

Pharmaceutical Management Agency Statement of Intent

2008/09



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FOREWORD

The publication of *Medicines New Zealand* in December 2007 marked a milestone in the evolution of the medicines system in New Zealand. While PHARMAC and other agencies within the system had a clear idea of their own respective roles, a stronger emphasis on how the system operated overall was required. Further, some of the individual roles did not appear to be clearly understood by users of the system; something PHARMAC and others in the system must take responsibility for.

PHARMAC is committed to doing its part to ensure the aims of *Medicines New Zealand* are met. In this Statement of Intent, we have incorporated key themes from *Medicines New Zealand* in our strategic plan, and in our specific business activity for the coming year. A related priority remains further improving our communications and stakeholder engagement capability.

Overall PHARMAC's core business will not be changing – we will still be working to ensure New Zealanders get the best health outcomes from the money spent on medicines. Our central aim will remain to manage pharmaceutical funding within budget, being \$653 million for 2008/09.

What will be changing is the way we work to better understand the views of our stakeholders and to promote better understanding of our work, so that PHARMAC continues to serve New Zealand as well as possible.



Richard Waddel
Chair
PHARMAC Board



Professor Gregor Coster
Deputy Chair

1 INTRODUCTION

This Statement of Intent (SOI) covers PHARMAC's:

- Functions;
- Operating environment;
- Strategic priorities;
- 2008/09 work programme; and
- Reporting requirements, financial information and accounts.

2 PHARMAC'S FUNCTIONS

2.1 Summary

PHARMAC plays an important part in the medicines system by managing pharmaceutical expenditure. *Medicines New Zealand*, the Government's strategy for the medicines system, sets the direction for the system; a direction PHARMAC will help implement through leading initiatives or working closely with others. Consistent with the principles of *Medicines New Zealand*, PHARMAC's activity contributes to promoting equity, effectiveness in terms of health outcomes and value for money.

DHBs have overall responsibility for determining spending priorities to improve the health of their communities. PHARMAC's role, on behalf of DHBs, is to make funding decisions that lead to the best possible health outcomes being achieved from subsidised pharmaceuticals. Under the New Zealand Public Health and Disability Act 2000 (the NZPHD Act), PHARMAC's objective is:

"To secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided".

PHARMAC has four main roles:

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

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

To effectively fulfil its functions, PHARMAC must maintain and develop the necessary capability. This includes being a good employer given PHARMAC's effectiveness depends on the quality of people that it is able to recruit and retain.

2.2 Schedule Management

Community Pharmaceutical Budget

PHARMAC's central role is to get the best health outcomes from the available funding for pharmaceuticals, by improving the value of DHB spending on pharmaceuticals. To achieve this, PHARMAC considers a range of factors including government priorities for health funding, the availability and suitability of existing medicines, the clinical risks and benefits of medicines and their cost effectiveness. 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 accessing subsidised medicines. PHARMAC's process for considering medicines for funding is illustrated on page 3. In general, PHARMAC's approach is:

- funding pharmaceuticals that are assessed, against PHARMAC's Decision Criteria, as providing benefits to improve health outcomes;
- 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.

Medicines are funded from the Community Pharmaceutical Budget. This budget is set by the Minister of Health taking into account recommendations from DHBs and PHARMAC. The budget for 2008/09 is \$653 million (excl. GST).

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 an extension of PHARMAC's traditional role in funding medicines used in the community. This activity is separate from the broader hospital procurement work outlined further below. PHARMAC has also undertaken other procurement work including the seasonal influenza vaccine and Recombinant Factor VIII for haemophilia.

