively contribute its views as the process evolves.

Strategic priority overview

PHARMAC's strategic priorities are set out in the table below, along with the key objectives for each priority (over the next 3 years).

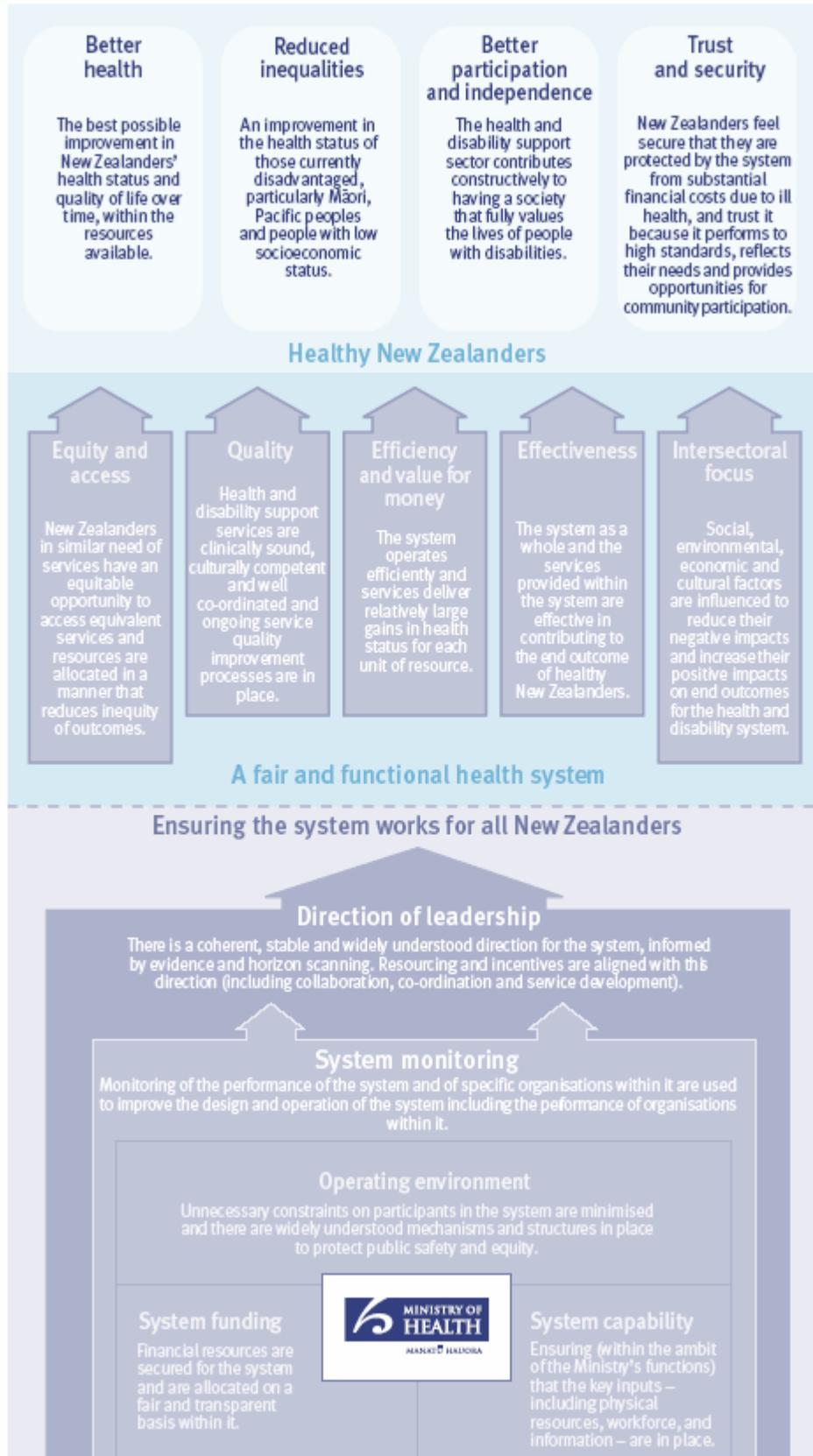
Strategic priority	Strategic (3-year) objectives
<p>Schedule management – promote efficient management of pharmaceutical expenditure. PHARMAC will ensure that the Community and Hospital Pharmaceutical Schedules are managed in a manner that ensures treatments are appropriately prioritised and listed, and that maximises health outcomes from within the funding available (including to use pricing and negotiation strategies to get the best possible outcomes for patients).</p>	<p>Ongoing cost-utility assessment (including improvement over time as possible) of all major investments to achieve maximisation of health outcomes.</p> <p>Periodic assessment of the pros and cons of de-listing existing pharmaceuticals to ensure available funding is used most efficiently.</p> <p>Complete external review of assessment methodologies and implement appropriate improvements.</p> <p>Review of prioritisation methodologies.</p> <p>Consideration of new procurement approaches, such as e-tendering and e-auctions.</p>
<p>Exceptional circumstances – PHARMAC will undertake timely and robust consideration of pharmaceutical use in exceptional circumstances.</p>	<p>Continued focus on improving the application process.</p> <p>Database revisions, as required, to ensure robust reporting over time.</p> <p>Periodic assessment of DHB satisfaction with PHARMAC service delivery and performance generally.</p>
<p>Assessment and procurement on behalf of DHBs – PHARMAC will, as agreed by DHBs, assist in the procurement of hospital supplies in line with PHARMAC's legislative functions. PHARMAC will robustly assess procurement opportunities, make procurement recommendations to DHBs as appropriate, and focus on continual service improvement to DHBs (including information sharing and communication of cost savings).</p>	<p>Continued focus on efficient service delivery to DHBs and achievement of procurement benefits.</p> <p>Effective management of the pharmaceutical cancer treatments budget (once PHARMAC takes responsibility).</p> <p>Ongoing use of tenders to ensure contestability and that the benefits of competition are realised.</p> <p>Improve, as possible, monitoring and reporting of procurement results, including estimated cost savings from PHARMAC's role.</p> <p>Improve, as possible, the assessment process for new hospital pharmaceuticals, including improving DHB understanding of such assessments.</p>

