Annual Report of

Pharmaceutical Management Agency

for the year ended
30 June 2003

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

MINISTER OF HEALTH

In accordance with section 44A of the Public Finance Act 1989 and section 67 of the New Zealand Public Health and Disability Act 2000, I present, on behalf of the Pharmaceutical Management Agency Board, the annual report on the operations of Pharmaceutical Management Agency (PHARMAC) for the year ended 30 June 2003.

Richard A Waddel
Chairman
Pharmaceutical Management Agency

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Auditors

Audit New Zealand
Wellington
on behalf of the Auditor-General

Bankers

ASB Bank Limited

Solicitors

Bell Gully Buddle Weir

Insurers

Circle (underwritten by IAG NZ Limited)
Lumley General Insurance (NZ) Limited
American Home Assurance Company

Board Members

Richard Waddel – Chair
Gregor Coster
Elizabeth Coutts (resigned as of 30 June 2003)
Karen Guilliland
Helmut Modlik
David Moore

Chief Executive

Wayne McNee

Pharmacology and Therapeutics Advisory Committee

John Hedley, Chairman

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF PURPOSE
For the year ended 30 June 2003

PHARMAC's Objective

PHARMAC's overall objective, as outlined in section 47 of the New Zealand Public Health and Disability Act 2000 (NZPHD Act), is to secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided.

PHARMAC's Statutory Functions

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

a) to maintain and manage a pharmaceutical schedule that applies consistently throughout New Zealand, including determining eligibility and criteria for the provision of subsidies;

b) to manage incidental matters arising out of paragraph (a) including, in exceptional circumstances, providing for subsidies for the supply of pharmaceuticals not on the pharmaceutical schedule;

c) to engage as it sees fit, but within its operational budget, in research to meet the objectives set out in section 47(a) of the NZPHD Act;

d) to promote the responsible use of pharmaceuticals; and

e) any other functions it is for the time being given by or under any enactment, or authorised to perform by the Minister by written notice to the board of PHARMAC after consultation with it.

As a result of an authorisation from the Minister of Health 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. The Minister of Health approved Terms of Reference for the development of the Strategy in October 2001 and the final Strategy in February 2002.

PHARMACEUTICAL MANAGEMENT AGENCY
CHAIRMAN'S REPORT
For the year ended 30 June 2003

PHARMAC celebrated 10 successful years of operations this year. It has been a time to reflect on our successes and also look ahead to the challenges we still face. PHARMAC continues to be a world leader in effective management of pharmaceutical expenditure, and continues to look for new ways to add value to the health sector.

Building on the co-operative model in the health sector, PHARMAC strengthened its links with DHBs throughout the year. PHARMAC began work on a number of new initiatives that will make medicines management more efficient – increasing the convenience for patients, making the system more flexible for prescribers and freeing resources for DHBs.

The heritage of responsible financial management was upheld with PHARMAC coming within 1% of the target budget. This was achieved while increasing access to medicines, including opening access to imatinib mesylate (Glivec).

PHARMAC and DHBs worked on developing a sustainable long term funding path for PHARMAC, and reached agreement on the new 2003/04 budget ahead of schedule. This budget represented a significant increase for the coming year. PHARMAC and DHBs will continue to work on the long term funding package to ensure that the sector can plan into the future with certainty.

I would like to thank my fellow Board members for the effort and dedication they have shown throughout the year. We have faced some difficult issues and the Board has exercised sound judgement in managing these.

With effect from 30 June 2003 we farewelled Liz Coutts from the Board. Liz brought excellent skills to the Board through her experience in accounting and from many years involved in the health sector.

I would also like to acknowledge the effort and performance of PHARMAC staff and their Chief Executive. PHARMAC has continued to deliver in a challenging and changing environment and this is a significant achievement.

Ten years on, PHARMAC continues in the traditions established from the first days. These are a commitment to patients, a dedication to evidence-based decision-making and a resolve to manage resources efficiently.

For and on behalf of the Board

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Richard A Waddel
Chairman

PHARMACEUTICAL MANAGEMENT AGENCY
CHIEF EXECUTIVE'S REPORT
For the year ended 30 June 2003

The past year has been one of challenge and change for PHARMAC. We have continued to develop our capacity, to meet the challenges and opportunities offered to us. We have met the targets set for us by the Government, and have taken on additional work for the benefit of the health sector and patients.

PHARMAC budgeted for an operating deficit of $1,868,000 but ended the year with a smaller deficit of $283,000 – as a result of efficiency in our operations, and delays in the implementation of some key projects promoting the responsible use of pharmaceuticals.

PHARMAC has had a number of significant achievements this year. These are outlined below. Overall, we have added significant value to the health sector, and had an impact well beyond our small size and resources.

We successfully met the pharmaceutical budget target by maintaining expenditure on subsidised community pharmaceuticals within budget, although this target was significantly below our forecast expenditure for the year. While meeting the budget target, we were also able to fund the expensive new cancer drug imatinib (Glivec), by working together with the supplier of the drug to make it available for patients.

The year showed further benefits of working closely with DHBs, for example:

- Further implementation of the National Hospital Pharmaceutical Strategy, meeting the targets set for us both in terms of making savings to DHBs, but also moving forward with other aspects of the strategy, such as provision of information to DHBs about new medicines that they may be considering.

- Consultation on a proposal to move partially towards all at once dispensing for about 70% of medicines, to improve patient convenience and release funds for District Health Boards to purchase other services.

Other key achievements for PHARMAC this year included:

- Continued implementation of our Maori Responsiveness Strategy, focusing in particular on improving Maori participation in PHARMAC's decision-making process. Maori members have been appointed to the PHARMAC Board, PTAC, and the Consumer Advisory Committee.

- Introduction of PHARMAC's Consumer Advisory Committee, to provide input from a consumer perspective into PHARMAC's decision-making process.

- Launching of major new programmes to promote the responsible use of medicines, including a campaign to reduce the high doses of inhaled corticosteroids used by New Zealand asthma

patients; and pilot campaigns in Gisborne and Porirua to improve awareness of cardiovascular disease in men aged over 45, with a particular emphasis on Maori and Pacific men.

This year, PHARMAC staff have had to deal with significant challenges and have met with concerted lobbying, in particular over all at once dispensing and the funding of Glivec. I congratulate PHARMAC staff for working together as a team, and making the tough decisions for the benefit of patients and taxpayers.

Wayne McNee
Chief Executive

PHARMACEUTICAL MANAGEMENT AGENCY
GOVERNANCE AND ACCOUNTABILITY STATEMENT
For the year ended 30 June 2003

Role of the Board

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

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

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

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

Structure of PHARMAC

PHARMAC Operations

The Board has appointed a single employee, the Chief Executive, to manage all PHARMAC operations. The Chief Executive has appointed all other employees of PHARMAC. The Board directs the Chief Executive by delegating responsibility and authority for the achievement of objectives.

The Chief Executive takes overall responsibility for PHARMAC's performance, both against its agreed financial targets and in terms of the health gain produced by its decisions to fund new therapies. The Chief Executive is responsible for maintaining PHARMAC's public identity, ensuring that the quality standards are maintained, ensuring PHARMAC staff have the capability to achieve PHARMAC's goals, and that the work environment produces the most efficient outputs possible.

