

**Pharmaceutical Management Agency
(PHARMAC)**

Statement of Intent

1 July 2001 to 30 June 2002

FOREWORD

The Pharmaceutical Management Agency (PHARMAC) has had its funding confirmed for the 2001/02 year through the Crown Funding Agreement (dated 3 December 2001) and has prepared this Statement of Intent (SOI) to meet the requirements of section 67 of the New Zealand Public Health and Disability Act 2000 (the NZPHD Act 2000).

It outlines for Parliament, the performance we have agreed with the Minister of Health to deliver for the year commencing 1 July 2001 to 30 June 2002.

In particular, this document specifies:

- the performance that PHARMAC will seek to achieve from 1 July 2001 to 30 June 2002;
- the ownership performance PHARMAC will aim to achieve during this time, specified in terms of financial performance, capability and risk management; and
- financial forecasts.

This specification of performance will be used as a basis for comparison against our actual performance when our annual report is prepared.

Should the purchasing intentions change significantly, PHARMAC will exercise its discretion under section 41H of the Public Finance Act 1989 (the PF Act 1989) and produce a revised Statement of Intent.

Richard Waddel
Chairperson
PHARMAC

December 2001

PART 1 PHARMAC'S OBJECTIVE and STRATEGIC PRIORITIES

PHARMAC's overall objective, as outlined in s.47(a) of the NZPHD Act 2000, 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

Within the funding available to PHARMAC, its functions under s.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 (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.

PHARMAC has been given a new function which states that PHARMAC is authorised to manage the purchasing of any or all pharmaceuticals, whether used either in a hospital or outside it, on behalf of (District Health Boards) DHBs. This was effective from 4 September 2000. The Minister of Health approved the Terms of Reference for the development of a strategy by PHARMAC for nation-wide hospital pharmaceutical purchasing on 16 October 2001.

Strategic Priorities (the next 3 years)

Over the next three years PHARMAC will build on its successes and seek to contribute further to improving outcomes in priority areas for Government. PHARMAC has been particularly successful at managing growth in expenditure on pharmaceuticals. This has chiefly been through supply side initiatives (negotiations with pharmaceutical companies on the listing of pharmaceuticals and subsidy levels), although over the past three years PHARMAC has been broadening its focus to include programmes aimed at promoting the responsible use of pharmaceuticals.

PHARMAC has held strategy workshops with the Board and planning sessions with staff to identify future areas of focus including development of a strategy for nation-wide hospital pharmaceutical purchasing, PHARMAC's response to sector changes, improving relationship management, developing demand side activities and identifying opportunities for additional savings and priorities for listing new pharmaceuticals.

The priorities that PHARMAC has developed are:

Strategic Priority 1: Management of pharmaceutical expenditure

PHARMAC will ensure that the Pharmaceutical Schedule is managed in a manner that ensures that treatments are appropriately prioritised and listed, and maximises health outcomes from within the funding available.

Strategic Priority 2: Promoting the responsible use of medicines

PHARMAC will engage in demand side management initiatives to influence clinician and patient behaviour to promote the cost effective, responsible use of pharmaceuticals in prescribing, and as an integrated part of the clinical decision making process.

Strategic Priority 3: Working with DHBs

PHARMAC will work with DHBs to build an understanding of their needs and develop a two-way flow of information, and have processes in place for working on joint projects.

Strategic Priority 4: Improving Maori utilisation of pharmaceuticals

PHARMAC will engage in initiatives to contribute to the appropriate use of pharmaceuticals by Maori to improve health outcomes and health status.

Strategic Priority 5: Improving relationships with stakeholders

PHARMAC will develop its relationships with stakeholders through regular meetings and a clear communications strategy aimed at achieving a better understanding of PHARMAC's objectives in the wider public arena. Key relationships include the Minister, all politicians, other government agencies, clinicians, pharmacists, patients and their representative groups, Maori, and the pharmaceutical industry.

Strategic Priority 6: Developing PHARMAC's internal capacity

PHARMAC will ensure that it has the capability to meet its business objectives through the recruitment of staff with appropriate skills, experience and knowledge and the provision of an attractive working environment through demonstrating the value it places on staff.