Strategic priority	Strategic (3-year) objectives
	Periodic assessment of DHB satisfaction with PHARMAC service delivery and performance generally.
<p>Responsible use of pharmaceuticals (including social marketing) – PHARMAC will engage in strategies to promote the cost effective, responsible use and prescribing of pharmaceuticals. PHARMAC will focus its efforts to align with other activity in the health sector, particularly in relation to the management and treatment of chronic conditions including cardiovascular disease and diabetes, mental health and respiratory disease.</p>	<p>Improve, as possible, monitoring and evaluation of demand-side initiatives.</p> <p>Continued focus on working and partnering with other agencies to maximise value for money from PHARMAC activities.</p>
<p>Equitable access – PHARMAC will engage in initiatives to promote the appropriate use of pharmaceuticals by disadvantaged populations, including Maori, to improve health outcomes and health status with the aim of ensuring utilisation is similar across all groups of New Zealanders.</p>	<p>Continued implementation of the Maori Responsiveness Strategy.</p> <p>Improve understanding of disadvantaged populations.</p> <p>Improve identification of barriers to access, including promoting process improvements with other agencies as required.</p> <p>Continued focus on working and partnering with other agencies to maximise value for money from PHARMAC activities.</p> <p>Consideration of targeted responsiveness strategies for specific population subsets (e.g. ethnic, cultural or community groups).</p>
<p>Improving links between PHARMAC initiatives – PHARMAC will seek to improve its understanding of the inter-linkages and synergies of all its initiatives.</p>	<p>Increased consideration of health outcomes arising from linking supply and/or demand-side initiatives.</p> <p>Increased consideration of demand-side initiatives/opportunities alongside supply-side decisions.</p>
<p>Improving stakeholder relationships - PHARMAC will seek to improve its relationships with stakeholders, including through better understanding of stakeholder requirements and views, improving communication, and addressing any confusion that exists about the roles and activities of PHARMAC.</p>	<p>Ongoing assessment of stakeholder perceptions (with a view to PHARMAC being able to assess performance through time).</p> <p>Proactive arrangement of, and continued openness to, stakeholder meetings.</p> <p>Regular review of relationship agreements, including adoption of new agreements where appropriate.</p> <p>Continued focus on communication, including to better inform stakeholders of PHARMAC's role and activities.</p>
<p>Ongoing development of PHARMAC capability – PHARMAC will ensure that it has the capability to meet its business objectives through the recruitment of new staff, and the development of existing staff, with appropriate skills, experience and knowledge. PHARMAC is also committed to providing an attractive working environment, including through demonstrating appreciation of its staff.</p>	<p>Continued focus on ensuring PHARMAC remains an 'employer of choice'.</p> <p>Continued focus on staff training and organisational development, including succession planning and management development.</p> <p>Continued provision of the Employee Assistance Programme and State Sector Retirement Savings Scheme.</p> <p>Continued internal promotion of PHARMAC's values/culture.</p> <p>Increased focus on capability assessment with respect to PHARMAC's strategic priorities.</p>

PHARMAC's contribution to health sector outcomes

As noted above, PHARMAC has developed its strategic priorities with reference to the health outcome framework developed by the Ministry of Health (the diagram below). PHARMAC's contribution within this framework is discussed below.

HEALTH OUTCOMES FRAMEWORK (Ministry of Health, 2005)



The table below summarises how PHARMAC’s activity fits into the top part of the diagram (“healthy New Zealanders”) and the middle part of the diagram (“a fair and functional health system”). Given PHARMAC generally only *contributes* to health outcomes, PHARMAC’s activity is more aligned to the second part of the table, i.e. a part of the overall health system.