The Chief Executive is supported by a seven member management team who assist with organisational direction and operational management. PHARMAC has a functionally aligned management structure, with management positions covering key areas of responsibility. The management team comprises a Medical Director who provides clinical input into decision making, the Manager, Supply Side who is responsible for negotiating with suppliers on the listing of pharmaceuticals on the Pharmaceutical Schedule, the Manager, Demand Side who is

responsible for promoting the responsible use of medicines and projects that aim to affect the mix or volume components of pharmaceutical expenditure, the Manager Hospital Purchasing who is responsible for the development and implementation of PHARMAC's role in managing access to and expenditure on pharmaceuticals for use in hospitals, the Manager, Analysis and Assessment who leads analytical work including cost utility analysis, expenditure reporting and forecasting, the Manager Corporate who is responsible for human resource management, finance, information technology, risk reporting and production of the Pharmaceutical Schedule and the Manager, Communications and External Relations who is responsible for communications and developing stakeholder relationships.

Board Committees

The Board has set up several standing committees to provide expert advice on particular issues. Committees do not involve themselves in operational matters. The Board's committees include:

Committee	Meets
Pharmacology and Therapeutic Advisory Committee (PTAC)	Quarterly
PTAC Sub-committees	As required
Consumer Advisory Committee (CAC)	Twice yearly and as required
Hospital Pharmaceuticals Advisory Committee (HPAC)	As required

Governance Philosophy

Board Membership

Board members are appointed by the Minister of Health. The Board is composed of members who have diverse skills and experience in order to bring a wide range of thought to bear on policy issues. Once appointed, all members are required to act in the best interests of PHARMAC. Members acknowledge that the Board must stand unified behind its decisions; individual members have no separate governing role outside the boardroom.

Connection with Stakeholders

The Board acknowledges its responsibility to keep in touch with stakeholders and, in particular, to remain cognisant of the responsible Minister's expectations.

Division of Responsibility between the Board and Management

A key to the efficient running of PHARMAC is that there is a clear division between the roles of the Board and management. The Board concentrates on setting policy and strategy, then monitors progress toward meeting objectives. Management is concerned with implementing policy and strategy. The Board clearly demarcates these roles by ensuring that the delegation of responsibility and authority to the Chief Executive is concise and complete.

Accountability

The Board holds monthly meetings to monitor progress toward its strategic objectives and to ensure that the affairs of PHARMAC are being conducted in accordance with the Board's directions.

Conflicts of Interest

The Board maintains an interests register and ensures Board members are aware of their obligations to declare any potential or actual conflicts of interest.

Internal Control

While many of the Board's functions have been delegated, the overall responsibility for maintaining effective systems of internal control ultimately rests with the Chief Executive and the Board. Internal controls include the policies, systems and procedures established to provide assurance that specific objectives of the Board will be achieved. The Board Chair and the Chief Executive have acknowledged their responsibility by signing the Statement of Responsibility on page 13 of this report.

Risk Management

The Board acknowledges that it is ultimately responsible for the management of the risks to PHARMAC. The Board has charged the Chief Executive through its risk management policy with establishing and operating a risk management programme in accordance with the Australia/New Zealand standard 4360:1995 Risk Management.

Legislative Compliance

The Board acknowledges its responsibility to ensure the organisation complies with all legislation. The Board has delegated responsibility to the Chief Executive for the development and operation of a programme to systematically identify compliance issues and ensure that all staff are aware of legislative requirements that are particularly relevant to them. The Chief Executive reports to the Board six-monthly on PHARMAC's compliance with relevant legislation.

Ethics

The Board regularly monitors whether staff maintain high standards of ethical behaviour and practice, and the principles of 'good corporate citizenship'.

Monitoring compliance with ethical standards is done through such means as monitoring trends in complaints and disciplinary actions; or any reports or indications that show non-conformance with the principles espoused in the Public Service Code of Conduct.

Good corporate citizenship involves this entity, including its employees, acknowledging that it is a member of one or more communities outside of itself, and making a commitment to act in a manner consistent with the social mores and accepted rights and responsibilities of all citizens of those communities.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF RESPONSIBILITY
For the year ended 30 June 2003

The Board and management of Pharmaceutical Management Agency accept responsibility for the preparation of the annual Financial Statements and the judgements used therein.

The Board and management of Pharmaceutical Management Agency accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non financial reporting.

In the opinion of the Board and management of Pharmaceutical Management Agency, the Financial Statements for the year ended 30 June 2003, fairly reflect the financial position and operations of Pharmaceutical Management Agency.

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Richard A Waddel
Chairman
4 November 2003

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Wayne McNee
Chief Executive
4 November 2003

Audit New Zealand

REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE PHARMACEUTICAL MANAGEMENT AGENCY FOR THE YEAR ENDED 30 JUNE 2003

We have audited the financial statements on pages 16 to 50. The financial statements provide information about the past financial and service performance of Pharmaceutical Management Agency and its financial position as at 30 June 2003. This information is stated in accordance with the accounting policies set out on pages 16 to 19.

Responsibilities of the Board

The Public Finance Act 1989 and the New Zealand Public Health and Disability Act 2000 require the Board of Directors (the Board) to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that fairly reflect the financial position of the Pharmaceutical Management Agency as at 30 June 2003, the results of its operations and cash flows and service performance achievements for the year ended on that date.

Auditor's responsibilities

Section 15 of the Public Audit Act 2001 and section 43(1) of the Public Finance Act 1989 require the Auditor-General to audit the financial statements presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed Stephen Lucy, of Audit New Zealand, to undertake the audit.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board in the preparation of the financial statements; and

- whether the accounting policies are appropriate to the Pharmaceutical Management Agency's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in the Pharmaceutical Management Agency.

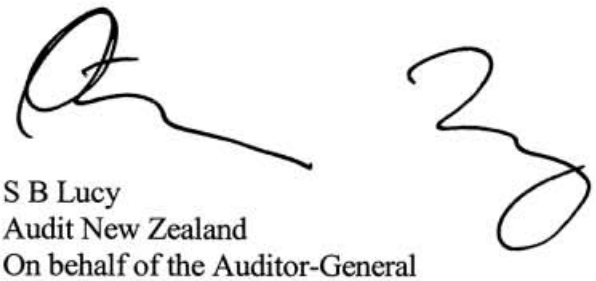
Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion the financial statements of the Pharmaceutical Management Agency on pages 16 to 50:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Pharmaceutical Management Agency's financial position as at 30 June 2003;
  - the results of its operations and cash flows for the year ended on that date; and
  - its service performance achievements in relation to the performance targets and other measures adopted for the year ended on that date.

Our audit was completed on 4 November 2003 and our unqualified opinion is expressed as at that date.



