
Annual Report of

Pharmaceutical Management Agency

for the year ended
30 June 2005

*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 2005.



Richard A Waddel
Chairman
Pharmaceutical Management Agency

CONTENTS

	PAGE
DIRECTORY	4
STATEMENT OF PURPOSE	5
CHAIRMAN'S REPORT	6
CHIEF EXECUTIVE'S REPORT	8
GOVERNANCE AND ACCOUNTABILITY STATEMENT	10
STATEMENT OF RESPONSIBILITY	13
AUDIT REPORT	14
FINANCIAL STATEMENTS	
Statement of Accounting Policies	17
Statement of Service Performance	20
Statement of Financial Performance	36
Statement of Movements In Equity	37
Statement of Financial Position	38
Statement of Cash Flows	39
Statement of Commitments	40
Statement of Contingent Liabilities	41
Notes to the Financial Statements	42

DIRECTORY

Head Office

Level 14, Cigna House
34-42 Mercer Street
Wellington

Postal Address

PO Box 10-254
Wellington
Telephone: (04) 460 4990
Facsimile: (04) 460 4995
Website: www.pharmac.govt.nz

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, Chair

Chief Executive

Wayne McNee

PHARMACEUTICAL MANAGEMENT AGENCY

STATEMENT OF PURPOSE

For the year ended 30 June 2005

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 2005

In the 2005 financial year PHARMAC's focus was as always on investing in new medicines, and improving outcomes for patients. The 25 new investments that PHARMAC was able to make during the year were the fruit of continuing discussions about the size of the pharmaceutical budget, and the amount necessary to enable ongoing increases in access for New Zealanders while still being manageable for District Health Boards.

The 2005 year also showed that PHARMAC is about more than just funding pharmaceuticals. It was a year in which PHARMAC continued to prove that it can add value to the work of DHBs and help them to manage their spending.

Discussions with DHBs had identified a number of areas where PHARMAC could use its position as a central purchaser, and its negotiating skills, to benefit the health sector. Two of these came to fruition in 2005 – influenza vaccine and recombinant blood products for haemophilia.

Unfortunately a manufacturing problem with the Vaxigrip brand of influenza vaccine that had been selected for the 2005 season meant that PHARMAC had to find alternative suppliers. Despite the delayed start to the subsidised immunisation campaign, there was a 15 percent higher than expected uptake – about 480,000 doses were administered.

There was a successful outcome to our contracting for recombinant factor VIII, a clotting agent used by people with haemophilia. PHARMAC reached agreements with all three suppliers, enabling people to remain on their preferred product, while savings of \$31 million over five years are predicted.

We're continuing to work with DHBs on a number of projects. These include contracting for bulk intravenous fluids and radiological contrast media, processes that have been put in place and should come to fruition in the following financial year.

Another major task is taking on the management of spending on pharmaceutical cancer treatments used in DHB hospitals. The Government wants nationally consistent access to a comprehensive range of pharmaceutical cancer treatments, and has asked PHARMAC to manage this in the future.

One of the key areas is knowing exactly what DHB hospitals spend on cancer drugs, so that when PHARMAC does take over managing the spending, this funding can be transferred to the pharmaceutical budget. The Board has agreed to defer implementation of this project until July 2007. This should provide sufficient time for DHB hospitals to put in place data collection systems, and to provide data to PHARMAC so that we have a clearer picture of what is spent on cancer treatments.

Promoting the responsible use of medicines is a major part of the work PHARMAC does. This year rolled out the One Heart Many Lives campaign further. PHARMAC supported three community-led projects in Porirua, including one run by a Pacific Island church. These were a pleasing response to the PHARMAC-led campaign which has been embraced at a community level. Our Wise Use of Antibiotics campaign also continued, this year with the support of scientists from ESR.

PHARMAC is committed to ensuring all New Zealanders have similar access to subsidised medicines, and developed the Maori Responsiveness Strategy to address the under-utilisation of medicines among Maori. Three years on it was time to report back on progress that had been made, so PHARMAC conducted a tour of nine hui to inform people about what has been achieved and to seek guidance on what the strategy could include in the future. This was a significant undertaking, involving most of PHARMAC's staff and Board members. In 2005/06 staff will develop the next phase of this Strategy.

We continue to obtain excellent input from our advisory committees, the Pharmacology and Therapeutics Advisory Committee under chairman Carl Burgess, its sub-committees and from the Consumer Advisory Committee (CAC), under Sandra Coney's guidance. There was a strong response from some quarters to the CAC's discussion document on health industry sponsorship of consumer health organisations. However, the Board supports the committee's work in this area and considers this is a debate that it is appropriate for the Committee to lead.

The Board also focused on PHARMAC's relationship with stakeholders, and how PHARMAC can make life easier for prescribers and patients alike. A new Stakeholder Strategy was developed, and will be implemented over the course of 2005/06, including implementing a review of Special Authorities, roll of out the electronic special authority applications and increasing the opportunities for prescribers to have vocational training.

There were no changes to the composition of the Board this year. I would like to thank my fellow Board members for their continued dedication and support throughout the year.

