
Annual Report of

Pharmaceutical Management Agency

for the year ended
30 June 2002

*Presented to the House of Representatives pursuant to Section 44A of the Public
Finance Act 1989*

MINISTER OF HEALTH

In accordance with section 44A of the Public Finance Act 1989 and section 67 of the New Zealand Public Health and Disability Act 2000, I present, on behalf of the Pharmaceutical Management Agency Board, the annual report on the operations of Pharmaceutical Management Agency (PHARMAC) for the year ended 30 June 2002.



Richard A Waddel
Chairman
Pharmaceutical Management Agency

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DIRECTORY

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Wellington

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Auditors

Audit New Zealand
Wellington
on behalf of the Auditor-General

Bankers

ASB Bank Limited

Solicitors

Bell Gully Buddle Weir

Insurers

Circle / NRMA Insurance NZ Ltd

Pharmacology and Therapeutic Advisory Committee

John Hedley, Chairman

Chief Executive

Wayne McNee

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PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF PURPOSE

For the year ended 30 June 2002

PHARMAC's Objective

PHARMAC's overall objective, as outlined in s.47 of the New Zealand Public Health and Disability Act 2000 (NZPHD Act), is to secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided.

PHARMAC's Statutory Functions

PHARMAC's functions under s.48 of the NZPHD Act are:

- a) to maintain and manage a pharmaceutical schedule that applies consistently throughout New Zealand, including determining eligibility and criteria for the provision of subsidies;
- b) to manage incidental matters arising out of paragraph (a) including, in exceptional circumstances, providing for subsidies for the supply of pharmaceuticals not on the pharmaceutical schedule;
- c) to engage as it sees fit, but within its operational budget, in research to meet the objectives set out in section 47(a) of the NZPHD Act;
- d) to promote the responsible use of pharmaceuticals; and
- e) any other functions it is for the time being given by or under any enactment, or authorised to perform by the Minister by written notice to the board of PHARMAC after consultation with it.

As a result of an authorisation from the Minister of Health in September 2001, under section 48 (e) of the New Zealand Public Health and Disability Act 2000, PHARMAC is authorised to manage the purchasing of any or all pharmaceuticals, whether used either in a hospital or outside it, on behalf of District Health Boards. The Minister of Health approved Terms of Reference for the development of the Strategy in October 2001 and the final Strategy in February 2002.



PHARMACEUTICAL MANAGEMENT AGENCY CHAIRMAN'S REPORT

For the year ended 30 June 2002

The 2001/02 year is the first full year of operations that PHARMAC has had as a Crown entity. Over the year PHARMAC has put significant effort into developing its relationships with District Health Boards (DHBs), the pharmaceutical industry, clinicians and patient groups to ensure that different perspectives can be heard and issues effectively managed. This has seen the development of signed Relationship Agreements with 21 DHBs, regular relationship meetings with a range of key stakeholders and development of information for both clinicians and specific patient groups.

PHARMAC will continue to work closely with DHBs to ensure that we achieve the objectives set out in the New Zealand Health Strategy that fall within our area of responsibility and look at opportunities for PHARMAC to contribute in the primary health care area. In the area of hospital purchasing our aim is to ensure that we can harmonise the community pharmaceutical schedule with the hospital sector while providing sufficient flexibility, and encouraging consistency of access to medicines in hospitals and make savings for DHBs.

PHARMAC's links into the community will also be enhanced through the appointment of the Consumer Advisory Committee. The Committee will provide PHARMAC with a patient or health consumer perspective on issues around the implementation of funding decisions and PHARMAC's public information campaigns. We were very pleased with the high calibre of the nominees and increased the committee from eight to nine members to ensure a good balance of different sectors of the community, including three Maori members and one Pacific Island member.

I would like to thank my fellow Board members for the effort and dedication they have shown throughout the year. We have faced some difficult issues and the Board has exercised sound judgement in managing these.

This year we farewelled Ross Black from the Board. Ross brought excellent skills to the Board through his detailed knowledge of the sector and involvement as Chair of the Health Benefits Board (now a division of the Ministry referred to as HealthPAC), past director of Canterbury Health, Healthlink South and Chair of Otago DHB. We were very sorry to lose him.

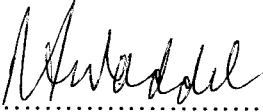
In June this year the Minister appointed Helmut Modlik to the Board for a three year term. Helmut Modlik will bring a new dimension to the Board as its first Maori member with affiliations to Ngati Toa, Ngati Tama and Te Ati Awa. Mr Modlik has a background in corporate finance, experience in both the public and private sector, and work in helping to develop Maori business. Helmut is also a current Board member of the Capital and Coast DHB.



**PHARMACEUTICAL MANAGEMENT AGENCY
CHAIRMAN'S REPORT (Continued)**

I would also like to acknowledge the effort and performance of PHARMAC staff and their Chief Executive. PHARMAC has continued to deliver in a challenging and changing environment and this is a significant achievement.

For and on behalf of the Board



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Richard A Waddel
Chairman

PHARMACEUTICAL MANAGEMENT AGENCY CHIEF EXECUTIVE'S REPORT

For the year ended 30 June 2002

The past year has been full of diversity and new challenges and PHARMAC has positioned itself to have the capability to deliver. We have recruited 11 new staff to achieve our full complement of therapeutic group and demand side managers, and augment our analytical skills and administrative support. We have also developed our internal communications capacity with the appointment of a Communications Advisor and, as part of the implementation of our Maori Responsiveness Strategy, plan to appoint a Maori Health Advisor.

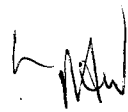
The combination of lower than complement staff levels and an increased work programme has meant that progress on some of the initiatives that had been planned for the 2001/2002 period were either delayed or the projects deferred until the 2002/2003 year. Both these factors have had an impact on PHARMAC's year-end financial position and resulted in a net operating surplus of \$1.435 million. Other contributing factors were receipt of unanticipated funds from external sources and a reduction in expected operating costs.

PHARMAC has had some significant achievements this year. The approval of the National Hospital Pharmaceutical Strategy by the Minister of Health in February 2002 is one example of how PHARMAC has demonstrated its commitment to working effectively with DHBs. The establishment of the Hospital Pharmaceutical Advisory Committee (HPAC), comprising hospital pharmacy managers and hospital procurements specialists, provided the opportunity to focus on issues surrounding the community/hospital interface and acknowledge the differences evident in these environments.

In September last year PHARMAC undertook an extensive consultation process in the development of our Maori Responsiveness Strategy, attending nine hui in different parts of the country. This represented a significant staff commitment but was an extremely important component of the strategy's development. During 2001/02 we commenced the implementation of the strategy and this has included the appointment of a Maori Board member, improved cultural awareness within PHARMAC, the appointment of three Maori members to PHARMAC's Consumer Advisory Committee and initiating steps to recruit a Maori Health Advisor and recommending the appointment of a member to the Pharmacology and Therapeutic Advisory Committee who can make a specific contribution in the area of Maori health.

PHARMAC implemented a number of IT systems improvements including upgrading computer software and hardware, new software protection systems, improving the utility of databases and commenced a project to enhance the efficiency of the production of the Pharmaceutical Schedule.

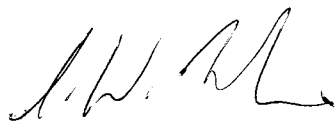
PHARMAC's year-end pharmaceutical expenditure for 2001/02 was \$505 million compared with a budget of \$528 million. This funding went towards other health services and helped offset DHB deficits. The primary reasons for the lower than expected expenditure was the impact of one-off savings being greater than originally estimated and the inability to make new investment decisions on the basis of robust data. The issues around data have now been rectified.