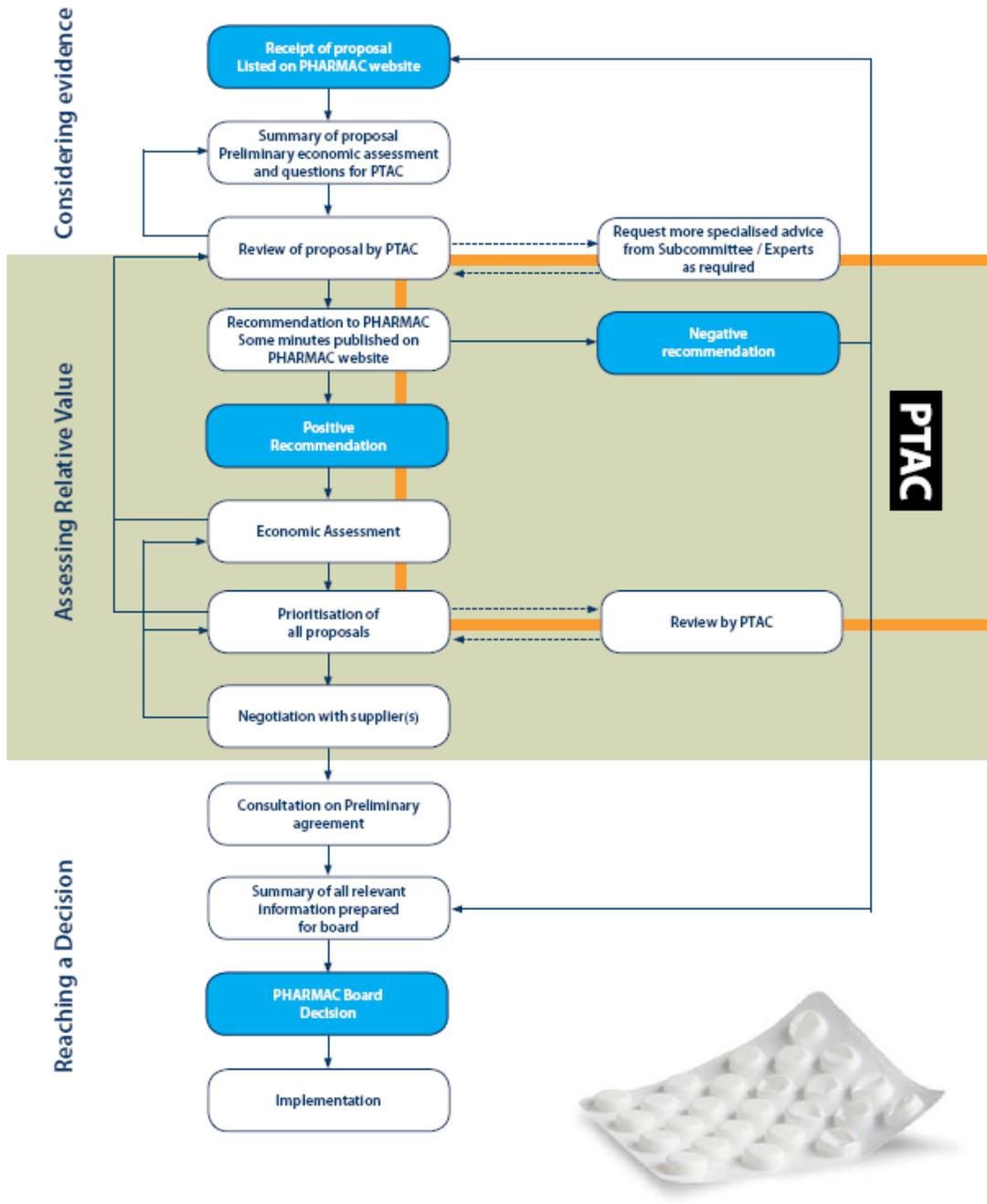
Pharmaceutical Cancer Treatment basket

Since 2001, New Zealanders have had equitable access to a "basket" of pharmaceutical cancer treatments 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". For 2008/09, DHBs will continue to hold funding for the basket, and will consider funding recommendations from PHARMAC on a case-by-case basis.

Decision making process



The process set out in this diagram is intended to be indicative of the process that may follow where a supplier or other applicant wishes a pharmaceutical to be funded on the Pharmaceutical Schedule. PHARMAC may, at its discretion, adopt a different process or variations of the process (for example, decisions on whether or not it is appropriate to undertake consultation are made on a case-by-case basis).



2.3 Exceptional Circumstances programmes

Exceptional Circumstances (EC) is a mechanism to fund medicines that are not otherwise funded in the community or in hospitals. Typically, about 2000 applications for exceptional circumstances funding are received each year across three schemes:

- *Community EC*, which is a mechanism for patients with rare or unusual clinical situations. PHARMAC manages panels of clinicians who make recommendations (or decisions, depending on the circumstances) on EC funding. Funding for Community EC is drawn from the Community Pharmaceutical Budget;

- *Hospital EC*, which 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. PHARMAC assesses applications on a case-by-case basis. The sole criterion is cost-effectiveness; and
- *Cancer EC*, which allows DHBs to fund, on application to PHARMAC and where certain criteria are met, medicines that are not funded through the cancer treatments “basket”.

Discretionary Community Supply provisions

This allows DHBs to dispense pharmaceuticals (up to specified limits) not on the Pharmaceutical Schedule, when it is cost-effective to do so. This mechanism differs from Hospital EC 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. Hospital EC, by comparison, requires applications to be made to PHARMAC on a case-by-case basis.

2.4 Hospital procurement

DHBs have asked PHARMAC to negotiate national contracts for other products used in hospitals. Putting in place national procurement projects has led to savings (e.g. bulk intravenous fluids and radiological contrast media). Other procurement areas have been identified for further work (e.g. orthopaedic prostheses, antidotes and antivenoms). PHARMAC’s role in procurement is limited to areas where PHARMAC’s skills and experience have particular relevance. This is in procurement areas that fall within PHARMAC’s statutory role and require the combination of clinical, economic and commercial assessment.

2.5 Optimal use of medicines

Initiatives that promote the optimal use of medicines (reducing under, over and mis-use) are intended to increase health gains and/or ensure more efficient pharmaceutical spending. This involves understanding the factors that drive *demand* for pharmaceuticals. In developing and implementing campaigns, PHARMAC seeks to ensure its activities are aligned and coordinated with DHBs, and activities contracted through Primary Health Organisations (PHOs). 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; National Heart Foundation; Asthma and Respiratory Foundation and Plunket).

2.6 Maori responsiveness

PHARMAC’s Maori Responsiveness Strategy is designed to increase prescribing, uptake, utilisation and optimal use of medicines by Maori. The strategy was developed after extensive consultation with the Maori community. While all New Zealanders have the same access to subsidised medicines, research shows that the prescribing and uptake of medicines by Maori is lower (significantly lower in some cases). Compounding this is that the burden of disease, especially cardiovascular, asthma and diabetes, is disproportionately high amongst Maori. PHARMAC recognises that support of the Maori community is required to successfully implement its strategy to alleviate the burden.

Optimal use initiatives developed within a Maori cultural context, such as One Heart Many Lives, are responsive 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, use of *kaupapa Maori* practices, partnering with local health providers and related organisations, and developing and distributing materials specifically for Maori. This approach recognises the holistic aspects of wellness for Maori communities.

PHARMAC will continue to develop its understanding of the needs of Maori, including through improving the way it analyses data and understanding cultural strengths of Maori. PHARMAC has strengthened its capacity and capability in this area through recruitment of Maori personnel with specialist skills and experience, and through wider organisational initiatives focussed on implementation of the Maori Responsiveness Strategy.

2.7 Research

Research is part of PHARMAC's 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 breast cancer 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. \$3.2 million has been committed to supporting the trial.

2.8 Capability to perform functions

Good employer requirements

PHARMAC's ability to effectively fulfil its functions depends on its ability to attract and retain high-quality people and, related to that, to maintain and develop PHARMAC as a good employer.

Under the Crown Entities Act, PHARMAC is required to comply with 'good employer' obligations. The Human Rights Commission has identified seven key elements of being a 'good employer'. These are noted below with a comment about PHARMAC's approach in these areas.

Good employer attribute	PHARMAC's approach
Leadership, accountability and culture	PHARMAC believes it has the necessary capability for effective organisational leadership. PHARMAC treats its accountability requirements with high priority, including fulfilling its reporting requirements to the Minister of Health. Drawing on internal climate surveys and staff feedback, PHARMAC is adjusting its culture to better align with current and future challenges.
Recruitment, selection and induction	PHARMAC has recently improved and updated its approach to recruitment. Internal induction has also been updated to place more emphasis on the importance of early cross-business exposure to improve understanding of PHARMAC's overall work.
Employee development, promotion & exit	PHARMAC's performance management system includes a process focussed on personal and career development. Exit interviews are conducted for most people who leave PHARMAC.

Flexibility and work design	PHARMAC has a flexible working policy focussed on, subject to explicit consideration, providing appropriate levels of flexibility for employees in fulfilling their roles.
Remuneration, recognition & conditions	PHARMAC operates a 'total remuneration' policy, and uses external benchmarks to inform the setting of terms and conditions.
Harassment and bullying prevention	PHARMAC has policies in place to manage harassment and bullying. PHARMAC would not tolerate such behaviours.
Safe and healthy environment	PHARMAC monitors the health and safety of its working environment, including workstation audits.