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

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

- collaborative health promotion and disease and injury prevention by all sectors;
- timely and equitable access for all New Zealanders to a comprehensive range of health and disability services, regardless of ability to pay;
- a high-performing system in which people have confidence; and
- active involvement of consumers and communities at all levels.

PHARMAC's activities contribute to these Government priorities in a number of ways:

- pharmaceuticals are instrumental in improving the health and well-being of New Zealanders throughout their lives;
- access to subsidised pharmaceuticals is part of ensuring equitable access for all New Zealanders to a comprehensive range of health services, regardless of ability to pay;
- PHARMAC's evaluation of new drug technologies and investment in superior technologies contributes to a high-performing system;
- PHARMAC's efforts to obtain the optimum value from pharmaceutical funding assists with the process of meeting need within the funds available; and
- PHARMAC's encouragement of the responsible and cost-effective use of pharmaceuticals through its demand side activities, contributes to the health of New Zealanders and enhances the quality of healthcare provided.

The sectoral reforms have resulted in PHARMAC assuming responsibility for a number of new functions including managing Exceptional Circumstances (applications for pharmaceuticals that are not listed on the Schedule for which there is a very high level of individual need) and hospital pharmaceutical purchasing. PHARMAC now has the legislative mandate to undertake research should the funding be available within its operational budget.

PHARMAC's business has significant links with DHBs and PHARMAC will work on developing its relationships with DHBs to ensure that any gains from working together are achieved. This is particularly the case with respect to demand side initiatives. Demand side management is about working with providers to promote responsible prescribing through the sharing of evidence based information.

Management of the demand for pharmaceuticals is a relatively new and untested approach but one that PHARMAC believes has significant potential. The most well-known PHARMAC led activity in this area is the "Wise Use of Antibiotics" Campaign.

Changing attitudes, expectations and behaviour of individuals and agencies in the demand chain can be difficult and takes time. PHARMAC is, therefore, committing to key projects with measurable outputs and/or outcomes over the medium term. This will ensure that demand side management effectiveness can be monitored, and modifications made as required.

Demand Side activities also have strong linkages to strategies associated with the Supply Side. Through the promotion of good information, the Demand Side can facilitate changes to prescribing which arise from new contractual arrangements, decreasing the impact on patients such as the development and distribution of an education brochure on the treatment of asthma.

Supply side initiatives are aimed at reducing the ex-manufacturer price of pharmaceuticals to make additional funding available for new pharmaceutical investments, or other health initiatives.

The drug cost portion of pharmaceutical expenditure - after rebates - is expected to be \$528 million, this represents just under 3% growth from actual expenditure in 2000/01.

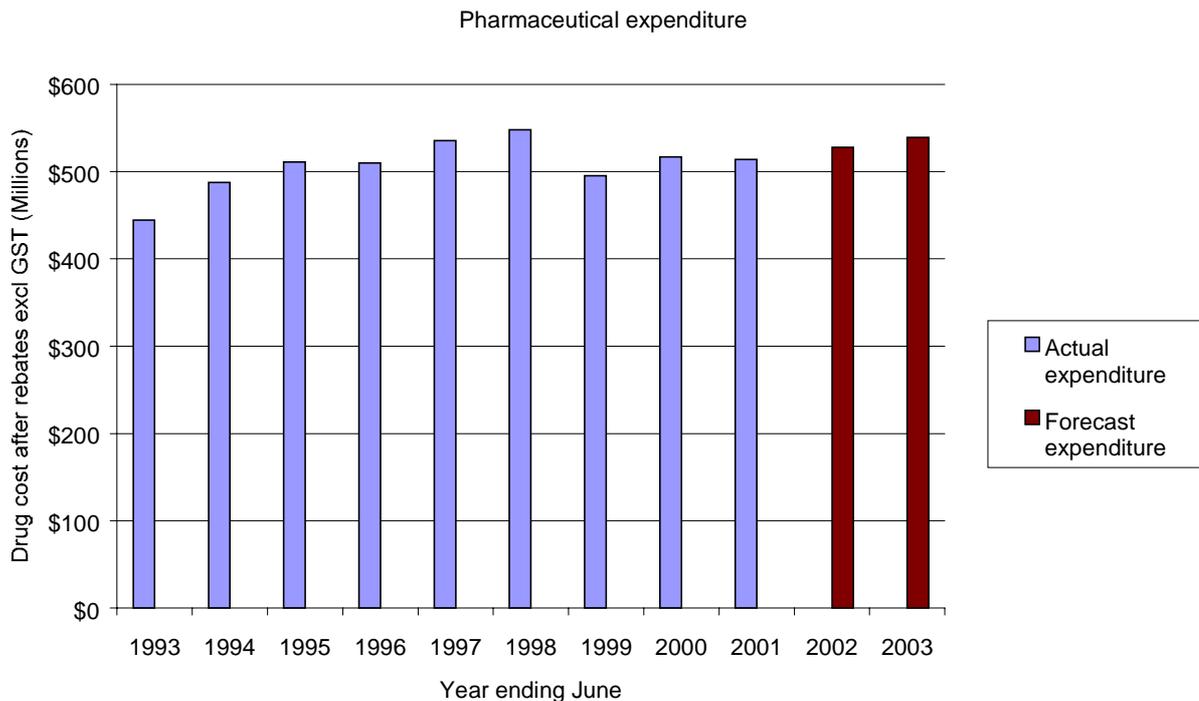
We expect the underlying growth from increasing mix (the use of newer more expensive drugs rather than older less expensive alternatives) to continue. Volumes are expected to increase as normal winters resume. These increases will, to a large extent, be offset by savings and rebates.