Last year PHARMAC widened access to a number of drugs including: statins which aim at lowering cholesterol levels, enabling approximately 300,000 people to have access; removal of the cap on beta interferon allowing access for patients who meet the criteria; widened access to dorzolamide and latanoprost; listed a combination product for the treatment of glaucoma; widened access to tranexamic acid for heavy menstrual bleeding; listed the schizophrenia treatment drug quetiapine; listed erythropoietin-beta for treatment of anaemia associated with chronic renal failure; listed carvedilol for the treatment of congestive heart failure; and leflunomide for the treatment of rheumatoid arthritis.

PHARMAC has also begun the process of funding new products and/or broadening access to existing products during 2002/03. Examples of new investments being considered are treatments for diabetes, depression, pain management, Parkinson's disease, heavy menstrual bleeding, growth hormones, low molecular weight heparin and widening of access to breast cancer treatments and erythropoietin.

The past year has represented both a period of consolidation and increased responsibility growth for PHARMAC and we are well positioned to meet any future challenges. We will continue to work closely with DHBs on identifying areas in which we can effectively work together to ensure the best health outcomes for all New Zealanders.



Wayne McNee
Chief Executive



PHARMACEUTICAL MANAGEMENT AGENCY GOVERNANCE AND ACCOUNTABILITY STATEMENT

For the year ended 30 June 2002

Role of the Board

The Board of PHARMAC is accountable to the Minister of Health for the performance of PHARMAC.

All decisions relating to the operation of PHARMAC are made by or under the authority of the Board. The Board has all powers necessary for the governance and management of PHARMAC. The Board is to ensure that PHARMAC delivers its Output and Activities, achieves the financial performance and provides the reports specified in the Crown Funding Agreement and complies with all other requirements associated with its objectives, powers, obligations and functions under the NZPHD Act. The Board is responsible for agreeing PHARMAC's accountability documents with the Minister of Health.

The Board of PHARMAC will comply with duties and requirements placed on it by the Public Finance Act 1989.

The Board remains accountable for the delivery of any part of the Output or any part of its operations that has been subcontracted to a third party.

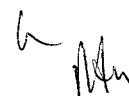
Structure of PHARMAC

PHARMAC Operations

The Board has appointed a single employee, the Chief Executive, to manage all PHARMAC operations. All other employees of PHARMAC have been appointed by the Chief Executive. The board directs the Chief Executive by delegating responsibility and authority for the achievement of objectives through setting policy.

The Chief Executive takes overall responsibility for PHARMAC's performance, both against its agreed financial targets and in terms of the health gain produced by its decisions to fund new therapies. The Chief Executive is responsible for maintaining PHARMAC's public identity, ensuring that the quality standards and maintained, ensuring PHARMAC staff have the capability to achieve PHARMAC's goals, and that the work environment produces the most efficient outputs possible.

The Chief Executive is supported by a six member management team who assist with organisational direction and operational management. PHARMAC has a functionally aligned management structure, with management positions covering key areas of responsibility. These positions include a Medical Director who provides clinical input into decision making, the Manager, Supply Side who is responsible for negotiating with suppliers on the listing of pharmaceuticals on the Pharmaceutical Schedule, the Manager Demand Side who is responsible



for promoting the responsible use of medicines and projects that aim to affect the mix or volume components of pharmaceutical expenditure, the Manager Hospital Purchasing who is responsible for the development and implementation of PHARMAC's role in managing access to and expenditure on pharmaceuticals for use in hospitals, the Manager, Analysis and Assessment who leads analytical work including cost utility analysis, expenditure reporting and forecasting and the Manager Corporate who is responsible for human resource management, finance, information technology, communications, risk reporting, production of the Pharmaceutical Schedule and developing stakeholder relationships.

Board Committees

The Board has set up several standing committees to provide expert advice on particular issues. Committees do not involve themselves in operational matters. The Board's committees include:

Committee	Meets
Pharmacology and Therapeutic Advisory Committee (PTAC)	Quarterly
PTAC Sub-committees	As required
Consumer Advisory Committee (CAC)	Twice yearly and as required

Governance Philosophy

Board Membership

Board members are appointed by the Minister of Health. The Board is composed of members who have diverse skills and experience in order to bring a wide range of thought to bear on policy issues. Once appointed, all members are required to act in the best interests of PHARMAC. Members acknowledge that the Board must stand unified behind its decisions; individual members have no separate governing role outside the boardroom.

Connection with Stakeholders

The Board acknowledges its responsibility to keep in touch with stakeholders and, in particular, to remain cognisant of the responsible Minister's expectations.

Division of Responsibility between the Board and Management

A key to the efficient running of PHARMAC is that there is a clear division between the roles of the Board and management. The Board concentrates on setting policy and strategy, then monitor progress toward meeting objectives. Management is concerned with implementing policy and strategy. The Board clearly demarcates these roles by ensuring that the delegation of responsibility and authority to the Chief Executive is concise and complete.

Accountability

The Board holds monthly meetings to monitor progress toward its strategic objectives and to ensure that the affairs of PHARMAC are being conducted in accordance with the Board's policies.

Conflicts of Interest

The Board maintains an interests register and ensures Board members are aware of their obligations to declare and potential or actual conflicts of interest.

Internal Control

While many of the Board's functions have been delegated, the overall responsibility for maintaining effective systems of internal control ultimately rests with the Chief Executive and the Board. Internal controls includes the policies, systems and procedures established to provide assurance that specific objectives of the Board will be achieved. The Board Chair and the Chief Executive have acknowledged their responsibility by signing the Statement of Responsibility on page 13 of this report.

Risk Management

The Board acknowledges that it is ultimately responsible for the management of the risks to PHARMAC. The Board has charged the Chief Executive through its risk management policy with establishing and operating a risk management programme in accordance with the Australia/New Zealand standard 4360:1995 Risk Management.

Legislative Compliance

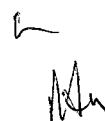
The Board acknowledges its responsibility to ensure the organisation complies with all legislation. The Board has delegated responsibility to the Chief Executive for the development and operation of a programme to systematically identify compliance issues and ensure that all staff are aware of legislative requirements that are particularly relevant to them.

Ethics

The Board regularly monitors whether staff maintain high standards of ethical behaviour and practice the principles of 'good corporate citizenship'.

Monitoring compliance with ethical standards is done through such means as monitoring trends in complaints and disciplinary actions; or any reports or indications that show non-conformance with the principles espoused in the Public Service Code of Conduct.

Good corporate citizenship involves this entity, including its employees, acknowledging that it is a member of one or more communities outside of itself, and making a commitment to act in a manner consistent with the social mores and accepted rights and responsibilities of all citizens of those communities.



**PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF RESPONSIBILITY**

For the year ended 30 June 2002

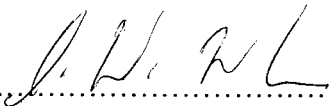
The Board and management of Pharmaceutical Management Agency accept responsibility for the preparation of the annual Financial Statements and the judgements used therein.

The Board and management of Pharmaceutical Management Agency accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non financial reporting.

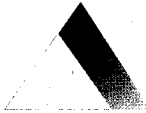
In the opinion of the Board and management of Pharmaceutical Management Agency, the Financial Statements for the year ended 30 June 2002, fairly reflect the financial position and operations of Pharmaceutical Management Agency.



