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Pharmaceutical Management Agency
Annual Report

For the year ended 30 June 2008

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

PHARMAC
Pharmaceutical Management Agency

New Zealand Government

E.59

Annual Report of

Pharmaceutical Management Agency (PHARMAC)

for the year ended
30 June 2008

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PHARMAC DIRECTORY

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Board Members Richard Waddel – Chair Prof Gregor Coster C.N.Z.M – Deputy Chair Kura Denness – Chair, Audit Committee Dr David Kerr David Moore Adrienne von Tunzelmann	**Chief Executive** Matthew Brougham
Pharmacology & Therapeutic Advisory Committee Prof Carl Burgess – Chair	**Consumer Advisory Committee** Sandra Coney – Chair
Auditors Audit New Zealand	**Bankers** ASB Bank Limited
Solicitors Bell Gully	**Insurers** Circle (underwritten by IAG NZ Limited) Lumley General Insurance (NZ) Limited American Home Assurance Company

CHAIRMAN'S REPORT

The release of *Medicines New Zealand*, the strategy for the medicines system, has been a defining feature of 2007/08 for PHARMAC. New Zealand had not previously had a strategy specifically describing and outlining the roles of the various components of the system, so its release by the Government in December 2007 was very welcome.

The strategy defines the different roles and parts of the medicines system, and identifies key areas of focus – including quality, safety and efficacy of medicines; and access and the optimal use of medicines. We are committed to the aims and activities of *Medicines New Zealand*, and our work in relation to the Strategy will continue to be important into the future.

Many of the activities identified in *Actioning Medicines New Zealand* are aimed at improving people's knowledge of, and involvement with, the system, and improving the way medicines are used. This dovetailed with PHARMAC's own efforts to better engage with stakeholders, building on the results of a stakeholder survey. The first PHARMAC Forum was held in December 2007, bringing together a wide group of our stakeholders to talk about PHARMAC's role and how PHARMAC can further improve. It was clear that stakeholders had strongly divergent views on some key issues, underscoring that the interests of particular groups are not always aligned to the public interest that PHARMAC must serve. Overall, and based on feedback from stakeholders, the Forum was a positive initiative.

It has been pleasing to see improvement in key relationships over the past year and to receive many comments indicating that people have seen some positive changes. We remain committed to continual improvement in this area, and to doing even better.

Careful budget management

PHARMAC continued its core function of managing medicine funding. For the year, PHARMAC managed District Health Board (DHB) spending on pharmaceuticals within 0.1% of the budget figure: $635.4 million compared to a budget of $636 million. This result reflects careful management by PHARMAC and a continued record of achieving its statutory objective of maintaining spending within budget.

In all, PHARMAC made 17 major funding decisions, while an ongoing review of specialist prescriber restrictions saw this criteria lifted from 43 medicines. This means the medicines are now able to be prescribed by a greater number of clinicians, or dispensed through community pharmacies.

There is always a balance to be struck between funding new medicines and maintaining subsidies for already-funded treatments, should suppliers want to raise their prices. This balancing act was highlighted during 2007/08 when AstraZeneca and GlaxoSmithKline raised the respective prices of the heart medicine metoprolol (Betaloc), and the thyroid treatment levothyroxine. Raising the subsidy on these products increased spending by about $5 million per year. While raising subsidies to match the higher price was a good move for patients, effectively it meant spending more on the same products, for no net health gain, and it limited our ability to make other new investments. While the pharmaceutical industry understandably wants more money spent on medicines, clearly their pricing decisions are a key factor in how much new investment can occur each year.

Medicine funding - Focus on oncology

The medicine funding that did occur was very much focussed on new and better access to cancer drugs. PHARMAC made seven decisions either widening access to, or listing new, medicines for cancer (see table). These included treatments for breast, colon and lung cancers, which are some of the most common forms of cancer and of community concern.

Other major investments included widening access to the blood-thinning drug clopidogrel and the respiratory disease treatment tiotropium, and listing the new drugs ziprasidone (mental health) and rizatriptan (migraines).