This year dispensing fees paid to pharmacists have been removed from PHARMAC's budget, as the contracts under which these are paid will now be managed by DHBs. A breakdown of forecast pharmaceutical expenditure, excluding hospital pharmaceuticals and provision for investment in new medicines, is outlined below.

Breakdown of Expenditure (excluding GST, \$ million)

	Jun-00	Jun-01	Jun-02	Jun-03
plus Drug cost after rebates	\$517	\$515	\$528	\$539
plus Rebates	\$11	\$20	\$30	\$20
Drug cost before rebates	\$528	\$535	\$558	\$559

The graph below shows the forecast expenditure for the next 2 years and actual expenditure for the past 9 years.



The focus of supply side transactions (PHARMAC defines transactions as agreements with suppliers to reduce prices or manage expenditure of individual or groups of pharmaceuticals) is to improve the value of the Government's expenditure on pharmaceutical subsidies. This is achieved by improving value for money by lowering subsidies and improving the quality of expenditure by investing in superior medicines.

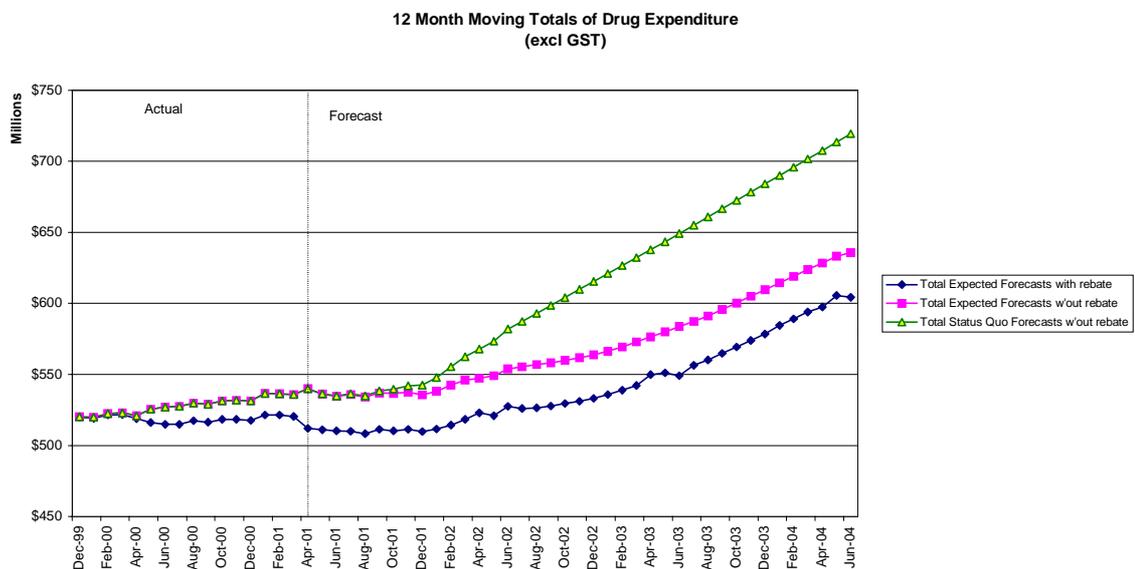
We expect to reach our budgeted expenditure this year, as a result of rigorous attention to management of transactions. These transactions allow us to lower subsidies, counteracting the 9% underlying growth in the market.