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

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Pharmaceutical Management Agency for the year ended 30 June 2003 included on the Pharmaceutical Management Agency's website. The Board is responsible for the maintenance and integrity of the Pharmaceutical Management Agency's website. We have not been engaged to report on the integrity of the Pharmaceutical Management Agency's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

We have not been engaged to report on any other electronic versions of the Pharmaceutical Management Agency's financial statements, and accept no responsibility for any changes that may have occurred to electronic versions of the financial statements published on other websites and/or published by other electronic means.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 4 November 2003 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF ACCOUNTING POLICIES
For the year ended 30 June 2003

Reporting Entity

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

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

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

Measurement Base

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

Accounting Policies

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

Comparative Figures

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

Budget Figures

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

The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Board for the preparation of the financial statements.

Revenue

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

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF ACCOUNTING POLICIES (Continued)
For the year ended 30 June 2003

Goods and Services Tax (GST)

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

Taxation

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

Accounts Receivable

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

Property, Plant and Equipment

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

Depreciation

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

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF ACCOUNTING POLICIES (Continued)
For the year ended 30 June 2003

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

	Estimated useful life	Depreciation rate
Leasehold Improvements	3 years	$33^1/_3$ %
Office Equipment	2.5 - 5 years	20% - 40%
EDP Equipment	2.5 years	40%
Furniture and Fittings	5 years	20%

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

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

Employment Entitlements

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

Leases

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

Financial instruments

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

There are no financial instruments that expose PHARMAC to foreign exchange risk or off balance sheet risks, although PHARMAC has entered into contracts with pharmaceutical suppliers (as an agent of the District Health Boards) that provide for limited variations in price according to exchange rate fluctuations.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF ACCOUNTING POLICIES (Continued)
For the year ended 30 June 2003

Statement of cash flows

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

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

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

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

Changes in accounting policies

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

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

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE
For the year ended 30 June 2003

Outlined below are the performance measures contained in PHARMAC's Statement Of Intent as tabled in Parliament. These measures are used to assess PHARMAC's performance in 2002/03. The Auditor-General has audited the reasonableness of PHARMAC's reported performance achievements against these measures, as recorded in this Statement of Service Performance (SSP).

PHARMAC has one output class "securing the best achievable health outcomes from pharmaceutical treatment, within the amount of funding provided". There are three business activities within this one output class:

1. Management of Community Pharmaceutical Expenditure
2. Management of Hospital Pharmaceutical Procurement
3. Promotion of the Responsible Use of Medicines.

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

PART A – PURCHASE OBJECTIVES

Activity One: Management of Community Pharmaceutical Expenditure

Deliverable

PHARMAC will maintain expenditure on subsidised community pharmaceuticals for the year ending 30 June 2003 within $516 million (excl GST), after deduction of rebates from pharmaceutical suppliers. Quarterly pharmaceutical expenditure targets on a cumulative basis before the deduction of rebates were:

Quarter	Target
One	$142,146,488.00
Two	$288,650,323.00
Three	$427,583,563.00
Four	$574,916,634.00

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE (Continued)

Result

Cost ex manufacturer expenditure for the year ending June 03 was $512.66 million. This includes risk adjusted rebates to the value of $65.70 million and the funding of an asthma campaign to the value of $3.06 million from within the pharmaceutical budget.

This is $3.56 million under the budget of $516 million.

Quarter	Cumulative Target	Cumulative Actual	Variance
One	$142,146,488	$144,754,961	$2,608,473
Two	$288,650,323	$292,710,887	$4,060,564
Three	$427,583,563	$431,019,305	$3,435,742
Four	$574,916,634	$575,296,063	$379,429
Rebates	-$58,916,634	-$65,698,019	-$6,781,385
Demand side Asthma campaign		$3,060,000	$3,060,000
Year End Total	$516,000,000	$512,658,044	-$3,341,956

Other Information

Subsidy reductions in the 2002/03 financial year resulted in a full year savings of approximately $50.03 million excluding rebates (see table page 22). The full year impact is calculated by taking the difference between the full year units at the subsidy in June 02 and the full year units at the subsidy in June 03. Note: this differs from the quarterly figures as some pharmaceuticals had more than one reduction or increase in the year or, in the case of the Cardiovascular area, decrease for felodipine at the start of the year became an increase by the end of the year. Therefore these savings were excluded from the full year impact. The quarterly figures show the impact until the next subsidy change.

Subsidy increases for felodipine resulted in an extra full year cost of $15.69 million worth of expenditure. It should be noted that this increase was offset somewhat by subsidy reductions in other areas (Nervous System), rebates, and payments for damages. This was the main contributor towards the overall increase of $17.28 million.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE (Continued)

Savings

	Quarter Ending (Millions)					
	Sep-02	Dec-02	Mar-03	Jun-03	Total	Full yr Impact
Alimentary Tract and Metabolism		-$6.91	-$0.63	-$0.02	-$7.56	-$7.56
Blood and Blood Forming Organs	-$0.02	-$5.33	-$0.02	-$0.29	-$5.66	-$8.23
Cardiovascular System	-$3.93			-$3.81	-$7.74	-$3.81
Genito-Urinary System		-$0.10			-$0.10	-$0.10
Hormone Preparations - Systemic excluding Contraceptive Hormones	-$0.54	-$0.97	-$0.01		-$1.52	-$1.52
Infections - Agents for Systemic Use			$0.00		$0.00	$0.00
Musculo-Skeletal System			-$0.12		-$0.12	$0.00
Nervous System		-$5.14	-$0.18	-$6.60	-$11.92	-$11.92
Oncology Agents and Immunosuppressants			-$0.20		-$0.20	-$0.20
Respiratory System and Allergies			-$7.87		-$7.87	-$7.87
Tender	-$1.24	-$1.77	-$4.65	-$0.79	-$8.45	-$8.83
	-$5.74	-$20.21	-$13.67	-$11.51	-$51.14	-$50.03

Increases

	Quarter Ending (Millions)					
	Sep-02	Dec-02	Mar-03	Jun-03	Total	Full yr Impact
Blood and Blood Forming Organs	$0.03				$0.03	$0.03
Cardiovascular System		$2.23	$5.59		$7.82	$15.69
Genito-Urinary System	$0.36				$0.36	$0.36
Hormone Preparations - Systemic excluding Contraceptive Hormones			$0.07		$0.07	$0.07
Infections - Agents for Systemic Use	$0.02	$0.01	$0.17	$0.01	$0.21	$0.21
Musculo-Skeletal System	$0.26	$0.24			$0.51	$0.26
Nervous System	$0.05	$0.17		$0.03	$0.25	$0.25
Tender	$0.02	$0.12	$0.04	$0.23	$0.41	$0.40
Total Increases	$0.74	$2.78	$5.87	$0.27	$9.66	$17.28

Note: Due to rounding numbers shown may not add up to totals.

	Quarter Ending (Millions)					
	Sep-02	Dec-02	Mar-03	Jun-03	Total	Full yr Impact
Overall Impact	-$5.00	-$17.44	-$7.80	-$11.24	-$41.48	-$32.75

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE (Continued)

New Investments / Widening of access

New investments and widening of access cost $4.9 million. This is in addition to the estimated expenditure had no changes happened. Figures shown exclude rebates. (All figures are GST exclusive).