Wider capability considerations

In addition to its obligations as a good employer, PHARMAC gives wider consideration to what capability is required to effectively carry out its statutory functions. In 2008/09 PHARMAC will be conducting its core business, and also conducting a number of projects to improve its overall business, some of which arise from *Medicines New Zealand*. These projects will increase PHARMAC's overall workload, accompanied by high expectations on PHARMAC's ability to deliver on these projects.

PHARMAC has an ongoing focus on business improvement to ensure it develops and maintains the capability necessary to operate effectively. This includes assessment of capability in a range of areas including governance, personnel, communications, risk management, and information systems and technology. Areas for focus in 2008/09 include:

- improving the style and accessibility of PHARMAC's communications and improved information availability;
- providing additional opportunities for stakeholders to share their views;
- ensuring PHARMAC's advisory committees perform optimally through reviewing their terms of reference;
- assessing whether improvements are possible to the pharmaceutical funding process; and
- addressing space requirements for PHARMAC's operations.

3 OPERATING ENVIRONMENT

3.1 The pharmaceutical funding environment

The pharmaceutical funding environment continues to be challenging and complex, with a number of new and expensive pharmaceutical treatments on the horizon. At the same time, some patents on widely-used 'blockbuster' medicines are expiring and there is increased competition from generic suppliers.

Rapid sharing of information means that patients now access information about new medicines faster than PHARMAC can act on it. This leads to heightened public pressure for new medicines to be funded. Added to this, the cost of some new medicines is very high and potentially increasing.

There is also an inherent tension between the incentives of some stakeholders and PHARMAC's role. For example, the commercial incentives of pharmaceutical suppliers will inherently lead them to prefer higher prices, whereas PHARMAC, on behalf of New Zealanders, has a preference for obtaining lower prices. Consumer groups play an important role in the funding environment. However, their incentives may also differ from PHARMAC's if they are focussed on one particular health area (as opposed to health outcomes overall).

PHARMAC must always consider the impact of its decisions on all New Zealanders. While it is understandable that there is sometimes very vocal support for funding one particular treatment, the impacts on others must also be taken into account. Every decision to fund a medicine means another may not be funded, irrespective of how big the budget is. In that context, all New Zealanders have an interest in good decisions being made that lead to the best health outcomes.

These tensions exist despite all parties, in the widest sense, wanting to improve people's health through the best use of medicines. Where incentives and goals are not fully aligned, there is likely to be disagreement between PHARMAC and its stakeholders. This is a feature of the operating environment that cannot fundamentally be changed. Such disagreements, however, need not get in the way of fully understanding each other's views and working effectively together; something PHARMAC is strongly focussed on.

There is a continuing and appropriate 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. Optimal use – ensuring medicines aren't underused, overused or misused – will be one of the major themes for the system in the foreseeable future.

In such an environment, PHARMAC needs wide-ranging capability to undertake its work effectively. A strong future focus is also required, in order to identify challenges in a timely way and develop strategies for responding to those issues.

3.2 Ministerial expectations and governance

Expectations of the Minister of Health

In addition to general expectations for the health sector (such as better collaboration between agencies, reducing disparities, the health of older people, and ongoing quality improvements), the Minister of Health has outlined specific expectations of PHARMAC. In particular, the Minister has reiterated his expectations that PHARMAC will play a key role in implementing actions arising from *Medicines New Zealand*. The Minister also expects PHARMAC to:

- ensure stakeholders, including consumers, have the opportunity to provide information or perspectives that will contribute to PHARMAC's decision-making processes and will be provided with guidance on how to do so;
- support the goal of ensuring that New Zealanders understand and can access information about the medicines system including, where appropriate, information about medicines funding decisions and related health and disability system prioritisation criteria;
- work to ensure the roles and functions of agencies within the medicines system are aligned to enable them to deliver *Medicines New Zealand* outcomes effectively and efficiently and to avoid duplication; and
- contribute to building robust and integrated systems to support and monitor best-practice prescribing and the optimal use of medicines, including safe medicines use practices.

These expectations – those for the sector and those specific to PHARMAC – have been factored into PHARMAC's planning for 2008/09 and beyond.

Role of the Minister of Health

The Minister, 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 this statement of intent. The role of the Minister includes:

- setting the Community Pharmaceutical Budget and PHARMAC's operating budget;
- setting expectations of PHARMAC and monitoring performance against them; 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.

The Ministry of Health acts as the Minister's agent in the Minister's relationship with PHARMAC, including monitoring PHARMAC's performance. PHARMAC also works closely with HealthPAC and NZHIS (divisions of the Ministry) in carrying out its statutory objectives.

Role of the PHARMAC Board

The Board is appointed by, and accountable to, the Minister. The Board is required to comply with the duties and requirements of the Crown Entities Act, and provide high quality, effective governance. The Board has all powers necessary for the governance and management of PHARMAC. All decisions about 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 expectations of PHARMAC are met. Matters related to the Board's role include:

- *obtaining best health outcomes from pharmaceutical spending* – the Board is responsible for medicines funding and other decisions that relate to PHARMAC achieving its statutory objective;
- *ensuring PHARMAC has the necessary capability to carry out its functions* – the Board appoints the Chief Executive, who in turn is responsible for management of PHARMAC's operations;
- *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 (including the Public Service Code of Conduct and State Services Commission Board Appointment and Induction Guidelines);
- *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.

3.3 Key stakeholders

PHARMAC is committed to further improving its communication and stakeholder engagement activity. In addition to the Minister and Ministry of Health, PHARMAC's key stakeholders include (in no particular order):

- *Patients, consumers, and patient and consumer 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 (both research-based companies and generic providers) 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; and
- *Members of Parliament* – MPs approach PHARMAC with a range of questions, often on behalf of constituents.

3.4 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. End-benefits for New Zealanders depend on their own actions, and the actions and interactions across the whole medicines system, including how medicines are used. PHARMAC's role, in essence, is only one means to an end.

Where possible, PHARMAC works with other agencies within the sector to achieve shared goals. This is most commonly seen through our optimal use initiatives where we work closely with DHBs and other health providers. We also work closely with DHBs on hospital procurement activities.