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Richard A Waddel
Chairman
26 September 2002



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Wayne McNee
Chief Executive
26 September 2002



REPORT OF THE AUDITOR-GENERAL TO THE READERS OF THE FINANCIAL STATEMENTS OF PHARMACEUTICAL MANAGEMENT AGENCY FOR THE YEAR ENDED 30 JUNE 2002

We have audited the financial statements on pages 16 to 47. The financial statements provide information about the past financial and service performance of Pharmaceutical Management Agency and its financial position as at 30 June 2002. This information is stated in accordance with the accounting policies set out on pages 16 to 19.

Responsibilities of the Board

The Public Finance Act 1989 and the New Zealand Public Health and Disability Act 2000 require the Board of Directors (the Board) to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that fairly reflect the financial position of Pharmaceutical Management Agency as at 30 June 2002, the results of its operations and cash flows and service performance achievements for the year ended on that date.

Auditor's responsibilities

Section 15 of the Public Audit Act 2001 and Section 43(1) of the Public Finance Act 1989 require the Auditor-General to audit the financial statements presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed Jeffrey Galt, of Audit New Zealand, to undertake the audit.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- ▲ the significant estimates and judgements made by the Board in the preparation of the financial statements; and
- ▲ whether the accounting policies are appropriate to the Pharmaceutical Management Agency's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have performed an assurance-related assignment in the area of taxation compliance and financial management reviews of service providers for the Pharmaceutical Management Agency. Other than these assignments, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in the Pharmaceutical Management Agency.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion the financial statements of Pharmaceutical Management Agency on pages 16 to 47:

- ▲ comply with generally accepted accounting practice in New Zealand; and
- ▲ fairly reflect:
 - Pharmaceutical Management Agency's financial position as at 30 June 2002;
 - the results of its operations and cash flows for the year ended on that date; and
 - its service performance achievements in relation to the performance targets and other measures adopted for the year ended on that date.

Our audit was completed on 26 September 2002 and our unqualified opinion is expressed as at that date.



Jeffrey Galt
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand



PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2002

Reporting Entity

These are the financial statements of the Pharmaceutical Management Agency (PHARMAC), a Crown entity in terms of the Public Finance Act 1989.

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

These financial statements have been prepared in accordance with the requirements of section 41 of the Public Finance Act 1989, and the New Zealand Public Health and Disability Act 2000.

Measurement Base

The financial statements have been prepared on an historical cost basis.

Accounting Policies

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

Comparative Figures

The Pharmaceutical Management Agency was formed on 1 January 2001. Accordingly the comparative figures included in this report relate to the first six months of operation. Some prior period figures have been reclassified due to changes made to the presentation of the current year's Financial Statements.

Budget Figures

The budget figures are those approved by the Board at the beginning of the financial year.

The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Board for the preparation of the financial statements.

Revenue

PHARMAC derives revenue through the provision of outputs to the Crown, for services to third parties and income from its investments. Such revenue is recognised when earned and is reported in the financial period to which it relates.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF ACCOUNTING POLICIES (Continued)
For the year ended 30 June 2002

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of accounts receivable and accounts payable which are stated with GST included. Where GST is irrecoverable as an input tax, then it is recognised as part of the related asset or expense.

Taxation

PHARMAC is a public authority in terms of the Income Tax Act 1994 and consequently is exempt from income tax.

Accounts Receivable

Accounts Receivable are stated at their expected realisable value after providing for doubtful and uncollectable debts.

Property, Plant and Equipment

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

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment, at a rate which will write off the cost (or valuation) of the assets to their estimated residual value over their useful lives.

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PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF ACCOUNTING POLICIES (Continued)
For the year period ended 30 June 2002

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

	Estimated useful life	Depreciation rate
Leasehold Improvements	3 years	33 ¹ / ₃ %
Office Equipment	2.5 - 5 years	20% - 40%
EDP Equipment	2.5 years	40%
Furniture and Fittings	5 years	20%

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter.

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

Employment Entitlements

Provision is made in respect of PHARMAC's liability for employees' annual leave. Annual leave is measured at nominal values on an actual entitlement basis at current rates of pay.

Leases

Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease expenses are recognised on a systematic basis over the period of the lease.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF ACCOUNTING POLICIES (Continued)

For the year ended 30 June 2002

Financial instruments

PHARMAC is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors and creditors. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

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

Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which PHARMAC invests as part of its day-to-day cash management.

Operating activities include all activities other than investing and financing activities. The cash inflows include all receipts from the sale of goods and services and other sources of revenue that support PHARMAC's operating activities. Cash outflows include payments made to employees, suppliers and for taxes.

Investing activities are those activities relating to the acquisition and disposal of current and non-current securities and any other non-current assets.

Financing activities are those activities relating to changes in equity and debt capital structure of PHARMAC and those activities relating to the cost of servicing PHARMAC's equity capital.

Changes in accounting policies

There have been no changes in accounting policies since the date of the last audited financial statements.

All policies have been applied on a basis consistent with previous years.



PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE

For the year ended 30 June 2002

Outlined below are the performance measures contained in PHARMAC's Statement Of Intent as tabled in Parliament. These measures are used to assess PHARMAC's performance in 2001/02. The Audit Office has audited the reasonableness of PHARMAC's reported performance achievements against these measures, as recorded in this Statement of Service Performance (SSP).

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

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

Activity One: Management of Community Pharmaceutical Expenditure

Deliverable

PHARMAC will maintain pharmaceutical subsidy expenditure for the year ending 30 June 2002 within \$528 million (excl GST), after deducting estimated rebates of \$29.80 million. Quarterly cumulative targets excluding rebates were:

<u>Quarter</u>	<u>Target</u>
One	\$141.5
Two	\$285.5
Three	\$419.0
Four	\$557.8

Result

Cost ex manufacturer expenditure for the year ending June 02 was \$504.61 million including \$32.4 million in rebates. This is \$23.4 million under the budget of \$528 million. The year-end figure is expected to increase by \$2 million due to late claims being processed relating to dispensings in the 2001/02 financial year.

<u>Quarter</u>	<u>Cumulative Target</u>	<u>Cumulative Actual</u>	<u>Variance</u>
One	\$141.5	\$135.3	-\$6.2
Two	\$285.5	\$272.5	-\$13.0
Three	\$419.0	\$400.7	-\$18.3
Four	\$557.8	\$537.0	-\$20.8
Rebates	\$29.8	\$32.40	\$2.6
Year End			
Total	\$528.0	\$504.61	-\$23.4

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PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Other Information

Savings / Increases

Subsidy reductions in the 2001/02 financial year resulted in a full years savings of approximately \$36.9 million (excluding rebates). Savings are calculated by taking the difference between the full year units at the subsidy in June 01 and the full year units at the subsidy in June 2002. In terms of the table below using the Blood and Blood Forming group as an example, decisions implemented within the quarter ending September 2001 saved a total of \$4.2 million over the full year. Subsidy increases resulted in an extra \$1.5 million worth of expenditure. (All figures GST exclusive).

