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Annual Report of

Pharmaceutical Management Agency

for the year ended
30 June 2004

*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 2004.



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
Karen Guilliland
Helmut Modlik
David Moore
Adrienne von Tunzelmann

Pharmacology and Therapeutic Advisory Committee

Carl Burgess, Chairman

Chief Executive

Wayne McNee

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF PURPOSE

For the year ended 30 June 2004

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 2004

The 2003-04 year has seen PHARMAC take further steps to help the wider health sector, including DHBs manage their costs, and 15 new products have been added to the Pharmaceutical Schedule. The year also saw PHARMAC implement one of the sector's major expenditure shifts of recent years, the partial return to all-at-once dispensing.

The PHARMAC Board has been keen to ensure it continues to take a strategic approach to issues falling within PHARMAC's legislative mandate. This includes multi year planning and identifying where both Supply and Demand-Side activities can align with those areas identified as priorities in various Government health strategies. To this end, PHARMAC has been working closely with DHBs to identify where it can assist to manage costs, and a number of projects are being developed for the 2005 year and beyond. The three-year funding path for community pharmaceuticals agreed by the Minister of Health is a welcome move that will further assist PHARMAC's ability to plan and make decisions with certainty.

The partial return to all-at-once dispensing was implemented from 1 October 2003, and although the uptake rate has not been as high as originally thought, savings have still been significant, in excess of \$30 million per year. The lower rate of stat dispensing, and the delay in implementing low-cost prescriptions as a result of the introduction of Primary Healthcare Organisations (PHOs), meant that the indicative pharmaceutical budget was revised twice during the year. Initially set at \$539 million, it was increased to \$566 million when the decision to implement all-at-once dispensing was made, and a downwards revision to \$541 million reflected the impacts the implementation of these policies had on the volumes of medicines dispensed.

Expenditure for the year was \$534 million. PHARMAC was able to fund a higher than average number of new medicines than in previous years, continuing its legacy of giving more New Zealanders access to medicines while successfully managing the pharmaceutical budget. New medicines included treatments for severe depression, hepatitis C, childhood arthritis and alcohol addiction. In addition, DHBs have set aside around \$6 million for a pharmaceutical and health research fund, for 2004-05 and beyond.

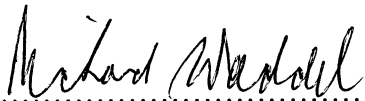
We continue to value the excellent service we receive from our many advisory committees. The Pharmacology and Therapeutics Advisory Committee (PTAC) and its various sub-committees have continued to function effectively under the leadership of Prof Carl Burgess, while input from the Consumer Advisory Committee (CAC) has had a real impact on PHARMAC's decisions during 2004. We welcome their contributions and look forward to continuing to develop our relationships with these committees.

I would like to thank my fellow Board members for their continuing efforts and dedication during what has been a challenging year. This year Adrienne von Tunzelmann was appointed to the PHARMAC Board for a three-year term. Adrienne brings a strong background in public policy work and is a valuable addition to the range of management, medical and other skills present on the Board.

I would also like to acknowledge the effort and continuing performance of PHARMAC's staff and the Chief Executive Wayne McNee. Health continues to be a challenging and at times

controversial environment and PHARMAC's ability to continue delivering is a significant achievement.

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 2004

PHARMAC has continued to build on its past successes during 2004 and also developed its internal capacity to deal with some of the challenges ahead.

During the past year PHARMAC added 15 new products to the Pharmaceutical Schedule, ensuring New Zealanders continue to have access to a broad and growing range of modern medicines. Significant investments during the year included pegylated interferon, a new form of interferon therapy for the treatment of hepatitis C; etanercept, a new type of arthritis drug for the treatment of childhood arthritis, the alcohol addiction treatment naltrexone and venlafaxine, a new treatment option for severe depression.

Overall, adding these new treatments to the list of subsidised medicines saw PHARMAC increase spending on medicines to \$534 million, and a further \$6 million has been allocated to the new pharmaceutical and health research fund, giving a final spend \$1 million under budget.

PHARMAC continued its work in helping DHB hospitals manage expenditure on pharmaceuticals and related products. Our work in purchasing hospital medicines on behalf of DHB hospitals is saving in the region of \$10 million per year, funds that can now be spent on other priority areas by DHBs. During the year we also reviewed the hospitals purchasing strategy, and the feedback we received has helped inform us as we look for continuing ways to progress the strategy.

This is a real and tangible way in which PHARMAC is assisting DHBs to manage their budgets, and we are continuing to work with DHBs to develop further areas for future years. This will see PHARMAC involved in purchasing the influenza vaccine, radiological contrast media and bulk intravenous fluids in 2005 and beyond.

In the past year PHARMAC staff have had to manage some major issues and at times have faced concerted lobbying. This was particularly the case around the reintroduction of all-at-once dispensing. I congratulate PHARMAC staff for working together as a team in the face of such opposition, and continuing to make decisions that are for the benefit of New Zealand patients and taxpayers.