I also need to acknowledge the continued professionalism and dedication of the PHARMAC team and the Chief Executive Wayne McNee. In an often challenging environment, PHARMAC continues to meet its legislative objectives and to deliver on behalf of the people of New Zealand.

For and on behalf of the Board



.....
Richard A Waddel
Chairman

PHARMACEUTICAL MANAGEMENT AGENCY CHIEF EXECUTIVE'S REPORT

For the year ended 30 June 2005

The 2005 pharmaceutical budget of \$565 million gave considerable scope for new investments. At the same time, PHARMAC increased its internal capacity which helped enable us to complete a number of projects.

A more or less flat budget in recent years had seen a backlog of medicines that PHARMAC was unable to fund. Considerable progress was made in clearing this backlog in 2005, and the focus on new medicines and widen access will continue into the 2006 financial year.

Key investments included:

- Pioglitazone – a new treatment for type 2 diabetes. This is one of the new generation of diabetes drugs (known as glitazones) which improve the body's ability to use insulin. Initially this treatment was targeted to patients with type 2 diabetes who were unable to use other therapies.
- Tiotropium – an inhaled drug for the treatment of chronic obstructive pulmonary disease (COPD). This respiratory condition affects mainly older people, and tiotropium (Spiriva) provided advantages over previously-funded treatments for severe forms of the disease. PHARMAC estimates that about 40 percent of the spending on tiotropium will be offset by savings in other areas of healthcare – a high rate of offset for a pharmaceutical.
- Ezetemibe – the first of a new class of medicines called cholesterol absorption blockers.
- Letrozole – a hormonal treatment (an aromatase inhibitor) for breast cancer. Access was widened to enable letrozole to be funded as a first-line therapy for advanced breast cancer.
- Olanzapine – a treatment for mental illness. Access was widened to enable it to be funded for acute mania in bipolar disorder.
- Pegylated interferon alpha-2a – a treatment for chronic hepatitis C. Access was widened to include patients with other genotypes of Hepatitis C virus.
- Lopinavir with ritonavir – a rescue treatment for HIV/AIDS not responding to conventional antiviral treatments.
- Fentanyl patches – a treatment for severe long-standing pain.

In total, PHARMAC estimates that these and other investments saw 6721 new patients treated with subsidised medicines during the year. Some of these investments, such as tiotropium, have the capacity to reduce costs in other areas of health expenditure (such as hospitalisations).

The year wasn't without its controversies, with problems with the influenza vaccine and some patients raising issues around the Salamol brand of salbutamol inhalers. In the case of Salamol, our decision to defer sole supply and continuing to fund Ventolin at the same level as Salamol ought to give patients time to adjust to the new brand, and in the meantime Medsafe is continuing to test the inhalers.

Pharmaceutical expenditure rose to \$564.6 million for the year, \$400,000 within budget. This is an excellent outcome for the year, particularly when the emphasis for the year was on increasing spending and improving access to medicines.

PHARMAC continued to develop and strengthen its use of social marketing to promote the responsible use of medicines. It ran the following successful campaigns:

- Wise use of Antibiotics
- One Hearts Many Lives cardiovascular awareness campaign
- Asthma Management
- Best Practice Advocacy Centre
- Green Prescriptions

This year PHARMAC has again returned a small surplus on its operating budget. Overall operating costs rose to \$11.6 million, mainly through increases in staff costs, office costs and in managing the responsible use of medicines. During the year PHARMAC's staff numbers grew, following a period of less than optimal staffing. At the same time, PHARMAC reviewed its remuneration structure taking into account the tight labour market and overall trends in the public sector. As a result it should be easier to attract and retain staff in future, which is essential to PHARMAC continuing to have the capacity to undertake the work that has been evident in the past year.

It has been a successful year for PHARMAC, and we look forward to continuing to work with the sector to find ways to improve management of health spending, and to provide good outcomes for patients and taxpayers.



Wayne McNee
Chief Executive

PHARMACEUTICAL MANAGEMENT AGENCY GOVERNANCE AND ACCOUNTABILITY STATEMENT

For the year ended 30 June 2005

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 Crown Entities Act 2004 changes the legislative framework of PHARMAC for 2005/06. PHARMAC has considered the changes required and is ensuring it meets the new requirements.

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 2005


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 2005, fairly reflect the financial position and operations of Pharmaceutical Management Agency.



.....
Richard A Waddel
Chairman
27 October 2005



.....
Wayne McNee
Chief Executive
27 October 2005



AUDIT REPORT
TO THE READERS OF
THE PHARMACEUTICAL MANAGEMENT AGENCY'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

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 2005.

Unqualified opinion

In our opinion the financial statements of Pharmac on pages 17 to 47:

- ▲ comply with generally accepted accounting practice in New Zealand; and
- ▲ fairly reflect:
 - Pharmac's financial position as at 30 June 2005;
 - 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 2005, and is the date at which our opinion is expressed.

The basis of our 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 the 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 our opinion.

The 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 our opinion above.

Responsibilities of the Board and the Auditor

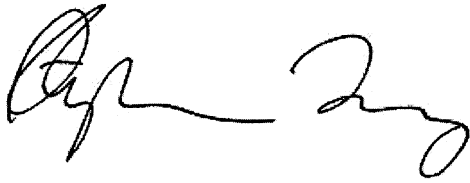
The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of Pharmac as at 30 June 2005. They must also fairly reflect the results of its operations and cash 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 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.

