

Pharmaceutical Management Agency Annual Report

For the year ended 30 June 2007

Presented to the House of Representatives
pursuant to Section 150(3) of the Crown Entities Act 2004



CONTENTS

CHAIRMAN'S REPORT	1
INTRODUCTION	1
ROLES AND RESPONSIBILITIES	1
STATEMENT OF RESPONSIBILITY	3
AUDIT REPORT	4
STATEMENT OF SERVICE PERFORMANCE	7
STATEMENT OF ACCOUNTING POLICIES	16
STATEMENT OF FINANCIAL PERFORMANCE	19
STATEMENT OF MOVEMENTS IN EQUITY	20
STATEMENT OF FINANCIAL POSITION	21
STATEMENT OF CASH FLOWS	22
STATEMENT OF COMMITMENTS	23
STATEMENT OF CONTINGENT LIABILITIES	24
NOTES TO THE FINANCIAL STATEMENTS	25

PHARMAC DIRECTORY

<p>Head Office Level 14, Cigna House 40 Mercer Street Wellington</p>	<p>Postal Address PO Box 10-254 Wellington Telephone: (04) 460 4990 Facsimile: (04) 460 4995 Website: www.pharmac.govt.nz</p>
<p>Board Members Richard Waddel – Chair Prof Gregor Coster C.N.Z.M – Deputy Chair Kura Denness – Chair, Audit Committee Karen Guilliland (retired July 2007) David Moore Adrienne von Tunzelmann Dr David Kerr (appointed August 2007)</p>	<p>Chief Executive Wayne McNee (on secondment) Matthew Brougham (Acting)</p>
<p>Pharmacology and Therapeutic Advisory Committee Prof Carl Burgess – Chair</p>	<p>Consumer Advisory Committee Sandra Coney – Chair</p>
<p>Auditors Audit New Zealand</p>	<p>Bankers ASB Bank Limited</p>
<p>Solicitors Bell Gully</p>	<p>Insurers Circle (underwritten by IAG NZ Limited) Lumley General Insurance (NZ) Limited American Home Assurance Company</p>

CHAIRMAN'S REPORT

PHARMAC has continued to achieve good results in another challenging year. Continued high-profile campaigns for expensive medicines, and a focus on the development of the Government's Medicines Strategy, have kept the spotlight on PHARMAC. That spotlight provides a focussed reminder of the need to be careful in the decisions we make, to make ongoing improvements to our operations, and to get our priorities right so that we can continue to fulfill our role of securing the best health outcomes for New Zealanders from pharmaceutical funding.

The 2006-07 financial year has seen PHARMAC continue its record of growing New Zealanders' access to funded medicines while managing spending within budget. It has also produced further benefits and efficiencies for District Health Boards through hospital procurement activities.

PHARMAC's primary role continues to be in the management of pharmaceutical expenditure on behalf of District Health Boards. This year spending was \$599.37 million, which was \$630,000 (0.1%) within budget. Under its legislation, PHARMAC must retain expenditure within budget and it is important to remember that any funds not used for pharmaceuticals remain available for DHBs for other purchasing.

Medicines investments grow

PHARMAC made 39 new investments during the year, 11 of which were new medicines being funded on the Pharmaceutical Schedule, while access was widened to 28 other medicines. Significant investments were made in the areas of diabetes, asthma, HIV/AIDS, cancer and heart disease. These are all areas of considerable illness and mortality in New Zealand, albeit with an improved outlook as a result of PHARMAC's decisions.

This is a high level of new investments compared to previous years. As ever, PHARMAC has been careful to prioritise new spending to ensure the best health outcomes are achieved. Key investments included:

- Clopidogrel – a blood-thinning drug used in patients who have had heart surgery. 5000 patients will gain access each year at a cost of \$22 million over five years. By value this was the largest single investment of 2006-07;
- Insulin glargine – a new long-acting insulin for diabetes treatment costing \$5.4 million over five years, with over 3200 people gaining access;
- 5 new HIV/AIDS treatments – including a new type of NRTI (tenofovir), plus the first in a new class of anti-HIV medicines, enfuvirtide; and
- widening access to asthma combination inhalers – 40,000 more patients will gain access. In addition, the combination inhaler Seretide is now subsidised.

Prescription numbers continued to grow reflecting increasing use of medicines and the continuing influence of the Government's reduction in co-payments, which have made medicines even more affordable and accessible.

In addition to funding these and other treatments, we continued to work closely with DHBs on the funding of pharmaceutical cancer treatments. Access was widened to paclitaxel for breast cancer, giving 550 more patients each year access with a rise in spending of \$12.5 million over five years. In April 2007, funding was approved for a 9-week concurrent course of Herceptin for a type of breast cancer, which has been funded from 1 July 2007.

While funding has been provided, there is still uncertainty over the best way to use Herceptin – whether in combination with other agents or on its own; and if given in combination for a short or long duration. To help reduce this uncertainty, PHARMAC agreed to provide funding, from PHARMAC's operating budget, for an international clinical trial.

DHB Procurement

PHARMAC is continuing to make important contributions to the broader health sector through procurement work on behalf of DHBs. Particularly pleasing has been the continued development of projects to help DHB hospitals with national purchasing projects. These projects underline the special relationship between DHBs and PHARMAC and are a real way that PHARMAC can help find efficiencies in hospital spending. Significant procurement projects included:

- bulk intravenous fluids – this has resulted in savings of \$1.3 million over five years. In addition, arrangements include securing supply of a range of premix heparin and potassium chloride solutions, which are seen as a safety improvement as they reduce the need to mix preparations on the ward;
- Radiological Contrast Media - savings of \$1.5 million over five years;
- Anaesthetic gases – savings of \$4.1 million over five years; and
- negotiations for the national influenza vaccine programme have produced savings of \$900,000 over three years.

Access and Optimal Use

The Government's Medicines Strategy work has identified optimal use of medicines as a key strategic issue for the medicines system. PHARMAC has an established track record in this area and continues to develop and implement a range of projects.

The *Wise Use of Antibiotics* campaign entered a new phase with the commencement of animated television commercials. The *One Heart Many Lives* cardiovascular campaign continues to go from strength to strength. Northland has become the latest region to embrace the concept and builds on successes in Hawke's Bay where innovative approaches have been taken to raising awareness and reaching men at risk.