Demand Side programmes are continuing to produce benefits. Our Wise Use of Antibiotics campaign is now in its sixth year, and its message is getting through. Research we commissioned this year showed that people are far less likely to expect an antibiotic to treat a cold or the flu than they were three years ago. This is showing up in prescribing figures – overall antibiotics prescriptions continue to fall and since 1999 there has been a 15 percent reduction in prescribing.

An evaluation of pilots for the One Heart Many Lives campaign showed it had been successful in raising awareness about cardiovascular risk, while more people had statins prescribed to lower their cholesterol, and there was also an increase in the number of people referred for the PHARMAC and SPARC-funded Green Prescriptions. We have been encouraged by the success of the One Heart Many Lives pilots and commenced the roll-out of the campaign into other areas, including the Auckland, Central North Island, Bay of Plenty and Porirua, in June 2004. Along with SPARC, we also decided to extend and increase

funding for Green Prescriptions, which research has shown is a cost-effective option for improving people's health through physical activity.

This year PHARMAC moved to new premises and enhanced its internal capacity to cope with the functions it now performs. The position of Maori Health Manager was created, a further step in implementing PHARMAC's Maori Responsiveness Strategy. Staff involved in working with high cost medicines panels and Exceptional Circumstances applications were relocated from Auckland to Wellington, thus completing the transfer of responsibility for these areas from the Ministry of Health to PHARMAC.

The year saw 10 staff leave PHARMAC, and 11 join. This is a higher rate of staff turnover than the low rate enjoyed by PHARMAC in recent years.

PHARMAC has again produced an operating surplus. This reflects continued prudent management of costs, reductions in the cost of producing the Pharmaceutical Schedule and litigation costs, and these offset the increase in costs associated with more staff and the move to new premises. Some Demand Side campaigns were delayed, or phased over the next couple of years. The funds have been carried over.

It has been another successful year for PHARMAC, and we look ahead with some certainty to continue making decisions that have a positive impact on New Zealanders' health. We will also continue to work with District Health Boards and develop projects in consultation with them to help them manage spending on pharmaceuticals and related products.



Wayne McNee
Chief Executive



PHARMACEUTICAL MANAGEMENT AGENCY GOVERNANCE AND ACCOUNTABILITY STATEMENT

For the year ended 30 June 2004

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 Output and Activities, achieves the 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 six-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 and production of 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 information technology and analytical work including cost utility analysis, expenditure reporting and forecasting; and
- the Manager Corporate who is responsible for human resource management, finance, risk reporting, 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 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.

A register is kept of the interests of PHARMAC staff, who 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 six-monthly to the Board on PHARMAC's compliance with relevant legislation.

Ethics

The Board regularly monitors whether staff maintain high standards of ethical behaviour and practice 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.

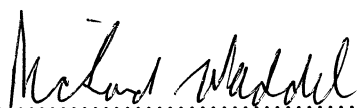
PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2004

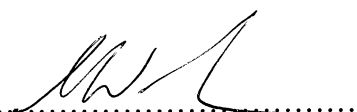
The Board and management of Pharmaceutical Management Agency accept responsibility for the preparation of the annual Financial Statements and the judgements used therein.

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.

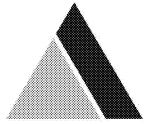
In the opinion of the Board and management of Pharmaceutical Management Agency, the Financial Statements for the year ended 30 June 2004, fairly reflect the financial position and operations of Pharmaceutical Management Agency.



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Richard A Waddel
Chairman
27 October 2004



.....
Wayne McNee
Chief Executive
27 October 2004



Audit New Zealand

AUDIT REPORT

TO THE READERS OF THE PHARMACEUTICAL MANAGEMENT AGENCY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

The Auditor-General is the auditor of the Pharmaceutical Management Agency (Pharmac). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of Pharmac, on his behalf, for the year ended 30 June 2004.

Unqualified opinion

In our opinion the financial statements of Pharmac on pages 17 to 42:

- ▲ comply with generally accepted accounting practice in New Zealand; and
- ▲ fairly reflect:
 - Pharmac's financial position as at 30 June 2004;
 - the results of its operations and cash flows for the year ended on that date; and
 - its service performance achievements measured against the performance targets adopted for the year ended on that date.

The audit was completed on 27 October 2004, and is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

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

Audit procedures generally include:

- ▲ determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- ▲ verifying samples of transactions and account balances;
- ▲ performing analyses to identify anomalies in the reported data;
- ▲ reviewing significant estimates and judgements made by the Board;
- ▲ confirming year-end balances;
- ▲ determining whether accounting policies are appropriate and consistently applied; and
- ▲ determining whether all financial statement disclosures are adequate.

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

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

Responsibilities of the Board and the Auditor

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of Pharmac as at 30 June 2004. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. The Board's responsibilities arise from the Public Finance Act 1989 and the New Zealand Health and Disability Act 2000.