One of the major stories throughout the year was funding of the breast cancer drug Herceptin. Funded by PHARMAC and DHBs from 1 July 2007, it became subject to a High Court judicial review and interim orders application from a group of breast cancer patients. The interim orders application and all but one of the grounds sought for judicial review were dismissed by the court. The court found that, when PHARMAC decided in July 2006 not to fund 12 months of Herceptin at that time, it ought to have conducted public consultation. The court set aside that decision and directed PHARMAC to revisit the decision, and consult on it.

PHARMAC began consultation in May 2008, and received over 300 submissions. In addition, fresh advice was sought from the Pharmacology and Therapeutics Advisory Committee and its cancer treatments sub-committee, and a renewed cost-utility analysis was undertaken.

Access and Optimal Use – from strength to strength

Making sure medicines aren't under, over, or misused is a central theme of *Medicines New Zealand.* PHARMAC already works in this area through campaigns such as Wise Use of Antibiotics, and the flagship One Heart Many Lives cardiovascular disease campaign.

One Heart Many Lives goes from strength to strength. In early 2008 the campaign spread into its third DHB region (Lakes), with an opening conference in Rotorua during April. This followed successful launches in Hawke's Bay and Northland, where the campaign continues to operate. The One Heart Many Lives banner also underpinned a social marketing conference hosted by PHARMAC, which brought together many people working in the area of heart health. It was pleasing to hear the One Heart Many Lives concept endorsed by the Heart Foundation's Medical Director as an important pillar of responding to this continuing challenge.

Our Gut Reaction campaign, which promotes optimal use of medicines to treat heartburn and reflux, has also proved successful. In assessing the campaign, we ran a survey which revealed a high level of awareness and in which 59% of doctors who responded said that in the past year they had reduced their prescribing of PPIs, the most commonly-prescribed treatments. A reduction in the number of people being prescribed and maintained on high doses of PPIs is in line with the aims of the campaign

Our people

PHARMAC is served by a high-quality group of people at all levels. I am grateful for the continuing commitment and professionalism of my fellow PHARMAC Board members. PHARMAC's staff can continue to take pride in the excellent job they perform on behalf of New Zealanders. And PHARMAC is also fortunate to have ongoing high quality advice and input from a range of experts from clinical and consumer fields. I thank them all for the time and effort they put into their deliberations.

During the year the Board was pleased to appoint Matthew Brougham to the role of Chief Executive, a role he had performed in an acting capacity since July 2006. I am confident that he will continue to show the leadership of the PHARMAC team that is required for continued success in a sometimes difficult and contentious environment.

Richard A Waddel
Chair

On behalf of the PHARMAC Board

INTRODUCTION

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.

PHARMAC is a Crown Entity and accountable to the Minister of Health. PHARMAC's objective, as set out in the New Zealand Public Health and Disability Act 2000 (the 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."*

District Health Boards (DHBs) have overall responsibility for determining spending priorities to improve 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 medicines. In achieving that, 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.

ROLES AND RESPONSIBILITIES

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.

Management of PHARMAC

The Chief Executive is responsible for managing PHARMAC's day-to-day operations. In addition to the Chief Executive, PHARMAC has a six-member management team responsible for each core area of PHARMAC's operations (Medical, Funding & Procurement, Schedule and Contract Management, Access and Optimal Use, Analysis & Assessment, and Corporate). PHARMAC's staff possess a wide range of skills and experience, including people with health backgrounds (doctors, pharmacists, nurses), public health, economic analysis, business analysis, financial, legal and other skills necessary to ensure its effective functioning.