PHARMAC commenced a new project promoting best practice use of medicines for gastric reflux and heartburn – the *Gut Reaction* campaign.

All these projects have a common theme – making the best use of medicines that are funded through increasing or decreasing their use, or in some cases, not using medicines at all. Given its close knowledge of pharmaceutical issues, and interest in expenditure on pharmaceuticals, PHARMAC is well placed to continue making an important contribution to optimal use work.

Board changes

At the end of the year we farewelled Karen Guilliland from the PHARMAC Board, after a six year tenure marked by outstanding contributions. I welcome Dr David Kerr to the Board, who will bring valuable business and clinical expertise.

I want to acknowledge the continuing commitment and dedication of PHARMAC's Acting Chief Executive, Matthew Brougham, and the PHARMAC team, and the many members of PHARMAC's advisory committees in a challenging year. It is only through the collective efforts of these people that PHARMAC can continue to deliver best health outcomes for New Zealanders, and I thank them all.

Richard A Waddel

Chair

On behalf of the PHARMAC Board

INTRODUCTION

PHARMAC is responsible for ensuring that all New Zealanders have access to a wide range of affordable medicines. Under the New Zealand Public Health and Disability Act 2000 (the NZPHD Act), PHARMAC's objective 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 assists District Health Boards (DHBs) in their management of pharmaceutical expenditure. DHBs have overall responsibility for determining spending priorities to improve the health of the communities they serve. PHARMAC's role, on behalf of DHBs, is to make funding decisions that ultimately lead to the best possible health outcomes from pharmaceuticals being achieved. In essence, PHARMAC acts as an agent of DHBs who are ultimately the funders of medicines used both in public hospitals and the community.

PHARMAC has four main functions:

- managing the Pharmaceutical Schedule, which lists the medicines that are subsidised for patients;
- promoting the responsible use of medicines, including through PHARMAC's continued implementation of the Maori Responsiveness Strategy;
- assisting DHBs with national procurement initiatives; and
- managing the Exceptional Circumstances (EC) scheme, which allows for medicines not normally subsidised to be funded for rare and unusual conditions.

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

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

ROLES AND RESPONSIBILITIES

PHARMAC is a Crown Entity established under the NZPHD Act. Its primary role is to manage the funding set aside for pharmaceuticals by DHBs. PHARMAC is accountable to the Minister. As outlined above, PHARMAC performs other roles in promoting the optimal use of medicines, undertaking procurement on behalf of DHB hospitals and undertaking research.

Role of the PHARMAC Board

The Board is accountable to the Minister for PHARMAC's performance. The Board is required to comply with the duties and requirements placed on it by the Crown Entities Act 2004, and provide high quality and effective governance. The Board has all powers necessary for the governance and management of PHARMAC.

All decisions relating to the operation of PHARMAC are made by or under the delegated authority of the Board. The Board is responsible for agreeing PHARMAC's outputs with the Minister and for ensuring the Minister's expectations are met. Other important matters related to the Board's role are:

- **accountability** – the Board remains accountable for the delivery of any part of its operations that has been subcontracted to a third party;
- **integrity** – PHARMAC will meet the standards of accountability, conduct and behaviour that are appropriate for a public entity. This includes compliance with the Public Service Code of Conduct and the Board Appointment and Induction Guidelines produced by the State Services Commission;
- **financial management and financial performance** – PHARMAC will comply with all relevant financial management and financial performance requirements, and ensure the prudent and wise use of financial resources; and
- **risk management** – PHARMAC will manage risks effectively, and inform the Minister of risks as appropriate.

During 2006-07, the Board established an Audit Committee to assist the Board with consideration of relevant issues. The Committee is chaired by Kura Denness.

Management of PHARMAC

The Chief Executive is responsible for managing PHARMAC's day-to-day operations. In addition to the Chief Executive, PHARMAC has a six-member management team responsible for each core area of PHARMAC's operations (Medical, Funding & Procurement, Schedule and Contract Maintenance, Access and Optimal Use, Analysis & Assessment, and Corporate).

PHARMAC's staff possess a wide range of skills and experience, including people with health backgrounds (doctors, pharmacists, nurses), public health, economic analysis, business analysis, financial, legal and other skill sets necessary to ensure its effective functioning.

PHARMAC's Advisory Committees

PHARMAC has advisory committees that provide independent advice in areas such as clinical evidence, consumer issues, and the implementation of hospital procurement initiatives.

The Pharmacology and Therapeutics Advisory Committee (PTAC) is PHARMAC's clinical advisory committee. Members are independently appointed by the Director-General of Health, and have expertise in clinical practice, pharmacology, and critical appraisal. The Committee meets quarterly and is chaired by Professor Carl Burgess. PTAC also uses expert sub-committees to provide advice in specific therapeutic areas. Eleven sub-committees held meetings during 2006-07.

The Consumer Advisory Committee provides PHARMAC with input from a consumer or patient perspective. Members of the Committee are appointed by the PHARMAC Board and report directly to the PHARMAC Board. The Committee is comprised of consumers with a mix of backgrounds and interests, including the health of older people, women's health, the health needs of Maori and the health needs of Pacific People. The Committee provides recommendations to the Board and provides a valuable contribution to the Board's consideration of medicines issues. The Committee meets at least twice a year (usually more often), and is chaired by Sandra Coney.

Committee	Meets	Primary role
Pharmacology and Therapeutic Advisory Committee (PTAC)	Quarterly	Provides clinical advice on pharmaceuticals being considered for funding
PTAC Sub-committees	As required	Clinical advice on specialist areas (e.g. cancer, cardiovascular disease)

Committee	Meets	Primary role
Consumer Advisory Committee (CAC)	Twice yearly and as required	Input from a consumer and patient perspective
Hospital Pharmaceuticals Advisory Committee (HPAC)	As required	Advice on pharmaceuticals used in hospitals

PHARMAC as a good employer

As an organisation governed by the Crown Entities Act, PHARMAC is required to comply with “good employer” obligations. PHARMAC’s personnel policy is made up of a number of internal human resource policies, some of which were actively reviewed and improved during the year.

PHARMAC’s success critically depends on the quality of its employees and, as a result, PHARMAC has always seen its staff as its most valuable asset. PHARMAC’s staff turnover has reduced over the last two years, and this has coincided with a greater focus on good employer-related issues (such as flexible hours as appropriate and providing access to an employee assistance programme).