PHARMAC will aim to continue to achieve significant savings as a result of price reductions, for at least another one to two years.

New pharmaceuticals will continue to be evaluated using our pharmacoeconomic tools. Priorities for funding will be established based on the projected cost-quality adjusted life year (QALY) ratio, with low ratio products having higher priority. We will also consider the other features of the products, such as how well they meet PHARMAC's Decision Criteria.

The following chart shows the impact of the successful implementation of a range of savings transactions as well as continuing to earn rebates. Rebates are an increasingly important part of PHARMAC's financial performance increasing from \$11.0M in 1999/00 to \$20.1 million in 2000/2001 with \$29.7 million forecast for 2001/02.

The status quo forecasts are an indication of expenditure without any interventions from PHARMAC. They highlight the strong underlying growth, of 9% per annum, that exists for pharmaceuticals.



Over the next three years PHARMAC will build upon its current skill base and seek to advance health improvement through sharing its knowledge base with other parts of the health sector.

PHARMAC's contribution to the Health Sector changes

As noted previously there have been a number of opportunities arising out of the health sector reforms. PHARMAC has been proactively engaging with DHBs to ensure that issues are identified and we work together effectively. This approach is being formalised through the development of a Relationship Agreement between DHBs and PHARMAC, facilitated by DHBNZ. PHARMAC also attends regular meetings with DHBNZ and the Ministry of Health.

PHARMAC recognises that robust information is essential to inform decision-making. PHARMAC has developed standard reports on pharmaceutical expenditure by DHB, regionally and nationally. These have been modified in response to DHB feedback.

PHARMAC reviewed its operating structure at the beginning of the year to ensure that it is best positioned to meet its new functions and delivering on core business. This has resulted in the structure becoming more functionally aligned with its business objectives. We intend to review the effectiveness of the new structure at the beginning of 2002.

There has been a clear signal that all participants in the health sector should be as open and transparent as possible. To this end, PHARMAC is undertaking a review of its website to ensure the greatest functionality for all stakeholders. As part of this process we are also reviewing how we are perceived by key stakeholders with a view to improving our public profile.

In recognition of the specific needs of Maori, PHARMAC is developing a Maori Responsiveness Strategy which it will seek feedback on during the second quarter of the year.

The Government has also emphasised the importance of driving efficiency in the sector, particularly continuing to develop a high performing system in which people can have confidence. PHARMAC is contributing to the achievement of this objective in a number of areas, including the application of information technology to streamline processes and increasing the accessibility of information for key stakeholders, particularly prescribers and patients. PHARMAC is working with Health Benefits and the New Zealand Health Information Service on projects in this area.

Through these initiatives and others, PHARMAC is either responsible for or contributing towards achieving the highest possible health gain within its available resources.

Role of the Minister on behalf of the Crown

The Minister of Health (the Minister) is accountable to Parliament for the overall performance of PHARMAC.

The role of the Minister in relation to the performance of PHARMAC is to:

- indicate priority areas for Government through various strategy documents such as the New Zealand Health Strategy, New Zealand Disability Strategy and related strategies;
- obtain Parliamentary appropriations with which to fund PHARMAC;

- set expectations that inform and guide PHARMAC's high level planning as part of the process of preparing, and agreeing to, any Annual Plan and Crown Funding Agreement and commenting on any Statement of Intent;
- agree to the performance measures contained in the Crown Funding Agreement;
- monitor the performance of PHARMAC against the Crown Funding Agreement;
- hold the Board of PHARMAC accountable for its performance;
- require compliance by DHBs with legislative requirements and other obligations specified in their Crown Funding Agreements with respect to the Pharmaceutical Schedule; and
- undertake the duties and exercise the powers of a Responsible Minister as set out in the Public Finance (PF) Act 1989.

