

Pharmaceutical Management Agency

Statement of Intent
2007/08



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FOREWORD

The Pharmaceutical Management Agency (PHARMAC) has prepared this Statement of Intent (SOI) to meet the requirements of the Crown Entities Act 2004. The SOI sets out our strategic priorities and our performance targets for the year ahead.

PHARMAC has established a reputation as a high-performing organisation with a record of making cost-effective, efficient decisions on behalf of District Health Boards, who ultimately are the funders of pharmaceuticals in public hospitals and the community. Past successes aside, the future always brings new challenges. New pharmaceutical technologies are continuing to be developed, bringing benefits for patients in many cases, sometimes at significant cost. Careful prioritisation will continue to be essential to ensure the best spending opportunities are chosen.

Prioritising is something we all do daily, whether in our private lives, in companies, not-for-profit organisations or across the government sector. While it can be unpopular to talk about costs and benefits alongside people's wellbeing, they are very important concepts if we are to make the best use of our spending on health.

Emotions often run high around medicine funding questions, and need to be acknowledged. Ultimately, however, we need to weigh up evidence for one funding choice against another. This is the only way to consistently make the best quality judgements for New Zealand.

While there will always be calls for funding more pharmaceuticals, it is equally, if not more, important that people make the best use of the wide range of medicines already available.

Each year there is significant interest in PHARMAC's new investments but, in reality, these investments make up a small fraction of pharmaceutical expenditure and provide only relatively small benefits over treatments already funded. If health outcomes from these already-funded medicines are to be maximised, they need to be prescribed, dispensed and used by consumers in the most effective and efficient way possible.

While still a work in progress, the Government's medicines strategy work led by Hon Peter Dunne has identified (among other issues) an increased focus on optimal use as critical for the medicines system. As there are various components to the system, an overarching strategy will be valuable, including through promoting better linkages between different system parts.

In addition to undertaking more work on optimal use of medicines, PHARMAC is expanding its work to assist District Health Boards with procurement of hospital pharmaceuticals and related products. This is an area where PHARMAC has shown it can add value, through PHARMAC's capability in clinical and economic assessment, and finding efficiencies for DHBs.

With a challenging future ahead, we have intensified our future planning. The framework we are using, explained in this document, recognises that PHARMAC's overall success depends not only on performing its functions well, but ensuring PHARMAC's role and decisions are understood. It also means maintaining PHARMAC as a great place to work to ensure we continue to attract and retain high performing employees. Further improving our external communications and further enhancing organisational capability remain key areas of focus in the year ahead.

PHARMAC remains focussed on continued excellence in its core role of pharmaceutical management. While PHARMAC has an expanding role in some areas of procurement for DHBs and in promoting the optimal use of medicines, this growth will not be at the expense of the significant benefits PHARMAC generates for New Zealand from its core role of funding medicines.

Signed on behalf of the PHARMAC Board by:



Richard Waddel
Chair



Gregor Coster
Deputy Chair

1 INTRODUCTION

PHARMAC's Statement of Intent (SOI) covers:

- PHARMAC's functions;
- PHARMAC's business and operating environment, including the Minister's expectations of PHARMAC and the role of the PHARMAC Board;
- the strategic priorities PHARMAC is pursuing;
- PHARMAC's deliverables for the 2007/08 year (forecast performance); and
- PHARMAC's reporting requirements and financial information and accounts.

2 PHARMAC'S FUNCTIONS

2.1 Summary

PHARMAC assists District Health Boards (DHBs) in their management of pharmaceutical expenditure. 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".

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 (further discussed below):

- managing the Pharmaceutical Schedule, which lists the medicines that are subsidised for patients (Supply Side);
- promoting the responsible use of medicines (Demand Side), 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. Further information on a research initiative PHARMAC is involved with is discussed below.

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

2.2 Managing pharmaceutical expenditure

Community Pharmaceutical Budget

PHARMAC's primary role is to improve the value of expenditure by DHBs on pharmaceuticals. In order to achieve this, PHARMAC undertakes economic and clinical assessment of new pharmaceuticals, including seeking advice from clinical committees, to determine whether new pharmaceuticals should be subsidised. PHARMAC's assessment also determines the access criteria, if any, that apply for subsidised use.

In making decisions, PHARMAC's general approach is:

- listing pharmaceuticals that are assessed, against PHARMAC's Decision Criteria, as providing benefits to improve health outcomes for the New Zealand population;
- using competitive processes, such as reference pricing and tendering, to obtain better value from existing medicines so that new investments can be funded;
- monitoring and managing supplier contracts to ensure maximum benefit from supply agreements;
- using targeting mechanisms such as Special Authority or prescribing guidelines to ensure medicines are used by patients who most need them; and
- considering what interventions, if any, would be beneficial to promote the optimal use of medicines.

The budget used to fund medicines is called the Community Pharmaceutical Budget. This budget is set by the Minister of Health taking into account recommendations from DHBs and PHARMAC. The Community Pharmaceutical Budget is a notional budget target, which is the net result of District Health Board reimbursements to pharmacies for prescribed medicines, minus revenue received from pharmaceutical companies as rebates. The Community Pharmaceutical Budget for 2007/08 is \$636 million (excl. GST). This represents about 6% growth on the 2006/07 budget.

Hospital pharmaceuticals

Since September 2001 when the National Hospital Pharmaceutical Strategy was adopted, PHARMAC has implemented national contracts for pharmaceuticals used in DHB Hospitals, with significant cost savings. Negotiating national contracts for hospital pharmaceuticals has been largely an extension of PHARMAC's traditional role in funding medicines used in the community. This activity is separate from the broader hospital procurement work that is outlined further below.

In addition to this work, PHARMAC has also undertaken procurement work including the seasonal influenza vaccine and Recombinant Factor VIII for haemophilia, where savings are estimated at \$6 million per year (in addition to the \$12 million savings on other pharmaceuticals).

Pharmaceutical Cancer Treatment basket

Since 2001, New Zealanders have had equitable access to a "basket" of pharmaceutical cancer treatments, which are funded by DHB hospitals. PHARMAC currently conducts assessment of new cancer medicines, with decisions on funding made following approval by DHBs. To streamline this process, PHARMAC is continuing work with DHBs and the Ministry of Health on a project to transfer funding from DHBs to PHARMAC to more effectively manage the cancer treatments "basket".

2.3 Optimal use of medicines

PHARMAC's work in this area plays an important role in management of pharmaceutical expenditure. Optimal use initiatives are intended to have tangible outcomes in terms of either health gains and/or more efficient use of pharmaceutical spending. In part, this involves understanding the factors that drive *demand* for pharmaceuticals.

In developing and implementing campaigns, PHARMAC works with health providers and stakeholder groups (e.g. New Zealand Guidelines Group; NZ College of Pharmacists; the Pharmaceutical Society; the Pharmacy Guild; Best Practice Advocacy Centre NZ; Sport and Recreation NZ; National Heart Foundation; Asthma and Respiratory Foundation and Plunket). PHARMAC also seeks to ensure its activities are aligned and coordinated with DHBs and activities contracted through Primary Health Organisations (PHOs).