During the past year, further work was undertaken on making PHARMAC an even better place to work. This began with an internal ‘climate survey’ that identified key areas to address, and initiatives were put in place accordingly. These included refining PHARMAC’s vision and values; implementing a work/life balance programme; updating a number of human resource policies; improving internal communications; and improving the recruitment and induction processes.

In 2006-07, three people left PHARMAC (5.4% staff turnover). This is a satisfactorily low level of turnover. By comparison, in the previous financial year, seven staff departed. At 30 June 2007, PHARMAC had 54 staff, comprising 23 men and 31 women.

STATEMENT OF RESPONSIBILITY

The Board of PHARMAC accept responsibility for:

- the preparation of the annual Financial Statements and Statement of Service Performance and for the judgments in them; and
- 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, the Financial Statements and Statement of Service Performance for the year ended 30 June 2007 fairly reflect the financial position and operations of PHARMAC.



Richard A Waddell
Chair
26 September 2007



Professor Gregor Coster
Deputy Chair
26 September 2007

AUDIT REPORT

**TO THE READERS OF THE
PHARMACEUTICAL MANAGEMENT AGENCY'S
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2007**

The Auditor-General is the auditor of the Pharmaceutical Management Agency (the Agency). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Agency for the year ended 30 June 2007.

Unqualified Opinion

In our opinion:

- The financial statements of the Agency on pages 16 to 31:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Agency's financial position as at 30 June 2007; and
 - the results of its operations and cash flows for the year ended on that date.

- The statement of service performance of the Agency on pages 7 to 15:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects for each class of outputs:
 - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
 - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 26 September 2007, 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 and statement of service performance 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 and the statement of service performance. 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 and statement of service performance. 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 and statement of service performance disclosures are adequate.

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

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. 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 and a statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Agency as at 30 June 2007 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Agency's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and

expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004 and the New Zealand Health and Disability Act 2000.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

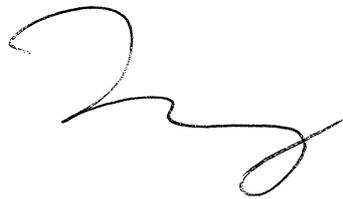
Independence

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, we have no relationship with or interests in the Agency.



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



STATEMENT OF SERVICE PERFORMANCE

Introduction

This Statement of Service Performance (SSP) records the performance of PHARMAC against the performance measures outlined in the 2006-07 Statement of Intent (SOI).

PHARMAC has one output class "*securing the best achievable health outcomes from pharmaceutical treatment, within the amount of funding provided*", although activities are broken down into a number of categories in the SSP.

In addition to activity summarised in the SSP, PHARMAC agreed to make a research funding contribution, consistent with PHARMAC's research function, which was not foreseen in the 2006-07 SOI. As this activity is not covered by the SSP, a separate explanation is set out below.

Herceptin trial

PHARMAC agreed to support an international clinical trial to investigate the optimal use of the breast cancer drug Herceptin (trastuzumab). The *Short Or Long Duration (SOLD)* study is an international multi-centre trial (based in Finland) designed to test a research question of interest to New Zealand and other countries.

PHARMAC agreed to provide \$3.2 million of funding to the trial investigators over four financial years to assist with the administrative costs of the trial. This funding was agreed by the PHARMAC Board from PHARMAC's operating budget (from reserves in that budget built up from earlier savings in the day-to-day costs of running PHARMAC).

PHARMAC considered whether this research required an amendment to its SOI during the 2006-07 year and decided it did not. Once SOIs are published, circumstances sometimes change. This is recognised by the Crown Entities Act which provides for amendments to be made, including provisions for when an amendment "must" be made. The test for needing to amend an SOI is whether information in the SOI is false or misleading, or whether the intentions and undertakings in the SOI have been significantly altered by a change in PHARMAC's operating environment.

PHARMAC considered the relevant statutory provisions, and did not consider it necessary to amend its SOI. PHARMAC made this decision for the following reasons:

- research is one of PHARMAC's statutory functions, and this was mentioned in the SOI;
- at the time it was not certain that the trial would go ahead at all and, if it did, it was not certain that it would be in the 2006-07 financial year (as events have turned out, the trial did not commence in 2006-07); and
- reasons for supporting the trial have already been publicly explained by PHARMAC in a media release and in associated media activity and, as PHARMAC intended at that time, further explained in this report.

Overall, therefore, the level of public accountability around PHARMAC's operations was not in PHARMAC's view affected by its decision not to amend the 2006-07 SOI.

The trial is scheduled to commence in the 2007-08 financial year and details of this commitment are outlined in PHARMAC's 2007-08 SOI. During 2007-08, PHARMAC is expecting to contribute \$615,000 of the \$3.2 million it has committed. Funding is aligned to recruitment of patients into the trial, which is why the total amount is spread, on PHARMAC's current best estimate, over four financial years.

Community Pharmaceutical Expenditure

PHARMAC's most important deliverable is the management of the Community Pharmaceutical Budget. Further detail supporting the expenditure figures for this deliverable is explained below.

Deliverable

PHARMAC's 2006-07 SOI set out the following deliverable (1.4):

PHARMAC will maintain expenditure on subsidised community pharmaceuticals for the year ending 30 June 2007 within \$600 million (excl GST), after deduction of rebates from pharmaceutical suppliers.

Result

Expenditure on subsidised community pharmaceuticals for the year ending June 2007 is likely to be \$599.37 million, \$0.63 million within the budget of \$600.00 million. The expenditure figure includes:

- an estimated \$123.16 million for rebates;
- an estimated adjustment of \$10.36 million for the impact of the rebate policy change;
- spending from rebates of \$1.32 million;
- other one-off supplier payments for out of stocks and interest on late rebate payments of \$0.67 million; and
- an estimate of additional expenditure of \$3.57 million for backfilling.

This spending resulted in 31.92 million prescriptions written during the year ending June 2007, for medicines for at least 2.69 million individual New Zealanders. This represents a 11.81% increase in the number of prescriptions compared with the previous financial year.