New Listings	**Date Implemented**	**Gross cost to PS**	**No. new pts (max by year end)**	**Net excess cost to PS, incl effects on other Rx**
levonorgestrel-releasing intrauterine system (Mirena - heavy menstrual bleeding)	Oct-02	$178,410	662	$151,944
insulin aspart (rapid-acting insulin analogue - diabetes)	Nov-02	$329,173	57	$39,956
imatinib (Glivec - chronic myelogenous leukemia)	Dec-02	$3,893,563	130	$2,520,563
subtotal		$4,401,147	849	$2,712,463
Access Widening	**Date Implemented**	**Gross cost to PS**	**No. new pts (max by year end)**	**Net excess cost to PS, incl effects on other Rx**
peak flow meters - qty subsidised on WSO increased to 20	Nov-02	$658,611		
recombinant human growth hormone - SimpleXx liquid form available, with reference pricing of other rHGH	Nov-02	$884,700	10	$1,114,963
erythropoetin beta (Recormon - chronic renal failure anaemia) - widened SA access	Dec-02	$3,727,135	557	$1,044,770
anastrazole - widened SA access	Dec-02	$508,602	135	$37,629
beclomethasone - subsidised on PSO	Nov-02	for 5 months during asthma campaign		
subtotal		$5,779,049	703	$2,197,363
Total		**$10,180,195**	**1552**	**$4,909,826**

PS: Pharmaceutical Schedule
Pts: Patient
WSO: Wholesale Supply Order
SA: Special Authority
PSO: Practitioner Supply Order

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE (Continued)

Numbers of patients benefiting from specific PHARMAC investment decisions

New investments provided treatment for an estimated 1,550 new patients:

Numbers of patients benefiting from specific PHARMAC investment decisions, for 2002/03

Investment decision	No. mths on PS*	Estimated no. new patients
levonorgestrel-releasing IUS	9	662
imatinib	7	130
anastrazole	8	135
erythropoetin beta	7	557
recombinant human growth hormone	9	10
insulin aspart	8	57
peak flow meters	8	
Estimated total new patients	*8.0*	1,552
Total usage (person-year equivalents)	*8.3*	1,067

*no. of months implemented on the Pharmaceutical Schedule during the year (max = 12)

Note:
Patient numbers have been estimated from HealthPAC data, based on maximum monthly use for the year ended June 2003 beyond expected levels had investments not been made.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE (Continued)

Health benefits delivered from PHARMAC decisions

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

Measuring the health impact of PHARMAC actions, in terms of QALYs gained by patients using newly-listed or extended-access pharmaceuticals, is difficult and is beyond PHARMAC's monitoring capability. However, PHARMAC does consider value-for-money as part of its investment decisions. This is done using discounted net costs to the public health sector per QALY gained ($/QALY). This measure incorporates savings to other parts of district health board (DHB) budgets. Such value-for-money measures can help show the impact of pharmaceutical expenditure, by predicting the extent of savings to DHBs and overall gains in population health (total QALYs).

Estimates of QALY gains by patient groups are available for some of PHARMAC's investments covering the financial year 1 July 2002 to 30 June 2003. These include: the listing of levonorgestrel-releasing intrauterine systems for heavy menstrual bleeding; listing imatinib for chronic myeloid leukaemia and unresectable and/or metastatic gastrointestinal stromal tumours (GIST); extending access to anastrazole for advanced breast cancer; and extending access to erythropoetin beta for anaemia of chronic renal failure.

Investing in these drugs alone cost the Pharmaceutical Schedule $5.24 million for an estimated 1,490 new patients (covering 1,010 person-years). At the same time this saved perhaps 199 (quality-adjusted) years of life. This was equivalent to saving 21 full (statistical) lives for each year's spending. In addition, this spending was matched by potential savings elsewhere in the Pharmaceutical Schedule or the rest of Vote:Health of 57% ($2.98 million after discounting) (see following table).

In addition, further health benefit was gained from extending access to recombinant human growth hormone for growth retardation/Turner's Syndrome, and extending access to peak flow meters for asthma.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE (Continued)

QALYs in 2002/03 from key current Pharmac investment decisions
(where information available)

Investment decision, where indicative cost/QALY estimates available	No. patients (in patient-year equivalents)	Gross Cost to Schedule	Net Cost to Schedule	Possible offsets, discounted	Possible offsets, discounted	Possible net costs to health sector, discounted	discounted net health sector $/QALY	QALY gains/ patient/ year, discounted	net present value of QALYs gained*
levonorgestrel-releasing intrauterine system (Mirena - heavy menstrual bleeding)	662	$178,410	$151,944	34%	-$61,072	$117,338	$750	0.236	156.5
imatinib (Glivec - chronic myelogenous leukemia)	67	$3,893,563	$2,520,563	35%	-$1,373,000	$2,520,563	$110,000	0.345	22.9
anastrazole - widened SA access	50	$125,431	$37,629	70%	-$87,802	$37,629	$4,000	0.187	9.4
erythropoetin beta (Recormon - chronic renal failure anaemia) - widened SA access	227	$1,044,770	$1,044,770	140%	-$1,462,678	-$417,908	-$40,000	0.046	10.4
recombinant human growth hormone - SimpleXx liquid form available, with reference pricing of other rHGH	4	$1,114,963	$1,114,963	n/avail			n/avail		
insulin aspart (rapid-acting insulin analogue - diabetes)	57	$329,173	$39,956	n/avail			n/avail		
peak flow meters - qty subsidised on WSO increased to 20	n/avail	n/avail		n/avail			n/avail		
TOTAL	*1067*	*$6,686,311*	*$4,909,826*						
(TOTAL, where QALY data available)	*1006*	*$5,242,175*	*$3,754,907*	*57%*	*-$2,984,552*	*$2,257,623*	*$11,332*	*0.198*	*199.2*

NB for insulin aspart, listing was associated with patients swapping from short-acting insulins, as intended by SA provisions, causing lower net patients/costs
NB for insulin lispro, SA widening was associated with a paradoxical decrease in patients/costs, reflecting patients swapping to insulin aspart (as intended by SA provisions)
NB for peak flow meters, excess patient numbers and costs from widening access cannot be calculated because of seasonal confounding

No. lives saved**

ie no. (quality-adjusted) lives saved **20.6**

*Total QALY gains in patient users over time horizon, at net present value (discounting at 10%)
**Where each life saved is a statistical life, and each saved life is equivalent to living a full quality of life for 36.4 remaining years expected for the average New Zealand citizen, = a present value of 9.7 years (discounted at 10%).

Notes:

1. Although imatinib costs $110,000 per QALY, this investment was made as part of a package agreement. Savings from the other drugs in that packa agreement meant an effective cost/QALY for imatinib of $18,900/QALY.
2. The $11,332 discounted net health sector cost per QALY was for all those new investments during the year with estimates of cost-effectiveness. As it is a weighted average, based on patient numbers and duration.

Deliverable

PHARMAC will provide the Ministry of Health with a 1-3 year forecast of pharmaceutical expenditure by 31 December 2002.

Result

PHARMAC provided the Ministry of Health with a forecast in December 2002 and an updated forecast in February 2003.

Deliverable

Any potential deviation from the 2002/03 forecast will be promptly notified to the Ministry and identified in monthly reports if required.