Savings

Therapeutic Group 1	Quarter Ending (Millions)				Grand Total
	Sep-01	Dec-01	Mar-02	Jun-02	
Alimentary Tract and Metabolism	-\$0.53	-\$0.01			-\$0.53
Blood and Blood Forming Organs	-\$4.21		-\$3.68	-\$2.50	-\$10.38
Cardiovascular System		-\$0.36	-\$4.00	-\$0.03	-\$4.39
Genito-Urinary System	-\$0.12				-\$0.12
Infections - Agents for Systemic Use	-\$0.08	-\$0.08	-\$0.07		-\$0.22
Musculo-Skeletal System	-\$0.50				-\$0.50
Nervous System	-\$2.14		-\$0.30		-\$2.44
Oncology Agents and Immunosuppressants	-\$1.15				-\$1.15
Respiratory System and Allergies	-\$0.30	-\$1.86	-\$0.14		-\$2.31
Sensory Organs	-\$0.01				-\$0.01
Systemic Hormone Preparations excluding Contraceptive Hormones	-\$0.32				-\$0.32
2000/01 Tender	-\$7.17	-\$1.99	-\$3.66	-\$0.74	-\$13.56
1999/2000	-\$0.92				-\$0.92
Total	-\$17.44	-\$4.29	-\$11.85	-\$3.27	-\$36.85

Increases

Alimentary Tract and Metabolism	\$0.09				\$0.09
Blood and Blood Forming Organs	\$0.04		\$0.01		\$0.05
Cardiovascular System	\$0.07		\$0.03	\$0.00	\$0.10
Genito-Urinary System	\$0.26				\$0.26
Infections - Agents for Systemic Use	\$0.05	\$0.07	\$0.03		\$0.15
Musculo-Skeletal System	\$0.02	\$0.02			\$0.04
Nervous System	\$0.14		\$0.23	\$0.06	\$0.43
Respiratory System and Allergies	\$0.03				\$0.03
Sensory Organs				\$0.04	\$0.04
Systemic Hormone Preparations excluding Contraceptive Hormones			\$0.01		\$0.01
2000/01 Tender	\$0.16			\$0.14	\$0.31
Total	\$0.85	\$0.09	\$0.31	\$0.24	\$1.49

Overall Impact	-\$16.59	-\$4.20	-\$11.54	-\$3.02	-\$35.36
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Note: Due to rounding numbers shown may not add up to totals.

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PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

New Investments / Widening of access

New investments and widening of access cost some \$2.4 million in excess of predictions had decisions not been made. Figures shown exclude rebates. (All figures GST exclusive).

New Listings	Date Implemented	Gross cost 01/02	No. new pts (max by year end)	Net excess cost (from new patients following decision)
budesonide with eformoterol (asthma)	Oct-01	\$545,692	1228	\$545,692
erythropoietin beta (Recormon - chronic renal failure anaemia)	Apr-02	\$671	4	\$671
carvedilol (Dilatrend - hypertension and heart failure)	Apr-02	\$27,338	246	\$27,338
Cosopt (combination of dorzolamide & timolol - glaucoma)	Apr-02	\$50,866	895	\$50,866
leflunomide (Arava - rheumatoid arthritis)	May-02	\$14,248	50	\$14,248
coal tar with salicylic acid and sulphur	Jun-02	\$2,067	191	\$2,067
subtotal		\$640,882	2614	\$640,882

Access Widening	Date Implemented	Gross cost 01/02	No. new pts (max by year end)	Net excess cost (from new patients following decision)
Monogen (special food) - widened Special Authority (SA) criteria	Nov-01	\$27,014	13	\$4,482
tranexamic acid (Cyklokapron - heavy menstrual bleeding) - removal of hospital restriction	Jan-02	\$485,575	880	\$80,494
alendronate (severe osteoporosis) - gynaecologists able to apply; approvals valid indefinitely; (SA numbers interchangeable from Oct 01)	Feb-02	\$3,338,529	797	\$106,430
beta interferon (multiple sclerosis) - removal of cap	Mar-02	\$3,427,785	121	\$103,752
ranitidine - subsidy by endorsement (previously SA)	Mar-02	\$1,234,565	2184	\$3,842
statins (cardiovascular risk) - removal of SA, replaced with guideline (access increased to approx 300,000 people)	Apr-02	\$35,310,528	30904	\$1,395,854
dorzolamide (Trusopt - glaucoma) - removal of the Special Authority, guidelines developed for their use	Apr-02	\$355,679	357	\$12,449
Timoptol XE & Timpilo (glaucoma) - full subsidies (previously had large manufacturer's surcharges)	Apr-02	\$44,958	5	-\$577
latanoprost (Xalatan - glaucoma) - widened SA access	Apr-02	\$2,139,464	629	\$38,911
losartan - approvals valid indefinitely (need to try 2 ACEs, previously any fully subsidised ACE)	Apr-02	\$806,748	178	\$4,210
quetiapine (Seroquel - schizophrenia)	Jun-02	\$220,544	-45	-\$2,107
subtotal		\$47,391,387	36023	\$1,747,740
Total		\$48,032,270	38637	\$2,388,622

Access Decrease	Date Implemented	Gross cost 01/02	No. new pts (max by year end)	Net excess cost (from new patients following decision)
cisapride - Special Authority added - was Retail Phcy -Spec	Mar-02			
cyproterone acetate with ethinyloest - SA reduced from full to additional subsidy due to mnfr price increase	Oct-01			

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PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Numbers of patients benefiting from specific PHARMAC investment decisions

New investments provided treatment for an estimated 38,600 new patients:

Numbers of patients benefiting from specific PHARMAC investment decisions, for 2001/02

Investment decision	No. mths on PS*	Estimated no. new patients
tranexamic acid	6	880
beta interferon	4	121
statins	3	30,904
leflunomide	2	50
budesonide with eformoterol	9	1,228
Monogen	8	13
alendronate	5	797
erythropoetin beta	3	4
carvedilol	3	246
Cosopt (combination dorzolamide & timolol)	3	895
dorzolamide	3	357
Timoptol XE & Timpilo	3	5
latanoprost	3	629
coal tar with salicylic acid and sulphur	1	191
quetiapine	1	-45
ranitidine	4	2,184
losartan	3	178
Estimated total new patients	3.4	38,637
Total usage (person-year equivalents)	3.6	7,113

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

Notes:

Patient numbers have been estimated from HealthPAC data, based on maximum monthly use for the year ending June 2002 beyond expected levels had investments not been made.

Negative numbers of estimated new patients denote dispensing volumes unexpectedly lower than would be predicted from extrapolated trends, prior to decision. One reason for these lower volumes may be because particular decisions were implemented for only the final month of the financial year. Hence data were incomplete when censored at the time of analysis.

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PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Health benefits delivered from PHARMAC decisions

Health benefit can be defined as improvements in life expectancy and/or improvements in health related quality of life. A common measure of health benefit is the quality adjusted life year (QALY).

Measuring the health impact of PHARMAC actions, in terms of QALYs gained by patients using newly-listed or extended-access pharmaceuticals, is very difficult to do validly and reliably and is beyond PHARMAC's current monitoring capabilities. However, PHARMAC does consider value-for-money as part of its investment decisions, using discounted net costs to the public health sector per QALY gained (\$/QALY). Such value for money measures can be used to indicate the impact of pharmaceutical expenditure, as predicted extent of savings to other parts of district health board (DHB) budgets and predicted overall gains in population health (total QALYs).

Estimates of QALY gains by patient groups are available for some of PHARMAC'S investments covering the financial year 1 July 2001 to 30 June 2002. These include extending access to tranexamic acid for heavy menstrual bleeding, extending access to beta-interferon for multiple sclerosis, extending access to statins for cardiovascular risk (dyslipidaemia), and the listing of leflunomide for rheumatoid arthritis. Investing in these drugs alone cost the Pharmaceutical Schedule \$1.59 million for an estimated 31,955 new patients (covering 6,053 person-years), but saved perhaps 503 (quality-adjusted) years of life. This was equivalent to saving 52 full (statistical) lives for each year's spending. In addition, this spending was matched by potential savings elsewhere in the Pharmaceutical Schedule or the rest of Vote:Health of 46% (\$577,900 after discounting) (see following table).