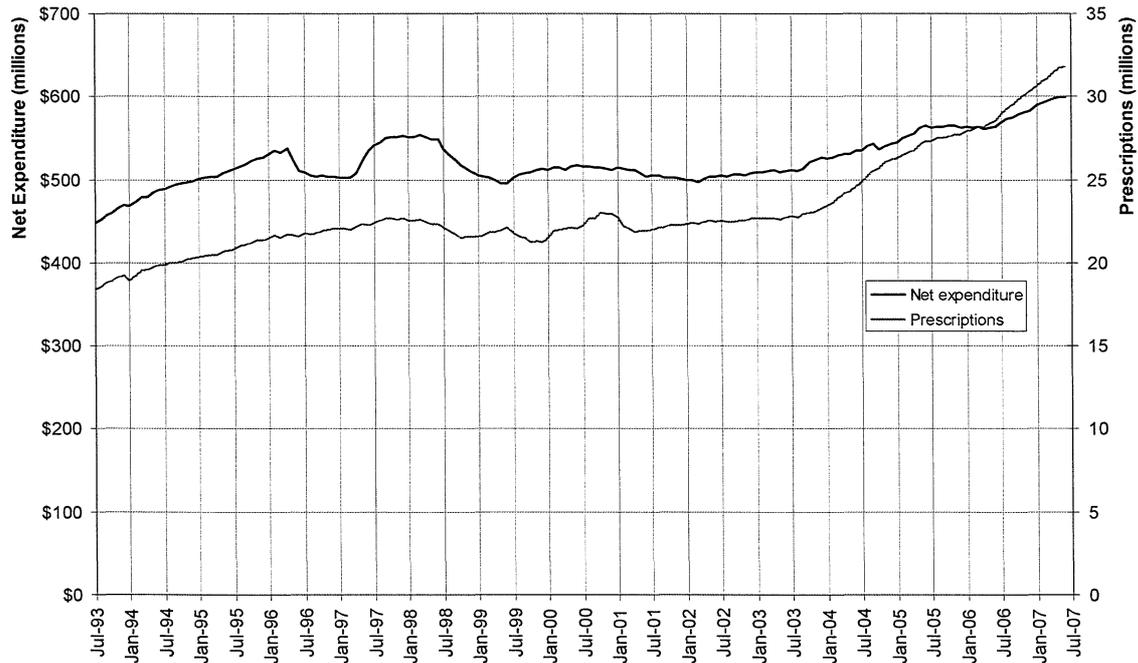
The following table outlines the quarterly expenditure throughout the year, as compared to the pharmaceutical expenditure targets.

Quarter	Budget	Total Expenditure	Variance
One	\$151.5	\$149.0	-\$2.5
Two	\$156.3	\$153.6	-\$2.7
Three	\$143.6	\$146.7	\$3.1
Four	\$148.7	\$150.1	\$1.4

A history of growing access and controlled spending

Since PHARMAC's inception in 1993, the amount of medicine prescribed and funded for New Zealanders has continued to grow. At the same time, the previously rapid growth in pharmaceutical expenditure has come under control. Expenditure is now growing at a rate that is enabling this overall growth in prescribing to be accommodated, and for new medicines to be made available for New Zealanders.

Pharmaceutical expenditure and prescribing growth



The main influences on the expenditure pattern shown in the graph are summarised below.

Period	Issue
1993 – 1998	Rebates are excluded. Rebates at this time were less than \$6 million.
1993 – 2000	Some or all of the expenditure was based on date claimed, rather than date dispensed.
1996 – 1997	The initial decrease is due to the change from all at once to monthly dispensing. The series then increases as the 12 month total moves back towards its original trend.
1998 – 1999	Savings from reference pricing of statins, ACE inhibitors and macrolides.
1997/98	Implementation of tendering. Tender savings to date are estimated to be over \$300 million.
October 2003	Partial return to all at once dispensing.
July 2004 – June 2006	An accounting adjustment of \$16M in the 2005 financial year has caused an artificial increase in the time series. From July 2005 to June 2006 the time series is flat as the 12 month moving total moves back towards its original trend.
July 2004	Implementation of \$3 maximum co-payments for enrolled PHO patients aged 65+.
July 2005	Implementation of \$3 maximum co-payments for enrolled PHO patients aged 18 – 24.
July 2006	Implementation of \$3 maximum co-payments for enrolled PHO patients aged 45 – 64.

PHARMAC has continued to achieve savings on currently subsidised medicines. This is achieved through a variety of purchasing methods, including tendering for off-patent medicines and reference pricing. Subsidy reductions in the 2006-07 financial year resulted in savings of approximately \$25.83 million (\$61.11 million annualised). Subsidy increases in the 2006-07 financial year resulted in an additional cost of \$1.2 million. The breakdown of these figures across therapeutic groups is shown in the table below (figures are \$ million).

EC
MS

Therapeutic Group	Increase	Saving	Net
Alimentary Tract and Metabolism	\$0.00	-\$1.03	-\$1.03
Blood and Blood Forming Organs	\$0.06	-\$6.10	-\$6.03
Cardiovascular System	\$0.04	-\$1.12	-\$1.08
Dermatologicals	\$0.01	\$0.00	\$0.01
Genito-Urinary System	\$0.00	\$0.00	\$0.00
Hormone Preparations - Systemic Excluding Contraceptive Hormones	\$0.00	-\$1.91	-\$1.91
Infections - Agents for Systemic Use	\$0.18	-\$2.64	-\$2.46
Musculo-skeletal System	\$0.00	-\$0.36	-\$0.35
Nervous System	\$0.01	-\$3.65	-\$3.64
Oncology Agents and Immunosuppressants	\$0.17	-\$0.13	\$0.04
Respiratory System and Allergies	\$0.01	-\$5.52	-\$5.51
Sensory Organs	\$0.00	-\$0.36	-\$0.36
Special Foods	\$0.11	-\$0.04	\$0.06
Tender	\$0.52	-\$2.65	-\$2.13
Tender ACP	\$0.09	-\$0.11	-\$0.03
EC Expenditure	\$0.00	-\$0.22	-\$0.22
Grand Total	\$1.20	-\$25.83	-\$24.63

Note: The table does not include delistings

Report on PHARMAC's performance

Introduction

PHARMAC's performance against deliverables specified in PHARMAC's 2006-07 SOI is set out below. PHARMAC's deliverables were set in eight areas:

- Schedule management;
- Exceptional circumstances;
- Assessment and procurement on behalf of DHBs;
- Responsible use of pharmaceuticals (including social marketing);
- Equitable access;
- Improving links between PHARMAC initiatives;
- Improving stakeholder relationships; and
- Ongoing development of PHARMAC capability.