Other than the audit and the 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

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 2005 included on Pharmaceutical Management Agency's web site. The Board is responsible for the maintenance and integrity of the Pharmaceutical Management Agency's web site. 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.

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 27 October 2005 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 2005

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 2005

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 2004/05. 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:

- Management of Community Pharmaceutical Expenditure
- Management of Hospital Pharmaceutical Procurement
- 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 2005 within \$565 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	\$164.0
Two	\$333.0
Three	\$494.0
Four	\$664.0

Result

Cost ex manufacturer expenditure for the year ending June 2005 is likely to be \$564.60 million, \$0.4 million within the budget of \$565 million. The expenditure figure includes:

- \$92.3m million in rebates already paid;
- a potential further \$1.67 million of rebates; and
- \$7.81 million in agreed spending from rebates.

An additional \$10 million in rebates is in dispute and will be accounted for when the dispute is settled.

Cumulative expenditure (\$ millions)

Quarter	Cumulative Target	Cumulative Actual	Variance
One	\$164.00	\$161.31	-\$2.69
Two	\$333.00	\$329.13	-\$3.87
Three	\$494.00	\$484.14	-\$9.86
Four	\$664.00	\$650.76	-\$13.24
Rebates*	\$99.00	\$86.16	\$12.84
Year End Total	\$565.00	\$564.60	-\$0.40

Other Information

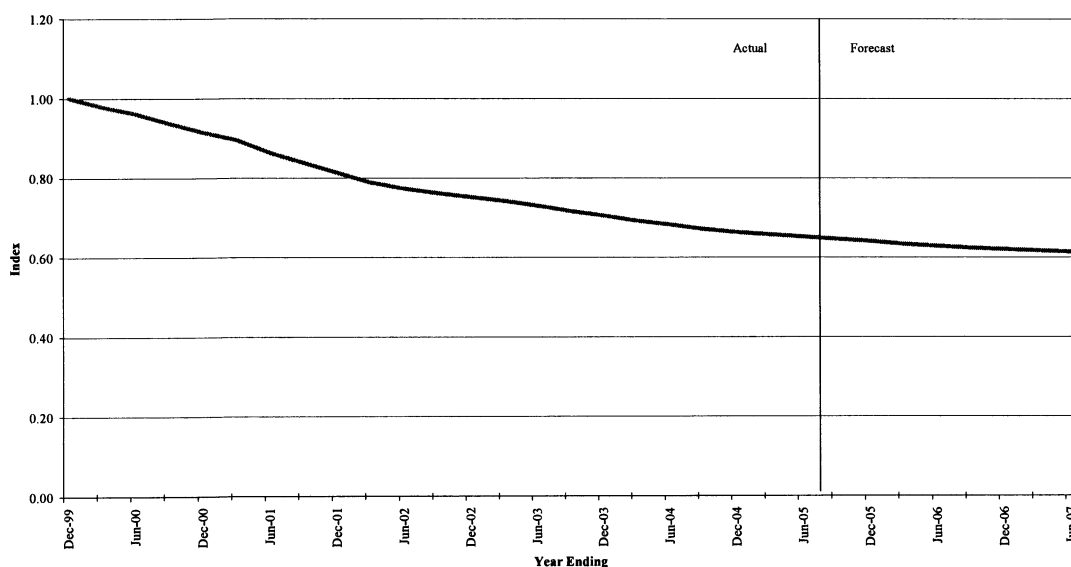
Savings and Increases

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 2004/05 financial year resulted in a full year's savings of approximately \$20.6 million. Subsidy increases in the 2004/05 financial year resulted in an additional cost of \$6.7 million.

	Increase	Saving	Total
Alimentary Tract and Metabolism	\$0.02	-\$3.27	-\$3.24
Cardiovascular System	\$4.22	-\$3.50	\$0.72
Dermatologicals		-\$0.26	-\$0.26
Infections - Agents for Systemic Use	\$0.02	-\$0.02	\$0.00
Musculoskeletal System	\$0.01		\$0.01
Nervous System	\$0.09	-\$3.04	-\$2.95
Oncology Agents and Immunosuppressants	\$0.07	-\$0.37	-\$0.29
Respiratory System and Allergies	\$0.68	-\$0.47	\$0.21
Sensory Organs		-\$0.06	-\$0.06
Tender	\$1.59	-\$9.61	-\$8.02
Total	\$6.71	-\$20.60	-\$13.89

The prices of subsidised pharmaceuticals are reducing at a slower rate than previously because savings from rebates are increasing.

Negative Inflation - the Pharmaceutical Subsidy Index



Decisions made

Decision type	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
New Chemical entity listed	32	18	20	7	3	15	9
New Presentation listed	40	21	13	11	15	27	14
New Product listed	56	39	28	60	45	49	51
Total new listings	128	78	61	78	63	91	74
Derestriction or expanded access	34	17	19	17	7	9	16
Changes that restrict or limit access	3	6	6	4	1	2	3
Delistings	51	362	135	89	196	72	59

PHARMAC added nine new products to the Pharmaceutical Schedule during 2004-05. These included treatments for cardiovascular risk (ezetimibe), chronic obstructive pulmonary disease (tiotropium), HIV/AIDS (lopinavir with ritonavir), severe long-standing pain (fentanyl patches), and diabetes (pioglitazone, blood glucose test meters).