Result

Reports showing expenditure and variance from budget and forecast were sent to the Ministry of Health each month.

Other Information

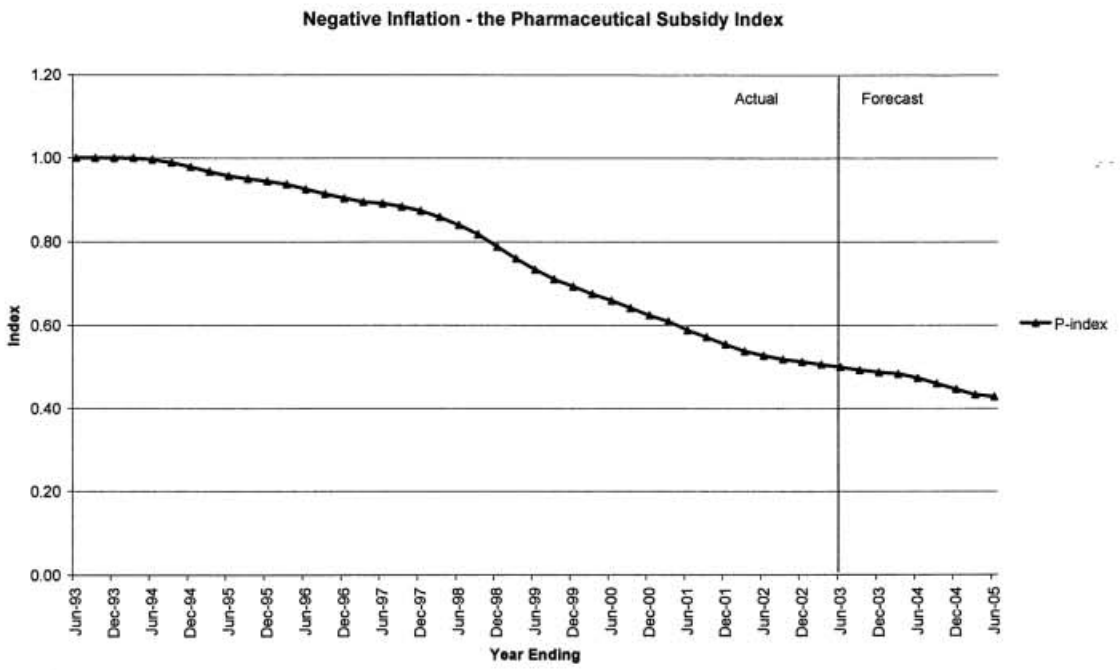
PVM (subsidy / volume-mix)

Pharmaceutical indexes
Expenditure trends can be broken into three components:

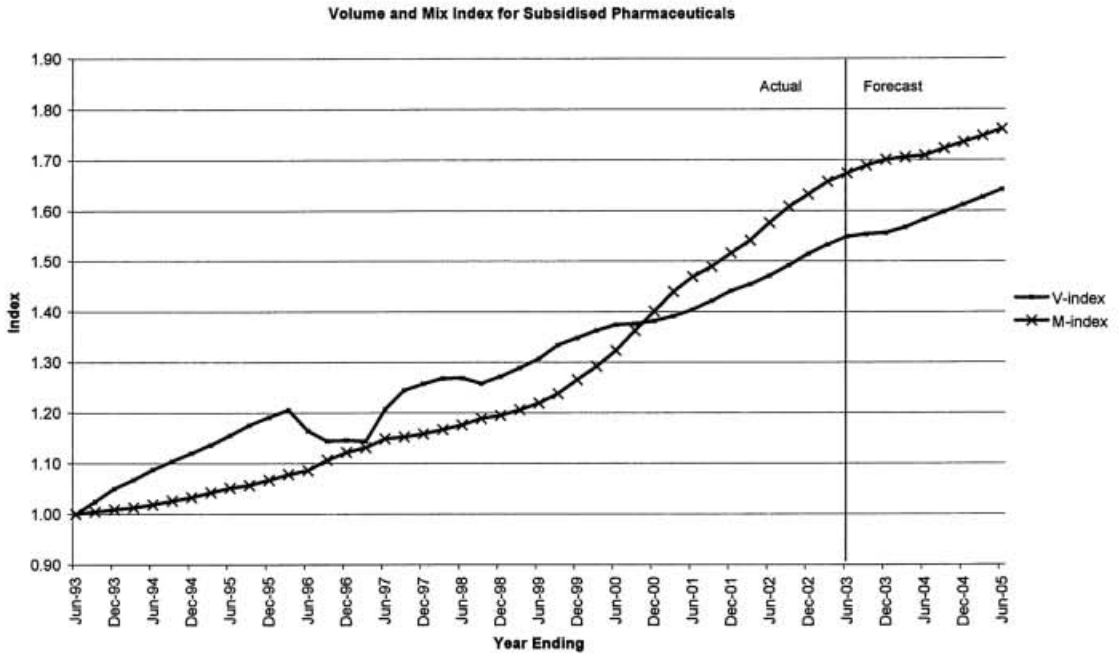
- Price inflation/deflation;
- Volume changes; and
- Mix (usually a shift from older, cheaper drugs to newer, more expensive ones).

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

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE (Continued)



Volume and Mix Index



Note: Forecasts exclude the implementation of All-at-Once dispensing.

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

Mix showed an upwards trend that reflected the impact of the new antipsychotic drugs and is expected to continue growing. Mix has recently increased in Oncology Agents and Immunosuppressants with the introduction of Imatinib Mesylate (Glivec). Other areas where mix is a strong factor include Infections – Agents for Systemic use, Lipid Modifying Agents, and Musculo-Skeletal System. Mix is continuing to increase with the introduction of new medicines.

PHARMAC will need to continue to seek price reductions to maintain expenditure within sustainable levels, or PHARMAC will need additional funding from District Health Boards.

The table below shows that PHARMAC's ability to make new pharmaceutical investments over the past year has been restricted due to the pharmaceutical budget increase being lower than our forecast. This trend is over-emphasised due to the funding of a number of new special foods in 1998/99 and 1999/2000

Decisions made

Decision type	1998/99	1999/00	2000/01	2001/02	2002/03
New Chemical entity listed	32	18	20	7	3
New Presentation listed	40	21	13	11	15
New Product listed	56	39	28	60	45
Total new listings	128	78	61	78	63
Derestriction or expanded access	34	17	19	17	7
Changes that restrict or limit access	3	6	6	4	1
Delistings	51	362	135	89	196

Applications declined

Imatinib mesylate (Glivec) was declined in July 2002. It was later listed on the Pharmaceutical Schedule in December 2002 following further consultation.

The Medisafe condom proposal was declined in January 2003.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE (Continued)

PHARMAC's performance in managing statutory roles

Promulgation of information from the Pharmaceutical Schedule

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

PHARMAC reprinted and distributed the Pharmaceutical Schedule to all prescribers and pharmacists on its mailing list every four months, 3-5 working days prior to becoming effective.

PHARMAC's electronic schedule was delivered to subscribers monthly, 3-5 working days prior to becoming effective, and is the basis for the pharmacy electronic claiming.