Overall, PHARMAC believes it has performed well against the performance measures set out in the 2006-07 SOI. The following tables provide details on the deliverables agreed for the 2006-07 financial year and how these have been met.

EC *[Handwritten signature]*
[Handwritten initials]

SSP deliverables

1. **Schedule management** – promote efficient management of pharmaceutical expenditure. PHARMAC will ensure that the Community and Hospital Pharmaceutical Schedules are managed in a manner that ensures treatments are appropriately prioritised and listed, and that maximises health outcomes from within the funding available.

Deliverable 2006-07	Outcome
1.1 Cost-utility assessment of all major investments	Achieved. Fourteen assessments were completed, informing major new investments in the therapeutic groups of infection, mental health, cardiovascular, immunosuppressants, blood and blood forming organs and alimentary diseases. In addition to these, five assessments were undertaken on pharmaceutical cancer treatments on behalf of DHBs.
1.2 Printing and dissemination of the Community Pharmaceutical Schedule	Achieved. Production occurred routinely every 4 months: August 2006, December 2006 and April 2007. The April edition was produced directly from the database. All future editions will use this process. The Pharmaceutical Schedule Update was produced monthly.
1.3 Printing and dissemination of the Hospital Pharmaceutical Schedule	Achieved. The Hospital Schedule was produced in September and March. It is now routinely produced 4-monthly in March, July and November.
1.4 Managing expenditure on community pharmaceuticals	Achieved. Detailed information on this is outlined in the section above.
1.5 Review the quarterly expenditure targets and, if appropriate, propose amendments to those deliverables to DHBs and the Ministry	Achieved. No amendments were made to quarterly targets.
1.6 In discussion with DHBs, review the spend target mid way through the year, and recommend any adjustments to the Minister	Achieved. PHARMAC and DHBs reviewed the spend target and considered that no adjustment was necessary.



 Handwritten initials and signatures at the bottom right of the page.

2. Exceptional circumstances – PHARMAC will undertake timely and robust consideration of pharmaceutical use in exceptional circumstances.

Deliverable 2006-07	Outcome
2.1. Turnaround for community, hospital and cancer-related exceptional circumstances applications of 4 weeks, 48 hours and 72 hours respectively	<p>Substantively achieved. Exceptional Circumstances applications were responded to within the following time frames during 2006-07.</p> <p>1) Community EC – of 407 applications received during the year, 98.3% were dealt with within the one month time frame.</p> <p>2) Hospital EC – of 914 applications received, 785 (86%) were dealt with within 2 working days, with an additional 98 (11%) dealt with by 3 days.</p> <p>3) Cancer EC – of 41 applications received, 7 were not dealt with within 72 hours.</p>
2.2 Identify drugs that could be moved from Hospital Exceptional Circumstances to the Discretionary Community Supply (DCS) list	<p>Achieved. PHARMAC identified a number of pharmaceuticals to add to the DCS list, and is progressing their listing on the DCS. These were:</p> <ul style="list-style-type: none"> • Ondansetron for hyperemesis gravidarum; • Ursodeoxycholic acid for cholestasis of pregnancy; • Octreotide for malignant bowel obstructions; • Ketamine for opioid unresponsive pain; • Cyclosporin eye ointment for vernal keratoconjunctivitis; and • Chlorhexidine and PHMB eye drops for acanthamoeba keratitis

3. Assessment and procurement on behalf of DHBs – PHARMAC will, as agreed by DHBs, assist in the procurement of hospital supplies in line with PHARMAC's legislative functions. PHARMAC will robustly assess procurement opportunities, make procurement recommendations to DHBs as appropriate, and focus on continual service improvement to DHBs (including information sharing and communication of cost savings).

Deliverable 2006-07	Outcome
3.1 Progress report on transfer of management of hospital Pharmaceutical Cancer Treatments to PHARMAC	Achieved. A progress report was provided to DHB CEOs at the beginning of January 2007.
3.2 Provide a report about DHB compliance with restricted brand contracts to DHBs and the supplier annually	Achieved. The report noted that rates of compliance were at a record high.
3.3 Monitor Recombinant Factor VIII, bulk IV fluids and radiological contrast media national contracts	Achieved. No breaches of contracts were noted.

cc


3.4 Implement a procurement strategy for dialysis fluids	Having investigated the market, PHARMAC's view was that the optimum procurement strategy is a predominantly service-led national contract led by DHBs. A report was provided to DHBs.
3.5 Investigate other areas of DHB hospital procurement where it could be of assistance to DHBs to have a centralised contracting process	Achieved. Information was provided to DHBs and procurement work is ongoing.
3.6 Produce 8-10 substantive assessments of new hospital pharmaceuticals	Substantively achieved. PHARMAC produced six substantive assessments of new hospital pharmaceuticals. This was lower than the targeted figure due to constraints on PHARMAC's internal capacity and competing workloads, including considerable assessment work related to Herceptin. PHARMAC notified DHBs of this situation during the year.

4. **Responsible use of pharmaceuticals (including social marketing)** – PHARMAC will engage in strategies to promote the cost effective, responsible use and prescribing of pharmaceuticals. PHARMAC will focus its efforts to align with other activity in the health sector, particularly in relation to the management and treatment of chronic conditions including cardiovascular disease and diabetes, mental health and respiratory disease.

Deliverable 2006-07	Outcome
4.1 Deliver the annual Wise Use of Antibiotics campaign and present a report to the Ministry evaluating the 2006 campaign	<p>Substantively achieved. Analysis of the 2006 campaign showed a dilution of the campaign's key messages, and this may have been related to an overall increase in antibiotic prescribing. This finding fed into planning a 'back to basics' approach for the 2007 campaign.</p> <p>However, a survey of public attitudes showed fewer people going to their doctor to be treated for colds and flu were expecting to receive an antibiotic. There was also an increase in the number of people who agreed the best way to treat colds and flu was by resting and drinking fluids.</p> <p>The evaluation report of the 2006 campaign was not presented to the Ministry of Health on time due to an administrative oversight (now rectified).</p>
4.2 Undertake a feasibility study of initiatives that can address polypharmacy. PHARMAC will present the findings to the Ministry and District Health Boards with recommendations regarding the implementation of a project, if appropriate	Achieved. A feasibility study was undertaken and a report on the study prepared. Following further analysis this will be presented to the Ministry of Health and DHBs.
4.3 Continue roll out and implementation of the One Heart Many Lives campaign	Achieved. Ongoing activity is progressing in both Northland and Hawkes Bay regions.