In developing its strategic priorities (outlined below), PHARMAC has thought carefully about how it can maximise its contribution to overall health outcomes. This is the essence of the Ministry's health outcomes framework; the Government's *Managing for Outcomes* framework and *Medicines New Zealand*.

Contribution to Government strategies

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

- the role pharmaceuticals play in improving the health and well-being of New Zealanders;
- providing equitable access 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 with other health sector agencies to help promote a high-performing system;
- investing in new pharmaceuticals to better address, or address new, health issues; and
- promoting the responsible (optimal) use of pharmaceuticals.

4 PHARMAC'S STRATEGIC DIRECTION

PHARMAC's strategic priorities for 2008/09 and the following two years are set out below, following discussion of the implications of *Medicines New Zealand* and an overview of PHARMAC's framework for success.

4.1 Medicines New Zealand

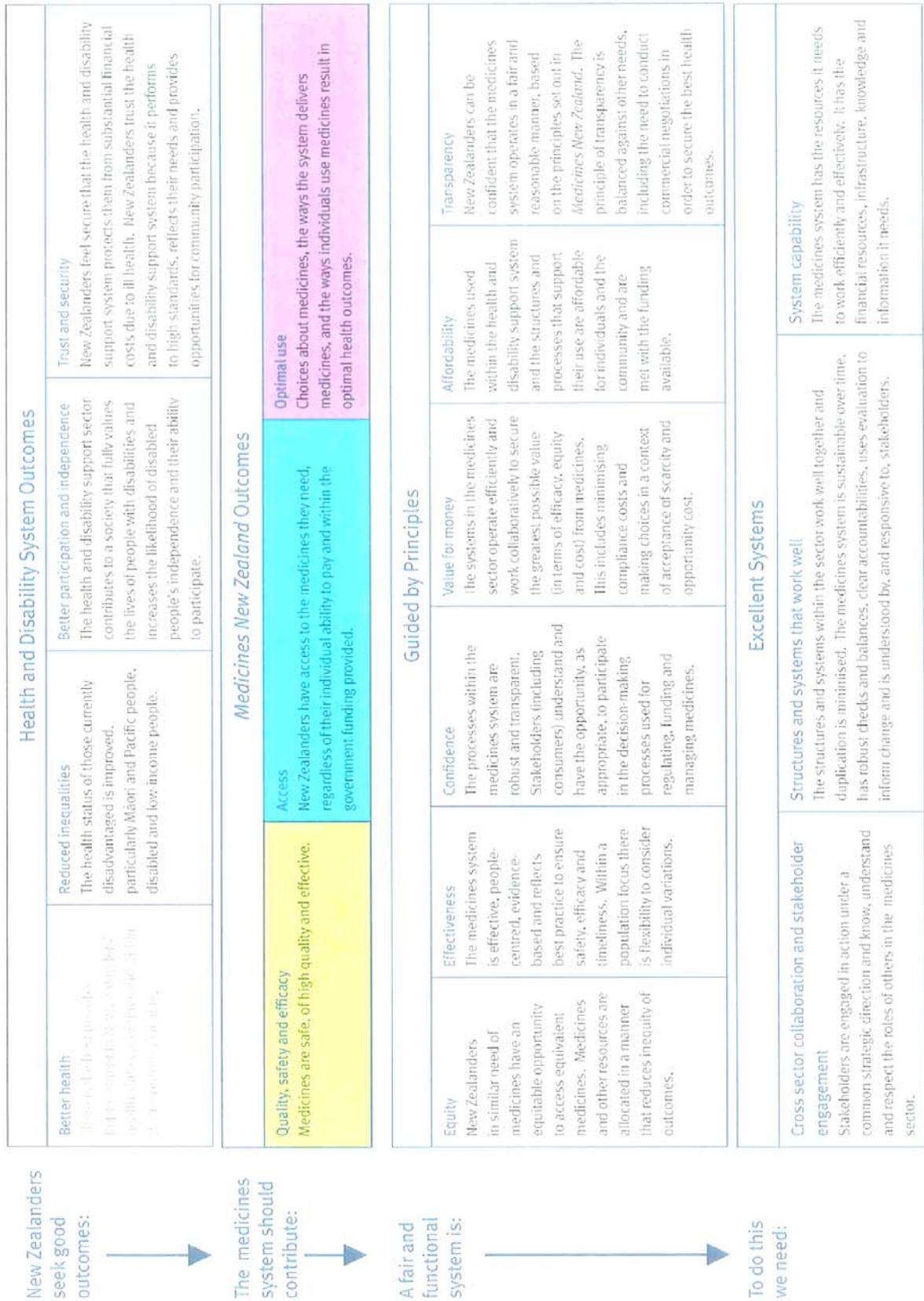
In December 2007, Hon Peter Dunne, Associate Minister of Health, released *Medicines New Zealand*, an overarching strategy for the medicines system. The strategy followed a thorough development and consultation process across the health sector, led by the Ministry of Health. An overview of Medicines New Zealand is set out in the diagram on the next page.

PHARMAC contributes directly to the aims of *Medicines New Zealand*, such as:

- *equity* – the Pharmaceutical Schedule applies consistently to eligible New Zealanders, regardless of their circumstances;
- *effectiveness* – PHARMAC funds effective medicines and works with other health sector agencies and organisations to ensure those medicines are used appropriately;
- *confidence* – PHARMAC's processes are fair and robust, and considerable information is made publicly available to promote public confidence in PHARMAC's activities;
- *value for money* – PHARMAC conducts economic analysis and promotes competition among suppliers to ensure value for money from medicines;
- *affordability* – PHARMAC manages the Community Pharmaceutical Budget and, given it is a fixed budget, the affordability of decisions is an important consideration; and
- *transparency* – PHARMAC already makes a considerable amount of information available about its operations and decisions, and will be working to improve this further in the 2008/09 year.

Medicines New Zealand, and its associated action plan, provide a roadmap for the whole medicines system to continue to work in the best interests of New Zealand. PHARMAC has aligned its strategic priorities and associated activities with the strategy. As the medicines funding agency, PHARMAC has a central role in this strategy whether through leading initiatives or working closely with others.