**PHARMAC’S ROLE WITHIN THE HEALTH OUTCOMES FRAMEWORK
(SUMMARY ASSESSMENT ONLY)**

Better health		Reduced inequalities	Better participation & independence	Trust & security
<p>PHARMAC seeks the best health outcomes from within funding available.</p> <p>PHARMAC promotes the responsible use of medicines.</p>		<p>The Pharmaceutical Schedule applies consistently to all New Zealanders.</p> <p>PHARMAC is implementing a Maori Responsiveness Strategy to take account of Maori health needs.</p>	<p>PHARMAC’s decisions can assist people with disabilities.</p> <p>For medicines not listed on the Schedule, access is possible through the Exceptional Circumstances scheme.</p>	<p>All New Zealanders can benefit from access to the Schedule.</p> <p>Clinical effectiveness of medicines is central to PHARMAC decisions.</p>
Equity & access	Quality	Efficiency & value for money	Effectiveness	Intersectoral focus
<p>Targeted demand-side initiatives to groups in need.</p> <p>Patients’ health need taken into account in decision-making.</p> <p>EC scheme increases outreach by providing for case-specific funding.</p> <p>Maori Responsiveness Strategy focussed on addressing Maori health priorities.</p>	<p>Use of expert advisory committees (e.g. PTAC)</p> <p>Robust clinical and cost-effectiveness assessment (including use of health outcome data).</p> <p>Responsible use of medicines work promotes higher quality use of medicines.</p> <p>Staff with skills and expertise conducive to quality decision-making.</p>	<p>Significant savings from PHARMAC’s management of the Schedule.</p> <p>Benefits from national procurements on behalf of DHBs (including exploring new initiatives).</p> <p>Use of a variety of purchasing strategies to ensure maximum benefits from available funding.</p>	<p>Work with other health sector agencies, including collaborative initiatives.</p> <p>Works with community groups to ensure health promotion activities are effective (including evaluation).</p> <p>Staff capability maintained to enable PHARMAC to carry out its roles.</p>	<p>Effective working relationships with DHBs and DHBNZ.</p> <p>PHARMAC’s activities help DHBs manage their budgets.</p> <p>Work with other stakeholders to better understand their perspectives and needs.</p> <p>Other health sector costs (e.g. hospital costs) taken into account in funding decisions.</p>

In summary, PHARMAC’s activities contribute to health priorities and outcomes in a number of ways, including:

- pharmaceuticals having an important role in improving the health and well-being of New Zealanders throughout their lives;
- equitable access for all New Zealanders to subsidised pharmaceuticals, regardless of ability to pay;
- reducing inequalities through the Maori Responsiveness Strategy, and through demand side programmes;

- working together with other health sector agencies to help promote a high-performing system;
- investing in new drug technologies to better address, or address new, health issues; and
- promoting responsible use of pharmaceuticals as a means of enhancing the quality of medicines use.

Key challenges to achieving strategic priorities

To achieve its strategic priorities, PHARMAC will need to overcome challenges, including:

- likely increasing pressure for PHARMAC to carry out its assessment processes as quickly as possible (and the importance of ensuring this does not compromise PHARMAC's integrity or the quality of its decisions);
- increasing pressure on the health budget overall (with associated pressure on the pharmaceutical budget), with PHARMAC highlighting the benefits of pharmaceuticals relative to other health treatments or interventions;
- the very high cost of some new drug technologies and an apparent industry strategy to test, in setting prices, what the pharmaceutical market will bear (this places obvious pressure on PHARMAC's budget);
- related to the above point, the fact that some new medicines address quite rare diseases, such that only a small number of people may benefit from treatment;
- recruiting and retaining appropriately skilled staff (as well as resourcing specialist committees) within a relatively tight labour market for specialist resources; and
- maintaining general public confidence in PHARMAC, including to better educate stakeholders and the public about PHARMAC's role.

In addition to the above, the Government's medicines strategy work will also have important implications for PHARMAC's future work.

CAPABILITY

As noted above, a challenge for PHARMAC in achieving its strategic priorities will be ensuring sufficient organisational capability to do so. Given the critical nature of capability to PHARMAC's achievements, 'capability' itself is a strategic priority. This includes ongoing assessment of PHARMAC's capability in a range of important areas, including governance, personnel, communications, risk management, and information systems and technology. There are some important areas for focus for PHARMAC during 2006/07, including:

- new resources to investigate new hospital procurement opportunities requested of PHARMAC by DHBs;
- providing ongoing quality service delivery to DHBs given PHARMAC's role in performing certain functions on their behalf;
- strengthening the voice of consumers in PHARMAC decision-making;

- strong emphasis on communications (internal and external), including updating PHARMAC's Intranet and Website, and aligning PHARMAC's communications initiatives to the strategic priorities; and
- refreshing PHARMAC's human resources policies, including streamlining PHARMAC's recruitment processes, to maximise chances of PHARMAC remaining an employer of choice.

PART 2: STATEMENT OF FORECAST SERVICE PERFORMANCE

INTRODUCTION

This part of the SOI sets out:

- PHARMAC's performance measures for 2006/07;
- PHARMAC's reporting requirements (which provide for performance assessment – both in terms of outputs and financials – through time); and
- PHARMAC's forecast financial performance.