In addition, further health benefits would have been gained from the listing of budesonide with eformoterol for asthma, extending access to Monogen (a special food), extending access to alendronate for severe osteoporosis, listing of erythropoetin beta for anaemia, listing of carvedilol for hypertension/heart failure, listing of Cosopt (combination dorzolamide & timolol) for refractory glaucoma, extending access to dorzolamide, Timoptol XE & Timpilo, and latanoprost for glaucoma, listing of coal tar with salicylic acid and sulphur, and extending access to quetiapine for schizophrenia, ranitidine and losartan.



PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

QALYs in 01/02 from key current Pharmac investment decisions (where information available)

Investment decision, where indicative cost/QALY estimates available	No. patients (in patient-year equivalents)	Gross Cost to Schedule in 00/01	Net Cost to Schedule in 00/01	Possible % offsets, discounted	Possible offsets, discounted	Possible net costs to health sector, discounted	discounted net health sector \$/QALY	QALY gains/ patient/ year, discounted	net present value of QALYs gained*
tranexamic acid - access widened for heavy menstrual bleeding	281	\$80,494	\$80,494	0%	\$0	\$80,494	\$2,185	0.131	36.8
beta interferon (multiple sclerosis) - removal of cap	6	\$103,752	\$103,752	0%	\$0	\$103,752	\$142,000	0.123	0.7
statins - removal of Special Authority	5760	\$1,395,854	\$1,246,108	41%	-\$577,912	\$668,197	\$1,438	0.081	464.8
leflunomide (Arava - rheumatoid arthritis)	7	\$14,248	\$14,248	0%	\$0	\$14,248	\$14,086	0.154	1.0
budesonide with efomoterol (asthma)	479	\$545,692	\$57,432	n/avail			n/avail		
Monogen - widened SA criteria	1	\$4,482	\$4,482	n/avail			n/avail		
alendronate - widened prescriber access	160	\$106,430	\$106,430	n/avail			n/avail		
erythropoietin beta - anaemia	1	\$671	-\$166,895	n/avail			n/avail		
carvedilol	40	\$27,338	\$27,338	n/avail			n/avail		
Cosopt (combination dorzolamide & timolol)	142	\$50,866	\$50,866	n/avail			n/avail		
dorzolamide (Trusopt) - removal of the Special Authority	58	\$12,449	\$12,449	n/avail			n/avail		
Timoptol XE & Timpilo - full subsidies	-8	-\$577	-\$577	n/avail			n/avail		
latanoprost (Xalatan) - widened access	73	\$38,911	\$38,911	n/avail			n/avail		
coal tar with salicylic acid and sulphur	16	\$2,067	\$2,067	n/avail			n/avail		
quetiapine (Seroquel - Schizophrenia)	-4	-\$2,107	-\$2,107	n/avail			n/avail		
rانيتidine - Subsidy by endorsement - was SA	92	\$3,842	\$3,842	n/avail			n/avail		
losartan - approvals valid indefinitely	9	\$4,210	\$4,210	n/avail			n/avail		
Aciclovir - removal of additional subsidy criteria in restriction, effectively no change due to subsidy change.									
ACE inhibitors - full subsidy on 5 rather than 2 therefore removal of endorsement									
cyproterone acetate with ethinyloest - removal of SA									
TOTAL	7113	\$2,388,622	\$1,583,049	46%	-\$577,912	\$866,691	\$1,722	0.083	503.3

No. lives saved**

ie no. (quality-adjusted) lives saved 51.9

*Total QALY gains in patient users over time horizon, at net present value (discounting at 10%)

**Where each life saved is a statistical life, and each saved life is equivalent to living a full quality of life for 36.4 remaining years expected for the average New Zealand citizen, = a present value of 9.7 years (discounted at 10%).

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Deliverable

PHARMAC will provide the Ministry of Health with a 1-3 year forecast of pharmaceutical expenditure by 31 December 2001.

Result

PHARMAC provided the Ministry of Health with a forecast in December 2001 and an updated forecast February 2002.

Deliverable

Any potential deviation from the 2001/02 forecast will be promptly notified to the Ministry and identified in monthly reports if required.

Result

In February 2002 PHARMAC indicated to the Ministry of Health that pharmaceutical expenditure would be under budget by \$19 million.

Increased rebates/savings combined with less volume and mix contributed towards the under spend this financial year. Also a number of new investments were not made due to future funding uncertainty.

Other Information

PVM (subsidy / volume-mix)

Pharmaceutical indexes

Expenditure trends can be broken into three components:

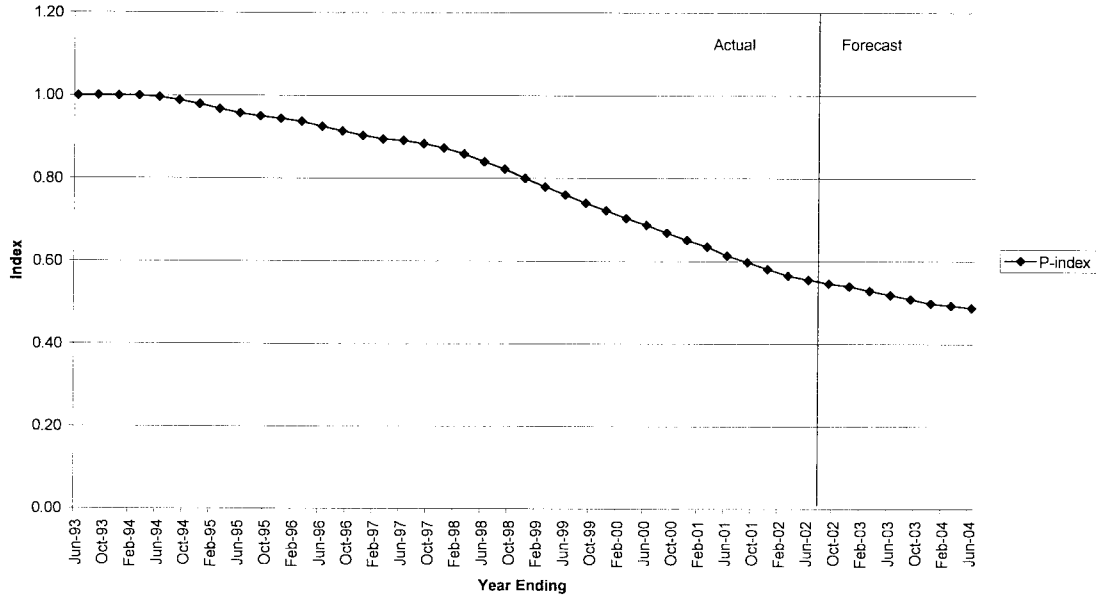
- price inflation;
- volume changes; and
- mix (usually a shift from older, cheaper drugs to newer, more expensive ones).

Subsidy Inflation Index

PHARMAC is continuing to lower subsidies across subsidised pharmaceuticals and the forecast is for this to continue.