PHARMAC printed and distributed monthly updates to the Pharmaceutical Schedule, 3-5 working days prior to becoming effective, to all pharmacists and prescribers on its mailing list.

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

PHARMAC produced a pilot of the Schedule on a mini CD and distributed it to a group of General Practitioners for assessment.

Deliverable

PHARMAC will review the use of the Exceptional Circumstances Scheme to ensure that the Scheme is working effectively and its objectives are being met including an outline of expenditure by DHB, timeliness of processing applications and any issues associated with the Scheme's operation. PHARMAC will complete a report for the PHARMAC Board who will consider the report's recommendations and consult DHBs on any proposed amendments to the Exceptional Circumstances Scheme. A copy of the report will be provided to the Ministry of Health for its information.

Result

The first annual review of the Exceptional Circumstances (EC) programme for the period October 01 to September 02 was presented to the PHARMAC Board in February 03.

The review highlighted that the community Exceptional Circumstances programme was working well with the average application being dealt with in 8.3 days from its receipt. 1,408 applications were being lodged in the committee's first year. Of those, the committee considered 829 and the panel co-ordinator under delegated authority considered 579. Of those applied for 603 were approved for funding and appeals were considered for 84 applications.

Cost utility analysis was carried out on five applications for treatments that cost more than $30,000. Two of these were approved, one declined and two were awaiting further information before any decision was taken.

An appeal committee was formed to consider one appeal – the EC panel's decision was upheld.

The administrative costs in the first year were higher than expected due to the work load for the committee and the set up of an appeal committee.

The expenditure on Exceptional Circumstances medicines was within its $2.5 million budget.

No specific changes have been made to the community Exceptional Circumstances programme after its first 21 months of operation. Significant changes will occur in the next 12 months with the implementation of the hospital Exceptional Circumstances policy.

Activity Two: Management of Hospital Pharmaceutical Procurement

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

Deliverable

PHARMAC will establish 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. The database is to be developed in consultation with DHBs.

Result

PHARMAC has established a national hospital data reporting system in consultation with DHBs. Further refinements of the system will continue to be developed.

Deliverable

PHARMAC will put in place national contracts for 30 pharmaceuticals within the top 90% (by expenditure) of those funded by DHB hospitals.

Result

One hundred and twelve chemicals are under contract and currently listed in Section H of the Pharmaceutical Schedule. These contracts covered more than 30 pharmaceuticals from within the top 90% (by expenditure) of those funded by DHB hospitals. Savings from these contracts are estimated to be approximately $10 million to date.

Deliverable

PHARMAC will develop an evaluation plan for the Hospital Pharmaceutical Strategy to assess its performance against the stated goals and any identified issues. The evaluation plan will set out the proposed assessment methodology including:

- *the impact of national contracts on prices paid for pharmaceuticals (where measurable);*
- *the impact of the availability of adequate choice of pharmaceuticals where national contracts are in place;*
- *the impact of PHARMAC's initiatives on the administrative burden on hospital clinicians and management in relation to pharmaceuticals.*

Result

PHARMAC is in the initial phases of the development of a plan for the evaluation of the Hospital Pharmaceuticals Strategy, with the review to be completed by March 2004.

Deliverable

PHARMAC will set up systems and processes for collating, recording and promulgating to DHBs, information about DHBs' and PHARMAC's assessment of new pharmaceuticals, or new indications for existing pharmaceuticals used in the hospital sector. PHARMAC will complete between 6 and 8 Cost Utility Analyses and share these with DHBs.

Result

PHARMAC has set up systems and processes for collating, recording and promulgating to DHBs, information about DHBs' and PHARMAC's assessment of new pharmaceuticals via a secure website. PHARMAC has completed eight cost utility analyses. These have been reported to DHB Hospitals since April 2002, with two more in progress. The process is beginning to generate feedback and discussion from clinicians. PHARMAC is still exploring ways to engage a greater proportion of the sector in this process.

Deliverable

PHARMAC will develop a hospital quality use of medicines strategy in consultation with DHBs. A draft strategy document will be prepared with input from Hospital Pharmaceutical Advisory Committee (HPAC) and circulated to DHBs and the Ministry for comment before being approved by the PHARMAC Board.

Result

Consultation on the draft strategy was completed by 31 December. The PHARMAC Board approved the finalised strategy in February 2003, following input from HPAC and consultation with DHBs and the Ministry of Health.

Activity Three: Promoting the responsible use of pharmaceuticals

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

Deliverable

PHARMAC will sponsor and distribute a patient information booklet on the management of gout. The booklet will be developed in conjunction with a key rheumatologist and field tests with patient focus groups.

Result

The gout booklet was developed in conjunction with Auckland rheumatologist Professor Peter Gow.

The booklet was tested with patient focus groups and launched in September 2002. It has been distributed to a wide range of clinicians and community groups through the Arthritis Foundation. The gout booklet has been printed in English and was printed in four other languages. Translation of the booklet into Maori, Samoan, Cook Island Maori and Tongan was delayed until February 2003, and was distributed via Maori and Pacific Island health providers. It was made available to General Practitioners and other provider groups and patient organisations such as the Arthritis Foundation.

Deliverable

PHARMAC will liaise with the Ministry of Health and undertake a campaign to increase public awareness about cardiovascular risk management, including promotion of lifestyle modification and the role of cholesterol lowering drugs. PHARMAC will contract an external agency to undertake the work. The campaign will be tested as a regional pilot, which will be reviewed and then implemented nationally in 2003/04. PHARMAC will evaluate the campaign following its completion.

Result

Cardiovascular risk management campaign pilots were launched in Gisborne and Porirua at the end of March 2003. The pilots emphasised the importance of lifestyle modification to reduce the risk of heart disease and the role of cholesterol lowering drugs. The Gisborne pilot has a Maori and mainstream focus. The Porirua pilot focuses on Pacific peoples. The campaign pilots used the theme `One Heart Many Lives' to encourage people to consider the consequences of cardiovascular disease.

Qualitative analysis of the pilot, measuring public recall of the campaign messages has been completed.

PHARMAC has issued a request for proposal (RFP) for the quantitative evaluation of these campaign pilots, and will consider the results of the evaluations prior to making a decision whether to expand the campaign in 2003/04.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE (Continued)

Deliverable

PHARMAC will undertake a Request for Proposals (RFP) for a 2003/04 contract to promote the responsible use of pharmaceuticals and following that RFP will agree contracts and have the relevant services in place for 2003/04.

Result

PHARMAC has completed an RFP for providers, and entered negotiations with a consortium comprising the University of Otago, Healthlink South, Independent Practitioner Association Council and First Health, to provide these services to GPs. The consortium is establishing BPAC New Zealand Ltd to undertake the services. The contract is for a three-year period 2003-2006. The Contract was sent to the relevant parties by June 2003, with final sign off on 2 October 2003. The delay was caused by the need to wait for the contracted body to achieve appropriate legal status.

Deliverable

PHARMAC will evaluate by 30 April 2003 the Green Prescription Programme and review on going funding, considering the findings of the independent evaluation project "Justification of Green Scripts (JOGS)". A recommendation will be made to the PHARMAC Board following the review. A copy of the Board paper and Board decision will be provided to the Ministry of Health for its information by 31 May 2003.