This part addresses the requirement for PHARMAC to produce a forecast statement of service performance (in effect, a project plan) for each Output. While PHARMAC only has one Output Class, PHARMAC considers it more meaningful to provide a forecast statement of service performance for each strategic priority.

The table further below sets out the required performance statement. In considering that table, a general appreciation of PHARMAC's operational functions is required, which is first presented.

PHARMAC'S OPERATIONAL FUNCTIONS

Managing pharmaceutical expenditure

PHARMAC's main role is to improve the value of the Government's expenditure on pharmaceutical subsidies. In order to achieve this, PHARMAC undertakes economic and clinical assessment of new pharmaceuticals, including seeking advice from clinical committees, to determine whether new pharmaceuticals should be subsidised. PHARMAC's assessment also determines the access criteria, if any, that apply for subsidised use.

PHARMAC's success in managing the community pharmaceutical budget has been the result of supply side initiatives managing price, volume and mix of pharmaceutical expenditure. The approaches PHARMAC uses to do this include:

- use of competitive processes, such as reference pricing and tendering, 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 available, so that health outcomes for the New Zealand population are improved;
- monitoring and managing supplier contracts, so that DHBs receive maximum benefit from supply agreements; and
- with respect to targeting, use of the Special Authority mechanism (an approval process for subsidised prescribing).

PHARMAC has an indicative three-year community pharmaceutical funding path, including a provision for new investments. Each year the Minister reviews the funding path, taking into consideration changes in access to doctors' services, changes in Government policy and other aspects that are forecast to impact on the Community

Pharmaceutical Budget. Year one of the budget is definitively set, and years two and three are indicative only. This allows PHARMAC and suppliers to plan future investments with more certainty.

PHARMAC puts considerable work into determining what priority to assign to new pharmaceutical technologies. With the increasing cost of new pharmaceuticals, available funding is usually insufficient to fund all new medicines, so careful choices need to be made. PHARMAC regularly reviews new funding applications and uses decision criteria (as outlined in its Operating Policies and Procedures) to determine which new pharmaceuticals have the greatest funding priority. A range of new investments are envisaged for the future (subject to budget and detailed assessment), including those related to the therapeutic areas of oncology; infections; diabetes; blood and blood forming; musculoskeletal; mental health and asthma.

The Community Pharmaceutical Budget is a notional budget target, which is the net result of District Health Board reimbursements to pharmacies for prescribed medicines, minus revenue received from pharmaceutical companies as rebates. The Community Pharmaceutical Budget for 2006/07 is \$600 million (excluding GST). This represents about 3% growth from the 2005/06 budget.

The underlying growth in the Community Pharmaceutical Budget reflects new, more expensive medicines, and a forecast increase in prescription volumes. The level of budget increase also reflects the savings PHARMAC is expected to achieve from future decisions. That is, the budget increase is significantly below the underlying growth in the market due to increasing prescription volumes and a shift from the use of cheaper to more expensive, newer drugs.

Demand Side activities

PHARMAC has a statutory function to promote the responsible use of pharmaceuticals. Demand side activities play an important role in enabling PHARMAC to comprehensively manage pharmaceutical expenditure and use. In part, this involves understanding the factors that drive *demand* for pharmaceuticals.

Demand side campaigns are intended to have tangible outcomes in terms of either health gains and/or fiscal efficiency. Campaign work during 2006/07 will include:

- supporting community-based activities resulting from the “One Heart Many Lives” cardiovascular risk awareness campaign;
- continued use of the “Wise Use of Antibiotics” campaign;
- promoting best prescribing practices to clinicians and providing prescriber support;
- continued funding for the SPARC “Green Prescriptions” initiative;
- continued support of Diabetes NZ in the production of patient education resources; and
- an education campaign about childhood asthma.

In the development and implementation of campaigns, PHARMAC works proactively with health providers and stakeholder groups (e.g. New Zealand Guidelines Group; Royal NZ College of General Practitioners; NZ College of Pharmacists; the Pharmaceutical Society and Pharmacy Guild; Best Practice Advocacy Centre NZ; Sport and Recreation NZ; Asthma and Respiratory Foundation and Plunket). PHARMAC also

seeks to ensure its activities are aligned and coordinated with DHBs and activities contracted through PHOs.

PHARMAC funds its Demand Side activities through a combination of Ministry of Health funding and funding from DHBs. Each campaign has specific targets indicating health gains and/or savings that DHBs may expect from investing in the campaigns.

PHARMAC's Maori Responsiveness Strategy

In addressing the priorities in the New Zealand Health Strategy and He Korowai Oranga, PHARMAC will continue to implement its Maori Responsiveness Strategy. This strategy is designed to increase Maori uptake of medicines, and also ensure that medicines are used appropriately.

The Maori use of medicines programme has a number of aspects, including training resources, strengthening the links between PHARMAC and providers of health services to Maori; partnering with local health providers and organisations in developing and distributing materials specifically for Maori patients.