PHARMAC funds its demand side activities through a combination of Ministry of Health funding and funding from DHBs. Each campaign has specific targets indicating health gains and/or savings that DHBs may expect from investing in the campaigns.

2.4 Maori responsiveness

PHARMAC's Maori Responsiveness Strategy is designed to increase prescribing, uptake, utilisation and optimal use of medicines by Maori. While all New Zealanders have the same access to subsidised medicines, prescribing of and uptake by Maori is lower (and significantly lower in some cases). Compounding this is that the burden of disease, especially cardiovascular, asthma and diabetes, is disproportionately high amongst Maori.

A number of optimal use initiatives, such as One Heart Many Lives, have a beneficial aspect in terms of responsiveness to Maori health needs. PHARMAC's Maori Use of Medicines programme (He Rongoa Pai; He Oranga Whanau) has a number of aspects, including training resources, strengthening the links between PHARMAC and providers of health services to Maori; partnering with local health providers and organisations in developing and distributing materials specifically for Maori.

PHARMAC will continue to develop its understanding of the needs of Maori, including through improving the way it analyses data. PHARMAC has strengthened its capacity and capability in this area through recruitment and appointment of personnel with specialist skills and experience. A key focus remains on improving the capability of PHARMAC staff generally with respect to Maori health matters.

2.5 Hospital procurement initiatives

At the request of DHBs, PHARMAC has commenced procurement processes for some other pharmaceuticals used in DHB hospitals. Implementation of these national procurement projects has led to efficiencies in the purchasing of products, for example bulk intravenous fluids and radiological contrast media. A number of other procurement areas have been identified for further work (e.g. cardiac stents, wound care products, orthopaedic prostheses, antidotes, and antivenoms).

2.6 Exceptional Circumstances programmes (Community and Hospital)

PHARMAC has responsibility for managing the Community and Hospital Exceptional Circumstances (EC) programmes. Typically, about 2000 applications for exceptional circumstances funding (in hospitals or community) are received each year.

Community EC is a mechanism for patients with rare or unusual clinical situations to enable access to medicines that are not otherwise subsidised. PHARMAC manages panels of clinicians who make recommendations (or decisions, depending on the circumstances) on EC funding. Funding for Community EC medicines is drawn from the community pharmaceutical budget.

Hospital Exceptional Circumstances (HEC) is a mechanism that enables DHB hospitals to dispense medicines to patients that enable them to be discharged from hospital and return to the community. Applications for HEC medicines are assessed on a case-by-case basis by PHARMAC. The sole criterion for HEC is cost-effectiveness.

2.7 Discretionary Community Supply provisions

This is a mechanism that allows DHBs to dispense pharmaceuticals not on the Pharmaceutical Schedule (when it is cost-effective to do so). This mechanism differs from HEC in that the Discretionary Community Supply (DCS) list of medicines are approved for hospitals to fund for patients, though it remains at the discretion of the hospital whether to provide them. Applications for funding are not required. HEC, by comparison, requires applications to be made to PHARMAC on a case-by-case basis. These provisions have been in place since 1 July 2003.

2.8 Research

The NZ Public Health and Disability Act allows PHARMAC to conduct research. Such research is part of PHARMAC's broader role in gathering information on pharmaceuticals to inform its funding decisions. PHARMAC also conducts research to determine the need for, and results of, its optimal use programmes (such as Wise Use of Antibiotics).

During 2006/07, PHARMAC announced its decision to provide financial support for an international trial related to the drug Herceptin (the "SOLD" trial). The trial will examine whether adding long-duration Herceptin treatment to a short-duration protocol adds benefits to the short-duration treatment alone. This is a research question that is of interest to New Zealand and international health funders and is in accordance with the legislative role outlined above. During 2007/08, PHARMAC is expecting to contribute \$1.425 million of the \$3.2 million total support funding it has offered. 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 three years.

3 BUSINESS AND OPERATING ENVIRONMENT

3.1 Ministerial expectations and governance

Expectations of the Minister of Health

In addition to general expectations for the health sector (including sectoral collaboration; and continual improvement in core business activities), the Minister of Health has articulated specific expectations of PHARMAC:

- **responsible use of medicines** – continue to lead programmes aimed at the optimal use of medicines, such as One Heart Many Lives, and increase opportunities to work collaboratively with stakeholders, other entities and across sectors to increase wise use of pharmaceuticals and improve health outcomes with regard to non-communicable diseases such as diabetes and cardiovascular disease;

- **procurement** – continue to assist DHBs with procurement, encouraging an increased utilisation of PHARMAC's comparative advantage and capability in analysis, assessment, and market relationships. Investigate other procurement options where PHARMAC is best positioned to take a lead role, whilst maintaining focus on core business;
- **relationships and profile** – continue to review and improve relationships with stakeholders, including DHBs and other Crown entities, and alignment with strategic priorities; and
- **organisational capability** – continue managing organisational capacity and capability in order to successfully manage its increased demand-side, research, international collaboration, and analysis and assessment activities.

These expectations – those for the sector and those specific to PHARMAC – have been factored into PHARMAC's planning for 2007/08 and beyond.

Role of the Minister of Health

The Minister of Health, on behalf of the Crown, is accountable to Parliament for PHARMAC's overall performance. The Minister has expressed the expectations of the Crown as owner of PHARMAC by way of a Letter of Expectations. This Statement of Intent is consistent with those expectations. However, to the extent of any inconsistency, the terms of the Minister's Expectations override.

The role of the Minister includes:

- setting the Community Pharmaceutical Budget and PHARMAC's operating budget;
- setting expectations of PHARMAC as set out in this document;
- monitoring the performance of PHARMAC; and
- appointing the Board and holding it accountable for PHARMAC's performance.

The Minister is also able to formally direct PHARMAC in some circumstances. There are currently no Ministerial directions related to PHARMAC's performance.

The Ministry of Health acts as the Minister's agent in the Minister's relationship with PHARMAC, including monitoring PHARMAC's performance.

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, 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 authority of the Board. The Board is responsible for agreeing PHARMAC's outputs with the Minister and for ensuring the expectations of PHARMAC 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.