Cal
 AW
 MQ

4.4 Prepare a report regarding recommendations and, if appropriate, a project plan for activity in the area of childhood asthma management	Achieved. This research indicates a high level of confidence among General Practitioners in the treatment of childhood asthma. The area with the most potential for improvement in compliance issues is through greater use of appropriate asthma management plans. A draft project plan has been developed.
4.5 Complete a competitive process for an external organisation to provide services relating to the responsible use of pharmaceuticals and contract with an external agency for these services	Achieved. Following a competitive process, BPAC NZ has signed a three-year preferred supplier agreement for these services.
4.6 PHARMAC will work with District Health Boards to ensure that services provided by the external organisation are aligned with the PHO performance framework where relevant	Achieved. The contract negotiated with BPAC NZ requires that services provided must be undertaken in the context of the wider health sector environment including the role of DHBs and PHOs.
4.7 Contract for the delivery of the Green Prescription programme in 2006/07, including monitoring contractual targets	Achieved. The contract is in place and monitoring is ongoing. PHARMAC has committed continued funding for the Green Prescription programme in 2007-08.
4.8 Participate in the strategic review of the Green Prescription programme	Achieved. This strategic review was completed by 31 December 2006. The review found that the Green Prescription programme continues to meet its objectives.

5. **Equitable access** – PHARMAC will engage in initiatives to promote the appropriate use of pharmaceuticals by disadvantaged populations, including Maori, to improve health outcomes and health status with the aim of ensuring utilisation is similar across all groups of New Zealanders.

Deliverable 2006-07	Outcome
5.1 Work with NZ College of Pharmacists to improve pharmacists' understanding of Maori health issues	Achieved. PHARMAC worked with the College of Pharmacists around the He Rongoa Pai, He Oranga Whanau project. Collaboration with the College is continuing.
5.2 Complete an evaluation report that reviews PHARMAC's progress made on the 2002 Maori Responsiveness Strategy	Achieved. An evaluation report was completed by 31 August 2006. The report demonstrated that PHARMAC has made significant progress in meeting all six strategic priorities outlined in the 2002 Maori Responsiveness Strategy. The report also outlined areas where further work is required. These findings have been used to inform a forward work plan for further implementation of the Strategy.
5.3 Develop a five-year work programme to further progress PHARMAC's Maori Responsiveness Strategy	Partially achieved. A draft Maori health action plan has been completed. Further work on developing this action plan is underway.
5.4 Work with the Ministry of Health on the development of the Whakatataka II 2007-2011 Maori Health Action Plan with respect to pharmaceuticals	Achieved. Work on this project was completed in July 2006. The MOH Maori Health Action Plan contains appropriate reference to the access and optimal use of medicines.
5.5 Deliver the national training workshops for primary care nurses and community health workers on improving Maori use of medicines	Achieved. The final national training workshop took place in December 2006.

GC MW MB

6. **Improving links between PHARMAC initiatives** – PHARMAC will seek to improve its understanding of the inter-linkages and synergies of all its initiatives.

Deliverable 2006-07	Outcome
6.1 Complete a preliminary report on a framework for considering complementarity and achievement of the strategic (3-year) outcomes	Not achieved. A report has not been completed (and is no longer envisaged), but this remains a strong focus including through further identifying this work as a strategic priority in PHARMAC's 2007/08 SOI. There have been a number of successfully integrated projects during the year (e.g. paroxetine brand change), but further work remains useful on better integrating the demand and supply side functions of PHARMAC's business.

7. **Improving stakeholder relationships** - PHARMAC will seek to improve its relationships with stakeholders, including through better understanding of stakeholder requirements and views, improving communication, and addressing any confusion that exists about the roles and activities of PHARMAC.

Deliverable 2006-07	Outcome
7.1 Update the communications and stakeholder strategy to ensure alignment with strategic priorities	PHARMAC's focus was on improving its communications overall. Further work on areas of emphasis for particular stakeholder groups is required and planned for 2007/08.
7.2 Review, as required, existing relationship agreements	This review was not undertaken. The value of relationship agreements per se (as distinct from additional relationship activity itself) is presently uncertain, but further consideration will be given to them as part of work on stakeholder engagement in 2007/08.
7.3 Develop and implement, as desirable, new relationship agreements	

8. **Ongoing development of PHARMAC capability** – PHARMAC will ensure that it has the capability to meet its business objectives through the recruitment of new staff, and the development of existing staff, with appropriate skills, experience and knowledge. PHARMAC is also committed to providing an attractive working environment, including through demonstrating appreciation of its staff.

Deliverable 2006-07	Outcome
8.1 Review, update and implement Human Resources policies and strategy	Achieved. PHARMAC devoted considerable effort to strengthening its human resources practices, including developing a strategy and updating a number of policies. This remains an important organisational focus.
8.2 Review and update PHARMAC's recruitment process	Achieved. PHARMAC developed new recruitment guidelines and generally escalated the level of effort and professionalism devoted to recruitment processes.
8.3 Review, update and implement the administration manual of PHARMAC's policies and procedures	Substantially achieved. An updated manual is substantially complete.

Ed *MW*

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These are the financial statements of the Pharmaceutical Management Agency (PHARMAC), a Crown entity in terms of the Crown Entities Act 2004. PHARMAC acts as an agent of the Crown 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 the Crown Entities 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 were 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 2004 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-down 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:

Item	Estimated useful life	Depreciation rate
Leasehold Improvements	5 years	20 %
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

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 DHBs) 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.

Progress towards adopting International Financial Reporting Standards

PHARMAC is well placed to adopt the NZ IFRS reporting standard for reporting on the 2007-08 financial year. Work was undertaken during 2006-07 to review current practices. Starting balances, as at the transition date of 1 July 2006, have been calculated using the new methodology. Once audited, these will be used as the basis for reporting financials in the 2007-08 Annual Report.



STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2007

	Note	Actual 2006-07 \$000	Budget 2006-07 \$000	Actual 2005-06 \$000
Revenue				
Crown:				
Operating	7	8,060	8,060	8,060
Responsible use of pharmaceuticals		2,895	2,895	2,895
DHB:				
Operating		987	987	600
Responsible use of pharmaceuticals		1,990	1,590	1,000
Other:				
Interest received		478	400	579
Interest received - legal risk fund		389	-	298
Proceeds of legal settlement - legal risk fund		-	-	20
Other revenue		93	-	88
Total revenue		14,892	13,932	13,540
Expenditure				
Operating costs		4,282	5,423	4,201
Salaries and related costs		5,179	4,953	4,342
Audit fees		32	27	27
Directors fees		129	124	124
Depreciation		314	412	211
Rentals and leases		248	248	216
High cost medicines		283	570	270
Responsible use of pharmaceuticals		4,600	4,485	3,843
Total expenditure		15,067	16,242	13,234
Net (deficit)/surplus for the period	1	(175)	(2,310)	306

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

For information on major variances against budget, refer to note 13 (page 31)

Eric - [Signature]

STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 30 June 2007

	Note	Actual 2006-07 \$000	Budget 2006-07 \$000	Actual 2005-06 \$000
Public equity at the beginning of the period	2	10,213	9,427	9,907
Net (deficit)/surplus		<u>(175)</u>	<u>(2,310)</u>	<u>306</u>
Public equity as at the end of the period		10,038	7,117	10,213

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

For information on major variances against budget, refer to note 13 (page 31)

Sec. Adv.
MS

STATEMENT OF FINANCIAL POSITION

As at 30 June 2007

	Note	Actual 2006-07 \$000	Budget 2006-07 \$000	Actual 2005-06 \$000
PUBLIC EQUITY				
Retained earnings & reserves	2	4,859	2,317	5,310
Legal Risk Fund	2	5,179	4,800	4,903
TOTAL PUBLIC EQUITY		<u>10,038</u>	<u>7,117</u>	<u>10,213</u>
Represented by:				
Current assets				
Cash and bank		9,979	7,869	11,066
Receivables and prepayments	3	803	100	75
Total current assets		<u>10,782</u>	<u>7,969</u>	<u>11,141</u>
Non-current assets				
Fixed assets	4	941	500	737
Total non-current assets		<u>941</u>	<u>500</u>	<u>737</u>
Total assets		<u>11,723</u>	<u>8,469</u>	<u>11,878</u>
Current liabilities				
Payables, accruals and provisions	5	1,438	1,152	1,493
Employee entitlements		247	200	172
Total current liabilities		<u>1,685</u>	<u>1,352</u>	<u>1,665</u>
NET ASSETS		<u>10,038</u>	<u>7,117</u>	<u>10,213</u>

Signed this 26th day of September 2007



Richard A Waddel
Chair

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

For information on major variances against budget, refer to note 13 (page 31)



STATEMENT OF CASH FLOWS

For the year ended 30 June 2007

	Note	Actual 2006-07 \$000	Budget 2006-07 \$000	Actual 2005-06 \$000
CASH FLOWS - OPERATING ACTIVITIES				
Cash was provided from:				
- Ministry of Health		10,955	10,955	10,955
- DHBs		2,977	2,577	1,600
- Interest		745	400	877
- Other		93	-	20
		<u>14,770</u>	<u>13,932</u>	<u>13,452</u>
Cash was disbursed to:				
- Payments to suppliers and employees		(14,760)	(15,301)	(12,210)
- Net GST		(579)	(400)	(1,085)
		<u>(15,339)</u>	<u>(15,701)</u>	<u>(13,295)</u>
Net cash flow from operating activities	6	<u>(569)</u>	<u>(1,769)</u>	<u>157</u>
CASH FLOWS - INVESTING ACTIVITIES				
Cash was disbursed to:				
- Purchase of fixed assets		(518)	(450)	(583)
		<u>(518)</u>	<u>(450)</u>	<u>(583)</u>
Net cash flow from investing activities		<u>(518)</u>	<u>(450)</u>	<u>(583)</u>
Net increase/(decrease) in cash held		(1,087)	(2,219)	(426)
Add opening cash brought forward		11,066	10,088	11,492
Closing cash balance		<u>9,979</u>	<u>7,869</u>	<u>11,066</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 13 (page 31)

*GC, MS
AKW*

STATEMENT OF COMMITMENTS

As at 30 June 2007

	2006-07 \$000	2005-06 \$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	248	248
Later than one year and not later than two years	21	248
Later than two years and not later than five years	-	21
Later than five years	-	-
	269	517
Total commitments	269	517

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

For information on major variances against budget, refer to note 13 (page 31)

Col ^{MB}
MB

STATEMENT OF CONTINGENT LIABILITIES

As at 30 June 2007

PHARMAC had no contingent liabilities at 30 June 2007 (2006: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 13 (page 31)

Cal
MS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

Note 1: Net (Deficit)/Surplus

	2006-07	2005-06
	\$000	\$000
<hr/>		
The net (deficit)/surplus is after charging for:		
Fees paid to auditors		
- external audit	32	27
- other services	-	-
Board members' fees	129	124
Depreciation:		
Furniture and fittings	33	30
Computer equipment	210	91
Office equipment	46	48
Leasehold improvements	25	42
<i>Total depreciation for the year</i>	314	211
Rental expense on operating leases	248	216

Note 2: Public equity

General funds

	2006-07	2005-06
	\$000	\$000
<hr/>		
Opening balance	5,310	5,435
Net surplus/(deficit)	(175)	306
Net transfer to legal risk fund	(276)	(431)
Closing balance	<u>4,859</u>	<u>5,310</u>

Legal risk fund

	2006-07	2005-06
	\$000	\$000
<hr/>		
Opening balance	4,903	4,472
Transfer from Ministry of Health	-	-
Add: Interest received transferred from General funds	389	298
Plus: Litigation expenses transferred from/(to) General funds	(113)	113
Plus: Proceeds of legal settlement	-	20
Closing balance	<u>5,179</u>	<u>4,903</u>

MS
Cal. 10/11

Note 3: Receivables and prepayments

	2006-07 \$000	2005-06 \$000
Receivables	156	26
GST receivable	-	3
Prepayments	33	46
DHB Reimbursements due from Rebates	614	-
Total	<u>803</u>	<u>75</u>