PHARMAC will continue to develop its own understanding of the needs of Maori, including through data improvement. Improved ethnicity data has already highlighted that while all New Zealanders have the same access to subsidised medicines regardless of location, Maori uptake is lower. Further, epidemiological information reveals that the burden of disease, especially cardiovascular, asthma and diabetes, is disproportionate amongst Maori. To reduce disparities between Maori and other New Zealanders, PHARMAC needs to ensure that these considerations are taken into account.

PHARMAC has strengthened its own capability in this area through recruitment and appointment of personnel with specialist skills and experience.

Hospital pharmaceutical purchasing

Since September 2001 when the National Hospital Pharmaceutical Strategy was adopted, PHARMAC has implemented national procurement contracts for DHB Hospitals that are expected to produce savings of over \$12 million per year (of an estimated \$150 million total spend on hospital pharmaceuticals).

PHARMAC's procurement initiatives include the seasonal influenza vaccine and Recombinant Factor VIII for haemophilia, where savings are estimated at \$6 million per year (in addition to the \$12 million savings on other pharmaceuticals). PHARMAC has commenced procurement processes for some other substances used in DHB hospitals, including bulk intravenous fluids, radiological contrast media and dialysis fluids. PHARMAC will consider other areas of DHB hospital procurement where appropriate and with agreement from DHBs.

Exceptional Circumstances (Community and Hospital)

PHARMAC has responsibility for managing the Community and Hospital Exceptional Circumstances (EC) programmes. These programmes provide for approval of treatments for patients, in rare and unusual clinical situations, who have a high need for pharmaceuticals that are not otherwise subsidised.

PHARMAC will continue to work to improve the efficiency of the EC programmes, including reducing the time it takes for an application to be considered.

Discretionary Community Supply provisions

To provide for DHBs to be able to dispense pharmaceuticals not on the Pharmaceutical Schedule (when cost-effective to do so), PHARMAC's Board approved, as from 1 July 2003, two new provisions of the Pharmaceutical Schedule. 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)".

PERFORMANCE MEASURES FOR 2006/07

The table below sets out PHARMAC's forecast performance for 2006/07. As noted above, performance measures and objectives are presented for each strategic priority. PHARMAC intends to:

- continue to effectively manage the Pharmaceutical Schedule by listing products and making other changes that help achieve objectives outlined in the New Zealand Health Strategy;
- continue PHARMAC's work in promoting the responsible use of pharmaceuticals by focussing on projects with measurable outputs and/or outcomes over the medium term;
- continue to seek ongoing benefits through nationwide hospital pharmaceutical purchasing (including to continue steps to transfer the management of the Cancer Basket);
- contribute to improving the health status of all New Zealanders by helping ensure all New Zealanders have similar access to subsidised pharmaceuticals, including through the Maori Responsiveness Strategy; and
- review capability, including internal structures and skill sets, to ensure that PHARMAC is best placed to achieve its strategic objectives.

Strategic priority	2006/07 Deliverable	Timing
<p>1. Schedule management – promote efficient management of pharmaceutical expenditure. PHARMAC will ensure that the Community and Hospital Pharmaceutical Schedules are managed in a manner that ensures treatments are appropriately prioritised and listed, and that maximises health outcomes from within the funding available (including to use pricing and negotiation strategies to get the best possible outcomes for patients).</p>	<p>1.1 Cost-utility assessment of all major investments.</p> <p>1.2 Printing and dissemination of the Community Pharmaceutical Schedule.</p> <p>1.3 Printing and dissemination of the Hospital Pharmaceutical Schedule.</p> <p>1.4 Expenditure on subsidised community pharmaceuticals within budget (\$600 million (excl GST)), after deduction of rebates from pharmaceutical suppliers. The quarterly budgets, inclusive of rebates, are (excl GST):</p> <p>Q1: \$151.5 million</p> <p>Q2: \$156.3 million</p> <p>Q3: \$143.6 million</p> <p>Q4: \$148.7 million</p> <p>1.5 Review the quarterly expenditure targets and, if appropriate, propose amendments to those deliverables to DHBs and the Ministry.</p> <p>1.6 In discussion with DHBs, review the spend target mid way through the year, and recommend any adjustments to the Minister.</p>	<p>As required</p> <p>4-monthly book, with monthly updates</p> <p>As required</p> <p>30 Sept 06</p> <p>31 Dec 06</p> <p>31 March 07</p> <p>30 June 07</p> <p>Quarterly</p> <p>30 Dec 06</p>
<p>2. Exceptional circumstances – PHARMAC will undertake timely and robust consideration of pharmaceutical use in exceptional circumstances.</p>	<p>2.1. Turnaround for community, hospital and cancer-related exceptional circumstances applications of 4 weeks, 48 hours and 72 hours respectively.</p> <p>2.2 Identify drugs that could be moved from Hospital Exceptional Circumstances to the Discretionary Community Supply list.</p>	<p>As required</p>
<p>3. Assessment and procurement on behalf of DHBs – PHARMAC will, as agreed by DHBs, assist in the procurement of hospital supplies in line with PHARMAC's legislative functions. PHARMAC will robustly assess procurement opportunities, make procurement recommendations to DHBs as appropriate, and focus on continual service improvement to DHBs (including information sharing and communication of cost savings).</p>	<p>3.1 Progress report on transfer of management of hospital Pharmaceutical Cancer Treatments to PHARMAC.</p> <p>3.2 Provide a report about DHB compliance with restricted brand contracts to DHBs and the supplier annually.</p> <p>3.3 Monitor Recombinant Factor VIII, bulk IV fluids and radiological contrast media national contracts.</p> <p>3.4 Implement a procurement strategy for dialysis fluids.</p> <p>3.5 Investigate other areas of DHB hospital procurement where it could be of assistance to DHBs to have a centralised contracting process.</p> <p>3.6 Produce 8-10 substantive assessments of new hospital pharmaceuticals</p>	<p>31 Dec 06</p> <p>31 Dec 06</p> <p>Ongoing</p> <p>31 Dec 06</p> <p>31 Dec 06</p> <p>As required</p>