In addition to these new investment decisions, PHARMAC widened access to a further sixteen medicines. These included treatments extending to more patients who had heart failure (candesartan), breast cancer (letrozole), nausea from cancer treatments (hyoscine, ondansetron, tropisetron), hepatitis B and C (lamivudine, pegylated interferon), and mental illness (olanzapine and quetiapine for bipolar disease, citalopram for depression).

In 2003-04 new investments and widening of access cost \$4.3 million. The largest single new investment in terms of cost was extending access to pegylated interferon, costing a further \$2.2 million for the ten months after the change. Ezetimibe, listed on 1 July, was the next-most expensive new investment.

These new spending decisions saw an estimated 6721 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 six new investments to show the impact on District Health Board (DHB) budgets, and on people's health. The data are for:

- ezetimibe (cardiovascular risk)
- lopinavir with ritonavir (HIV/AIDS)
- pioglitazone (Type 2 diabetes)
- fentanyl (severe long-standing pain)
- tiotropium (chronic obstructive pulmonary disease)
- letrozole (breast cancer)

The data show investing in these six drugs alone cost the Pharmaceutical Schedule \$1.9 million for an estimated 1883 new patients. These patients gained the equivalent of 98.9 full years of extra life (i.e. QALYs).

In addition, this spending was matched by potential savings elsewhere in the Pharmaceutical Schedule or the rest of Vote:Health of \$590,000. 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, 2004/05

Investment decision	No. mths on PS*	Estimated no. new patients
ezetimibe	12	2,154
lopinavir with ritonavir	12	53
pioglitazone	10	242
glucose blood diagnostic test meter	3	529
fentanyl	9	253
zuclopenthixol	8	411
tiotropium	5	754
insulin pen needles	4	73
influenza vaccine	7	
hyoscine (scopolamine)	12	26
quetiapine	12	0
gluten free foods	12	312
olanzapine	10	0
pegylated interferon alpha-2a	10	116
silver sulphadiazine	10	1,136
tropisetron	9	103
letrozole	6	122
candesartan	5	0
ondansetron	5	436
phenobarbitone	5	
insulin syringes	4	
insulin pen needles	4	
paracetamol	4	
lamivudine	1	
citalopram	1	
Estimated total new patients	8.9	6,721
Total usage (person-year equivalents)	8.6	3,104

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

Notes:

Patient numbers have been estimated from HealthPAC data, based on maximum monthly use for the year ending June 2005 beyond expected levels had investments not been made.

Blank entries mean that patient numbers cannot be estimated.

Zeros ("0") mean that patient numbers were lower than predicted had investments not been made (using simple linear trends and after accounting for numbers of patients using alternative drugs); hence numbers are not estimated.

Deliverable

1.2 PHARMAC will review the quarterly pharmaceutical expenditure targets phasing set out in deliverable 1.1 above and if appropriate propose amendments to those deliverables to DHBs and the Ministry. PHARMAC, in discussion with DHBs, will review the spend target mid way through the year, and recommend any adjustments to the Minister.

Result

No adjustments were made to the 2005-06 pharmaceutical budget.

Deliverable

1.3 PHARMAC will provide the Ministry of Health with a 1-3 year forecast of pharmaceutical expenditure by 31 December 2004.

Result

PHARMAC provided the Ministry of Health with a 1-3 year forecast in December 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.

Activity Two: 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 promote the responsible use of pharmaceuticals by aiming to influence the volume and mix of medicines prescribed.

- *An evaluation report on the Cardiovascular Management Campaign to be provided to the Ministry by 28 February 2005.*

An evaluation of the campaign showed a higher than the national average uptake in statin prescriptions, and an increase in awareness about cardiovascular disease among the target population. The evaluation report was provided to the Ministry of Health.

- *PHARMAC will undertake the "Wise Use of Antibiotics" campaign during the winter of 2004. A report evaluating the campaign to be provided to the Ministry by 31 December 2004.*

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 21 percent decline in antibiotic prescribing since the campaign's inception. Report provided by December 2004.

- *PHARMAC will provide Pharmhouse data to the Ministry demonstrating the results of the Diabetes Test Strip Project by 30 April 2005.*

This project was delayed due to concerns raised by Diabetes NZ, and a funding decision made by PHARMAC. PHARMAC is now working with Diabetes NZ to develop new resources for diabetes patients

- *PHARMAC will provide Pharmhouse data to the Ministry demonstrating the results of the Atypical Antipsychotics project by 30 June 2005.*

This project was delayed. PHARMAC has agreed to report back on this project in March 2006.

Deliverable

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

PHARMAC will contract with BPAC New Zealand to deliver services in 2004/05. Quarterly reports will be provided to PHARMAC by the partnership by the 20th of the month following

each quarter, detailing whether it has met the output and outcome targets agreed to in the contract and service plan.