3.2 Key stakeholders

PHARMAC's key stakeholders include (in no particular order):

- **patients, and patient and consumer (including Maori) groups** – PHARMAC consults and actively works with a range of such groups;
- **health professionals** – PHARMAC works with a range of stakeholders in this area, including clinicians, pharmacists, Primary Health Organisations, nurses, NZMA, RNZCGP, College of Pharmacists, and the Pharmacy Guild;
- **the pharmaceutical industry** – PHARMAC works with suppliers of pharmaceutical products to reach agreements to subsidise medicines for New Zealand patients, as well as with the body that represents many suppliers, the Researched Medicines Industry Association;
- **District Health Boards** – DHBs hold the funding for the Community Pharmaceutical Budget. PHARMAC also acts as a purchasing agent for DHBs for some hospital supplies;
- **Minister of Health** – the Minister is responsible for PHARMAC's overall performance; agreement of the SOI and Crown Funding Agreement; appointment of PHARMAC's Board; and determining the Community Pharmaceutical Budget (on the recommendation of PHARMAC and DHBs);
- **Ministry of Health** – the Ministry acts as the agent of the Minister in negotiating and communicating the Minister's expectations and monitoring PHARMAC's performance. PHARMAC also works closely with HealthPAC and NZHIS (divisions of the Ministry) in carrying out its statutory objectives; and
- **Members of Parliament** – MPs approach PHARMAC with a range of questions, including on behalf of constituents.

3.3 Contribution to health sector outcomes

PHARMAC's role is only one means to an end

PHARMAC performs a role that is only one part of the overall approach to New Zealanders' health care delivered through DHBs. Pharmaceuticals are an important part of healthcare, but PHARMAC's role cannot be seen in isolation from other healthcare activity, including prevention.

Further, steps in the medicines funding process, while they are critical to the integrity and quality of medicines funding decisions, ultimately mean very little if New Zealanders are not benefiting from subsidised medicines. These end-benefits depend on the actions and interactions across the whole medicines system. PHARMAC's role, in essence, is only a means to an end.

Within this context, it is critical that robust performance measures are available that provide meaningful insights into the quality of PHARMAC's contribution to health outcomes. PHARMAC is committed to improving the definition of such measures, and will consult with interested parties as they are developed.

In developing its strategic priorities (outlined below), PHARMAC is aware of its role within the medicines system and how PHARMAC can maximise its contribution to overall health outcomes. This is the very essence of both the health outcomes framework developed by the Ministry of Health (and the Government's *Managing for Outcomes* framework more generally); and the Government's medicines strategy work (discussed below).

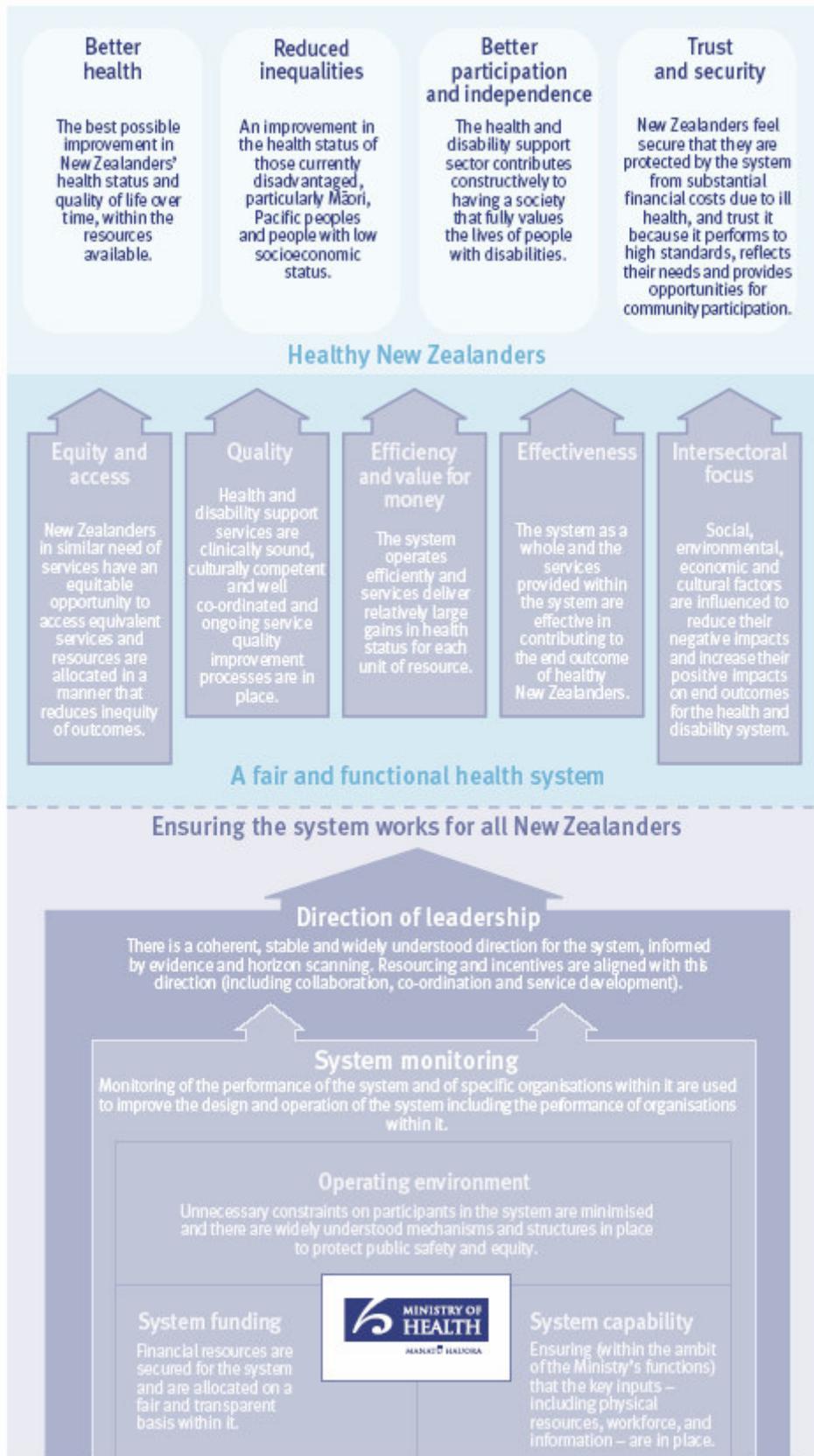
Contribution to Government strategies

PHARMAC's activities contribute to achievement of a number of health strategies (e.g. the New Zealand Health Strategy, the New Zealand Disability Strategy, He Korowai Oranga), including through:

- acknowledging that pharmaceuticals play an important role in improving the health and well-being of New Zealanders throughout their lives;
- providing equitable access for all New Zealanders to subsidised pharmaceuticals, regardless of ability to pay;
- reducing inequalities through the Maori Responsiveness Strategy and through optimal use initiatives (also acknowledging the special relationship between Maori and the Crown under the Treaty of Waitangi);
- working together with other health sector agencies to help promote a high-performing system;
- investing in new drug technologies to better address, or address new, health issues; and
- promoting responsible use of pharmaceuticals as a means of enhancing the quality of medicines use.

Ministry of Health outcomes framework

PHARMAC has developed its strategic priorities with reference to the health outcome framework developed by the Ministry of Health (the diagram below). PHARMAC's contribution within this framework is discussed below.



The table below summarises how PHARMAC’s activity fits into the top part of the diagram (“healthy New Zealanders”) and the middle part of the diagram (“a fair and functional health system”). Given PHARMAC generally only *contributes* to health outcomes, PHARMAC’s activity is more aligned to the second part of the table, i.e. a part of the medicines system which in turn is part of the overall health system.