<p>4. Responsible use of pharmaceuticals (including social marketing) – PHARMAC will engage in strategies to promote the cost effective, responsible use and prescribing of pharmaceuticals. PHARMAC will focus its efforts to align with other activity in the health sector, particularly in relation to the management and treatment of chronic conditions including cardiovascular disease and diabetes, mental health and respiratory disease.</p>	<p>4.1 Deliver the annual Wise Use of Antibiotics campaign and present a report to the Ministry evaluating the 2006 campaign.</p> <p>4.2 Undertake a feasibility study of initiatives that can address polypharmacy. PHARMAC will present the findings to the Ministry and District Health Boards with recommendations regarding the implementation of a project, if appropriate.</p> <p>4.3 Continue roll out and implementation of the One Heart Many Lives campaign.</p> <p>4.4..Prepare a report regarding recommendations and, if appropriate, a project plan for activity in the area of childhood asthma management.</p> <p>4.5 Complete a competitive process for an external organisation to provide services relating to the responsible use of pharmaceuticals and contract with an external agency for these services.</p> <p>4.6 PHARMAC will work with District Health Boards to ensure that services provided by the external organisation are aligned with the PHO performance framework where relevant.</p> <p>4.7 Contract for the delivery of the Green Prescription programme in 2006/07, including monitoring contractual targets.</p> <p>4.8 Participate in the strategic review of the Green Prescription programme.</p>	<p>1 March 07</p> <p>30 Jun 07</p> <p>Ongoing</p> <p>1 Feb 07</p> <p>1 Feb 07</p> <p>Ongoing</p> <p>Ongoing</p> <p>As required</p>
<p>5. Equitable access – PHARMAC will engage in initiatives to promote the appropriate use of pharmaceuticals by disadvantaged populations, including Maori, to improve health outcomes and health status with the aim of ensuring utilisation is similar across all groups of New Zealanders.</p>	<p>5.1 Work with NZ College of Pharmacists to improve pharmacists' understanding of Maori health issues.</p> <p>5.2 Complete an evaluation report that reviews PHARMAC's progress made on the 2002 Maori Responsiveness Strategy.</p> <p>5.3 Develop a five-year work programme to further progress PHARMAC's Maori Responsiveness Strategy.</p> <p>5.4 Work with the Ministry of Health on the development of the Whakatataka II 2007-2011 Maori Health Action Plan with respect to pharmaceuticals.</p> <p>5.5 Deliver the national training workshops for primary care nurses and community health workers on improving Maori Use of Medicines.</p>	<p>31 Apr 07</p> <p>31 Aug 06</p> <p>31 Jan 07</p> <p>30 June 07</p> <p>30 June 2007</p>
<p>6. Improving links between PHARMAC initiatives – PHARMAC will seek to improve its understanding of the inter-linkages and synergies of all its initiatives.</p>	<p>6.1 Complete a preliminary report on a framework for considering complementarity and achievement of the strategic (3-year) outcomes.</p>	<p>30 June 07</p>

<p>7. Improving stakeholder relationships - PHARMAC will seek to improve its relationships with stakeholders, including through better understanding of stakeholder requirements and views, improving communication, and addressing any confusion that exists about the roles and activities of PHARMAC.</p>	<p>7.1 Update the communications and stakeholder strategy to ensure alignment with strategic priorities</p> <p>7.2 Review, as required, existing relationship agreements</p> <p>7.3 Develop and implement, as desirable, new relationship agreements</p>	<p>30 Dec 06</p> <p>30 Dec 06</p> <p>30 June 07</p>
<p>8. Ongoing development of PHARMAC capability – PHARMAC will ensure that it has the capability to meet its business objectives through the recruitment of new staff, and the development of existing staff, with appropriate skills, experience and knowledge. PHARMAC is also committed to providing an attractive working environment, including through demonstrating appreciation of its staff.</p>	<p>8.1 Review, update and implement Human Resources policies and strategy.</p> <p>8.2 Review and update PHARMAC’s recruitment process.</p> <p>8.3 Review, update and implement the administration manual of PHARMAC’s policies and procedures.</p>	<p>30 Dec 06</p> <p>30 Dec 06</p> <p>30 June 07</p>

REPORTING

Monthly Reports

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

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

Quarterly Reports

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

- PHARMAC's performance against all 2006/07 deliverables that fell due in the previous quarter. PHARMAC may also outline progress made towards achievement of significant milestones due in later months;
- an update on price, volume, mix and expenditure indices;
- a statement of cashflows for the immediately preceding quarter; and
- PHARMAC's use of the Legal Risk Fund, including; litigation expenditure; confirmation that PHARMAC has used the monies in the Fund in accordance with the model set out in the Minister's letter of 6 November 2003; and, following the end of each financial year, identification of any unspent operating litigation budget added to the Fund.