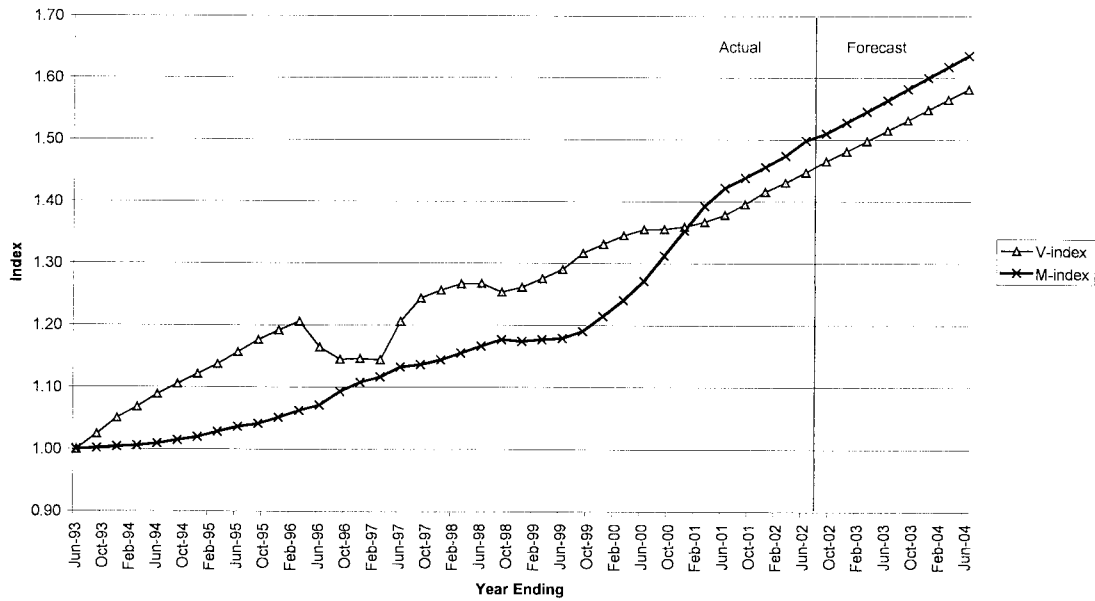
PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Negative Inflation - the pharmaceutical subsidy index



Volume and Mix Index

Volume and Mix index for subsidised pharmaceuticals



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PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Volumes are expected to continue to grow at historical rates. Major growth is found in the areas of Alimentary Tract and Metabolism, Cardiovascular System, Dermatologicals, Nervous System, and Oncology Agents and Immunosuppressants.

Mix had an upward burst that reflected the impact of the new antipsychotic drugs and is expected to continue growing but at a lesser rate. Other areas where mix is a strong factor include Infections – Agents for Systemic use, and Lipid Modifying Agents. Mix has now returned to normal growth patterns and this is forecast to continue.

Continued price reductions will be needed to continue to maintain expenditure at sustainable levels.

Decisions made

Decision type	1997/98	1998/99	1999/00	2000/01	2001/02
New Chemical entity listed	14	32	18	20	7
New Presentation listed	33	40	21	13	11
New Product listed	53	56	39	28	60
Total new listings	100	128	78	61	78
Derestriction or expanded access	14	34	17	19	17
Changes that restrict or limit access	7	3	6	6	4
Delistings	106	51	362	135	89

Applications declined

4 applications for new chemical entities in the Special Foods therapeutic group were declined.

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PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

PHARMAC's performance in managing statutory roles

Promulgation of information from the Pharmaceutical Schedule

PHARMAC aims to maintain, and where possible improve, the information regularly sent to pharmacists, prescribers and other interested parties. Proactive, timely and accurate information will be promulgated through the media and other sources about significant changes.

PHARMAC reprinted and distributed the Pharmaceutical Schedule to all prescribers and pharmacists on its mailing list every four months, 3-5 working days prior to becoming effective.

PHARMAC's electronic schedule was delivered to subscribers monthly, 3-5 working days prior to becoming effective, and is the basis for the pharmacy electronic claiming.

PHARMAC printed and distributed monthly updates to the Pharmaceutical Schedule, 3-5 working days prior to becoming effective, to all pharmacists and prescribers on its mailing list.

PHARMAC produced a Dispatch every month with a brief summary of subsidy changes. This was sent to the pharmacies earlier than the update.



PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

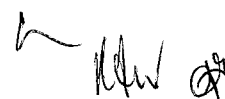
Deliverable

PHARMAC will assume responsibility for managing the Exceptional Circumstances Scheme with staff recruited and systems in place and Scheme fully operational by 1 October 2001

Result

PHARMAC assumed responsibility for the management of the Exceptional Circumstances Scheme in October 2001. The Scheme is now administered from Auckland with a coordinator and one part time staff member.

The Scheme itself has been redesigned and is fully operational with a medical panel consisting of five clinicians making decisions and meeting by teleconference on a fortnightly basis. PHARMAC has also established a review committee which consists of three clinicians to review appeals from applicants regarding the decision of Exceptional Circumstances Committee. A new database has been set up and is operational and PHARMAC will provide DHBs with monthly expenditure reports.



PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Activity Two: Management of Hospital Pharmaceutical Procurement

PHARMAC has been authorised to manage hospital drug purchases on behalf of DHBs. PHARMAC has sought input from DHBs on the development of the hospital pharmaceutical purchasing strategy and this was approved by the Ministry on 7 February 2002.

Deliverable

PHARMAC will develop a detailed strategy for nationwide hospital pharmaceutical procurement. The Strategy for nation-wide hospital pharmaceutical procurement will be submitted for approval by the Minister of Health by 1 February 2002.

Result

A National Hospital Pharmaceutical Strategy, encompassing - at the request of DHB hospital pharmacy managers - more than just procurement strategies, was developed, and widely consulted upon with DHBs. Feedback from DHBs was incorporated in the Strategy before being approved by the Minister of Health in February 2002.

Deliverable

PHARMAC will implement the nationwide hospital pharmaceutical procurement as submitted to the Minister of Health in February 2002 and complete milestones specified in accordance with the Strategy.

Result

Since February 2002, PHARMAC has developed detailed commercial processes under which it is currently negotiating national supply contracts, processes for assessing new pharmaceuticals and a draft Quality Use of Medicines Strategy under the National Hospital Pharmaceutical Strategy. DHB participation in the processes around new pharmaceuticals is increasing and the first national supply contracts are expected to be in place by December 2002.

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PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Activity Three: Promoting the responsible use of pharmaceuticals

PHARMAC has a legislative responsibility to promote the responsible use of pharmaceuticals which involves the development of relationships with key stakeholders and strategies to ensure appropriate prescribing behaviour and usage of pharmaceuticals.

Deliverable

PHARMAC will promote the appropriate use of pharmaceuticals by Maori to contribute towards improved health outcomes by finalising a Maori Responsiveness Strategy and developing an implementation plan, including key milestones and an evaluation framework by 30 June 2002.

Result

PHARMAC undertook a comprehensive consultation process during the development of the Maori Responsiveness Strategy including PHARMAC Board members and staff attending nine hui across the country. Feedback received was incorporated in the strategy which was finalised in June and launched in September 2002. An implementation plan outlining key milestones has been developed and many of these have already been actioned. PHARMAC is very pleased with the process for developing the strategy and has incorporated an evaluation plan in the Funding Agreement with the Minister of Health for 2002/03.

Deliverable

PHARMAC will develop a Terms of Reference for the Consumer Advisory Committee and establish the Committee as required by the legislation by 31 March 2002.