PHARMAC'S ROLE WITHIN HEALTH OUTCOMES FRAMEWORK (SUMMARY ASSESSMENT)

Better health	Reduced inequalities	Better participation & independence		Trust & security
PHARMAC seeks the best health outcomes from within funding available. PHARMAC promotes the responsible use of medicines.	The Pharmaceutical Schedule applies consistently to all New Zealanders. PHARMAC is implementing a Maori Responsiveness Strategy to take account of Maori health needs.	PHARMAC's decisions can assist people with disabilities. For medicines not listed on the Schedule, access is possible through the Exceptional Circumstances scheme.		All New Zealanders can benefit from access to the Schedule. Clinical effectiveness of medicines is central to PHARMAC decisions.
Equity & access	Quality	Efficiency & value for money	Effectiveness	Intersectoral focus
Targeted demand-side initiatives to groups in need. Patients' health need taken into account in decision-making. EC scheme increases outreach by providing for case-specific funding. Maori Responsiveness Strategy focused on addressing Maori health priorities.	Use of expert advisory committees (e.g. PTAC). Robust clinical and cost-effectiveness assessment (including use of health outcome data). Responsible use of medicines work promotes higher quality use of medicines. Staff with skills and expertise conducive to quality decision-making.	Significant savings from PHARMAC's management of the Schedule. Benefits from national procurement on behalf of DHBs (including exploring new initiatives). Use of a variety of purchasing strategies to ensure maximum benefits from available funding.	Funds cost-effective medicines. Works with other health sector agencies and organisations to ensure those medicines are used appropriately. Provides information and education to ensure best use of medicines is understood.	Effective working relationships with DHBs and DHBNZ. PHARMAC's activities help DHBs manage their budgets. Works with other stakeholders to better understand their perspectives and needs. Other health sector costs (e.g. hospital costs) taken into account in funding decisions.

Government medicines strategy work

The Government's medicines strategy work is also aimed at getting the best possible outcomes from the whole medicines system, including effective collaboration and linkages between the different system parts (of which PHARMAC is only one). PHARMAC strongly supports the strategy work as a valuable opportunity to provide further strategic direction for the medicines system as a whole. As part of ongoing development work toward a strategy, PHARMAC has suggested that two key issues stand out as priorities for a medicines strategy:

- **increased focus on optimal use of pharmaceuticals** – PHARMAC believes that the single biggest challenge in improving health outcomes and value for money in pharmaceutical therapy is to find ways and means of optimising the use of medicines. Emphasis in this area will arguably become even more important as new high cost medicines emerge, and with increasing demands for quality information to promote “health literacy”. No matter how much money is spent on medicines, we need to spend it wisely and the evidence is that significant health gains can be made. Accordingly, PHARMAC considers the medicines strategy should be firmly focused on this area; and
- **increased focus on information quality and research** – research information on pharmaceuticals is not primarily generated with funding prioritisation, the value of medicines in practice and optimisation of health outcomes in mind. In PHARMAC's view,

fundors of medicines must take a more active role in ensuring that the right incentives are in place for the best information to be available or, if necessary, initiate research to generate that information. While needing further development to refine details, a well-targeted investment in research would be likely to generate information that PHARMAC could use to improve the effectiveness of funding pharmaceuticals (and benefits well in excess of costs). Research could also usefully be focused on the first priority above: optimal use.

4 STRATEGIC PRIORITIES

PHARMAC's strategic priorities for 2007/08 and the following two years are set out below, following some context and an overview of PHARMAC's framework for success.

4.1 Context

PHARMAC has earned a reputation as a small and capable government agency operating in a complex and sometimes controversial working environment.

While PHARMAC's business, in terms of outputs and functions, remains largely the same, the operating environment continues to grow in complexity. The nature of PHARMAC's activity – high profile and often the target of emotion-generating campaigns for access to new medicines – requires consistent high performance. There is also a continuing expectation for PHARMAC to do its work better and, in some areas, take on additional work. This includes continual improvement in PHARMAC's traditional medicines funding role; assisting the sector with procurement initiatives; and more work on optimal use of medicines.

In such an environment, it is critical that PHARMAC is identifying future challenges and how, through development work now, to address them and ensure PHARMAC's future success. PHARMAC has therefore considered its strategic priorities very carefully in developing this document.

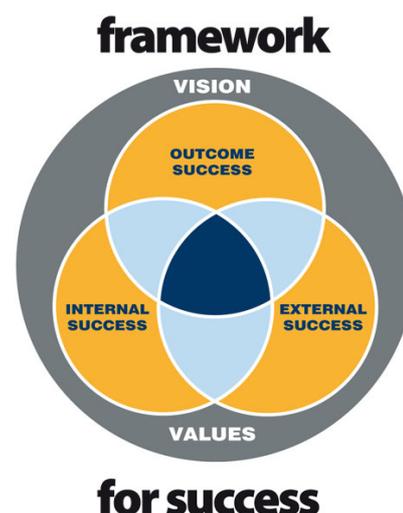
4.2 Framework for success

PHARMAC is very clear that its activity, working together with others in the medicines system, is to deliver better health outcomes for New Zealanders. As noted above, while steps in the medicines funding process are critical to the integrity and quality of medicines funding decisions, they ultimately mean very little if New Zealanders are not benefiting from subsidised medicines.

As is generally the case for all organisations, achieving an end outcome is the result of a wide range of factors and the culmination of work and effort in a number of areas – areas that are important individually (as a component of the end outcome) and collectively given interdependencies between them.

PHARMAC's overall success as an organisation (and a key part of the medicines system) is most likely to result from a strong focus in three core areas:

- ongoing excellence in PHARMAC's functions (such as promoting optimal medicines use and optimal access to funded drugs) – we have called this "outcome success";



- ensuring, through PHARMAC’s own actions as much as possible, that stakeholders understand PHARMAC’s role and decisions (“external success”). Recognising the high profile nature of PHARMAC’s work and the importance of public perceptions, public confidence in PHARMAC is critical to its organisational success;
- ensuring PHARMAC remains a great place to work in order to attract and retain the calibre of people required to carry out its work (“internal success”). As PHARMAC’s success is critically dependent on its employees, a strong focus on human resource management and organisational development is important.

Guiding each area of success is PHARMAC’s vision – *Leading Edge Medicines Management* – and organisational values to underpin the organisational culture that PHARMAC requires to succeed. These values are defined in detail for PHARMAC employees; in broad terms they relate to effective communication; prioritising our work; working well together and with others; and making things happen as quickly as we can.

By working within the above framework, PHARMAC can ensure that attention is paid to all areas relevant to delivering the best possible outcomes for New Zealand. At a high level, PHARMAC has defined high-level goals (and called these “missions”) for each of the three core areas noted above. These missions, set out below, can be further defined into more specific performance measures over time.