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 this SOI; and
- inform the Minister and the Ministry of any issue likely to be of significance to the Minister.

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 with information (in writing and in an agreed form) that will enable the relevant Minister to, in a timely manner:
 - respond to Parliamentary questions;
 - deal with routine Ministerial correspondence; and
 - deal with select committee inquiries; and
- information within the control of the PHARMAC Board, that enables the Ministry, on the Minister's behalf, to conduct special reviews and audits of PHARMAC's performance, which may be carried out as often as the Crown reasonably believes those reviews and audits are required as agreed between the parties.

Reports to Parliament

The content and timing of reports to Parliament shall comply with the requirements of the CE, NZPHD and the PF Acts.

FINANCIAL AND OWNERSHIP INFORMATION

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 the Crown Entities Act 2004 and generally accepted accounting practice.

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.

Accounting policies

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

Valuation of assets

Fixed assets are valued at cost less accumulated depreciation. 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 section 169 of the Crown Entities Act 2004.

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 2006/07 budget figures, and 2007/08 and 2008/09 forecast figures have been prepared in accordance with generally accepted accounting policies adopted by the Board.

Leases

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

Changes in accounting policies

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

Departure from FRS-42

The financial reporting standard about preparing prospective financial statements (FRS-42) says that the (prospective) forecast statements for an upcoming financial year should be prepared using the same standards as the statements at the end of that financial year.

The prospective (forecast) financial statements in this SOI have been prepared in accordance with NZ GAAP. However, from 1 July 2007 a new set of accounting standards will be used in New Zealand called the New Zealand Equivalents to International Financial Reporting Standards (NZIFRS). This means that the financial statements at the end of the financial years 2007/08 and 2008/09 will be prepared in accordance with the new NZIFRS but the prospective (forecast) statements in this document are prepared using the previous standards (NZ GAAP).

The prospective statements for 2007/08 and 2008/09 in this SOI do not comply with FRS-42 because the full impact of the NZIFRS has not yet been determined.

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. Actual results may differ from Forecast.

The summarised financial information presented 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.

PHARMAC's budget for 2006/07 is around 3% higher than the 2005/06 budget, but around 12% higher (on current forecast excluding one-off costs) than expected total expenditure for 2005/06. PHARMAC recognises that this level of growth (on 2005/06 actual spend) is higher than would generally be expected against inflationary pressure and general growth in the health sector. However, in 2006/07, PHARMAC intends to intensify its efforts around some of its core activities and undertake developmental work for new initiatives, which it is in a position to fund from previous surpluses. This work includes pandemic preparedness; evolving progress toward management of the cancer basket, PHARMAC's Seminar Series; PHARMAC's high cost medicines review; the Government's Medicines Strategy work; and working with DHBs on procurement (including new initiatives) such as radiological contrast media and anaesthetic gases.

With a view to ensuring sustainable funding, and better identifying the appropriate source of funding, PHARMAC will undertake further work during 2006/07 on the appropriate split of costs between Ministry funding (i.e. baseline funding and one-off costs) and funding direct from DHBs for services provided to them.

Financial statements

PROJECTED STATEMENT OF FINANCIAL PERFORMANCE

	FOR THE PERIOD OF 1 JULY 2006 TO 30 JUNE 2007	FOR THE PERIOD OF 1 JULY 2007 TO 30 JUNE 2008	FOR THE PERIOD OF 1 JULY 2008 TO 30 JUNE 2009
	\$000 (GST EXCL)	\$000 (GST EXCL)	\$000 (GST EXCL)
REVENUE			
<i>CROWN:</i>			
OPERATING	8,060	8,302	9,651
RESPONSIBLE USE OF PHARMACEUTICALS	2,895	2,982	3,071
INTEREST RECEIVED	400	200	100
DHB CONTRIBUTION	2,577	2,846	2,894
TOTAL REVENUE	13,932	14,330	15,716
OPERATING EXPENDITURE			
OPERATING COSTS	5,423	4,418	4,537
SALARIES AND RELATED COSTS	4,953	5,101	5,254
AUDIT FEES	27	27	27
DIRECTORS FEES	124	124	124
DEPRECIATION	412	440	440
RENTALS AND LEASES	248	248	248
HIGH COST MEDICINES	570	300	320
RESPONSIBLE USE OF PHARMACEUTICALS	4,485	4,829	4,954
TOTAL EXPENDITURE	16,242	15,487	15,904
NET SURPLUS/(DEFICIT)	(2,310)	(1,157)	(188)

Note: The above statement should be read in conjunction with the accounting policies on page 23.