Result

PHARMAC developed a draft Terms of Reference for the Consumer Advisory Committee and commenced consultation on these in December 2001. The draft Terms of Reference were distributed to over 700 organisations and PHARMAC received significant feedback. Following consideration of the issues raised in the consultation responses, the Terms of Reference were amended, and PHARMAC advised the Minister of Health that the establishment would be delayed due to time required to give adequate consideration to the responses. Overall the Terms of Reference were considered to be comprehensive and there was widespread support for PHARMAC seeking community input into its processes. Nominations for the Committee were sought in May 2002 and the PHARMAC Board approved nine members for appointment in July 2002.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Deliverable

PHARMAC will aim to influence the volume and mix of drugs prescribed, such as the appropriate use of antibiotics and informing prescribers of Proton Pump Inhibitors subsidy arrangements. PHARMAC will promote the responsible use of medicines through national or regional campaigns and will report to the Ministry on its findings in one key area by 31 December 2001.

Result

PHARMAC has undertaken three key national activities promoting the responsible use of pharmaceuticals. These activities include co-ordination of the "Wise Use of Antibiotics" campaign which is an annual event in conjunction with Independent Practitioner Associations throughout the country. The campaign is designed to ensure that antibiotics are not used unnecessarily especially for the flu and colds which are not responsive to antibiotic therapy. PHARMAC provided a report on the outcome of the campaign in February 2002.

PHARMAC launched a national campaign aimed at increasing the awareness of the impact of high cholesterol levels on cardiovascular risk. This campaign was launched to coincide with the widening of access to the cholesterol lowering medicines known as statins which occurred on 1 April 2002. Patient information packs were developed and sent to General Practitioners, Pharmacists, Dieticians and relevant Outpatient Departments. Additionally, educational material developed jointly by PHARMAC and Sports and Recreation and the National Heart Foundation was delivered to these key health professionals. It is planned to expand the campaign in the year 2002/03.

PHARMAC prepared educational information on the appropriate place of Long Acting Beta Agonists for distribution to key health professionals. PHARMAC also provided the Ministry with an update on a campaign aimed at managing adult asthma.

Deliverable

PHARMAC will monitor the quality of its decisions by completing an evaluation of the impact of tendering in relation to two or three products by 30 April 2002.

Result

PHARMAC staff completed an evaluation of the impact of tendering four different medicines on patients, pharmacists and doctors in April 2002. The recommendations of the evaluation will form part of the consultation process for the 2002/03 tender. The evaluation showed that PHARMAC had a good decision making process and that there was the opportunity to improve how decisions are implemented. As a result of the evaluation of the tender PHARMAC will investigate ways to increase the awareness of which medicines have had a change through provision of information to patients and clinicians.

PHARMACEUTICAL MANAGEMENT AGENCY STATEMENT OF SERVICE PERFORMANCE (Continued)

Deliverable

PHARMAC will implement and integrate the electronic Pharmaceutical Schedule into GP Practice Management Software and complete an assessment of integrating prescribing information into all GP Practice Management Software by 30 June 2002.

Result

The Pharmaceutical Schedule is now integrated into all Practice Management Software (PMS) systems, although a process for ensuring it is regularly updated is yet to be implemented. PHARMAC has sought to incorporate a comprehensive formulary into PMS systems and has had discussions with a potential supplier of this information to come to a suitable arrangement but this was not achieved. Consequently, in September 2002, PHARMAC issued an invitation for "Expressions of Interest" (EOI) for the development, implementation and maintenance of a Comprehensive Electronic Medicines Information System working in conjunction with the Ministry of Health, ACC and DHBs. PHARMAC is also seeking to insert minimum standards for PMS into DHB contracts with health providers. PHARMAC will use the EOI to gauge the costs and benefits of such a system and make a decision to issue an RFP following consideration by the PHARMAC Board.

Deliverable

PHARMAC will complete an independent evaluation of BPAC/PreMeC and report to the Ministry by 30 September 2001.

Result

PHARMAC has undertaken a review of the BPAC/PreMeC contracts. As a result of this process a decision was made to undertake a transparent and competitive process for the contract funding. This process is currently in its final stages and a decision is expected shortly on which of the short listed organisation(s) will be offered a contract for services to promote the responsible use of pharmaceuticals for implementation in early 2003.

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2002

	Note	Actual 2002 \$000	Budget 2002 \$000	Six Month Period ended 30 June 2001 \$000
Revenue				
Crown:				
Operating	7	6,132	5,932	3,054
High cost medicines		220	502	-
Demand Side referred services		2,098	2,098	824
Demand Side initiatives		826	663	-
Interest received		110	-	79
Other revenue		676	-	68
Total revenue		<u>10,062</u>	<u>9,195</u>	<u>4,025</u>
Expenditure				
Operating costs		6,265	6,679	2,325
High cost medicines		220	502	105
Demand Side referred services		1,842	2,098	824
Demand Side initiatives		300	663	254
Total expenditure		<u>8,627</u>	<u>9,942</u>	<u>3,508</u>
Net surplus/(deficit) for the period	1	<u>1,435</u>	<u>(747)</u>	<u>517</u>

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

For information on major variances against budget, refer to note 11 (page 46)

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF MOVEMENTS IN EQUITY
for the year ended 30 June 2002

	Note	Actual 2002 \$000	Budget 2002 \$000	Six Month Period ended 30 June 2001 \$000
Public equity at the beginning of the period	2	1,856	1,856	-
Net surplus/(deficit)	2	1,435	(747)	517
Other movements				
Contribution from owners ¹		-	-	1,238
Fixed assets transferred from the Health Funding Authority ²		-	-	-
		-	-	101
Total recognised revenues and expenses for the period	2	<u>1,435</u>	<u>(747)</u>	<u>1,856</u>
Public equity as at the end of the period		<u>3,291</u>	<u>1,109</u>	<u>1,856</u>

¹This represents the net assets of Pharmaceutical Management Agency Limited that were vested in PHARMAC effective 1 January 2001.

²This represents the book value of furniture and equipment transferred to PHARMAC from the Health Funding Authority when the assets and liabilities of that entity were also vested in new health sector entities.

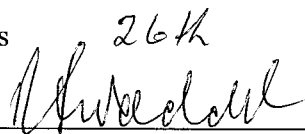
The accompanying accounting policies and notes form an integral part of these financial statements.

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PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF FINANCIAL POSITION
as at 30 June 2002

	Note	Actual 2002 \$000	Budget 2002 \$000	30 June 2001 \$000
PUBLIC EQUITY				
General funds	2	3,291	1,109	1,856
TOTAL PUBLIC EQUITY		<u>3,291</u>	<u>1,109</u>	<u>1,856</u>
Represented by:				
Current assets				
Cash and bank		4,093	923	903
Receivables and prepayments	3	344	2,473	2,473
Total current assets		<u>4,437</u>	<u>3,396</u>	<u>3,376</u>
Non-current assets				
Fixed assets	4	475	250	163
Total non-current assets		<u>475</u>	<u>250</u>	<u>163</u>
Total assets		<u>4,912</u>	<u>3,646</u>	<u>3,539</u>
Current liabilities				
Payables	5	1,514	2,439	1,599
Employee entitlements		107	98	84
Total current liabilities		<u>1,621</u>	<u>2,537</u>	<u>1,683</u>
NET ASSETS		<u>3,291</u>	<u>1,109</u>	<u>1,856</u>

Signed this 26th day of September 2002



Chairman

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

For information on major variances against budget, refer to Note 11 (page 46)



PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF CASH FLOWS
for the year ended 30 June 2002