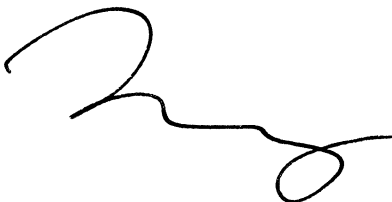

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 43(1) of the Public Finance Act 1989.

Independence

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

In addition to the audit, we have performed an assurance-related review of two entities for which Pharmac provides funding. That assignment is compatible with those independence requirements.

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



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

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2004

Reporting Entity

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

PHARMAC acts as an agent of the Ministry 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.

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.

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.

Statement of cash flows

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

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

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

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

Changes in accounting policies

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

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

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE For the year ended 30 June 2004

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 2003/04. The Audit Office 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 has also been set ownership performance targets.

PART A – PURCHASE OBJECTIVES

Activity One: Management of Community Pharmaceutical Expenditure

Deliverable

1.1 Subject to deliverable 1.2 below, PHARMAC will maintain expenditure on subsidised community pharmaceuticals for the year ending 30 June 2004 within \$539 million (excl GST), after deduction of rebates from pharmaceutical suppliers.

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

<u>Quarter</u>	<u>Target (millions)</u>
One	\$151.0
Two	\$306.0
Three	\$449.0
Four	\$594.0

Result

Cost ex manufacturer expenditure for the year ending June 2004 is likely to be \$533.73 million, \$7.27 million (1.3 percent) under the budget of \$541 million. The expenditure figure includes:

- \$82.26 million in rebates already paid; and
- a potential further \$4.02 million of rebates.

In addition, DHBs have agreed to allocate around \$6 million to a pharmaceutical and health research fund for 2004-05 and beyond, giving a final expenditure figure of \$540 million for 2003-04.

Cumulative expenditure (\$ millions)

Quarter	Original Target	Revised Target	Cumulative Actual	Variance
One	\$151.00	\$154.00	\$152.47	-\$1.53
Two	\$306.00	\$331.00	\$320.28	-\$10.72
Three	\$449.00	\$468.00	\$466.23	-\$1.77
Four	\$594.00	\$623.00	\$620.01	-\$2.99
Rebates	\$55.00	\$82.00	\$86.28	\$4.28
Year End Total	\$539.00	\$541.00	\$533.73	-\$7.27

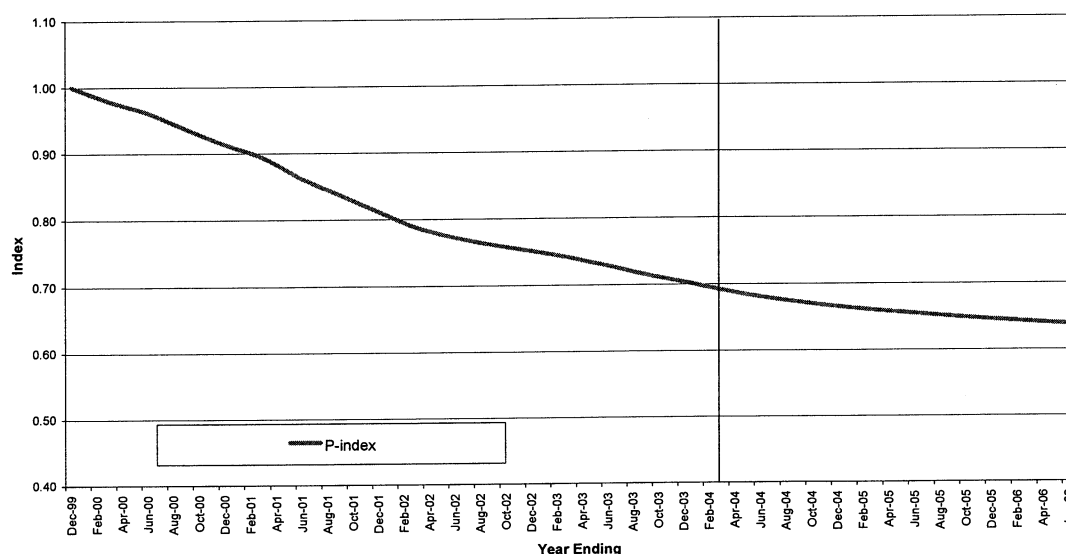
Other Information

Savings and Increases

PHARMAC has continued to achieve savings on currently subsidised medicines. This is done through a variety of purchasing methods including tendering for off-patent medicines, and reference pricing. Subsidy reductions in the 2003/04 financial year resulted in a full year's savings of approximately \$50.71 million.

The prices of subsidised pharmaceuticals are reducing and the forecast is for this pattern to continue.

Negative Inflation - the Pharmaceutical Subsidy Index



Decisions made

Decision type	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
New Chemical entity listed	32	18	20	7	3	15
New Presentation listed	40	21	13	11	15	27
New Product listed	56	39	28	60	45	49
Total new listings	128	78	61	78	63	91
Derestriction or expanded access	34	17	19	17	7	9
Changes that restrict or limit access	3	6	6	4	1	2
Delistings	51	362	135	89	196	72

PHARMAC added 15 new chemicals to the Pharmaceutical Schedule during 2003-04. These included treatments for childhood arthritis (etanercept), severe depression (venlafaxine), hepatitis C (pegylated interferon) and alcohol addiction (naltrexone). In addition to these new investment decisions, PHARMAC widened access to a further nine medicines.