Strategic Goal	Definition
Best health outcomes (“outcome mission”)	We’ll maximise the health of New Zealand by excelling in the management of taxpayer funded medicines. With tough trade-offs to be made, we recognise we cannot please everyone: our excellence depends on robust processes and analysis, impartiality and integrity.
To be understood (“external mission”)	We’ll do all we can for PHARMAC’s perspective to be heard and for our processes and decisions to be understood. We want to be respected for fair processes, sensible evidence-based decisions, effective communication, responsive engagement and compassion.
Make a difference (“internal mission”)	We’ll make the most of our opportunity to make a difference for New Zealand, including through developing ourselves and organisational capability. It’s our people that make the difference, so we value them and the commitment and professionalism they bring. We also value our unique diversity: science, medicine, commerce, analysis, marketing ... and more, including direct personal involvement in outcomes.

4.3 Future challenges

PHARMAC will confront a number of future challenges and define strategies to allow PHARMAC to address such challenges. A number of challenges are summarised below, grouped according to a standard assessment tool (“PESTLE”), with a preliminary assessment of how PHARMAC may seek to address them.

	What the future holds	PHARMAC needs to ...	This requires ...
Political	Ongoing significant (and likely increasing) public interest in health and pharmaceutical management, including possible changes to the policy and regulatory landscape (e.g. ANZTPA, medicines strategy outcomes). A further increase in whole-of-government collaboration may also be likely.	<ul style="list-style-type: none"> • better understand public perceptions and concerns • keep Ministers and MPs well informed of issues and briefed on PHARMAC's perspective • ensure its perspective on relevant policy matters is well articulated • continue to make high quality decisions through robust analysis and processes, and effective governance • better understand international funding regimes and decisions, as international activity has some influence on activity in New Zealand 	<ul style="list-style-type: none"> • additional capability in policy development and communication of PHARMAC perspectives in policy processes • increased emphasis on communications and stakeholder management • continued meetings and communications with Ministers and MPs • increased focus on the medicines system overall • stronger links with international agencies
Economic	Ongoing and possibly escalating budget pressures within the health system, exacerbated by new high cost health interventions (including new medicines).	<ul style="list-style-type: none"> • be even more rigorous in decision making to maximise outcomes • have a closer relationship with DHBs to better understand the impact of PHARMAC's decisions on DHBs • gain greater public acceptance of choices and opportunity cost • promote competition between pharmaceutical suppliers, both researched and generic • ensure whatever money is spent is spent as wisely as possible 	<ul style="list-style-type: none"> • continued emphasis on business improvement • more emphasis on prioritisation processes elsewhere in the health sector • closer relationships with DHBs • more emphasis on communication and engagement with key stakeholders and the public • more work on optimal use of medicines
Social	Continued increase in public expectations of the health system, but likely more fragmented individual or sub-group needs emerging (with associated pressure on prioritisation processes). High emphasis on health literacy will also demand transparency and high quality, timely information.	<ul style="list-style-type: none"> • better understand access issues and health needs of population sub-groups • understand prescribing trends and expenditure impacts of social and demographic change • ensure processes and decisions are understood • meet the demand for information about pharmaceutical management without compromising health outcomes • remain strongly evidence focussed in the face of (understandable) patient self-interest pressures 	<ul style="list-style-type: none"> • increased analytical work on access issues • more emphasis on the role of medicines within health management generally (improved links across medicines system and across the health sector) • more education and awareness raising

	What the future holds	PHARMAC needs to ...	This requires ...
Technology	Facing system pressures (budget and capacity), the health system will need to continually examine technology improvements as a means of making efficiency gains, such as electronic patient records and e-dispensing.	<ul style="list-style-type: none"> • identify beneficial uses of technology across the medicines system • investigate opportunities to use technology and information to maximise the efficiency of PHARMAC processes and end consumer benefits 	<ul style="list-style-type: none"> • increased propensity to promote technology use where desirable • sufficient capability in technology matters
Legal	Judicial review of PHARMAC's decisions is an ongoing risk. Some policy changes (if made) may also increase PHARMAC's legal risk. There will also be ongoing activity associated with contractual dispute resolution, OIA requests, and possible Ombudsmen and Human Rights complaints.	<ul style="list-style-type: none"> • ensure compliance with its administrative law obligations • ensure a robust approach to contracting with external parties • be robust in its assessment of legal risk • ensure appropriate documentation of processes and decisions • influence the policy development process, given some policy changes may increase legal risk 	<ul style="list-style-type: none"> • continued strong focus on management of legal risk • ongoing education of PHARMAC staff on legal matters
Environment	While not a significant future operating determinant, increasing environmental awareness generally is likely to have impacts on health issues (e.g. medicines disposal).	<ul style="list-style-type: none"> • be a good corporate citizen generally with respect to environmental matters (e.g. recycling) • be attuned to environmental developments that may impact on the medicines system 	<ul style="list-style-type: none"> • monitoring of environment issues of relevance to the medicines system