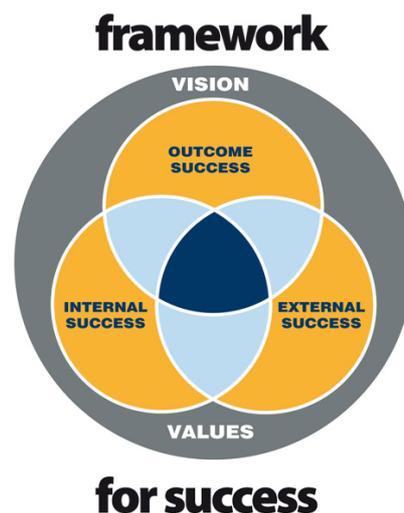
Figure 3: Medicines New Zealand



4.2 Framework for Success

Achieving an outcome is the result of a wide range of factors and the culmination of work in a number of areas. PHARMAC’s success, both as a stand-alone organisation and as a part of the medicines system, is most likely to result from a focus on three areas encapsulated by PHARMAC’s Framework for Success:

- ongoing excellence in PHARMAC’s functions (such as promoting optimal medicines use and optimal access to funded drugs) – “outcome success”;
- ensuring, through PHARMAC’s own actions as much as possible, that PHARMAC understands the views of stakeholders and 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; and
- 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 managing its people 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 goals for each of the three core areas noted above.

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 understand and be understood (“external mission”)	We’ll do all we can to understand the perspectives of our stakeholders, and for PHARMAC’s perspective to be understood. Understanding stakeholder views will better ensure we remain up-to-date with their perspectives, and that they are well considered in our decision-making. We also want stakeholders to better understand PHARMAC’s views and operations generally.
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 Strategic priorities

PHARMAC’s strategic priorities for the next three years are set out below. 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	Key initiatives/activities
Outcome Success – “Best Health Outcomes”		
Ensure an “optimal” pharmaceutical budget	<i>Medicines NZ</i> requires that DHBs and PHARMAC will move to a principles-based approach for setting the community pharmaceutical budget, which aims to maximise health outcomes across pharmaceuticals and other health services. While these trade-offs are the responsibility of DHBs, PHARMAC can make an important contribution given its interest in an optimal pharmaceutical budget.	<ul style="list-style-type: none"> • Progress toward principle-based budget setting. • Clarification of budget-setting process with DHBs. • Management of pharmaceutical spending within budget.
Improve the funding process	Given the funding process is central to PHARMAC’s effectiveness, ongoing review and, where possible, improvement is important (consistent with the expectation of <i>Medicines NZ</i> that the system continually improve). As decisions to fund medicines follow a funding process, it is important this process is as efficient and effective as possible, and considers stakeholder views.	<ul style="list-style-type: none"> • Examination of options for further stakeholder input into the funding process. • Periodic review of whether the funding process can be improved. • Provision of more information on PHARMAC decisions. • Review of Exceptional Circumstances.
Increase focus on optimal use of medicines	<i>Medicines NZ</i> expects increased focus on optimal use activity, including improved collaboration in this area across the medicines system. PHARMAC has an important role. 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. 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 funding and optimal use initiatives. An important component of optimal use work continues to be implementing the Maori Responsiveness Strategy.	<ul style="list-style-type: none"> • Greater collaboration with DHBs and other health providers. • Implementation of Te Whaioranga (the Maori health action plan).
Better define 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 fund), 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.	<ul style="list-style-type: none"> • Development of measures to align with PHARMAC’s Framework for Success.

Strategy	Explanation	Key initiatives/activities
Outcome Success – “Best Health Outcomes”		
Manage high price medicines and orphan conditions	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.	<ul style="list-style-type: none"> • Ongoing assessment of ways and means of managing applications to fund high cost medicines.
Enhance competition	PHARMAC’s long-term effectiveness – in terms of effective management of the pharmaceutical budget – significantly depends on competition amongst pharmaceutical suppliers. PHARMAC must continue to monitor and understand the state of competition in pharmaceutical markets, including related issues like barriers to entry and management of bio-similars.	<ul style="list-style-type: none"> • Periodic reviews of market dynamics. • Examining ways to promote earlier and/or additional competition.
Reduce system frustrations	Medical professionals feel that insufficient attention is given to implications for them of PHARMAC’s funding decisions (e.g. Special Authorities, timing issues, communications), and that this gives rise to a number of ‘niggles’ in their work. PHARMAC will investigate whether any such niggles can be addressed, and will continue to ensure appropriate consideration of implementation issues in decisions.	<ul style="list-style-type: none"> • Ongoing improvements to the dissemination of the Pharmaceutical Schedule’. • Ongoing review of Special Authority restrictions. • Consideration of ways to promote increased generic prescribing or generic substitution by dispensers. • Ongoing (and improved) engagement with other parts of the system to achieve improvements.
External Success – “To Understand and to be Understood”		
Improve stakeholder relationships and engagement	PHARMAC needs to clearly understand stakeholder views to be as well informed as possible in making decisions. It is also in PHARMAC’s interest that its own perspective is clearly understood by stakeholders, which includes explaining why stakeholder expectations cannot sometimes be met. Important areas for further attention are PHARMAC’s engagement with the public and consumer groups, prescribers and pharmacists. Ongoing improvement in other relationships is also important, including with DHBs given their overall responsibility for health outcomes (of which PHARMAC’s activity is an important part).	<ul style="list-style-type: none"> • Review the role of the Consumer Advisory Committee • Convene an annual PHARMAC Forum. • Improved engagement with DHBs.
Improve 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.	<ul style="list-style-type: none"> • Continued training opportunities for PHARMAC staff. • Development of improved communications tools.

Strategy	Explanation	Key initiatives/activities
Internal Success – “Make a Difference”		
<p>Make PHARMAC an ever greater place to work</p>	<p>Given staff are PHARMAC’s biggest asset, a strong, ongoing focus on improving PHARMAC as a place to work is required. This includes ongoing improvement in human resources policies and procedures, predicting and addressing capability needs, and ongoing development of PHARMAC’s culture to promote the attraction and retention of 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.</p>	<ul style="list-style-type: none"> • Ongoing assessment of PHARMAC’s capability. • Ongoing focus on professional development. • Ongoing focus on internal communications and further development of PHARMAC’s culture. • Update HR and organisational administration policies.

5 STATEMENT OF FORECAST SERVICE PERFORMANCE

5.1 Introduction

PHARMAC is required to produce a forecast Statement of Forecast Service Performance for each Output. PHARMAC has only one Output Class; however the Statement of Forecast Service Performance aligns activities with our operational functions. PHARMAC has also added a further category for more general activity related to business improvement and cross-organisation issues.