PHARMAC's Advisory Committees

Committee	Meets	Primary role
Pharmacology and Therapeutic Advisory Committee (PTAC)	Quarterly	Clinical advice on pharmaceuticals being considered for funding. Members are independently appointed by the Director-General of Health, and have expertise in clinical practice, pharmacology, and critical appraisal.
PTAC Sub-committees	As required	Clinical advice on specialist areas (e.g. cancer, cardiovascular disease). There are 15 sub-committees. Members are appointed by the PHARMAC Board.
Consumer Advisory Committee (CAC)	Twice yearly and as required	Input from a consumer and patient perspective. Members are appointed by the PHARMAC Board. The Committee is comprised of consumers with a mix of backgrounds and interests, including the health of older people, women's health, the health needs of Maori and the health needs of Pacific People.
Hospital Pharmaceuticals Advisory Committee	As required	Advice on pharmaceuticals used in hospitals.

PHARMAC as a good employer

PHARMAC's success depends on the quality of its employees and, as a result, PHARMAC has always seen its staff as its most valuable asset. PHARMAC also has obligations to be a "good employer" and operates an equal employment opportunities programme as part of its human resources and personnel policies.

During 2007/08, PHARMAC continued to review human resource policies. Changes made during the year included promoting retirement savings options to staff (through the implementation of KiwiSaver), and implementing amended parental leave provisions.

PHARMAC has no current concerns with staff turnover. While difficult to correlate turnover with specific initiatives, PHARMAC has sought to improve focus on good employer initiatives issues, such as flexible working arrangements (as appropriate) and an increased focus on wellness.

In 2007/08, 7 staff left (12% of total staff). At 30 June 2008, PHARMAC had 57 staff (3 part time and 54 full time), comprising 33 women and 24 men,

IMPLEMENTING MEDICINES NEW ZEALAND

Medicines New Zealand was released in December 2007, after PHARMAC's 2007/08 Statement of Intent, but gave rise to actions for PHARMAC in leading projects or assisting others in the medicines system. As these actions are not recorded in PHARMAC's Statement of Service Performance, a summary of activity is provided here, grouped by five key work areas:

1. Ongoing funding process improvement
2. Stakeholder input into PHARMAC's work
3. Optimal Input from PHARMAC's advisory committees
4. Communication about the funding process
5. Greater focus on optimal use and reducing inequalities.

1. ONGOING FUNDING PROCESS IMPROVEMENT	
Action	**Progress**
Review the exceptional circumstances funding and criteria to ensure that they continue to fulfil the purpose of the Exceptional Circumstances Scheme.	PHARMAC is working with DHBs and the Ministry of Health to review the exceptional circumstances schemes. PHARMAC will publicly consult on the review by 31 December 2008.
Changing medicines brands can be an issue for some people. PHARMAC will seek to develop a mechanism that will, when decisions give rise to brand changes, enable people to access funding for their existing brands of medicine in defined circumstances.	PHARMAC has revised the process it uses for determining which products are supplied under sole supply arrangements, and improved the support it offers to pharmacists and prescribers where brand changes may cause significant patient anxiety. PHARMAC will continue to consider alternative approaches to minimising the impact of brand changes.
Undertake ongoing review of and where appropriate remove specialist restrictions on prescribing.	PHARMAC has been removing specialist restrictions on prescribing since early 2007. In the past year 43 medicines have had their prescriber restrictions removed or amended. Work is continuing in this area.
Clarifying the structure and processes PHARMAC and DHBs use to work together in updated Memoranda of Understanding.	PHARMAC and DHBs have been working during 2007/08 to enhance their already strong working relationship. Work on updated Memoranda of Understanding to reflect this relationship will be completed by 30 June 2009.
Moving, with DHBs, to a principles based approach to setting the community pharmaceuticals budget.	PHARMAC and DHBs referred to the principles identified in the Medicines Strategy consultation document when setting the 2008/09 Community Pharmaceuticals Budget. PHARMAC will be participating in the Ministry of Health-led work on moving towards a principles-based approach to budget-setting during 2008/09. This is a significant piece of work that will feed into, but not be completed for, the 2009/10 budget-setting process.
Participating in the Ministry's initiative to bring together agencies engaged in access-related activities to ensure a collaborative and cohesive approach to ensuring New Zealanders have access to the medicines they need.	PHARMAC will participate in this work once it has been initiated by the Ministry of Health.