PHARMAC will contract for the delivery of the Green Prescription programme in 2004/05. Quarterly reports will be provided to PHARMAC by SPARC by the 20th of the month following each quarter detailing whether the programme has met agreed targets in the contract.

BPAC and SPARC have been providing quarterly reports as agreed.

Both BPAC and SPARC are continuing to meet the agreed performance targets.

Deliverable

PHARMAC will promote the responsible use of pharmaceuticals by making the Pharmaceutical Schedule readily available to GPs.

- *PHARMAC will undertake an evaluation of a pilot of the Schedule on CD. An evaluation of a pilot to be completed by 30 June 2005.*

PHARMAC completed an evaluation of the Schedule CD pilot by June 2005. The PHARMAC Board has resolved not to re-pilot the scheme, rather to develop an interim online solution.

Activity Three: Management of Hospital Pharmaceutical Procurement

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

Deliverable

PHARMAC will collect hospital pharmaceutical utilisation data to monitor national contracts

- *Provide a report about DHB compliance with restricted brand contracts to DHBs and the supplier annually and complete any actions required to be taken by 1 November 2004.*

Initial correspondence with DHBs and suppliers began 24 September 2004. Final confirmation letters to DHBs and suppliers were issued in November.

- *Rebates under hospital pharmaceutical contracts calculated and distributed to DHBs within 6 months of the end of each rebate period.*

This has been achieved, however due to difficulties in calculating and distributing hospital rebates the payment schedule is slightly longer than 6 months.

Deliverable

Ensure that the Discretionary Community Supply System is effective

- *Review the Hospital DCS system by 31 December 2004..*

Achieved by December 2004

Deliverable

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

- *6-8 Cost Utility Analyses completed and shared with DHBs by 30 June 2005. Three by 31 December 2004*

Achieved. Three Cost Utility Analysis were completed and shared with DHBs by 31 December 2004. These were for Levosimendan, Palizumab and Risperidone consta.

- *Four to six by 30 June 2005.*

Achieved. Six Cost Utility Analysis were completed and shared with DHBs by 30 June 2005. These were for Levosimendan, Palizumab, Risperidone consta, Infliximab, Etanercept and Tirofiban

Deliverable

PHARMAC will consider its future involvement in the promotion of the Quality Use of Medicines and Safe Use of Medicines in the hospital setting by 30 September 2004.

DHBs set up a parallel work-stream and PHARMAC's Safe and Quality Use of Medicines project was absorbed into the DHB project. PHARMAC is represented on the DHB project team.

Deliverable

As part of the Hospital Strategy, PHARMAC will examine options to include radiological contrast media.

- *PHARMAC will provide information to DHB CEOs that identifies option(s) for establishing a competitive process, contracting system and inclusion in the Pharmaceutical Schedule. Consultation to be complete by 31 October 2004.*

Consultation on options was completed by 31 October 2004.

- *If agreed, PHARMAC will develop a process for DHB data provision to ensure compliance with any resulting agreement by 31 May 2005.*

Achieved

- *Implementation of agreed process by 31 May 2005.*

A process for DHB data provision was commenced by 31 May 2005.

Deliverable

As part of the Hospital Strategy, PHARMAC will examine options to include bulk intravenous fluids

- *PHARMAC will provide information to DHB CEOs that identifies option(s) for establishing a competitive process, contracting system and inclusion in the Pharmaceutical Schedule. Consultation to be complete by 31 October 2004.*

Consultation on options was completed by 31 October 2004.

- *If agreed, PHARMAC will develop a process for DHB data provision to ensure compliance with any resulting agreement by 31 May 2005.*

Achieved

- *Implementation of agreed process by 31 May 2005.*

A process for DHB data provision was commenced by 31 May 2005.

Deliverable

PHARMAC will extend the Hospital Strategy to include recombinant blood products.

- PHARMAC will work with the New Zealand Blood Service (NZBS), the Ministry of Health, DHB NZ and the DHB Working group on the strategy and future contracting for supply of recombinant blood products.

- PHARMAC will present an options paper to the PHARMAC Board subject to an outcome being agreed by NZBS, MOH and DHBNZ, by 31 December 2004.

PHARMAC sought agreement with the NZ Blood Service, the Ministry of Health and District Health Boards on the purchasing of recombinant factor VIII. PHARMAC reached agreements with the suppliers of recombinant factor VIII to ensure ongoing supply by 31 December 2004. Savings in the region of \$31 million over five years are forecast.

Deliverable

Review of the Hospital Pharmaceutical Advisory Committee (HPAC).

- *Review the structure and function of HPAC by 31 December 2004.*

PHARMAC reviewed the scope and membership of HPAC by 31 December 2004. A new committee has been appointed.

Activity Four: Research Fund

PHARMAC will develop a fund that will be used to fund independent health research in partnership with the Health Research Council.

- *Work with DHBs to establish a fund and get DHBs' approval for a research budget by 31 December 2004.*

Achieved.

- *PHARMAC will present a budget proposal to the Minister of Health by 31 May 2005.*

Achieved. PHARMAC worked with DHBs to establish a Health Sector Research Fund. A budget proposal was presented to the Minister of Health by 31 May 2005. PHARMAC transferred \$6.2 million to HRC on 30 June 2005.