5.2 Performance measures

The table below sets out PHARMAC’s forecast performance for 2008/09. At a general level, PHARMAC intends to:

- effectively manage the Pharmaceutical Schedule by listing products that will generate improved health outcomes for New Zealand;
- continue to effectively manage access to medicines through the Exceptional Circumstances scheme;
- seek ongoing benefits through nationwide hospital pharmaceutical purchasing and other procurement initiatives on behalf of DHBs;
- engage in strategies to promote the optimal use of medicines;
- undertake research to improve information on medicines; and
- undertake work to improve the pharmaceutical funding process and improve relationships with stakeholders (in line with expectations of *Medicines New Zealand*).

2008/09 Initiative / Activity		Measure
Schedule management & Contract Management – PHARMAC’s core business continues to be management of pharmaceutical expenditure on behalf of DHBs. 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.		
1.1	Manage community pharmaceutical expenditure.	Expenditure managed within \$653 million as at 30 June 2009.
		Conduct economic assessments on all major pharmaceutical investments.
		Consult as appropriate on management of the Pharmaceutical Schedule.
		Use commercial strategies to obtain best health outcomes from the available pharmaceutical funding.
		Make decisions on >90% of line items in the 2008 tender by 30 September 2008.
		Consult on the contents of the 2009 tender by 31 October 2008.
		Update DHBs quarterly on pharmaceutical budget management.
1.2	Produce and distribute the Community Pharmaceutical Schedule.	Produce and distribute the Community Schedule in August 2008, December 2008, and April 2009.
		Publish and distribute monthly updates to the Pharmaceutical Schedule.
		Provide real-time electronic access to the Schedule via the PHARMAC website.
1.3	Produce and distribute the Hospital Pharmaceutical Schedule.	Produce and distribute the Hospital Schedule in July 2008, November 2008 and March 2009.
1.4	Manage pharmaceutical supplier contracts.	Ensure suppliers make rebate payments by due dates.
		Investigate development of an improved system for delivery of hospital data from DHBs to PHARMAC by June 30 2009.
		Make rebate payments to DHBs three times per year.
1.5	Monitor DHB hospital compliance with restricted brand contracts.	Provide a report to DHBs by 31 December 2008.
		Provide a report to suppliers by 31 December 2008.

	2008/09 Initiative / Activity	Measure
1.6	Streamline and improve Special Authority rules including prescriber restrictions.	Review and amend, as appropriate, Special Authority restrictions.
		Increase uptake of electronic Special Authority service.
1.7	Receive objective advice from the Pharmacology and Therapeutics Advisory Committee.	Convene a minimum of four PTAC meetings per year.
1.8	Setting the Community Pharmaceutical Budget.	Provide a budget proposal to DHBs by 31 January 2009.
		Make a budget recommendation to the Minister by 31 May 2009.
1.9	Work with the Ministry of Health and DHBs to determine community pharmaceutical budget-setting principles.	Provide input to the Ministry of Health and DHBs as required within agreed timeframes.
1.10	The Pharmaceutical Schedule applies nationally.	Monitor compliance with the Pharmaceutical Schedule across DHBs.
<p>Special access to medicines – PHARMAC will undertake timely and robust consideration of pharmaceutical use in exceptional circumstances, and manage special access medicines through specialist panels.</p>		
2.1	Management of Exceptional Circumstances schemes.	Process at least 90% of applications for Community Exceptional Circumstances applications within 4 weeks.
		Process at least 80% of applications for Hospital Exceptional Circumstances applications within 48 hours.
		Process at least 80% of applications for Cancer Exceptional Circumstances applications within 72 hours.
2.2	Review of Exceptional Circumstances Schemes.	Consult with interested parties on a review by 31 December 2008.
		Make changes to the schemes as necessary by 30 June 2009.
2.3	Management of special access medicines.	Maintain an accurate database of patients receiving special access medicines.
		Convene and consult with special access medicines panels as appropriate.
		Process applications for special access medicines in a timely way.
		Distribute special access medicines to patients in a timely way.
<p>Assessment and procurement on behalf of DHBs – PHARMAC will, as agreed with 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).</p>		

	2008/09 Initiative / Activity	Measure
3.1	Economic assessments of hospital pharmaceuticals.	Conduct assessments based on DHB need and publish assessments on secure website (accessible to DHBs).
3.2	Management of national procurement contracts.	Monitor compliance with requirements of national supply contracts.
3.3	Continue work in assisting DHBs to procure products used in DHB hospitals.	Complete investigation of options for orthopaedic prostheses purchasing by 31 December 2008.
		Implement actions resulting from investigation of orthopaedic prostheses market for the 2008/09 year.
		Conduct further work on national procurement as agreed with DHBs.
<p>Access and Optimal Use – PHARMAC will engage in strategies to promote the optimal prescribing and use of medicines. PHARMAC will seek to align with other health sector activity, particularly in relation to the management of chronic conditions. PHARMAC will engage in initiatives to promote the appropriate use of pharmaceuticals by disadvantaged populations, including Maori, to improve health outcomes.</p>		
4.1	Provide support for pharmaceutical funding decisions.	Produce information for patients and/or health professionals to assist the implementation of pharmaceutical funding decisions.
4.2	Optimal use of antipsychotic medications.	Evaluate the effectiveness of Drug Utilisation Evaluations for antipsychotics in managed care by 31 January 2009.
4.3	Identify and evaluate issues around multiple medicine use (polypharmacy).	Develop a programme in relation to high risk medicines for implementation in 2009/10 arising from the 2007 Polypharmacy Feasibility Study.
		Develop a nationally consistent tool kit for DHBs to implement Medicines Reconciliation projects within DHB hospitals by 30 June 2009.
4.4	Wise Use of Antibiotics campaign.	Deliver the annual Wise Use of Antibiotics campaign by 31 July 2008.
		Evaluate the 2008 Wise Use of Antibiotics campaign by 30 April 2009.
4.5	Deliver the One Heart Many Lives campaign.	Support the continued implementation of the One Heart Many Lives campaign in Hawke's Bay.
		Support the continued implementation of the One Heart Many Lives campaign in Northland.
		Support the continued implementation of the One Heart Many Lives campaign in Lakes DHB region.
		Develop a One Heart Many Lives campaign in at least one other region.