2. STAKEHOLDER INPUT INTO PHARMAC'S WORK

Action	Progress
Hold a regular PHARMAC Forum for interested stakeholders to comment on PHARMAC's operation, including stakeholder engagement activity.	The inaugural PHARMAC Forum was held in December 2007. A document identifying the responses to, and actions arising from, suggestions made at the Forum was distributed to all attendees in July 2008. A report-back on progress on the Forum actions will be a feature of the next Forum, planned for March 2009.
Formally invite funding applicants to meet PHARMAC staff at the start of the funding process.	PHARMAC started formally inviting funding applicants to meet with PHARMAC staff in April 2008.
Encourage stakeholders to provide views on individual funding applications and consider these in decision-making.	PHARMAC has changed some of its documents to better outline medicine funding proposals, and to better explain decisions that have been made. Specific changes were: • consultation letters – these now summarise the funding proposal, possible impacts on doctors, pharmacists or patients, with more detail as needed. These changes are aimed at making the consultation documents more accessible to a wider audience. • notification letters – As with consultation letters, the notifications now include sections outlining what decisions mean for specific groups. They also summarise the comments received in consultation. The changes aim to explain funding decisions more clearly to wider readerships. Other work in progress includes: • Investigating a mechanism to include early public input to the medicines funding process. • Investigating the use of longer consultation periods, when appropriate. • Making greater use of email and electronic formats to seek consultation responses.
Publicise opportunities for stakeholder input into decisions.	The front page of PHARMAC's website features opportunities for participation in consultation which can be received via RSS feeds. PHARMAC's consultation page is now included in the new zealand.govt.nz website consultation search. PHARMAC will continue to work to identify additional opportunities for raising awareness of consultation opportunities.
Provide consumers with guidance on how to have input into the funding decision-making process.	Finalising this guidance is dependent on other work on consultation described above. PHARMAC will make guidance publicly available by 31 December 2008.

3. OPTIMAL INPUT FROM PHARMAC'S ADVISORY COMMITTEES

Action	Progress
Undertaking broad consultation on changes to PTAC's Operational Guidelines to ensure optimal arrangements are in place for PTAC to provide free and frank advice to the PHARMAC Board.	PHARMAC consulted on PTAC's operational guidelines from May – June 2008. Stakeholders were invited to make written submissions and, if they wished, to meet with PHARMAC staff to discuss their views. The revised Guidelines will be available by 31 December 2008.

3. OPTIMAL INPUT FROM PHARMAC'S ADVISORY COMMITTEES

Action	Progress
Reviewing, with the Ministry of Health, the PTAC appointment protocol to ensure that it best supports the independent appointment process required by the NZPHD Act 2000.	PHARMAC has been participating in the Ministry of Health-led review of the PTAC appointment protocol.
Reviewing the CAC terms of reference to ensure optimal arrangements for CAC to undertake its legislative role.	PHARMAC will undertake public consultation on the Terms of Reference for CAC by the end of 2008.

4. COMMUNICATION ABOUT THE FUNDING PROCESS

Action	Progress
Developing user-friendly and linked websites across the medicines system, enabling stakeholders to easily navigate the medicine system and find the information they require.	PHARMAC launched its new website in April 2008. The website provides more information about, and an interactive chart of, the funding process as well as tailored pages for different categories of stakeholders. The website includes links to other agencies in the medicines system.
Publishing public summaries of decisions on medicine funding applications.	Changes have been made to notification letters to provide more information on medicine funding decisions. We will be publishing public summaries of funding decisions by 30 June 2009.