The majority of new products added to the schedule, or products being delisted were due to changes through the PHARMAC tender, or by suppliers deciding to withdraw products.

In 2003-04 new investments and widening of access cost \$2.0 million. The largest single new investment in terms of cost was the listing of pegylated interferon, costing over \$1 million for the four months it was subsidised. Venlafaxine, listed on 1 January, was the next-most expensive new investment.

These new spending decisions saw an estimated 13,017 new patients treated with subsidised medicines. These numbers will increase significantly in coming years as many of the new medicines listed have not yet been subsidised for a full year.

PHARMAC invests considerable resources into determining not just where the pharmaceutical budget is spent, but what health gains are obtained through this investment. PHARMAC uses cost-utility analysis and measures outcomes in quality adjusted life years (QALYs). This measure enables medicines that perform different functions (such as extending or improving quality of life) to be compared on an equitable basis.

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

- venlafaxine (depression)
- etanercept (childhood arthritis)
- pegylated interferon alpha 2a (hepatitis C)
- pegylated interferon alpha 2b (hepatitis C)
- naltrexone (alcohol addiction)
- alendronate (osteoporosis)
- tacrolimus (organ transplants)
- etidronate (osteoporosis)

The data show investing in these eight drugs alone cost the Pharmaceutical Schedule \$1.87 million for an estimated 6998 new patients. These patients gained the equivalent of 104 full years of extra life (i.e. QALYs).

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In addition, this spending was matched by potential savings elsewhere in the Pharmaceutical Schedule or the rest of Vote:Health of \$525,000. These figures do not include the health benefit and savings which would have been gained from the other investments.

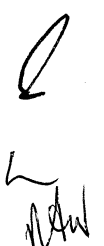
Numbers of patients benefiting from specific PHARMAC investment decisions, 2003/04

Investment decision	No. mths on PS*	Estimated no. new patients
venlafaxine	6	3,171
etanercept	5	30
pegylated interferon alpha-2a	4	282
pegylated interferon alpha-2b +/- ribavirin	1	27
losartan with hydrochlorothiazide	2	69
naltrexone	1	123
brinzolamide	1	114
travoprost	1	186
alendronate	12	1,146
Titralac	9	567
glyceryl trinitrate spray	9	4,069
sumatriptan injections	6	304
tacrolimus	5	114
etidronate	4	2,104
cyproterone acetate	4	195
losartan	2	515
Estimated total new patients	6.8	13,017
Total usage (person-year equivalents)	6.6	3,098

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

Note:

Patient numbers have been estimated from Health Benefits data, based on maximum monthly use for the year ending June 2004 beyond expected levels had investments not been made.



Deliverable

1.2 PHARMAC will review the quarterly pharmaceutical expenditure targets set out in deliverable 1.1 above and propose appropriate amendments to those deliverables to DHBs and the Ministry.

Result

The pharmaceutical budget for 2003-04 was originally set at \$539 million. In accordance with this deliverable PHARMAC revised the budget to \$566.6 million in September 2003 to take account of expected increases from All-at-Once-Dispensing. The budget target was revised a second time in May 2004 due to:

- A lower than anticipated uptake of All-at-Once Dispensing;
- A delay in implementing low-cost Primary Health Organisations;
- Savings greater than forecast; and
- An increase in forecast rebates

Deliverable

1.3 PHARMAC will provide the Ministry of Health with a 1-3 year forecast of pharmaceutical expenditure by 31 December 2003.

Result

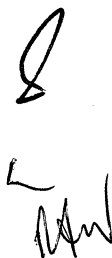
PHARMAC provided the Ministry of Health with a forecast in December 2003 and an updated forecast in February 2004.

Deliverable

1.4 Any potential deviation from the 2003/04 forecast will be promptly notified to the Ministry and identified in monthly reports if required.

Result

Deviations from budget were reported to the Ministry and Minister each month and this subsequently resulted in changes to the budget as discussed in deliverable 1.2 above.



Activity Two: Management of Hospital Pharmaceutical Procurement

PHARMAC has been authorised to manage hospital drug 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 to enable

- *Quantitative ability to monitor, report on DHB compliance with national contracts for hospital pharmaceuticals and act upon non-compliance identified.*
- *Calculation and payment to DHB hospitals of rebates and/or financial compensation payable under national contracts for hospital pharmaceuticals.*

All pharmaceuticals under national contracts are coded and monitored. All rebates and financial compensation calculations are completed and payments made in appropriate timeframes. Further products, not under national contracts, are coded in order of priority.

Deliverable

PHARMAC will identify new areas where national purchase arrangements would result in greatest savings to DHBs and implement such arrangements.