Activity Five: Assist DHBs on New Initiatives

Deliverable

PHARMAC will assist DHBs by procuring the influenza vaccine.

- *Issue a Request for Proposals by 31 July 2004.*

Achieved

- *Evaluating proposals, negotiating with submitter(s) of one or more preferred proposals by 31 August 2004.*

Achieved

- *Consulting on a provisional agreement and PHARMAC's Board or Chief Executive considering this provisional agreement by 30 September 2004.*

Achieved.

PHARMAC contracted Merck Sharpe and Dohme (MSD) and Sanofi Pasteur for the supply of influenza vaccine for 2005 winter campaign. The contracted supplier failed to gain the appropriate regulatory approvals on time, requiring PHARMAC to reach agreements with GSK, Solvay, CSL and Health Care Logistics for the supply and distribution of influenza vaccine. Despite a slight delay in starting the campaign due to Sanofi Pasteur's and MSD's failure to get registration on time, overall uptake of subsidised vaccine was higher than any previous year, with approximately 480,000 patients being vaccinated in 2005.

Deliverable

PHARMAC will assist DHBs by managing the expenditure of Pharmaceutical Cancer Treatments.

- *Review Oncology basket, develop and consult on Pharmaceutical Schedule Rules by 31 October 2004.*

Achieved. Advice was sought and consultation undertaken on Pharmaceutical Schedule rules related to pharmaceutical cancer treatments by 31 October 2004.

- *Develop Budget setting process by 30 November 2004.*

Achieved

- *Consult with suppliers and publish new rules by 31 March 2005. Implementation from 1 July 2005.*

PHARMAC consulted on a proposal to manage spending on pharmaceutical cancer treatments. Following assessment of feedback, the PHARMAC Board decided to delay implementation of the proposal until July 2007.

PART B – OWNERSHIP PERFORMANCE OBJECTIVES

Deliverable

PHARMAC works effectively with DHBs.

- Complete strategic initiatives to assist DHBs, and develop appropriate reporting mechanisms.

PHARMAC has commenced processes to manage the purchasing of radiological contrast media, bulk intravenous fluids and recombinant blood products on behalf of DHBs. PHARMAC took over contracting for influenza vaccine in 2004-05 and has commenced a process to manage spending on pharmaceutical cancer treatments (see above).

- Review the implementation of all-at-once dispensing, as agreed when the policy was implemented by 1 October 2004.

PHARMAC reviewed the implementation of all-at-once dispensing by 1 October 2004.

PHARMAC continued to improve the working relationship with DHBs, completing Community Pharmaceutical Budget negotiations and providing the Minister of Health with a joint recommendation for the size of the budget in 2005/06 and indicative budgets for the following two years.

PHARMAC worked with DHBs on Demand Side initiatives, including the One Hearts Many Lives Campaign, Asthma Campaign and BPAC contract.

PHARMAC's Chair and CEO commenced a second round of visits to all 21 DHB Boards outlining the work PHARMAC does and seeking feedback on how we can continue to strengthen co-operative relationships.

PHARMAC extended its work assisting DHBs via contracting for the National Influenza Campaign, recombinant blood and national contracts for a range of generic medicines used in the DHB hospital sector.

Deliverable

PHARMAC will ensure that all New Zealanders have similar access to subsidised pharmaceuticals by implementing its Maori Responsiveness Strategy

- **PROJECT I** – Develop patient and whanau education resources dealing with the use of medications – (linked to project II train the trainer hui) by 30 March 2005..

This project was delayed. PHARMAC consulted with whanau on developing a project. Further work, including development of resources, is continuing.

- **PROJECT II** – Train the trainer hui to be held for:
 - Maori Disease State Management Nurses;
 - Maori Community Health Workers; and
 - Maori Community Nurses.
- By 31 May 2005

Delayed due to internal resourcing issues. This project will be progressed in the 2006 financial year.

- **PROJECT III** -- Maori provider and stakeholder hui to build relationships and understanding of PHARMAC and subsidised medicines and the demand side campaigns by 30 June 2005.

Nine hui were held between 2 February and 11 March 2005. A report on the hui has been provided to the PHARMAC Board, with recommendations for ongoing work.

- *Analyse options and report to PHARMAC Board on the capture and use of information that will assist in ensuring consistent access to subsidised medicines for all New Zealanders. Specifically looking at:*
 - *Nationwide surveillance*
 - *Sentinel surveillance*
 - *Discrete epidemiological cross sectional surveys*

This project is progressing.

Deliverable

PHARMAC will consider input from a consumer or patient point of view.

- *PHARMAC with the assistance of the Consumer Advisory Committee will undertake a project to update the lists of groups, parties and individuals that PHARMAC consults with by 31 March 2005.*

Following input from the Consumer Advisory Committee, PHARMAC updated its consultation database, and implemented a new process for maintaining the database by 31 March 2005. This will assist PHARMAC in more effectively communicating with consumers on medicine funding issues.

Deliverable

PHARMAC will develop with DHBs an ongoing mechanism for funding of Demand Side activity.