2008/09 Initiative / Activity		Measure
4.6	Appropriate treatment of childhood asthma.	Implement decision support tools in line with evidence based guidelines by 1 December 2008.
4.7	Work with other agencies to promote the optimal use of medicines.	Work with bpac ^{NZ} to promote the responsible use of pharmaceuticals through continuing medical education programmes
		Work with DHBs to improve optimal use of medicines, through engagement with the Safe and Quality Use of Medicines group and PHARMAC-DHB Joint Working Group.
4.8	Development of a National Formulary.	Assist the Ministry of Health and DHBs to develop a National Formulary in line with agreed milestones.
4.9	Improving access to medicines by reducing inequalities.	Continue the national roll out of He Rongoa Pai, He Oranga Whanau training programme and resources.
		Review the respiratory therapeutic group in relation to Māori health by 30 June 2009.
Research – PHARMAC will manage research to generate further information on the optimal duration of Herceptin therapy.		
5.1	Manage funding for support of the SOLD clinical trial.	As per contract milestones.
5.2	Manage funding for New Zealand's participation in the SOLD trial.	Manage funding allocated for 2008/09 year.
		Make timely payments for reimbursement of additional trastuzumab costs to oncology centres.
General expectations and business improvement – In line with PHARMAC's strategic plan and the expectations of Medicines New Zealand, PHARMAC will undertake work to improve its internal processes and improve relationships with stakeholders to improve the medicines system overall.		
6.1	Improve engagement with DHBs.	Agree a Memorandum of Understanding with DHBs by 30 June 2009.
		Regularly update DHB decision groups (Service Improvement Group, regional agendas) on PHARMAC activity.
6.2	Improve stakeholder engagement.	Publish guidance for stakeholders to enable them to better contribute to the pharmaceutical funding process by 31 December 2008.
		Publish improved public summaries of pharmaceutical funding decisions by 30 June 2009.

		Hold a PHARMAC Forum by 30 June 2009.
6.3	Improve communications.	Develop a centralised resource management system to allow access to PHARMAC resources including patient and health professional information by 31 December 2008.
		Publish information sheets by 31 December 2008.
6.4	Ensure optimal advice and performance of advisory committees.	Work with the Ministry of Health to review the Pharmacology and Therapeutics Advisory Committee (PTAC) Appointment Protocol by 31 December 2008.
		Consult on changes to the Pharmacology and Therapeutics Advisory Committee (PTAC) Guidelines by 31 December 2008.
		Implement any changes to PTAC guidelines as required by 30 June 2009.
		Consult on changes to the Terms of Reference of the Consumer Advisory Committee by 31 December 2008.
		Implement any changes to CAC Terms of Reference as required by 30 June 2009.

6 REPORTING

6.1 Monthly Reports

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

- major Schedule decisions;
- significant issues or developments the Minister or Ministry should be aware of, including any potential non-performance against the Output Agreement; and
- PHARMAC's operational and Access & Optimal Use 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

Each quarter, the monthly report aligning with the end of a quarter will also contain:

- performance against all 2008/09 deliverables due in the previous quarter;

- an update on price, volume, mix and expenditure indices;
- full financial statements; and
- an update on any use of the Legal Risk Fund.

6.3 Informal Reports

PHARMAC will, at any time necessary, inform the Minister and the Ministry of any issue likely to be of significance to the Minister, including any emerging factors PHARMAC is aware of that may risk achievement of expectations set out in the Output Agreement. On request, PHARMAC will also provide the Ministry with information to enable it to:

- prepare Ministerial briefings and draft speech notes in writing and, where practicable, in an agreed form;
- assist any Minister to, in a timely manner:
 - respond to Parliamentary questions;
 - deal with routine Ministerial correspondence;
 - deal with select committee inquiries; and
- on the Minister's behalf, conduct special reviews and audits of PHARMAC's performance.

6.4 Reports to Parliament

The content and timing of reports to Parliament shall comply with all legislative requirements of PHARMAC (most notably the Crown Entities, NZPHD and Public Finance Acts).

7 FINANCIAL INFORMATION

7.1 Statement of accounting policies

Reporting entity

PHARMAC acts as an agent of the Crown for the purpose of meeting its obligations in relation to the operation and development of a national Pharmaceutical Schedule.

PHARMAC has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS").

Basis of preparation

The financial statements of PHARMAC have been prepared in accordance with New Zealand generally accepted accounting practices (NZ GAAP), the requirements of the Crown Entities Act 2004, and the New Zealand Public Health and Disability Act 2000.

These financial statements have been prepared in accordance with, and comply with, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit entities.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

The financial statements have been prepared on an historical cost basis. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of PHARMAC is New Zealand dollars.

Revenue

Revenue is measured at the fair value of consideration received.

Revenue – Crown

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

Interest

Interest income is recognised using the effective interest method.

Leases

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Financial Instruments

Financial assets and financial liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the statement of financial performance.

Cash and Cash Equivalents

Cash includes cash on hand and funds on deposit with banks.

Debtors and Other Receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Impairment of a receivable is established when there is objective evidence that PHARMAC will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, and default in payments are considered objective evidence of impairment. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the statement of financial performance. Overdue receivables that are renegotiated are reclassified as current.

Property, Plant and Equipment

Property, plant and equipment consist of leasehold improvements, furniture and office equipment. Property, plant and equipment is shown at cost less accumulated depreciation and impairment losses.

All property, plant and equipment, or groups of assets forming part of a network which are material in aggregate are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the statement of financial performance.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to PHARMAC and the cost of the item can be measured reliably.

Disposals

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal are included in the statement of financial performance.

Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to PHARMAC and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment, at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Item	Estimated useful life	Depreciation rate
Leasehold Improvements	5 years	20%
Office Equipment	2.5 - 5 years	20%-40%
Software	2-5 years	20%-50%
EDP Equipment	2.5 years	40%
Furniture and Fittings	5 years	20%

Leasehold improvements are capitalised and depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, which ever is shorter.

Capital work in progress is not depreciated. The total cost of a project is transferred to the asset class on its completion and then depreciated.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Creditors and Other Payables

Creditors and other payable are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Employment Entitlements

Short-term employee entitlements

Employee entitlements that PHARMAC expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued to balance date, and annual leave earned but not yet taken at balance date expected to be settled within 12 months, and sick leave.

PHARMAC recognises a liability and an expense for bonuses where it is contractually bound to pay them, or where there is a past practice that has created a constructive obligation.

PHARMAC recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that PHARMAC anticipates it will be used by staff to cover their future absences.

Provisions

PHARMAC recognises a provision for future expenditure on uncertain amount or timing where there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

Public Equity

Public equity is the Crown's investment in PHARMAC and is measured as the difference between total assets and total liabilities. Public equity is classified as general funds and legal risk fund.