PHARMAC has agreed with DHBs to work with them in purchasing of influenza vaccine, radiological contrast media, bulk IV fluids and blood factor VIII.

Deliverable

PHARMAC will evaluate the National Hospital Pharmaceutical Strategy to assess its performance against the stated goals. A report will be provided to the Minister of Health including recommendations for the future of the Strategy.

PHARMAC carried out a review of the National Hospital Pharmaceutical Strategy, which included an assessment of financial impacts and qualitative research on aspects of the Strategy.

Implementation of the Strategy has had a positive financial impact on DHB Hospitals. This has resulted from negotiating national contracts and tendering for off-patent medicines, a process which has run in conjunction with PHARMAC's annual community pharmaceutical tender.

The gross savings achieved by national contracts are estimated to be:

Year Ending June 2004	Year Ending June 2005	Year Ending June 2006	Year Ending June 2007
\$10,110,710	\$10,548,723	\$10,492,929	\$8,717,556

As at December 2003 PHARMAC had implemented national contracts for 40% of annual hospital pharmaceutical expenditure. The savings do not include an estimate of any possible increase in cost of those pharmaceuticals outside of a national contract.

Qualitative research identified the costs and benefits seen in the Strategy by senior DHB officials. It also identified areas for continued work, such as improving communication, improving the provision of data, and the national Quality and Safe Use of Medicines strategy.

Deliverable

PHARMAC will promote and further develop processes for assessing new pharmaceutical technology in hospitals.

In the last financial year PHARMAC has completed and distributed nine cost-utility analyses to DHBs as part of the New Hospital Pharmaceutical Assessment Process.

PHARMAC will consult on options for further developing the process.

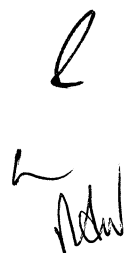
Deliverable

PHARMAC will promote the Quality Use of Medicines (QUM) in the hospital setting.

During 2004 the DHB CEOs formed a Safe Use of Medicines group. To avoid duplication of work PHARMAC agreed that the DHB CEOs lead the project with input from PHARMAC. PHARMAC staff are invited members on the DHB CEO Safe Use of Medicines Committee.

PHARMAC's role in the group is to assist with developing any quality or safe use of medicines projects that may arise from this committee.

Specific projects included developing and distributing a medication alert document regarding potassium chloride concentrate solution; developing a Safe and Quality Use of Medicines logo, and assisting with the organisation and sponsorship of the Quality and Safe Use of Medicines conference held in Wellington during May 2004.



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 provide information to patients to assist with patient compliance with medication usage.

- *Development of an implementation strategy for the stat dispensing proposal if approved. Resources to be provided to health professionals and patients about the changes and information to assist patient compliance with medicine usage.*

PHARMAC developed resources to inform patients and clinicians about the implementation of all-at-once dispensing. Resources were distributed to health professionals and copies sent to some specific patient groups on request. Health professional resources included patient resources for distribution through surgeries, pharmacies etc.

Resources were distributed from 15 September prior to 1 October implementation.

- *PHARMAC will inform Maori about the availability of subsidised medicines (strategy 5 of the Maori Responsiveness Strategy).*

PHARMAC developed projects that had specific health impacts on Maori. The One Heart Many Lives campaign, targeting high rates of cardiovascular disease, was specifically aimed at Maori and Pacific men aged 35 and over.

PHARMAC also developed a new resource for use by Maori asthma educators, and other asthma educators, a flip chart to help people understand their asthma and how to manage it.

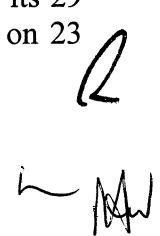
Deliverable

PHARMAC will promote the responsible use of pharmaceuticals by aiming to influence the volume and mix of drugs prescribed.

- *A report evaluating the Cardiovascular Management campaign pilot to be provided to the Ministry of Health.*

PHARMAC conducted pilots of the cardiovascular risk management campaign, One Heart Many Lives, in Gisborne and Porirua during 2003. An evaluation of the pilots found that there was an increased awareness of cardiovascular disease among the target audience, higher rates of referrals for Green Prescriptions, and a higher than average increase in prescribing of statins (cholesterol-lowering drugs). These factors indicated the campaign had had a positive effect.

A report on the evaluation of the campaign was provided to the PHARMAC Board at its 29 January 2004 meeting. A copy of the report was provided to the Ministry of Health on 23 February 2004.



- *Depending upon the evaluation outcome, PHARMAC will roll out the campaign nationally.*

The campaign has been rolled out to other North Island areas of high need, including South Auckland, Rotorua, Tauranga, Taupo and Porirua.

- *PHARMAC will undertake the "Wise Use of Antibiotics" campaign during the winter of 2003. A report evaluating the campaign to be provided to the Ministry of Health.*

An independent evaluation of the Wise Use of Antibiotics campaign showed continuing success of the campaign. The evaluation showed that the campaign was continuing to increase patients' awareness of the responsible way to use antibiotics, and of their role in treating colds and flu. This increase in understanding, and a corresponding decline in patients requesting or expecting an antibiotic to treat colds and flu, is in line with the aims of the campaign. Overall, there has been a 15 percent decline in antibiotic prescribing since the campaign's inception.