- Develop, consult and get agreement for the on-going funding of Demand Side Initiatives with DHBs by 30 November 2004.

Achieved. PHARMAC signalled the need for on-going funding of Demand Side initiatives by 30 July 2004. PHARMAC consulted with District Health Boards by 30 November 2004.

- DHB financial support for Demand Side in 2005/06 agreed with DHBs by 31 March 2005.

Funding for Demand Side activities for 2005-06 was agreed by 31 March 2005.

**PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF FINANCIAL PERFORMANCE**
for the year ended 30 June 2005

	Note	Actual 2005 \$000	Budget 2005 \$000	Actual 2004 \$000
Revenue				
Crown:				
Operating	7	8,060	8,060	8,060
Responsible use of pharmaceuticals		2,928	2,895	3,118
Interest received		470	190	280
Interest received – legal risk fund		286	-	121
Proceeds of legal settlement-legal risk fund		125	-	-
Other revenue		500	-	67
Total revenue		12,369	11,145	11,646
Expenditure				
Operating costs		4,265	3,617	3,404
Salaries and related costs		3,502	3,572	3,055
Audit fees		25	15	15
Directors fees		124	121	119
Depreciation		203	280	243
Rentals and leases		191	288	156
High cost medicines		301	412	426
Responsible use of pharmaceuticals		3,070	4,570	2,284
Total expenditure		11,681	12,875	9,702
Net surplus/(deficit) for the period	1	688	(1,730)	1,944

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 47)

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF MOVEMENTS IN EQUITY
for the year ended 30 June 2005

	Note	Actual 2005 \$000	Budget 2005 \$000	Actual 2004 \$000
Public equity at the beginning of the period	2	9,219	9,136	3,008
Transfer of legal risk fund from Ministry of Health	2	-	-	4,267
Net surplus/(deficit)		<u>688</u>	<u>(1,730)</u>	<u>1,944</u>
Public equity as at the end of the period		9,907	7,406	9,219

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 47)

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF FINANCIAL POSITION
as at 30 June 2005

	Note	Actual 2005 \$000	Budget 2005 \$000	30 June 2004 \$000
PUBLIC EQUITY				
Retained earnings & reserves	2	5,435	3,105	4,918
Legal Risk Fund	2	4,472	4,301	4,301
TOTAL PUBLIC EQUITY		<u>9,907</u>	<u>7,406</u>	<u>9,219</u>
Represented by:				
Current assets				
Cash and bank		11,492	10,373	12,431
Receivables and prepayments	3	1,712	181	317
Total current assets		<u>13,204</u>	<u>10,554</u>	<u>12,748</u>
Non-current assets				
Fixed assets	4	365	400	381
Total non-current assets		<u>365</u>	<u>400</u>	<u>381</u>
Total assets		<u>13,569</u>	<u>10,954</u>	<u>13,129</u>
Current liabilities				
Payables, accruals and provisions	5	3,495	3,548	3,728
Employee entitlements		167	-	182
Total current liabilities		<u>3,662</u>	<u>3,548</u>	<u>3,910</u>
NET ASSETS		<u>9,907</u>	<u>7,406</u>	<u>9,219</u>

Signed this 27th day of October 2005



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 47)

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF CASH FLOWS
for the year ended 30 June 2005

	Note	Actual 2005 \$000	Budget 2005 \$000	Actual 2004 \$000
CASH FLOWS - OPERATING ACTIVITIES				
Cash was provided from:				
- Ministry of Health		10,988	12,324	10,955
- Interest		756	190	401
- Other		458	-	3,175
- Net GST		203	-	-
		<u>12,405</u>	<u>12,514</u>	<u>14,531</u>
Cash was disbursed to:				
- Payments to suppliers and employees		(13,157)	(13,600)	(9,222)
- Net GST		(-)	(364)	(27)
		<u>(13,157)</u>	<u>(13,964)</u>	<u>(9,249)</u>
Net cash flow from operating activities	6	<u>(752)</u>	<u>(1,450)</u>	<u>5,282</u>
CASH FLOWS - INVESTING ACTIVITIES				
Cash was disbursed to:				
- Purchase of fixed assets		(187)	(280)	(269)
Net cash flow from investing activities		<u>(187)</u>	<u>(280)</u>	<u>(269)</u>
CASH FLOWS - FINANCING ACTIVITIES				
Cash was provided from:				
- Ministry of Health		-	-	4,267
Net cash flow from financing activities		<u>-</u>	<u>-</u>	<u>4,267</u>
Net increase/(decrease) in cash held		(939)	(1,730)	9,280
Add opening cash brought forward		12,431	12,103	3,151
Closing cash balance		<u>11,492</u>	<u>10,373</u>	<u>12,431</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 47)

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF COMMITMENTS
as at 30 June 2005

	2005	2004
	\$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	191	189
Later than one year and not later than two years	191	189
Later than two years and not later than five years	191	378
Later than five years	-	-
	<u>573</u>	<u>756</u>
Total commitments	<u>\$573</u>	<u>\$756</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 47)

**PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF CONTINGENT LIABILITIES**
as at 30 June 2005

PHARMAC had no contingent liabilities at 30 June 2005 (2004:NIL).