4.4 Key strategies

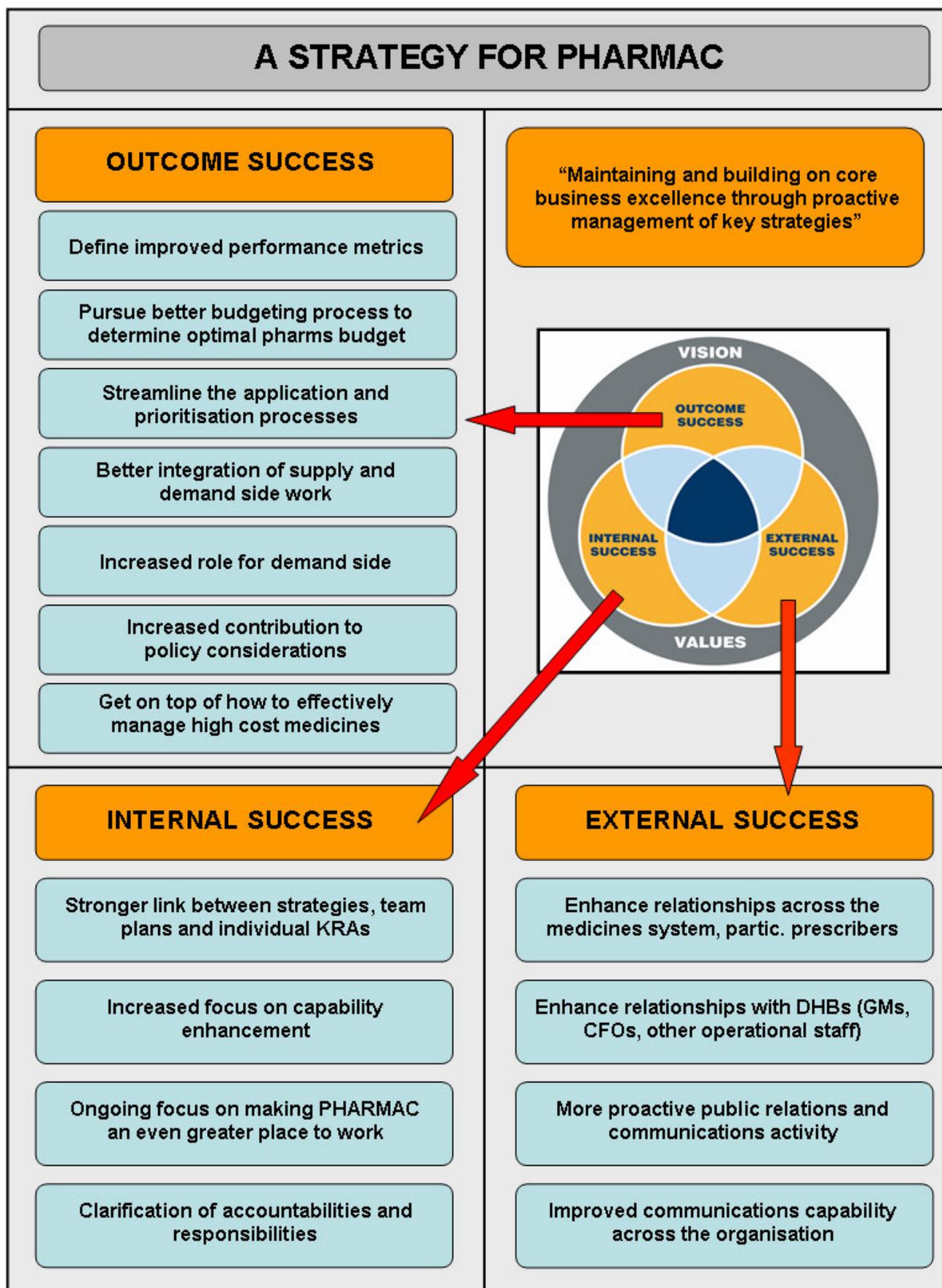
PHARMAC's strategic priorities, for each of the three core areas defined by its framework for success, are set out below. Work in these areas is, in large part, not straight forward and is likely to require significant, ongoing work. While pursuing these strategic priorities, continued excellence in PHARMAC's core business remains critical, and this includes making continual improvements to the way we do our business.

Strategy	Explanation
Outcome Success – “Best Health Outcomes”	
Ensuring an “optimal” pharmaceutical budget	Maximising health outcomes requires the “right” amount of money to be spent on medicines. There is scope for improvement in prioritisation processes across the health sector. While these trade-offs are the responsibility of DHBs, PHARMAC can make an important contribution given its interest in an optimal pharmaceutical budget.
Streamlining the funding process	As decisions to fund medicines follow a funding process (starting with receipt of applications through to decisions by the PHARMAC Board), it is important that this process is as efficient and effective as possible. Given its central nature to PHARMAC's role in funding medicines, it is important that the funding process is subject to ongoing review and, where possible, improvement.

Strategy	Explanation
Outcome Success – “Best Health Outcomes”	
Better integration of supply and demand side work	As health outcomes (not funding decisions or other health interventions per se) are ultimately most important, further emphasis can be placed on determining the best mix of supply side (funding decisions) and demand side (optimal use) initiatives.
Increased focus on optimal use of medicines	The large majority of treatment benefits from medicines stem from historic funding decisions; the efficiency of which can only be influenced by prescribing and dispensing decisions and the use of those medicines by consumers. It is to this area that the medicines system, with PHARMAC playing an important role, must shift its focus and intensify efforts.
Increased contribution to policy considerations	Changes to the policy environment can impact on PHARMAC’s ability to maximise health outcomes. Increased monitoring of, and participation in, policy debates, across the medicines system, is important, as well as monitoring international developments that may have some relevance to New Zealand.
Better definition of performance measures	Performance measures need further development to fit with PHARMAC’s framework for success. A number of simple measures are often cited (e.g. number of medicines funded, time to find), which do not provide meaningful insights with respect to health outcomes. Further work to determine meaningful measures is required. While simple sounding, determining meaningful measures is likely to be complex.
Managing high cost medicines	New pharmaceutical technologies continue to increase in cost. PHARMAC needs to ensure that systems and strategies are in place to robustly and fairly assess these technologies for funding against other technologies also seeking funding.
External Success – “To be Understood”	
Stronger relationships across the medicines system	As PHARMAC is focussed on maximising its contribution to the sector, it is important PHARMAC effectively engages with stakeholders and further intensifies its efforts in this area. A particularly important area for further attention is PHARMAC’s engagement and relationships with prescribers.
Closer working relationship with DHBs	As PHARMAC manages the pharmaceutical budget on behalf of DHBs and undertakes work on their behalf (e.g. procurement, optimal use), a robust understanding of issues of significance to DHBs (at various levels) is important to PHARMAC’s work. A particular area of focus is better coordination of optimal use initiatives, given their relevance to campaigns managed by DHBs directly.
Increased communication and stakeholder engagement activity	Due to the nature of PHARMAC’s activity (strong public feelings about health, while not all medicines will be funded), reputation management will always be a challenge. Increasing pressure and demands on the system underscore the need for greater focus on awareness-raising and explanation of PHARMAC’s role and decisions to key stakeholders and the general public.
Improved communications capability	Most, if not all, PHARMAC staff play a role in influencing perceptions of PHARMAC and ensuring PHARMAC’s role is understood. Further enhancing organisational capability in communications remains important.
Strategy	Explanation
Internal Success – “Make a Difference”	
Improved performance management process	PHARMAC’s effectiveness as an organisation depends on the effectiveness of each of its employees. With increased work recently on planning for future success and a modified performance management programme, it is important that the alignment of individual performance expectations to business performance goals is reviewed.

Strategy	Explanation
Internal Success – “Make a Difference”	
Stronger capability management	Given a challenging future, more emphasis on capability management is required, including assessing future capability needs and putting in place measures to ensure those needs are met in a timely way. While processes and systems are important capability elements, human resource management is particularly important given PHARMAC’s success is critically linked to the capability of its people.
Making PHARMAC an ever greater place to work	Stronger focus on human resource management includes ensuring PHARMAC is offering a working environment and culture that attracts and retains capable people. As PHARMAC’s culture is also a key determinant of how PHARMAC communicates externally and is perceived, it is also essential that work in this area reflects PHARMAC’s goals with respect to external success.
Clarification of accountabilities and responsibilities	With increased work recently on planning for future success, it is timely that accountabilities and responsibilities throughout PHARMAC are reviewed to ensure these are vested in the right positions to maximise PHARMAC’s efficiency (including to robustly manage work quality and risk).

A summary of these strategic priorities is presented in the following diagram.



5 STATEMENT OF FORECAST SERVICE PERFORMANCE

5.1 Introduction

This section addresses the requirement for PHARMAC to produce a forecast statement of service performance (in effect, a high level project plan) for each Output. While PHARMAC only has one Output Class, PHARMAC considers it more meaningful to provide a forecast statement of service performance on a more disaggregated basis, based on each of PHARMAC's functions that are summarised below.