Note 4: Property, plant and equipment

	Cost \$000	Accumulated Depreciation \$000	Net Book Value \$000
2006			
Furniture and fittings	362	281	81
Computer equipment	766	628	138
Office equipment	251	205	46
Leasehold improvements	193	117	76
Fixed asset work in progress	396	-	396
Total	<u>1,968</u>	<u>1,231</u>	<u>737</u>
2007			
Furniture and fittings	402	312	90
Computer equipment	1,428	819	609
Office equipment	307	186	121
Leasehold improvements	215	142	73
Fixed asset work in progress	48	-	48
Total	<u>2,400</u>	<u>1,459</u>	<u>941</u>



Note 5: Payables, accruals and provisions

	2006-07 \$000	2005-06 \$000
Trade creditors	882	1,008
Accrued expenses	480	485
GST payable	76	-
Total payables and accruals	<u>1,438</u>	<u>1,493</u>

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

	2006-07 \$000	2005-06 \$000
Net (deficit)/ surplus from operations	(175)	306
<i>Add non-cash items:</i>		
Depreciation	314	211
Total non-cash items	<u>314</u>	<u>211</u>
<i>Add (less) movements in working capital items:</i>		
Decrease/(increase) in receivables	(744)	1,683
Decrease/(increase) in prepayments	13	(43)
(Decrease)/increase in payables	(131)	(82)
(Decrease)/increase in project funding received in advance	-	(1,785)
(Decrease)/increase in employee entitlements	75	5
(Decrease)/increase in net GST	79	(138)
Working capital movements – net	<u>(708)</u>	<u>(360)</u>
Net cash flow from operating activities	<u>(569)</u>	<u>157</u>

Col. New MS

Note 7: Related party information

PHARMAC is a wholly owned entity of the Crown. The Crown, through the Ministry of Health and District Health Boards, significantly influences the role of PHARMAC and is its major source of revenue. PHARMAC also conducts business with other government entities on an "arm's length" basis in the normal course of business. These transactions are not considered to be related party transactions.

Note 8: Financial instrumentsCredit 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 2007.



Note 9: Employee Remuneration

Total Remuneration and Benefits	Number of Employees	
	2006-07	2005-06
\$000		
100 – 110	6	5
110 – 120	1	1
120 – 130	1	1
130 – 140	1	1
140 – 150	-	2
150 – 160	-	-
160 – 170	-	1
170 – 180	1	-
180 – 190	1	-
190 – 200	-	-
200 – 210	1	1
210 – 220	-	-
220 – 230	-	-
230 – 240	1	-
240 – 250	-	-
280 – 290	-	1

The Acting Chief Executive's remuneration and benefits is in the \$230,000 - \$240,000 band. The Chief Executive was on secondment to the Department of Prime Minister and Cabinet.

Note 10: Board Fees

Board members earned the following fees during the year:

Member	Fees	
	2006-07	2005-06
	\$000	\$000
Mr Richard Waddel (Chair)	36	36
Prof Gregor Coster (Deputy Chair)	23	18
Ms Karen Guilliland	18	18
Mr David Moore	18	18
Ms Kura Denness	17	0
Ms Adrienne von Tunzelmann	17	17
Mr Helmut Modlik	0	17

MS
Col. MHW

Note 11 Committee members were paid the following fees:

PTAC	\$000	Paul Tomlinson	1
Carl Burgess	19	Moira Styles	2
Ian Hosford	12	TENDER	\$000
Sisira Jayathissa	7	Clare Randall	2
Peter Jones	13	James Lello	2
James Lello	17	Grant Howard	2
Peter Pillans	9	Geoff Savell	4
Tom Thompson	10	David Simpson	2
Paul Tomlinson	11	Tom Thompson	2
Howard Wilson	15	Paul Tomlinson	2
Jim Vause	13	HIGH COST MEDICINE PANELS	\$000
RESPIRATORY	\$000	Clinton Pinto	2
James Lello	2	David Abernethy	2
John Kolbe	1	Alan Wright	6
Ian Shaw	1	CONSUMER ADVISORY COMMITTEE	\$000
Carl Burgess	2	Sandra Coney	2
CATSOP	\$000	Matiu Dickson	1
Carl Burgess	3	Dennis Paget	2
Tim Hawkins	1	Heather Thompson	1
Bernie Fitzharris	1	EXCEPTIONAL CIRCUMSTANCES	\$000
NEUROLOGICAL	\$000	Mel Brieseman	11
Sisira Jayathissa	1	Sharon Kletchko	29
Peter Bergan	1	Paul Tomlinson	11
William Wallis	1	David Waite	13
DIABETES	\$000	Howard Wilson	16
Pat Carlton	1	Andrew Herbert	11
ANALGESIC	\$000	MENTAL HEALTH	\$000
Lindsay Haas	1	Holmes Jan	1
Howard Wilson	1	Ian Hosford	2
Jane Thomas	1	Carl Burgess	2
SPECIAL FOODS	\$000	Verity Humberstone	2
Kerry McIlroy	2	John Werry	2
Jo Stewart	2		

MS
 Col. M. W.

Note 12: Cessations

Cessation payments include payments that the person is entitled to under contract on cessation such as retirement payment, redundancy and gratuities. During the year PHARMAC made no payments to former employees in respect of cessation of employment with PHARMAC.

Note 13: Major Budget Variations

The net deficit for the year ended 30 June 2007 of \$175,000 is \$2,135,000 less than the budgeted deficit of \$2,310,000. The main reasons for the difference are:

- Revenue from DHBs for responsible use of pharmaceuticals was \$400,000 more than budget; and
- Operating costs were \$1,254,000 less than budget mainly due to lower than expected costs for work on hospital new initiatives, Healthpac, the Seminar Series, litigation and Information management.

MS
AK

Pharmaceutical Management Agency

Level 14, Cigna House, 40 Mercer Street, PO Box 10-254, Wellington 6143, New Zealand

Phone: 64 4 460 4990 - Fax: 64 4 460 4995 - www.pharmac.govt.nz

Freephone Information Line (9am-4pm weekdays) 0800 66 00 50

PHARMAC is the Government agency responsible for deciding which medicines are subsidised for New Zealanders. It manages spending on pharmaceuticals for the District Health Boards, and ensures that a comprehensive list of medicines (the Pharmaceutical Schedule) is subsidised for New Zealanders, and that the list of medicines continues to grow to meet the needs of patients.