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 47)

PHARMACEUTICAL MANAGEMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 1: Net Surplus/(Deficit)

	2005	2004
	\$000	\$000
The net surplus (deficit) is after charging for:		
Fees paid to auditors		
- external audit	25	15
- other services	18	15
Board members' fees	124	119
Depreciation:		
Furniture and fittings	29	49
Computer equipment	89	119
Office equipment	39	47
Leasehold improvements	46	28
<i>Total depreciation for the year</i>	203	243
Rental expense on operating leases	191	156

Note 2: Public equity

General funds

	2005	2004
	\$000	\$000
Opening balance	4,918	3,008
Net surplus/(deficit)	688	1,944
Net transfer to legal risk fund	(171)	(34)
Closing balance	<u>5,435</u>	<u>4,918</u>

Legal risk fund

	2005	2004
	\$000	\$000
Opening balance	4,301	-
Transfer from Ministry of Health	-	4,267
Add: Interest received transferred from General funds	286	121
Less: Litigation expenses transferred from General funds	(240)	(87)
Add: Proceeds of legal settlement	125	-
Closing balance	<u>4,472</u>	<u>4,301</u>

PHARMACEUTICAL MANAGEMENT AGENCY NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 3: Receivables and prepayments

	2005 \$000	2004 \$000
Receivables	1,709	285
Prepayments	3	32
Total	<u>1,712</u>	<u>317</u>

Note 4: Property, plant and equipment

	Cost \$000	Accumulated Depreciation \$000	Net Book Value \$000
2004			
Furniture and fittings	310	226	84
Computer equipment	601	486	115
Office equipment	195	118	77
Leasehold improvements	133	28	105
Fixed asset work in progress	-	-	-
Total	<u>1,239</u>	<u>858</u>	<u>381</u>
2005			
Furniture and fittings	322	254	68
Computer equipment	690	554	136
Office equipment	251	158	93
Leasehold improvements	136	75	61
Fixed asset work in progress	7	-	7
Total	<u>1,406</u>	<u>1,041</u>	<u>365</u>

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

Note 5: Payables, accruals and provisions

	2005 \$000	2004 \$000
Trade creditors	1,095	951
Accrued expenses	480	586
Project funding received in advance	1,785	2,057
GST payable	135	134
Total payables and accruals	<u>3,495</u>	<u>3,728</u>

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

	2005 \$000	2004 \$000
Net surplus/(deficit) from operations	688	1,944
<i>Add non-cash items:</i>		
Depreciation	<u>203</u>	<u>243</u>
Total non-cash items	<u>203</u>	<u>243</u>
<i>Add (less) movements in working capital items:</i>		
Decrease/(increase) in receivables	(1,424)	3,246
Decrease/(increase) in prepayments	29	11
(Decrease)/increase in payables	38	224
(Decrease)/increase in project funding received in advance	(272)	(8)
(Decrease)/increase in employee entitlements	(15)	10
(Decrease)/increase in net GST	<u>1</u>	<u>(388)</u>
Working capital movements – net	<u>(1,643)</u>	<u>3,095</u>
Net cash flow from operating activities	<u>(752)</u>	<u>5,282</u>

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 2005.

PHARMACEUTICAL MANAGEMENT AGENCY NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 9: Employee Remuneration

Total Remuneration and Benefits \$000	Number of Employees	
	2005	2004
100 – 110	1	2
110 – 120	-	3
120 – 130	-	-
130 – 140	1	-
140 – 150	2	-
150 – 160	-	1
160 – 170	-	-
170 – 180	1	-
180 – 190	-	-
190 – 200	-	-
200 – 210	-	-
210 – 220	-	-
220 – 230	-	1
230 – 240	-	-
240 – 250	1	-

The chief executive's remuneration and benefits is in the \$240,000 - \$250,000 band (2004: \$220,000 - \$230,000 band)

Note 10: Board Fees

Board members earned the following fees during the year:

Member	Fees	
	2005	2004
	\$000	\$000
Mr Richard Waddel (Chair)	36	36
Prof Gregor Coster	18	18
Ms Karen Guilliland	18	18
Mr David Moore	18	18
Mr Helmut Modlik	17	16
Ms Adrienne von Tunzelmann	17	13

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 no payments to former employees in respect of termination of employment with PHARMAC. (2004: \$34,433)

Note 12: Major Budget Variations

Statement of Financial Performance

The net surplus for the year ended 30 June 2005 of \$688,000 is \$2,418,000 more than the budgeted deficit of \$1,730,000. The main reasons for the difference are:

- Interest received was higher than budgeted by \$280,158 due to higher cash reserves being held at the bank.
- Other revenue was higher than budget by \$500,000 owing to additional receipts from liquidated damages.
- Operating costs were \$648,000 more than budget due to increase in contractors and HealthPAC costs.
- Postponement or reduction of activity for some project initiatives in responsible use of pharmaceuticals resulted in this area being \$1,533,000 less than budget. These initiatives have been rescheduled for the 2005/06 year.

Statement of Financial Position and Statement of Cashflows:

- Public equity has increased owing to the surplus for the year.