A copy of this report has been provided to the Ministry of Health.

Deliverable

PHARMAC will contract with external parties to provide services which promote the responsible use of pharmaceuticals.

- *PHARMAC will contract with a partnership representing the University of Otago, Southlink, Health IPA, IPAC and First Health to deliver services in 2003/04.*

PHARMAC signed a contract for services to promote the responsible use of medicines in October 2003.

The partnership has met all its specified outputs and outcomes targets for the 2004 financial year, except for facilitation, for which it has supplied PHARMAC with a refund.

Deliverable

PHARMAC will promote the responsible use of pharmaceuticals by making the Pharmaceutical Schedule (and if appropriate prescribing information) readily available to GPs.

The Pharmaceutical Schedule is supplied free of charge to all general practitioners in hard copy form.

- *A recommendation will be made to the PHARMAC Board regarding the feasibility of producing the Schedule on CD on an ongoing basis.*

At its meeting of 25 September 2003, the PHARMAC Board resolved that PHARMAC undertakes another pilot of the Schedule on CD to compare options for disseminating the Schedule information.

PART B – OWNERSHIP PERFORMANCES OBJECTIVES

Deliverable

As part of the DHB Relationship Agreement, set key initiatives to be jointly worked on.

DHBs and PHARMAC have agreed to work towards two key projects in the 2004-05 financial year – purchasing of influenza vaccines and management of the pharmaceutical cancer treatments basket.

Deliverable

Implementation of recommendations from evaluation of Maori Responsiveness Strategy:

- Develop cultural training plan for staff and implement

A Maori training and staff development programme has been developed with three specific areas of focus, kanohi ki te kanohi face to face engagement with Maori, knowledge development and skills development. The training programme has 6 modules including, te Tiriti o Waitangi – the Treaty of Waitangi, general cultural principles, the Maori health sector, Maori research methodology, assessment and analysis of information related to Maori and whanau, hapu and iwi development.

- Establish and document processes for assessment of new applications affecting Maori health priorities


A framework has been developed to ensure that Maori health needs are taken into account through the drug assessment and consultation process. The internal database has been updated and a new set of categories have been set up which will help us to target consultation appropriately.

- Initiate work on improving the collection and use of ethnicity data in decision making processes at PHARMAC

Work has been initiated on improving the collection and use of ethnicity data. PHARMAC will be working with other agencies to improve the way it collects and handles ethnicity data. Advice was also received from PHARMAC's Consumer Advisory Committee (CAC).

- Work with the Ministry of Health to develop relationships with Maori.

A number of meetings have been held with Ministry staff for the cardiovascular campaign, which is targeted at Maori men aged 35 and over. As well as working with the service team at the Ministry of Health, PHARMAC has involved the MoH in our database improvements. The role of PHARMAC's Manager Maori Health has been promoted via the Ministry of Health's newsletter mailed out to Maori stakeholders.

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Deliverable

PHARMAC will review the terms of reference of the Consumer Advisory Committee and undertake an evaluation of that Committee

A review of the Consumer Advisory Committee Terms of Reference has been completed, in consultation with the committee. As a result, some minor amendments were made to the Terms of Reference, these have been approved by the PHARMAC Board. Overall the committee is working well. There was one resignation from the committee in November 2003.

Deliverable

PHARMAC will monitor the process for developing key strategies to ensure they are effective and seek opportunities to improve working practices.

The PHARMAC Board held a strategic planning day, this involved input from PHARMAC Staff. Advice received during this strategic planning day has helped to inform prioritisation and strategic planning decisions. Further planning work by PHARMAC has helped to identify areas in which PHARMAC can improve its working practices, such as improving PHARMAC's internal information management systems.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2004

	Note	Actual 2004 \$000	Budget 2004 \$000	Actual 2003 \$000
Revenue				
<i>Crown:</i>				
Operating	7	8,060	8,061	6,103
Responsible use of pharmaceuticals		3,118	2,895	2,788
Interest received		280	120	223
Interest received – legal risk fund		121	-	-
Other revenue		67	-	179
Total revenue		<u>11,646</u>	<u>11,076</u>	<u>9,293</u>
Expenditure				
Operating costs		3,404	4,279	3,616
Salaries and related costs		3,055	3,084	2,629
Audit fees		15	15	13
Directors fees		119	124	124
Depreciation		243	250	224
Rentals and leases		156	210	175
High cost medicines		426	456	534
Responsible use of pharmaceuticals		2,284	4,715	2,261
Total expenditure		<u>9,702</u>	<u>13,133</u>	<u>9,576</u>
Net surplus/(deficit) for the period	1	<u>1,944</u>	<u>(2,057)</u>	<u>(283)</u>

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

For information on major variances against budget, refer to note 12 (page 42)

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PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF MOVEMENTS IN EQUITY
for the year ended 30 June 2004

	Note	Actual 2004 \$000	Budget 2004 \$000	Actual 2003 \$000
Public equity at the beginning of the period	2	3,008	3,148	3,291
Transfer of legal risk fund from Ministry of Health	2	4,267	-	-
Net surplus/(deficit)		<u>1,944</u>	<u>(2,057)</u>	<u>(283)</u>
Public equity as at the end of the period		9,219	1,091	3,008

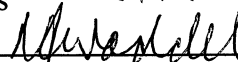
The accompanying accounting policies and notes form an integral part of these financial statements.



PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF FINANCIAL POSITION
as at 30 June 2004

	Note	Actual 2004 \$000	Budget 2004 \$000	30 June 2003 \$000
PUBLIC EQUITY				
Retained earnings & reserves	2	4,918	1,090	3,008
Legal Risk Fund	2	4,301	-	-
TOTAL PUBLIC EQUITY		<u>9,219</u>	<u>1,090</u>	<u>3,008</u>
Represented by:				
Current assets				
Cash and bank		12,431	2,001	3,151
Receivables and prepayments	3	317	1,056	3,574
Total current assets		<u>12,748</u>	<u>3,057</u>	<u>6,725</u>
Non-current assets				
Fixed assets	4	381	510	355
Total non-current assets		<u>381</u>	<u>510</u>	<u>355</u>
Total assets		<u>13,129</u>	<u>3,567</u>	<u>7,080</u>
Current liabilities				
Payables, accruals and provisions	5	3,728	2,477	3,900
Employee entitlements		182	-	172
Total current liabilities		<u>3,910</u>	<u>2,477</u>	<u>4,072</u>
NET ASSETS		<u>9,219</u>	<u>1,090</u>	<u>3,008</u>

Signed this 27th day of October 2004



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 12 (page 42)



PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF CASH FLOWS
for the year ended 30 June 2004

	Note	Actual 2004 \$000	Budget 2004 \$000	Actual 2003 \$000
CASH FLOWS - OPERATING ACTIVITIES				
Cash was provided from:				
- Ministry of Health		10,955	10,955	8,891
- Interest		401	120	223
- Other		3,175	-	(3,093)
- Net GST		-	-	209
		<u>14,531</u>	<u>11,075</u>	<u>6,230</u>
Cash was disbursed to:				
- Payments to suppliers and employees		(9,222)	(12,888)	(7,018)
- Net GST		(27)	(364)	-
		<u>(9,249)</u>	<u>(13,252)</u>	<u>(7,018)</u>
Net cash flow from operating activities	6	<u>5,282</u>	<u>(2,177)</u>	<u>(788)</u>
CASH FLOWS - INVESTING ACTIVITIES				
Cash was disbursed to:				
- Purchase of fixed assets		(269)	(236)	(154)
Net cash flow from investing activities		<u>(269)</u>	<u>(236)</u>	<u>(154)</u>
CASH FLOWS - FINANCING ACTIVITIES				
Cash was provided from:				
- Ministry of Health		4,267	-	-
Net cash flow from financing activities		<u>4,267</u>	<u>-</u>	<u>-</u>
Net increase in cash held		9,280	(2,413)	(942)
Add opening cash brought forward		3,151	4,414	4,093
Closing cash balance		<u>12,431</u>	<u>2,001</u>	<u>3,151</u>

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

For information on major variances against budget, refer to Note 12 (page 42)

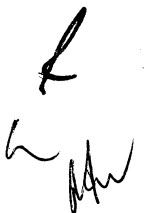
**PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF COMMITMENTS**
as at 30 June 2004

	2004	2003
	\$000	\$000
Capital commitments approved and contracted	-	-
Other non-cancellable contracts		
At balance date PHARMAC had entered into non-cancellable contracts for the provision of services including lease on premises. Commitments under these contracts are as follows:		
Not later than one year	189	189
Later than one year and not later than two years	189	189
Later than two years and not later than five years	378	567
Later than five years	-	-
	<u>756</u>	<u>945</u>
Total commitments	<u>\$756</u>	<u>\$945</u>



**PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF CONTINGENT LIABILITIES**
as at 30 June 2004

PHARMAC had no contingent liabilities at 30 June 2004 (2003:NIL).