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

The Ministry of Health acts as the Minister's agent in the Minister's relationship with PHARMAC, with respect to negotiating, communicating and clarifying the Minister's expectations and in negotiating the Annual Plan and Crown Funding Agreement and commenting on the Statement of Intent.

Ownership Performance

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

Governance: The PHARMAC Board must provide high quality and effective governance of PHARMAC.

Integrity: PHARMAC must meet the standards of accountability, conduct and behaviour that are appropriate to a public sector organisation. 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 must comply with the PF Act 1989 and the NZPHD Act 2000 and meet all of the financial management and financial performance requirements set out in the Funding Agreement and the NZPHD Act 2000. This includes ensuring the prudent and wise use of financial resources.

Risk Management: PHARMAC must manage financial and non-financial risks effectively, and keep the Minister of Health informed of these. PHARMAC should:

- continue to manage risks, by maintaining effective and timely risk management strategies and processes within the constraints set by the Crown, including budget and financial operating constraints, which are consistent with recognised standards;
- continue to maintain a risk register; and,
- fully inform the Minister of Health and the Ministry of Health, as early as possible, of significant financial and non-financial risks facing PHARMAC and how it intends to manage those risks.

Capability: PHARMAC must function effectively in terms of human resources, organisational systems and processes, and responsiveness. PHARMAC must have the capability to:

- ensure the performance specified in the Crown Funding Agreement is delivered as specified; and,
- ensure that all of PHARMAC's statutory, legislative, and other regulatory functions and obligations are met.

Relationships: PHARMAC must take reasonable steps to maintain constructive relationships with all stakeholders.

PART 2 STATEMENT OF PLANNED PERFORMANCE

PHARMAC is required to include in this document, the performance measures to be used to assess its performance in 2001/02, and report against these in its Annual Report. The Audit Office will audit the reasonableness of PHARMAC's reported performance achievements against these measures, as recorded in the Statement of Service Performance (SSP) in the Annual Report.

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

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

Activity One: Management of Community Pharmaceutical Expenditure

PHARMAC manages pharmaceutical expenditure on behalf of DHBs and uses the Pharmaceutical Schedule to determine eligibility for access to subsidised pharmaceuticals. PHARMAC's management of the Pharmaceutical Schedule involves assessing the clinical benefits and economic impacts of listing particular drugs, undertaking reviews of currently listed pharmaceuticals, negotiating with drug companies and producing the Pharmaceutical Schedule.

In determining whether or not a drug should be listed on the Pharmaceutical Schedule PHARMAC will follow Decision Criteria in PHARMAC's Operating Policies and Procedures, as amended from time to time. This requires the following factors to be considered:

- a) the health needs of all eligible people within New Zealand;
- b) the particular health needs of Maori and Pacific peoples;
- c) the availability and suitability of existing medicines, therapeutic medical devices and related products and related things;
- d) the clinical benefits and risks of pharmaceuticals;
- e) the cost-effectiveness of meeting health needs by funding pharmaceuticals rather than using other publicly funded health and disability support services;
- f) the budgetary impact (in terms of the pharmaceutical budget and the Government's overall health budget) of any changes to the Pharmaceutical Schedule;
- g) the direct cost to health service users;
- h) the Government's priorities for health funding, as set out in any objectives notified by the Crown to PHARMAC, or in the Crown Funding Agreement, or elsewhere; and
- i) such other matters as PHARMAC thinks fit. PHARMAC will carry out appropriate consultation when it intends to take any such "other matters" into account.

PHARMAC will support its decisions by the following strategies which aim to improve the value of pharmaceutical expenditure:

- independent advice from the Pharmacology and Therapeutics Advisory Committee (PTAC) to PHARMAC on pharmaceuticals and their benefits;
- information received from PHARMAC's Consumer Advisory Committee;
- assessment of significant new investments, using the principles outlined in PHARMAC's Prescription for Pharmaco-Economic Analysis, as updated from time to time;
- cost utility analysis, used to assess some current investments of poor value, with subsequent dis-investment, where appropriate;
- consulting on matters that relate to the management of pharmaceutical expenditure with any sections of the public, groups, or individuals that, in the view of PHARMAC, may be affected by decisions on those matters, (which may according to the circumstances include DHBs, pharmaceutical suppliers, PTAC, health professionals, community or patient groups, Maori, Pacific Peoples and other groups); and
- take measures to inform the public, groups and individuals of PHARMAC's decisions concerning the Pharmaceutical Schedule.