Commitments

Expenses yet to be incurred on non-cancelable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancelable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the value of that penalty or exit cost.

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as an input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of the receivables or payables in the statement of financial position. The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income Tax

PHARMAC is a public authority in terms of the Income Tax Act 2004 and consequently is exempt from income tax. Accordingly no charge for income tax has been provided for.

Critical accounting estimates and assumptions

In preparing these financial statements, PHARMAC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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;
- the level of PHARMAC's prudential reserve of \$1.6m;
- the spreading of PHARMAC's contribution to the administration costs of an international Herceptin trial (the SOLD trial) is based on assumed milestones and actual payments may differ in practice;
- expenditure related to the additional drug cost associated with New Zealand's participation in the SOLD trial matching the actual drug cost as determined by recruitment into the trial in New Zealand; the level of which is uncertain. This funding will be ring-fenced and managed separately from PHARMAC's operating budget such that this funding is transparently managed and any divergence from the assumption easily identified. In practice, it is likely that expenditure on Herceptin trial pharmaceutical costs will be spread over a longer time period than shown in the accounts. As the accounts span only 3 years, an assumption was made to show all revenue and expenditure over that time period;
- the balance of the Legal Risk Fund is assumed to remain static based on an assumption that fund use is offset by interest growth of the fund and any replenishment from unspent litigation money in the operating budget (the 2007/08 Annual Report will report on the Fund's use for Herceptin litigation during 2007/08); 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 2008 to 30 June 2009	For the period of 1 July 2009 to 30 June 2010	For the period of 1 July 2010 to 30 June 2011
	\$000 (GST excl)	\$000 (GST excl)	\$000 (GST excl)
Revenue			
Crown:			
Operating	13,889	16,933	14,479
Responsible use of pharmaceuticals	3,100	3,224	3,353
DHB Contribution	3,130	3,255	3,385
Interest received-includes \$5 million from Herceptin fund	651	665	680
Other revenue	73	76	79
Total Revenue	20,843	24,153	21,976
Operating Expenditure			
Operating costs	4,598	4,563	4,750
Salaries and related costs	6,767	7,090	7,430
Audit fees	32	29	29
Directors fees	129	129	129
Depreciation	383	399	415
Rentals and leases	387	403	419
High cost medicines	300	312	324
Herceptin trial administration costs	750	997	840
Herceptin trial pharmaceutical costs	5,000	5,000	7,200
Responsible use of pharmaceuticals	5,030	5,231	5,440
Total Expenditure	23,376	24,153	26,976
Net surplus/(deficit)	(2,533)	0	(5,000)

Note: The above statement should be read in conjunction with the accounting policies on pages 21-25.

Projected Statement of Financial Position

	For the period of 1 July 2008 to 30 June 2009	For the period of 1 July 2009 to 30 June 2010	For the period of 1 July 2010 to 30 June 2011
	\$000 (GST excl)	\$000 (GST excl)	\$000 (GST excl)
PUBLIC EQUITY			
Retained Earnings & Reserves	1,600	1,600	1,600
Herceptin trial pharmaceutical costs	5,000	5,000	0
Legal Risk Fund	5,140	5,140	5,140
TOTAL PUBLIC EQUITY	11,740	11,740	6,740
Represented by:			
Current Assets			
Cash and bank	12,831	12,831	7,831
Receivables and prepayments	660	660	660
Total current assets	13,491	13,491	8,491
Non-current assets			
Property, Plant and Equipment	221	221	221
Intangible assets	428	428	428
Total non-current assets	649	649	649
Total assets	14,140	14,140	9,140
Current Liabilities			
Creditors and other payables	1,762	1,762	1,762
Employee entitlements	638	638	638
Total current liabilities	2,400	2,400	2,400
NET ASSETS	11,740	11,740	6,740

Note: The above statement should be read in conjunction with the accounting policies on pages 21-25.

Projected Cash Flow Statement

	For the period of 1 July 2008 to 30 June 2009	For the period of 1 July 2009 to 30 June 2010	For the period of 1 July 2010 to 30 June 2011
	\$000 (GST incl)	\$000 (GST incl)	\$000 (GST incl)
Cash flows – Operating activities			
Cash was provided from:			
- Ministry of Health	16,989	20,157	17,832
- Interest	651	665	680
- DHB Contribution	3,130	3,255	3,385
	20,770	24,077	21,897
Cash was disbursed to:			
- Cash outflow to suppliers and employees	(22,320)	(23,078)	(25,882)
- Net GST	(600)	(600)	(600)
	(22,920)	(23,678)	(26,482)
Net cash flow from operating activities	(2,150)	399	(4,585)
Cash flows – Investing activities			
Cash was disbursed to:			
- Purchase of fixed assets	(250)	(399)	(415)
Net cash flow from investing activities	(250)	(399)	(415)
Cash flows – Financing activities			
Net cash flow from financing activities	0	0	0
Net increase/(decrease) in cash held	(2,400)	0	(5,000)
Add opening cash brought forward	15,231	12,831	12,831
Closing cash balance	12,831	12,831	7,831

Note: The above statement should be read in conjunction with the accounting policies on pages 21-25.

Projected Movement in Equity

	For the period of 1 July 2008 to 30 June 2009	For the period of 1 July 2009 to 30 June 2010	For the period of 1 July 2010 to 30 June 2011
	\$000 (GST excl)	\$000 (GST excl)	\$000 (GST excl)
Public equity at the beginning of the period	9,133	6,600	6,600
Net surplus/(deficit)	(2,533)	0	(5,000)
Public equity as at the end of the period	6,600	6,600	1,600

Note: The above statement should be read in conjunction with the accounting policies on pages 21-25.

Reconciliation of Net Surplus to Cash Flow from Operating Activities

	For the period of 1 July 2008 to 30 June 2009	For the period of 1 July 2009 to 30 June 2010	For the period of 1 July 2010 to 30 June 2011
	\$000 (GST excl)	\$000 (GST excl)	\$000 (GST excl)
Net operating surplus (deficit)	(2,533)	0	(5,000)
Add non-cash items:			
Depreciation	383	399	415
Total	(2,150)	399	(4,585)
Add/(less) working capital movements:			
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	(2,150)	399	(4,585)

Note: The above statement should be read in conjunction with the accounting policies on pages 21-25.

Pharmaceutical Management Agency

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