PHARMACEUTICAL MANAGEMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2004

Note 1: Net Surplus/(Deficit)

	2004	2003
	\$000	\$000
The net surplus (deficit) is after charging for:		
Fees paid to auditors		
- external audit	15	13
- other services	15	-
Board members' fees	119	124
Depreciation:		
Furniture and fittings	49	44
Computer equipment	119	101
Office equipment	47	46
Leasehold improvements	28	33
<i>Total depreciation for the year</i>	243	224
Loss on disposal of assets	-	51
Rental expense on operating leases	156	175

Note 2: Public equity

General funds

	2004	2003
	\$000	\$000
Opening balance	3,008	3,291
Net surplus/(deficit)	1,944	(283)
Net transfer to legal risk fund	(34)	-
Closing balance	<u>4,918</u>	<u>3,008</u>

Legal risk fund

	2004	2003
	\$000	\$000
Opening balance	-	-
Transfer from Ministry of Health	4,267	-
Add: Interest received transferred from General funds	121	-
Less: Litigation expenses transferred from General funds	(87)	-
Closing balance	<u>4,301</u>	<u>-</u>

**PHARMACEUTICAL MANAGEMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Note 3: Receivables and prepayments

	2004 \$000	2003 \$000
Receivables	285	3,531
Prepayments	32	43
Total	<u>317</u>	<u>3,574</u>

Note 4: Property, plant and equipment

	Cost \$000	Accumulated Depreciation \$000	Net Book Value \$000
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	<u>977</u>	<u>622</u>	<u>355</u>
2004			
Furniture and fittings	310	226	84
Computer equipment	601	486	115
Office equipment	195	118	77
Leasehold improvements	134	28	105
Fixed asset work in progress	-	-	-
Total	<u>1,240</u>	<u>858</u>	<u>381</u>

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**PHARMACEUTICAL MANAGEMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Note 5: Payables, accruals and provisions

	2004 \$000	2003 \$000
Trade creditors	951	726
Accrued expenses	586	587
Project funding received in advance	2,057	2,065
GST payable	134	522
Total payables and accruals	<u>3,728</u>	<u>3,900</u>

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

	2004 \$000	2003 \$000
Net surplus/(deficit) from operations	1,944	(283)
<i>Add non-cash items:</i>		
Depreciation	243	224
Total non-cash items	<u>243</u>	<u>224</u>
<i>Add (less) movements in working capital items:</i>		
Decrease/(increase) in receivables	3,246	(3,276)
Decrease/(increase) in prepayments	11	42
(Decrease)/increase in payables	224	(202)
(Decrease)/increase in project funding received in advance	(8)	2,065
(Decrease)/increase in employee entitlements	10	65
(Decrease)/increase in net GST	<u>(388)</u>	<u>526</u>
Working capital movements – net	<u>3,095</u>	<u>(780)</u>
Total investing activity		
(Gain)/Loss on disposal	-	51
Net cash flow from operating activities	<u><u>5,282</u></u>	<u><u>(788)</u></u>

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PHARMACEUTICAL MANAGEMENT AGENCY NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2004.

PHARMACEUTICAL MANAGEMENT AGENCY NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 9: Employee Remuneration

Total Remuneration and Benefits \$000	Number of Employees	
	2004	2003
100 – 110	2	2
110 – 120	3	2
120 – 130	-	-
130 – 140	-	-
140 – 150	-	1
150 – 160	1	-
160 – 170	-	-
170 – 180	-	-
180 – 190	-	-
190 – 200	-	1
200 – 210	-	-
210 – 220	-	-
220 – 230	1	-

The chief executive's remuneration and benefits is in the \$220,000 - \$230,000 band (2003: \$190,000 - \$200,000 band)

Note 10: Board Fees

Board members earned the following fees during the year:

Member	Fees	
	2004	2003
	\$000	\$000
Mr Richard Waddel (Chair)	36	36
Prof Gregor Coster	18	18
Ms Elizabeth Coutts (resigned 30 June 2003)	-	18
Ms Karen Guilliland	18	18
Mr David Moore	18	18
Mr Helmut Modlik	16	16
Ms Adrienne von Tunzelmann (appointed 1 October 2003)	13	-

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PHARMACEUTICAL MANAGEMENT AGENCY NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 11: Terminations

This information is presented in accordance with section 67 2(c) of the New Zealand Public Health and Disability Act 2000. Termination payments include payments that the person is entitled to under contract on termination such as retirement payment, redundancy and gratuities. During the year PHARMAC made the following payments to former employees in respect of termination of employment with PHARMAC. (2003: Nil)

Number of employees	2004
	\$
1	8,077
1	12,231
1	14,125

Note 12: Major Budget Variations

Statement of Financial Performance

The net surplus for the year ended 30 June 2004 of \$1,944,000 is \$4,001,000 more than the budgeted deficit of \$2,057,000. The main reasons for the difference are:

- Interest received was higher than budgeted by \$280,000 due to higher cash reserves being held at the bank, including the transfer of the legal risk fund during the year from the Ministry of Health.
- Operating revenue in respect of responsible use of pharmaceuticals was higher than budget by \$223,000 owing to additional funding for an anticipated shortfall.
- Operating costs were \$875,000 less than budget mainly caused by timing delays on an informational projects, lower than expected costs for two external advisory committees and lower requirements for legal support.
- Postponement or reduction of activity for six project initiatives in responsible use of pharmaceuticals resulted in this area being \$2,431,000 less than budget.

Statement of Financial Position and Statement of Cashflows:

- Public equity has increased owing to the surplus for the year and transfer of the legal risk fund from the Ministry of Health. This is also reflected in the increased cash and bank balance at 30 June 2004.