PHARMAC will use a number of strategies for negotiating with drug companies to achieve the set pharmaceutical expenditure goals, including:

- reference pricing;
- capped expenditure contracts;
- rebate arrangements;
- price/volume arrangements;
- package deals; and
- tendering for sole and preferred supply.

Expectation	Deliverable	Target Date
PHARMAC will manage expenditure on community pharmaceuticals within the levels agreed in the Crown Funding Agreement.	PHARMAC will maintain pharmaceutical subsidy expenditure for the year ending 30 June 2002 within \$528 million (excl GST), after deducting estimated rebates of \$29.80 million. Quarterly targets excluding rebates are: Quarter One \$141.5 Quarter Two \$285.5 Quarter Three \$419.0 Quarter Four \$557.8	30 September 2001 31 December 2001 31 March 2002 30 June 2002
PHARMAC will forecast pharmaceutical expenditure.	PHARMAC will provide the Ministry of Health with a 1-3 year forecast of pharmaceutical expenditure.	31 December 2001

Expectation	Deliverable	Target Date
PHARMAC will monitor pharmaceutical expenditure against forecast.	Any potential deviation from the forecasts will be promptly notified to the Ministry.	Identified in monthly reports if required.
PHARMAC will assume responsibility for managing the Exceptional Circumstances Scheme.	Staff recruited and systems in place and Scheme fully operational.	1 October 2001

Activity Two: Management of Hospital Pharmaceutical Procurement

PHARMAC has been authorised to manage hospital drug purchases on behalf of DHBs. PHARMAC is seeking input from DHBs on the project, which will initially focus on collecting data on current purchasing policy and contractual arrangements and the development of a detailed strategy for nation-wide hospital pharmaceutical procurement. This strategy will include implementation milestones for consideration by the Minister. At the beginning of 2002 PHARMAC will focus on setting and achieving savings targets identified in the strategy.

Expectation	Deliverable	Target Date
PHARMAC will develop a detailed strategy for nationwide hospital pharmaceutical procurement.	Strategy for nation-wide hospital pharmaceutical procurement submitted for approval by the Minister.	1 February 2002
PHARMAC will implement nationwide hospital pharmaceutical procurement.	Implementation of the February 2002 Strategy.	Completion of milestones specified in accordance with the Strategy.

Activity Three: Promoting the responsible use of pharmaceuticals

As noted above, this requires the development of relationships with key stakeholders and strategies to ensure appropriate prescribing behaviour and usage of pharmaceuticals.

Expectation	Deliverable	Target Date
PHARMAC will promote the appropriate use of pharmaceuticals by Maori to contribute towards improved health outcomes.	Maori Responsiveness Strategy finalised and implementation plan developed, including key milestones and an evaluation framework.	30 June 2002
PHARMAC will establish a Consumer Advisory Committee (Ref: Section 50 (1)(b) of the NZPHD Act).	PHARMAC will develop a Terms of Reference and establish the Committee as required by the legislation.	31 March 2002

Expectation	Deliverable	Target Date
PHARMAC will aim to influence the volume and mix of drugs prescribed, such as the appropriate use of antibiotics and informing prescribers of Proton Pump Inhibitors subsidy arrangements.	PHARMAC will promote the responsible use of medicines through national or regional campaigns and will report to the Ministry on its findings in one key area.	31 December 2001
PHARMAC will monitor the quality of its decisions.	Complete an evaluation of the impact of tendering in relation to two or three products.	30 April 2002
Integration of the Pharmaceutical Schedule into Practice Management Software, including prescribing information if appropriate.	Implementation and integration of electronic Pharmaceutical Schedule into GP Practice Management Software. Complete assessment of integrating prescribing information into all GP Practice Management Software.	30 June 2002
Identify whether there is value in continuing with BPAC/PreMeC contracts. Identify any changes in expenditure resulting from BPAC/PreMeC activity. Identify any changes in prescriber attitude resulting from BPAC/PreMeC activity.	Complete independent evaluation of BPAC/PreMeC and report to the Ministry.	30 September 2001

PART 3 FINANCIAL AND OWNERSHIP INFORMATION

Summarised statement of accounting policies

Reporting entity

PHARMAC is a Crown owned organisation and is responsible for securing for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided. It has sole responsibility for managing the Pharmaceutical Schedule.