Result

The JOGS study was completed as specified in the funding agreement. However, the cost effectiveness component of the evaluation was not completed by 30 June 2003. PHARMAC has commented on a draft of the cost effectiveness component of the evaluation and is awaiting a final copy of the evaluation. The PHARMAC Board agreed to extend funding for Green Prescriptions until 30 June 2004 so the cost effectiveness analysis can be completed and considered.

Deliverable

PHARMAC will develop and launch a pilot CD version of the Pharmaceutical Schedule and then review that pilot with users.

Result

A mini-CD version of the Pharmaceutical Schedule was developed and was launched at the Royal New Zealand College of GPs conference in Rotorua during September. It contained the Pharmaceutical Schedule, Special Authority forms and Medsafe datasheets.

Evaluation of the CD showed that there was a great deal of support among users, with all but two saying that PHARMAC should continue to produce it. However, most people who received it hadn't used it (with a lack of time being given as a key reason) or didn't recall receiving it. 116 people returned the questionnaire (23% response rate) but only 29 people that had used the CD responded to the questionnaire and therefore it is difficult to extrapolate results.

Deliverable

PHARMAC will issue a request for Expressions of Interest (EOI) for a medical database to make the Pharmaceutical Schedule and appropriate prescribing information available to GPs by 30 September 2002. A recommendation will be made to the PHARMAC Board following the completion of the evaluation of the EOI on the next steps. A copy of the Board papers and Board decision will be provided to the Ministry of Health for its information by 31 January 2003.

Result

PHARMAC published notices in major medical publications and on its website seeking Expressions of Interest in a comprehensive electronic medicines information system.

An evaluation committee comprising PHARMAC staff and external experts assessed the Expressions of Interest submitted for a comprehensive medicines information system.

Recommendations were taken to the PHARMAC Board in April 2003. It was recommended that PHARMAC:

- is well represented on the Health Information Standards Organisation as part of the Health Information Technology Standards sub-project;
- works with Medsafe and the Ministry of Health to resolve the copyright issues around Medsafe datasheets;
- works to include the Medsafe datasheets within the Pharmaceutical Schedule and use this as a first step towards a New Zealand formulary;
- investigate the feasibility of producing the Schedule CD on an on-going basis; and
- awaits the outcome of the direct to consumer (DTCA) report before proceeding with the Consumer Information sub-project.

PHARMAC has also been working with HealthPAC to develop an on-line special authority system to reduce compliance costs for prescribers, and provide improved access to special authority medicines for patients.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF SERVICE PERFORMANCE (Continued)

PART B – OWNERSHIP PERFORMANCES OBJECTIVES

Deliverable

The PHARMAC Board will consider recommendations resulting from the evaluation of the impact of the 2000/01 pharmaceutical tender and will implement recommendations as appropriate.

Result

The Board considered recommendations resulting from the evaluation of the impact of the 2000/01 Tender in August 2002. PHARMAC is including data sheets as part of the CD Schedule project, so that prescribers have easier access to information on generic medicines.

Deliverable

PHARMAC will review the effectiveness of its joint working practices with DHBs by 31 March 2003.

Result

PHARMAC focused on improving effective working practices through the All-at-Once Dispensing initiative and Budget setting process. The Chair of District Health Boards New Zealand (DHBNZ) is an observer on the PHARMAC Board. PHARMAC and DHBNZ have initiated a regular programme of meetings and processes for working together, including regular meetings between the Chief Executives. The pharmaceutical budget for 2003/04 was agreed between PHARMAC and DHBNZ and an agreed position presented to the Minister for her approval.

Deliverable

PHARMAC will revise its Business Continuity Plan by 30 June 2003.

Result

PHARMAC revised its Business Continuity Plan. An external consultant interviewed key PHARMAC staff to identify critical processes within PHARMAC. The revised Business Continuity Plan was completed in September 2003.

Deliverable

PHARMAC will establish and operate a Consumer Advisory Committee consistent with section 50(1)(b) of the NZPHD Act. The Committee appointed by 31 July 2002. Initial meeting by 30 September 2002.

Result

The Consumer Advisory Committee (CAC) was appointed by the PHARMAC Board at its June 2002 meeting. The committee held its first meeting on 28 August 2002.

Deliverable

PHARMAC will develop an evaluation plan for the development of the Maori Responsiveness Strategy and will complete the evaluation in accordance with that plan.

Result

PHARMAC developed an evaluation plan and reported to the Board on the preliminary evaluation of the implementation of the Maori Responsiveness Strategy. PHARMAC will focus on the appointment of internal resources, and complete the implementation of the Strategy.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2003

	Note	Actual 2003 $000	Budget 2003 $000	Actual 2002 $000
Revenue				
Crown:				
Operating	7	6,103	6,103	6,132
High cost medicines		-	-	220
Responsible use of pharmaceuticals		2,788	2,788	2,924
Interest received		223	120	110
Other revenue		179	-	676
Total revenue		9,293	9,011	10,062
Expenditure				
Operating costs		3,616	3,707	3,706
Salaries and related costs		2,629	2,607	2,206
Audit fees		13	15	21
Directors fees		124	123	125
Depreciation		224	250	154
Rentals and leases		175	100	53
High cost medicines		534	400	220
Responsible use of pharmaceuticals		2,261	3,677	2,142
Total expenditure		9,576	10,879	8,627
Net surplus/(deficit) for the period	1	(283)	(1,868)	1,435

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

For information on major variances against budget, refer to note 11 (page 49)

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF MOVEMENTS IN EQUITY
for the year ended 30 June 2003

	Note	Actual 2003 $000	Budget 2003 $000	Actual 2002 $000
Public equity at the beginning of the period	2	3,291	3,291	1,856
Net surplus/(deficit)	2	(283)	(1,868)	1,435
Total recognised revenues and expenses for the period	2	(283)	(1,868)	1,435
Public equity as at the end of the period		3,008	1,423	3,291

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

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF FINANCIAL POSITION
as at 30 June 2003

	Note	Actual 2003 $000	Budget 2003 $000	30 June 2002 $000
PUBLIC EQUITY				
Retained earnings & reserves	2	3,008	1,423	3,291
TOTAL PUBLIC EQUITY		3,008	1,423	3,291
Represented by:				
Current assets				
Cash and bank		3,151	2,900	4,093
Receivables and prepayments	3	3,574	431	344
Total current assets		6,725	3,331	4,437
Non-current assets				
Fixed assets	4	355	474	475
Total non-current assets		355	474	475
Total assets		7,080	3,805	4,912
Current liabilities				
Payables, accruals and provisions	5	3,900	2,382	1,514
Employee entitlements		172	-	107
Total current liabilities		4,072	2,382	1,621
NET ASSETS		3,008	1,423	3,291

Signed this day of 2003

Chairman

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

For information on major variances against budget, refer to Note 11 (page 49)

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF CASH FLOWS
for the year ended 30 June 2003