5.2 Performance measures for 2007/08

The table below sets out PHARMAC's forecast performance for 2007/08. At a general level, PHARMAC intends to:

- continue to effectively manage the Pharmaceutical Schedule by listing products that will generate health outcomes for New Zealand;
- continue PHARMAC's work in promoting the responsible use of pharmaceuticals by focusing on projects with measurable outputs and/or outcomes over the medium term;
- continue to seek ongoing benefits through nationwide hospital pharmaceutical purchasing and other procurement initiatives on behalf of DHBs;
- contribute to improving the health status of all New Zealanders by helping ensure all New Zealanders have similar access to subsidised pharmaceuticals, including through the Maori Responsiveness Strategy; and
- continue to enhance its capability, particularly with respect to effective management and ongoing professional development of its staff.

#	2007/08 Initiative / Activity	Timing
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 (including to use pricing and negotiation strategies to get the best possible outcomes for patients).		
1.1	Cost-utility assessment of all major investments	As required
1.2	Printing and dissemination of the Community Pharmaceutical Schedule	4-monthly book, with monthly updates
1.3	Printing and dissemination of the Hospital Pharmaceutical Schedule	4-monthly book
Expenditure on subsidised community pharmaceuticals within budget (\$636 million (excl GST)), after deduction of rebates from pharmaceutical suppliers. The quarterly budgets, inclusive of rebates, are (excl GST):		
1.4	Q1: \$160.80 million	30 September 2007
1.5	Q2: \$159.09 million	31 December 2007
1.6	Q3: \$153.10 million	31 March 2008

#	2007/08 Initiative / Activity	Timing
1.7	Q4: \$163.01 million	30 June 2008
1.8	Monitor and manage supplier contracts, so that DHBs receive maximum benefit from supply agreements, including rebate payments	Ongoing
1.9	Establish a protocol to communicate and manage stock levels with pharmacy groups	30 June 2008
Exceptional circumstances - PHARMAC will undertake timely and robust consideration of pharmaceutical use in exceptional circumstances.		
2.1	Turnaround for community, hospital and cancer-related exceptional circumstances applications of 4 weeks, 48 hours and 72 hours respectively	As required
2.2	Continue active management to ensure efficiencies in delivering the Hospital Exceptional Circumstances and Discretionary Community Supply programmes	As required
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).		
3.1	Provide a report to the Ministry of Health on transfer of management of Hospital Pharmaceutical Cancer Treatments to PHARMAC	31 December 2007
3.2	Provide a report to DHBs and the supplier annually about DHB hospital compliance with restricted brand contracts	31 December 2007
3.3	Monitor Recombinant Factor VIII, bulk IV fluids and radiological contrast media national contracts to ensure compliance with national contracts	Ongoing
3.4	Prepare a report for the Ministry of Health on compliance with national contracts	30 June 2008
3.5	Continue work in assisting DHBs to procure products used in DHB hospitals, such as cardiac stents, wound care products, orthopaedic prostheses, antidotes and antivenoms	30 June 2008
3.6	Produce a report to the Ministry of Health detailing work undertaken to assist DHB hospitals in procurement activities	30 June 2008
3.7	Produce a report for the Ministry of Health detailing economic assessments of new hospital pharmaceuticals	30 June 2008
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.		
4.1	Deliver the annual Wise Use of Antibiotics campaign and present a report to the Ministry of Health evaluating the 2007 campaign	1 March 2008
4.2	Continue to roll out and implement the One Heart Many Lives campaign in Hawke's Bay and Northland	Ongoing
4.3	Develop a One Heart Many Lives campaign in at least one other region	30 June 2008

#	2007/08 Initiative / Activity	Timing
4.4	Continue to work with Diabetes NZ on implementing patient education information, and provide a summary of work to the Ministry of Health	30 June 2008
4.5	Roll out and evaluate the Gut Reaction campaign	30 June 2008
4.6	Complete the report of feasibility study findings on Polypharmacy and develop a programme for national roll out	30 June 2008
4.7	Develop childhood asthma projects and resources for children and their families	30 June 2008
4.8	Continue to work with bpacNZ	Ongoing
4.9	Continue to administer and maintain the Green Prescription Programme with SPARC	Ongoing
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.		
5.1	Further develop the Maori Use of Medicines programme and roll out nationally	30 June 2008
5.2	Publish Te Whaioranga, PHARMAC's Maori Health Action Plan	31 December 2007
5.3	Review the Cardiovascular therapeutic group in relation to Maori health and prepare a report on Maori use of medicines for cardiovascular disease	30 June 2008
Research – PHARMAC will engage in research to generate further information on the optimal duration of Herceptin therapy		
6.1	Complete contract negotiations with SOLD trial investigators with agreement on payment milestones for funding up to \$3.2 million	1 September 2007
6.2	Provide payments as agreed under the contract to SOLD trial investigators	As per funding contract
6.3	Provide a report six-monthly to the Ministry of Health on progress of the SOLD trial	31 December 2007 30 June 2008

6 REPORTING

6.1 Monthly Reports

PHARMAC will provide the Minister and the Director-General of Health with a monthly report by the 20th working day of the following month covering, at a minimum:

- pharmaceutical subsidy expenditure and rebates compared with budget and revised forecasts of expenditure and rebates when appropriate;
- major Schedule decisions;
- significant issues or developments the Minister or Ministry should be aware of;

- any potential non-performance against the Crown Funding Agreement; and
- PHARMAC's operational and demand-side 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;
 - Year end forecast; and
 - Year end budget.

6.2 Quarterly Reports

PHARMAC will provide a quarterly report to the Ministry of Health comprising:

- PHARMAC's performance against all 2007/08 deliverables that fell due in the previous quarter. PHARMAC may also outline progress made towards achievement of significant milestones due in later months;
- an update on price, volume, mix and expenditure indices;
- full financial Statements; and
- PHARMAC's use of the Legal Risk Fund, including explaining the consistency of any use of the Fund with the Fund's rules.

In its quarterly reporting, PHARMAC will also provide summary information on progress toward future deliverables.

PHARMAC will also provide a quarterly report to DHBs on PHARMAC activity generally.

6.3 Informal Reports

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

- alert the Minister and the Ministry 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 this SOI; and
- inform the Minister and the Ministry of any issue likely to be of significance to the Minister.

On request, PHARMAC will provide:

- the Ministry with information that will enable the Ministry to prepare Ministerial briefings and draft speech notes in writing and, where practicable, in agreed form;
- the Ministry with information (in writing and in an agreed form) that will enable the relevant Minister to, in a timely manner:
 - respond to Parliamentary questions;
 - deal with routine Ministerial correspondence;
 - deal with select committee inquiries; and
- information within the control of the PHARMAC Board, that enables the Ministry, on the Minister's behalf, to conduct special reviews and audits of PHARMAC's performance, which

may be carried out as often as the Crown reasonably believes those reviews and audits are required as agreed between the parties.