Forecast financial statements in this document have been prepared in accordance with section 67 of the NZPHD Act 2000 and the Public Finance Act 1989, as amended.

Measurement system

The general accounting policies, recognised as appropriate for the measurement and reporting of financial performance and position on an historical cost basis, have been followed in the preparation of the projected financial statements.

Accounting Policies

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

(a) Valuation of Assets

(i) Fixed Assets

Fixed Assets are valued at cost less accumulated depreciation.

(ii) Accounts Receivable

Accounts receivable are valued at net realisable value.

(b) Depreciation

Depreciation of fixed assets is calculated using the straight line method to allocate the historical cost over the estimated useful life of each asset.

Major depreciation periods are:

Office equipment	2.5 - 5 years
EDP equipment	2.5 years
Furniture and fittings	5 years

(c) Revenue Recognition

Revenue received from the Crown to cover operating costs is recognised as the revenue falls due.

(d) Goods and Services Tax (GST)

All amounts shown are exclusive of goods and services tax, with the exception of debtors and creditors, which are shown GST inclusive.

(e) Taxation

PHARMAC is exempt from the Income Tax Act 1994, as it is classified as a “public authority” under Schedule 6 of the NZPHD Act 2000.

(f) Financial Instruments

There are no financial instruments that expose PHARMAC to foreign exchange risk or off balance sheet risks, although PHARMAC has entered into contracts with pharmaceutical suppliers that provide for limited variations in price according to exchange rate fluctuations.

All financial instruments, including bank accounts, accounts receivable and accounts payable are disclosed at their fair value. Revenue and expenses, in relation to the financial instruments, are recognised in the Statement of Financial Performance.

(g) Employment Entitlements

PHARMAC’s liability for annual leave has been provided for and has been calculated on an entitlement basis at current rates of pay.

(h) Budgeted Figures

The 2001/02 budget figures, and 2002/03 and 2003/04 forecast figures have been prepared in accordance with generally accepted accounting policies adopted by the Board and agreed with the Minister of Health.

(i) Leases

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

Changes in Accounting Policies

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

Projected Statement of Financial Performance

	For the period of 1 July 2001 to 30 June 2002 \$000 (GST excl)	For the period of 1 July 2002 to 30 June 2003 \$000 (GST excl)	For the period of 1 July 2003 to 30 June 2004 \$000 (GST excl)
Revenue			
Crown:			
Operating	5,932	6,803	7,116
High cost medicines	502	502	504
Demand side referred services	2,098	2,125	2,231
Demand side initiatives	663	2,850	2,993
Interest received			
Other revenue			
Total Revenue	9,195	12,280	12,844
Operating Expenditure			
Operating costs	3,606	3,793	3,983
Salaries and related costs	2,420	2,469	2,592
Audit fees	15	15	15
Directors fees	126	126	126
Depreciation	262	200	200
Rentals and leases	250	200	200
High cost medicines	502	502	504
Demand side referred services	2,098	2,125	2,231
Demand side initiatives	663	2,850	2,993
Total Expenditure	9,942	12,280	12,844
Net surplus/deficit	(747)	0	0

Note: The above statement should be read in conjunction with the accounting policies on pages 15-16.

Projected Statement of Financial Position

	At 30 June 2002 \$000 (GST excl)	At 30 June 2003 \$000 (GST excl)	At 30 June 2004 \$000 (GST excl)
Assets			
Cash & bank	923	900	900
Accounts Receivable	2,473	2,367	2,397
Liabilities			
Creditors & Accruals	2,537	2,408	2,438
Working Capital	859	859	859
Long Term Assets			
Fixed Assets	250	250	250
Advances & Investments in Subsidiaries			
TOTAL ASSETS	1,109	1,109	1,109
Represented by:			
Capital			
Retained Earnings & Reserves	1,109	1,109	1,109
TOTAL EQUITY	1,109	1,109	1,109

Note: The above statement should be read in conjunction with the accounting policies on pages 15-16.