	Note	Actual 2003 $000	Budget 2003 $000	Actual 2002 $000
CASH FLOWS - OPERATING ACTIVITIES				
Cash was provided from:				
- Ministry of Health		8,891	8,891	9,344
- Interest		223	120	110
- Other		(3,093)	-	466
- Net GST		209		2,102
		6,230	9,011	12,022
Cash was disbursed to:				
- Payments to suppliers and employees		(7,018)	(9,834)	(6,005)
- Referred Services contract organisations		-	-	(2,362)
- Net GST		-	(120)	-
		(7,018)	(9,954)	(8,367)
Net cash flow from operating activities	6	(788)	(943)	3,655
CASH FLOWS - INVESTING ACTIVITIES				
Cash was disbursed to:				
- Purchase of fixed assets		(154)	(250)	(465)
Net cash flow from investing activities		(154)	(250)	(465)
CASH FLOWS - FINANCING ACTIVITIES				
Cash was provided from:				
- Ministry of Health		-	-	-
Net cash flow from financing activities		-	-	-
Net increase in cash held		(942)	(1,193)	3,190
Add opening cash brought forward		4,093	4,093	903
Closing cash balance		3,151	2,900	4,093

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

For information on major variances against budget, refer to Note 11 (page 49)

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF COMMITMENTS
as at 30 June 2003

	2003 $000	2002 $000
Capital commitments approved and contracted	-	-
Other non-cancellable contracts		
At balance date PHARMAC had entered into non-cancellable contracts for the provision of services including lease on premises. Commitments under these contracts are as follows:		
Not later than one year	189	-
Later than one year and not later than two years	189	-
Later than two years and not later than five years	567	-
Later than five years	-	-
	945	-
Total commitments	$945	-

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF CONTINGENT LIABILITIES
as at 30 June 2003

PHARMAC had no contingent liabilities at 30 June 2003 (2002:NIL).

PHARMACEUTICAL MANAGEMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2003

Note 1: Net Surplus/(Deficit)

	2003 $000	2002 $000
The net surplus (deficit) is after charging for:		
Fees paid to auditors		
- external audit	13	18
- other services	-	32
Board members' fees	124	125
Depreciation:		
Furniture and fittings	44	40
Computer equipment	101	78
Office equipment	46	15
Leasehold improvements	33	20
Total depreciation for the year	224	154
Loss on disposal of assets	51	-
Rental expense on operating leases	175	53

PHARMACEUTICAL MANAGEMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 2: Public equity

General funds

	2003 $000	2002 $000
Opening balance	3,291	1,856
Net surplus/(deficit)	(283)	1,435
Closing balance	3,008	3,291

Note 3: Receivables and prepayments

	2003 $000	2002 $000
Ministry of Health	-	255
Others	3,531	-
GST receivable	-	4
Prepayments	43	85
Total	3,574	344

Note 4: Property, plant and equipment

	Cost $000	Accumulated Depreciation $000	Net Book Value $000
2002			
Furniture and fittings	248	138	110
Computer equipment	461	321	140
Office equipment	168	26	142
Leasehold improvements	103	20	83
Fixed asset work in progress	-	-	-
Total	**980**	**505**	**475**
2003			
Furniture and fittings	248	182	66
Computer equipment	518	367	151
Office equipment	171	71	100
Leasehold improvements	19	2	17
Fixed asset work in progress	21	-	21
Total	**977**	**622**	**355**

Note 5: Payables, accruals and provisions

	2003 $000	2002 $000
Trade creditors	726	873
Accrued expenses	587	641
Project funding received in advance	2,065	-
GST payable	522	-
Total payables and accruals	3,900	1,514

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

	2003 $000	2002 $000
Net surplus/(deficit) from operations	(283)	1,435
Add non-cash items:		
Depreciation	224	154
Total non-cash items	224	154
Add (less) movements in working capital items:		
Decrease/(increase) in receivables	(3,276)	(188)
Decrease/(increase) in prepayments	42	40
(Decrease)/increase in payables	(202)	(85)
(Decrease)/increase in project funding received in advance	2,065	-
(Decrease)/increase in employee entitlements	65	22
(Decrease)/increase in net GST	526	2,277
Working capital movements – net	(780)	2,066
Total investing activity		
Loss on disposal	51	-
Net cash flow from operating activities	(788)	3,655

Note 7: Related party information

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

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

Note 8: Financial instruments

Credit risk

- Financial instruments which potentially expose PHARMAC to credit risk consist of bank balances and accounts receivable.
- Bank balances are held with New Zealand registered banks.
- The values disclosed in the Financial Statements represent the maximum exposures on these financial instruments. No collateral is held for any of these financial instruments.

Concentration of credit risk

There is no significant concentration of credit risk.

Credit facilities

PHARMAC does not have a bank overdraft facility.

Fair value

The fair value of financial instruments approximate the carrying amount disclosed in the financial statements at 30 June 2003.

Note 9: Employee Remuneration

Total Remuneration and Benefits	Number of Employees	
$000	2003	2002
100 – 110	2	-
110 – 120	2	1
120 – 130	-	-
130 – 140	-	1
140 – 150	1	1
150 – 160	-	-
160 – 170	-	1
170 – 180	-	-
180 – 190	-	-
190 – 200	1	-

The chief executive's remuneration and benefits is in the $190,000 - $200,000 band (2002: $160,000 - $170,000 band)

Note 10: Board Fees

Board members earned the following fees during the year:

Member	Fees	
	2003	2002
	$000	$000
Mr Richard Waddel (Chair)	36	36
Mr Ross Black (resigned 30 June 2002)	-	18
Prof Gregor Coster	18	18
Ms Elizabeth Coutts (resigned 30 June 2003)	18	18
Ms Karen Guilliland	18	18
Mr David Moore	18	17
Mr Helmut Modlik (appointed 1 July 2002)	16	-

Note 11: Major Budget Variations

Statement of Financial Performance

The net deficit for the year ended 30 June 2003 is $1,585,000 less than the budgeted deficit of $1,868,000. The main reasons for the difference are:

- Other revenue of $179,000 related to contractual indemnities not included in the original budget.
- Interest received was higher than budgeted by $103,000 due to higher cash reserves being held at the bank.
- Major demand side initiative was not undertaken. The budget for the initiative was $1,200,000. It was replaced by another campaign where funding was received from

external sources.

- Other demand side initiatives did not begin when expected due to the new initiative and also contribute to this area being below budget.

Statement of Financial Position (and Cash Flows)

The lower than budgeted deficit outlined in the Statement of Financial Performance is reflected in the minimal reduction in Public Equity from the 30 June 2002 position recorded in the Statement of Financial Position. A significant proportion of this is held as cash.

PHARMAC invested in upgrades to its computer equipment during this financial year. Leasehold alterations made in the previous financial year were written off as a result of PHARMAC relocating its offices to accommodate its expanding workforce.

The increase in receivables and prepayments was due to funding in advance for a demand side initiative being invoiced for.

The increase in payables, accruals and provisions was due to the demand side initiative invoice for above being recorded as funding in advance.

Note 12: Compliance with the Public Finance Act 1989.

PHARMAC has breached the Public Finance Act 1989 in that the audited financial statements were not available within 120 days of the 30 June 2003 balance date required under sections 41 and 43.