6.4 Reports to Parliament

The content and timing of reports to Parliament shall comply with the requirements of the Crown Entities, NZ Public Health and Disability and the Public Finance Acts.

7 FINANCIAL INFORMATION

7.1 Statement of accounting policies

Reporting entity

PHARMAC is a body corporate owned by the Crown with perpetual succession 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 the Crown Entities Act 2004 and generally accepted accounting practice.

Measurement system

The general accounting policies, recognised as appropriate for the measurement and reporting of financial performance and position on a 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.

- *Valuation of assets* – Fixed assets are valued at cost less accumulated depreciation. Accounts receivable are valued at net realisable value.
- *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
○ Leasehold improvements	5 years
- *Revenue recognition* – Revenue received from the Crown to cover operating costs is recognised as the revenue falls due.
- *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.
- *Taxation* – For the purposes of the Inland Revenue Acts, PHARMAC is a “public authority” as stated in section 169 of the Crown Entities Act 2004.

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.

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.

Budgeted figures

The 2007/08 budget figures, and 2008/09 and 2009/10 forecast figures have been prepared in accordance with generally accepted accounting policies adopted by the Board.

Leases

PHARMAC leases office premises and a range of software. 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. Financial reporting standards comply with NZIFRS. There have been no significant impacts on PHARMAC's financial statements as a result of NZIFRS.

Key Assumptions

The summarised financial information presented is a forecast based on prudent assumptions which may or may not eventuate. Key assumptions underpinning the financial statements are:

- 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 – however, actual results may differ from those forecast;
- the financial forecasts are dependent on the outcome of funding negotiations for the out-years (yet to be conducted). Accordingly, the actual financial performance, financial position and cash flows are likely to vary from the projected information presented;
- PHARMAC's prudential reserve has been assumed to remain at \$1.1m for out-years. A reserve of this level may be too low given growth in PHARMAC's operating expenditure and the appropriate reserve level needs to be reviewed;
- the assumed spreading of PHARMAC's contribution to an international Herceptin trial (noting a further amount is forecast to be payable in 2010/11), commensurate with expected enrolment in the trial and, therefore, the amount that PHARMAC has to pay in any one year – actual payments may differ in practice; and
- out-year costs in the operating budget are based on a general inflationary adjustment – actual amounts are likely to differ at the time.

7.2 Financial statements

The Board of PHARMAC acknowledges its responsibility for the information contained in these forecast financial statements. The financial statements should also be read in conjunction with the accounting policies.

As noted in the assumptions above, it is emphasised that PHARMAC's future funding has not yet been agreed with either DHBs or the Minister of Health. Out-year forecasts are, therefore, indicative and subject to further budget scrutiny at the time, including discussion with DHBs and the Ministry of Health about what level of funding is appropriate.

Projected Statement of Financial Performance

	For the period of 1 July 2007 to 30 June 2008 \$000 (GST excl)	For the period of 1 July 2008 to 30 June 2009 \$000 (GST excl)	For the period of 1 July 2009 to 30 June 2010 \$000 (GST excl)
Revenue			
<i>Crown:</i>			
Operating	8,481	11,706	12,669
Responsible use of Pharmaceuticals	3,000	2,652	2,758
DHB contribution	2,577	2,680	2,787
Interest received	300	250	200
Other revenue	34	18	18
Total Revenue	14,392	17,306	18,432
Operating Expenditure			
<i>Operating costs</i>			
Salaries and related costs	10,850	11,150	11,541
Audit fees	27	28	29
Directors fees	129	129	129
Depreciation	484	503	524
Rentals and leases	248	287	298
Herceptin trial	615	1,080	1,125
High cost medicines administration	350	363	376
Responsible use of pharmaceuticals	4,677	4,240	4,410
Total Expenditure	17,380	17,780	18,432
Net Surplus/(Deficit)	<2,988>	<474>	0

Projected Statement of Financial Position

	At 30 June 2008 \$000 (GST excl)	At 30 June 2009 \$000 (GST excl)	At 30 June 2010 \$000 (GST excl)
<i>Public Equity:</i>			
Retained earnings and reserves	1,574	1,100	1,100
Legal risk fund	5,062	5,062	5,062
Total Public Equity	6,636	6,162	6,162
Represented by:			
<i>Current assets:</i>			
Cash and bank	8,223	7,749	7,749
Receivables and prepayments	100	100	100
Total Current Assets	8,323	7,849	7,849
<i>Non-Current assets:</i>			
Fixed assets	850	850	850
Total Non-Current Assets	850	850	850
Total Assets	9,173	8,699	8,699
<i>Current Liabilities</i>			
Payables	2,537	2,537	2,537
Total Current Liabilities	2,537	2,537	2,537
Net Assets	6,636	6,162	6,162

Projected Cash Flow Statement

	For the period of 1 July 2007 to 30 June 2008 \$000 (GST incl)	For the period of 1 July 2008 to 30 June 2009 \$000 (GST incl)	For the period of 1 July 2009 to 30 June 2010 \$000 (GST incl)
Cash Flows – Operating Activities			
<i>Cash was provided from:</i>			
Ministry of Health	11,481	14,358	15,427
Interest	300	250	200
DHB contribution	2,577	2,680	2,787
	14,358	17,288	18,414
<i>Cash was disbursed to:</i>			
Cash outflow to suppliers and employees	<16,462>	<16,859>	<17,490>
Net GST	<400>	<400>	<400>
	<16,862>	<17,259>	<17,890>
Net Cash flow from Operating Activities	<2,504>	29	524
Cash Flows – Investing Activities			
<i>Cash was disbursed to:</i>			
Purchase of fixed assets	<484>	<503>	<524>
Net Cash flow from Investing Activities	<484>	<503>	<524>
Cash Flows – Financing Activities			
Net Cash Flow from Financing activities	0	0	0
Net increase/(decrease) in cash held	<2,988>	<474>	0
Add opening cash brought forward	11,211	8,223	7,749
Closing Cash Balance	8,223	7,749	7,749

Projected Movement in Equity

	2007/2008 \$000 (GST excl)	2008/2009 \$000 (GST excl)	2009/2010 \$000 (GST excl)
Public Equity at the beginning of the period	4,562	1,574	1,100
Net Surplus/(Deficit)	<2,988>	<474>	0
Public Equity as at the end of the period	1,574	1,100	1,100

Reconciliation of Net Surplus to Cash Flow from Operating Activities

	2007/2008 \$000 (GST excl)	2008/2009 \$000 (GST excl)	2009/2010 \$000 (GST excl)
Net Operating Surplus (Deficit)	<2,988>	<474>	0
<i>Add non-cash items:</i>			
Depreciation	484	503	524
Total Non-Cash Items	<2,504>	29	524
<i>Add/(Less) working capital movements:</i>			
Decrease (increase) in receivables	0	0	0
Increase (decrease) in payables	0	0	0
Working capital movement – net	0	0	0
Net Cash Flow from Operating Activities	<2,504>	29	524



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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.