Projected Cash Flow Statement

	For the period of 1 July 2001 to 30 June 2002 \$000 (GST incl)	For the period of 1 July 2002 to 30 June 2003 \$000 (GST incl)	For the period of 1 July 2003 to 30 June 2004 \$000 (GST incl)
Cash Provided by the Crown	10,344	13,815	14,450
Other Income			
Interest Received			
Cash as applied to purchases			
Net GST to IRD	(270)	(369)	(385)
Net Cashflows from Operating Activities	(9,764)	(13,269)	(13,865)
Net Cashflows from Investing	(290)	(200)	(200)
Net Cashflows from Financing			
Overall Increase/(Decrease) in Cash & Investments	20	(23)	-
Opening Cash & Investments at bank	903	923	900
Closing Cash & Investments at bank	923	900	900

Note: The above statement should be read in conjunction with the accounting policies on pages 15-16.

Projected Movement in Equity

	2001 / 2002 \$000 (GST excl)	2002 / 2003 \$000 (GST excl)	2003 / 2004 \$000 (GST excl)
Opening Equity	1,856	1,109	1,109
plus Surplus (Deficit)	(747)	-	-
Closing Equity	1,109	1,109	1,109

Note: The above statement should be read in conjunction with the accounting policies on pages 15-16.

Reconciliation of Net Surplus to Cash Flow from Operating Activities

	2001 / 2002 \$000 (GST excl)	2002 / 2003 \$000 (GST excl)	2003 / 2004 \$000 (GST excl)
Net operating surplus (deficit)	(747)	-	-
Add non-cash items:			
Depreciation	262	200	200
Add/(less) Working Capital Movements:			
Decrease (Increase) in Receivables	-	106	(30)
Increase (Decrease) in Payables	1,000	(129)	30
Net Cash Flows from Operating Activities	515	177	200

Note: The above statement should be read in conjunction with the accounting policies on pages 15-16.

Key Assumptions

- The operating budget has been based upon the continuation of PHARMAC's existing level of activity, provision for new activities, future work plans and estimated costs.
- Demand Side budget is based on estimated future activity.

Actual results may differ from Forecast

This summarised financial information is forward looking and based on prudent assumptions which may or may not eventuate. The financial forecasts are dependent on the outcome of funding negotiations for the out-years. Accordingly, the actual financial performance, financial position and cash flows are likely to vary from the projected information presented.

PART 4 OTHER MATTERS

Formal Reports

The Board of PHARMAC will provide the Minister of Health and the Ministry of Health, as the Minister's agent, with the following reports during the period. These reports will be presented in a manner that allows the Minister to assess the extent to which PHARMAC has delivered the performance specified in this Statement of Intent.

Monthly Reports

- PHARMAC will provide a monthly report by the 20th working day of the following month covering:
 - pharmaceutical subsidy expenditure compared with budget;
 - major Schedule decisions;
 - significant issues or developments that the Minister or Ministry should be aware of;
 - any potential non-performance against the Crown Funding Agreement;
 - PHARMAC's operational financial performance showing:
 - Year to date: actual, budget, variance (\$), variance (%), with commentary to explain significant variances;
 - Year to date financial performance;
 - Year to date financial position;
 - Statement of Cashflows;
 - Year end forecast; and
 - Year end budget.

Quarterly Reports

PHARMAC will deliver quarterly performance reports detailing the performance of PHARMAC under its Crown Funding Agreement.

Informal Reports

In addition to the formal reports the Board, will, at any time necessary:

- alert the Minister of Health and the Ministry of Health to any emerging factors that PHARMAC is aware of that could preclude the achievement of any expectation set out in the Crown Funding Agreement; and
- inform the Minister and the Ministry of any issue likely to be of significance to the Minister of Health.

Reports to Parliament

PHARMAC will prepare a Statement of Intent for 2002/03 and Annual Report for July 2001 to June 2002.

The content and timing of the production of these documents shall comply with the requirements of the NZPHD Act 2000 and the PF Act 1989.