	Note	Actual 2002 \$000	Budget 2002 \$000	Six Month Period ended 30 June 2001 \$000
CASH FLOWS - OPERATING ACTIVITIES				
Cash was provided from:				
- Ministry of Health		9,344	9,195	3,808
- Interest		110	-	79
- Other		466	-	68
- Net GST		2,102	-	-
		12,022	9,195	3,955
Cash was disbursed to:				
- Payments to suppliers and employees		(6,005)	(5,424)	(2,324)
- Referred Services contract organisations		(2,362)	(3,263)	(824)
- Net GST		-	(270)	(2,122)
	6	(8,367)	(8,957)	(5,270)
<i>Net cash flow from operating activities</i>		3,655	238	(1,315)
CASH FLOWS - INVESTING ACTIVITIES				
Cash was disbursed to:				
- Purchase of fixed assets		(465)	(258)	(17)
<i>Net cash flow from investing activities</i>		(465)	(258)	(17)
CASH FLOWS - FINANCING ACTIVITIES				
Cash was provided from:				
- Ministry of Health		-	-	2,235
<i>Net cash flow from financing activities</i>		-	-	2,235
Net increase in cash held		3,190	20	903
Add opening cash brought forward		903	903	-
<i>Closing cash balance</i>		4,093	923	903

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

For information on major variances against budget, refer to Note 11 (page 46)

PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF COMMITMENTS
as at 30 June 2002

	2002 \$000	2001 \$000
Capital commitments approved and contracted	-	-
Other non-cancellable contracts		
At balance date PHARMAC had entered into non-cancellable contracts for the provision of services including building services and computer maintenance. Commitments under these contracts are as follows:		
Not later than one year	-	20
Later than one year and not later than two years	-	17
Later than two years and not later than five years	-	23
Later than five years	-	-
	<u>-</u>	<u>60</u>
Total commitments	<u>-</u>	<u>60</u>

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**PHARMACEUTICAL MANAGEMENT AGENCY
STATEMENT OF CONTINGENT LIABILITIES**
as at 30 June 2002

PHARMAC had no contingent liabilities at 30 June 2002 (2001:NIL).

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PHARMACEUTICAL MANAGEMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 1: Net Surplus/(Deficit)

	2002	2001
	\$000	\$000
<hr/>		
The net surplus is after charging for:		
Fees paid to auditors		
- external audit	18	13
- other services	32	-
Board members' fees	125	54
Depreciation:		
Furniture and fittings	40	17
Computer equipment	78	34
Office equipment	15	2
Leasehold improvements	20	-
<i>Total depreciation for the year</i>	154	53
Rental expense on operating leases	53	84

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

Note 2: Public equity

General funds

	2002	2001
	\$000	\$000
Opening balance	1,856	-
Net surplus	1,435	1,856
Closing balance	<u>3,291</u>	<u>1,856</u>

Note 3: Receivables and prepayments

	2002	2001
	\$000	\$000
Ministry of Health and others	255	147
GST receivable	4	2,281
Prepayments	85	45
Total	<u>344</u>	<u>2,473</u>

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PHARMACEUTICAL MANAGEMENT AGENCY NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 4: Property, plant and equipment

	Cost	Accumulated Depreciation	Net Book Value
	\$000	\$000	\$000
2002			
Furniture and fittings	248	138	110
Computer equipment	461	321	140
Office equipment	168	26	142
Leasehold improvements	103	20	83
Total	980	505	475
2001			
Furniture and fittings	195	97	98
Computer equipment	415	358	57
Office equipment	18	10	8
Leasehold improvements	-	-	-
Total	628	465	163

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

Note 5: Payables and accruals

	2002 \$000	2001 \$000
Trade creditors	873	730
Accrued expenses	641	869
Total payables and accruals	<u>1,514</u>	<u>1,599</u>

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

	2002 \$000	2001 \$000
Net surplus from operations	1,435	517
<i>Add non-cash items:</i>		
Depreciation	154	53
Total non-cash items	<u>154</u>	<u>53</u>
<i>Add (less) movements in working capital items:</i>		
Decrease/(increase) in receivables	2,129	(2,219)
(Decrease)/increase in payables	(85)	334
Increase in employee entitlements	22	-
Working Capital Movements – net	<u>2,066</u>	<u>(1,885)</u>
Net cash flow from operating activities	<u>3,655</u>	<u>(1,315)</u>

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PHARMACEUTICAL MANAGEMENT AGENCY NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 7: Related party information

PHARMAC is a wholly owned entity of the Crown. The Crown, through the Ministry of Health, significantly influences the role of PHARMAC and is its major source of revenue.

PHARMAC also conducts business with other government entities on an “arms length” basis in the normal course of business. These transactions are not considered to be related party transactions.

Note 8: Financial instruments

Credit risk

- Financial instruments which potentially expose PHARMAC to credit risk consist of bank balances and accounts receivable.
- Bank balances are held with New Zealand registered banks.
- The values disclosed in the Financial Statements represent the maximum exposures on these financial instruments. No collateral is held for any of these financial instruments.

Concentration of credit risk

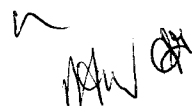
There is no significant concentration of credit risk.

Credit facilities

PHARMAC does not have a bank overdraft facility.

Fair value

The fair value of financial instruments approximate the carrying amount disclosed in the financial statements at 30 June 2002.



PHARMACEUTICAL MANAGEMENT AGENCY NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 9: Employee Remuneration

Total Remuneration and Benefits \$000	Number of Employees	
	2002	2001
110 – 120	1	1
120 – 130	-	1
130 – 140	1	-
140 – 150	1	2
160 – 170	1	-

The chief executive's remuneration and benefits is in the \$160,000 - \$170,000 band (2001: \$140,000 - \$150,000 band)

Note 10: Board Fees

Board members earned the following fees during the year:

Member	Fees	
	2002	2001
	\$000	\$000
Mr Richard Waddel (Chair)	36	18
Mr Ross Black	18	9
Prof Gregor Coster	18	9
Ms Elizabeth Coutts	18	9
Ms Karen Guilliland	18	9
Mr David Moore	17	-

Note 11: Major Budget Variations

Statement of Financial Performance

The amounts for Actual 2001 represent the six month period from January to June 2001, whereas the Budget 2002 and the Actual 2002 amounts represent the 12 month period from July 2001 to June 2002.

The net surplus for the year ended 30 June 2002 of \$1,435,000 is \$2,182,000 higher than the deficit of \$747,000 forecast in the original budget. The main reasons for the increase are:

- other revenue of \$676,000 and interest received of \$110,000 not included in the original budget
- higher funding of \$163,000 received for Demand Side Initiatives
- reduction in operating costs of \$619,000 mainly due to lower staff complement and some information management initiatives delayed until the 02/03 year

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- demand side referred services and initiatives reduction in expenditure of \$614,000 owing to delay in starting some projects

Statement of Financial Position (and Cash Flows)

The positive net result outlined in the Statement of Financial Performance is reflected in the increase in Public Equity recorded in the Statement of Financial Position. A significant proportion of this increase is held as cash. The unanticipated revenue and reduction in expenditure has also contributed to the Cash and Bank figure being higher than budgeted.

As the majority of computer equipment had come to the end of its useful life, PHARMAC made a significant investment to upgrade its equipment during this financial year. Some leasehold alterations were also made to the premises to allow for the accommodation of more staff. These capital expenditure items had not been budgeted and are reflected in the higher fixed assets amount at 30 June 2002.

The decrease in receivables and prepayments was due to a one-off GST refund last year as a result of a ruling from the IRD that Pharmac is not required to account for GST on rebates.

The decrease in accounts payables is due to the budget including some amounts that were no longer required at 30 June 2002.

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