PROJECTED STATEMENT OF FINANCIAL POSITION

	AT 30 JUNE 2006/2007	AT 30 JUNE 2007/2008	AT 30 JUNE 2008/2009
	\$000 (GST EXCL)	\$000 (GST EXCL)	\$000 (GST EXCL)
<i>PUBLIC EQUITY</i>			
RETAINED EARNINGS & RESERVES	2,317	1,160	972
LEGAL RISK FUND	4,800	4,800	4,800
<i>TOTAL PUBLIC EQUITY</i>	7,117	5,960	5,772
REPRESENTED BY:			
<i>CURRENT ASSETS</i>			
CASH AND BANK	7,869	6,699	6,511
RECEIVABLES AND PREPAYMENTS	100	100	100
<i>TOTAL CURRENT ASSETS</i>	7,969	6,799	6,611
<i>NON-CURRENT ASSETS</i>			
FIXED ASSETS	500	500	400
<i>TOTAL NON-CURRENT ASSETS</i>	500	500	400
<i>TOTAL ASSETS</i>	8,469	7,299	7,011
<i>CURRENT LIABILITIES</i>			
PAYABLES	1,352	1,339	1,239
<i>TOTAL CURRENT LIABILITIES</i>	1,352	1,339	1,239
<i>NET ASSETS</i>	7,117	5,960	5,772

Note: The above statement should be read in conjunction with the accounting policies on page 23.

PROJECTED CASH FLOW STATEMENT

	FOR THE PERIOD OF 1 JULY 2006 TO 30 JUNE 2007	FOR THE PERIOD OF 1 JULY 2007 TO 30 JUNE 2008	FOR THE PERIOD OF 1 JULY 2008 TO 30 JUNE 2009
	\$000 (GST INCL)	\$000 (GST INCL)	\$000 (GST INCL)
CASH FLOWS – OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
- MINISTRY OF HEALTH	10,955	11,284	12,722
- INTEREST	400	200	100
-DHB CONTRIBUTION	2,577	2,846	2,894
	13,932	14,330	15,716
CASH WAS DISBURSED TO:			
- CASH OUTFLOW TO SUPPLIERS AND EMPLOYEES	(15,301)	(14,660)	(15,164)
- NET GST	(400)	(400)	(400)
	(15,701)	(15,060)	(15,564)
<i>NET CASH FLOW FROM OPERATING ACTIVITIES</i>	(1,769)	(730)	152
CASH FLOWS – INVESTING ACTIVITIES			
CASH WAS DISBURSED TO:			
- PURCHASE OF FIXED ASSETS	(450)	(440)	(340)
<i>NET CASH FLOW FROM INVESTING ACTIVITIES</i>	(450)	(440)	(340)
CASH FLOWS – FINANCING ACTIVITIES			
<i>NET CASH FLOW FROM FINANCING ACTIVITIES</i>	0	0	0
NET INCREASE/(DECREASE) IN CASH HELD	(2,219)	(1,170)	(188)
ADD OPENING CASH BROUGHT FORWARD	10,088	7,869	6,699
<i>CLOSING CASH BALANCE</i>	7,869	6,699	6,511

Note: The above statement should be read in conjunction with the accounting policies on page 23.

PROJECTED MOVEMENT IN EQUITY

	2006 / 2007	2007 / 2008	2008/ 2009
	\$000 (GST EXCL)	\$000 (GST EXCL)	\$000 (GST EXCL)
PUBLIC EQUITY AT THE BEGINNING OF THE PERIOD	9,427	7,117	5,960
NET SURPLUS/(DEFICIT)	(2,310)	(1,157)	(188)
PUBLIC EQUITY AS AT THE END OF THE PERIOD	7,117	5,960	5,772

Note: The above statement should be read in conjunction with the accounting policies on page 23.

**RECONCILIATION OF NET SURPLUS TO CASH FLOW
FROM OPERATING ACTIVITIES**

	2006 / 2007	2007 / 2008	2008 / 2009
	\$000 (GST EXCL)	\$000 (GST EXCL)	\$000 (GST EXCL)
NET OPERATING SURPLUS (DEFICIT)	(2,310)	(1,157)	(188)
<i>ADD NON-CASH ITEMS:</i>			
DEPRECIATION	412	440	440
TOTAL NON-CASH ITEMS	412	440	440
<i>ADD/(LESS) WORKING CAPITAL MOVEMENTS:</i>			
DECREASE (INCREASE) IN RECEIVABLES	0	0	0
INCREASE (DECREASE) IN PAYABLES	129	(13)	(100)
WORKING CAPITAL MOVEMENT – NET	129	(13)	(100)
NET CASH FLOW FROM OPERATING ACTIVITIES	(1,769)	(730)	152

Note: The above statement should be read in conjunction with the accounting policies on page 23.