5. GREATER FOCUS ON OPTIMAL USE AND REDUCING INEQUALITIES

Action	Progress
Assisting in the development and implementation of a national formulary (including an electronic prescription ordering system and New Zealand-specific guidelines) to support best practice prescribing. This would include examining links to a comprehensive medicines reference source and to the Pharmaceutical Schedule	PHARMAC worked with the Ministry of Health on the initial business case for the development of a national medicines formulary, and will continue to contribute as required.
Participating in the Ministry's work to consider and implement a mechanism to support a cohesive and coordinated approach to optimal use of medicines practices.	PHARMAC has continued working with District Health Boards to ensure that the PHARMAC Access and Optimal Use Campaigns are well-integrated into DHB activity. A new joint working group, including PHARMAC and DHB representatives, has been formed. PHARMAC will assist with the Ministry of Health's work on a mechanism for optimal use of medicines practices.

STATEMENT OF RESPONSIBILITY

The Board of PHARMAC accept responsibility for:

- the preparation of the annual Financial Statements and Statement of Service Performance and for the judgments in them; and
- establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non financial reporting.

In the opinion of the Board, the Financial Statements and Statement of Service Performance for the year ended 30 June 2008 fairly reflect the financial position and operations of PHARMAC.

Richard A Waddel
Chair

24 September 2008

Professor Gregor Coster
Deputy Chair

24 September 2008

AUDIT REPORT

TO THE READERS OF THE PHARMACEUTICAL MANAGEMENT AGENCY'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

The Auditor-General is the auditor of the Pharmaceutical Management Agency (the Agency). The Auditor-General has appointed me, A P Burns, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Agency for the year ended 30 June 2008.

Unqualified Opinion

In our opinion:

- The financial statements of the Agency on pages 22 to 51:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Agency's financial position as at 30 June 2008; and
    - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the Agency on pages 11 to 21:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs:
    - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
    - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 24 September 2008, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

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

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board and the Auditor

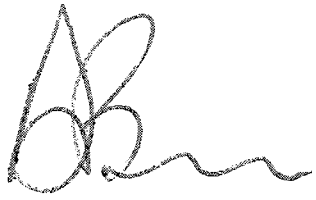
The Board is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Board as at 30 June 2008 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Agency's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004 and the New Zealand Public Health and Disability Act 2000

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

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

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



A P Burns
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Matters Relating to the Electronic Presentation of the Audited Financial Statements and Statement of Service Performance

This audit report relates to the financial statements and statement of service performance of the Pharmaceutical Management Agency for the year ended 30 June 2008 included on the Pharmaceutical Management Agency's website. The Pharmaceutical Management Agency's Board is responsible for the maintenance and integrity of the Pharmaceutical Management Agency's website. We have not been engaged to report on the integrity of the Pharmaceutical Management Agency's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance and related audit report dated 24 September 2008 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

STATEMENT OF SERVICE PERFORMANCE

This Statement of Service Performance (SSP) records PHARMAC's performance against the performance measures in its 2007/08 Statement of Intent (SOI). PHARMAC has one output class "*securing the best achievable health outcomes from pharmaceutical treatment, within the amount of funding provided*", although activities are broken down into a number of categories in the SSP.

Community Pharmaceutical Expenditure

PHARMAC's key deliverable is the management of the Community Pharmaceutical Budget (Deliverable 1.4): *Manage expenditure on subsidised community pharmaceuticals within budget ($636 million (excl GST)), after deduction of rebates from pharmaceutical suppliers.*

Result

Expenditure on subsidised community pharmaceuticals for the year ending 30 June 2008 is estimated to be $635.35 million, $0.65 million within the budget of $636 million. The expenditure figure includes gross expenditure of $751.71 million less an estimated $114.89 million expected from suppliers by way of rebate. The following table outlines the quarterly expenditure throughout the year, as compared to the pharmaceutical expenditure targets.

Quarter	Budget	Total Expenditure	Variance
One	$160.80	$156.17	-$4.63
Two	$159.09	$162.45	$3.36
Three	$153.10	$152.80	-$0.30
Four	$163.01	$163.93	$0.92
Year end	**$636.00**	**$635.35**	**-$0.65**

This spending resulted in 33.92 million prescriptions written during the year ending June 2008, for medicines for at least 2.9 million individual New Zealanders. This represents a 7.4% increase in the number of prescriptions compared with the previous financial year.

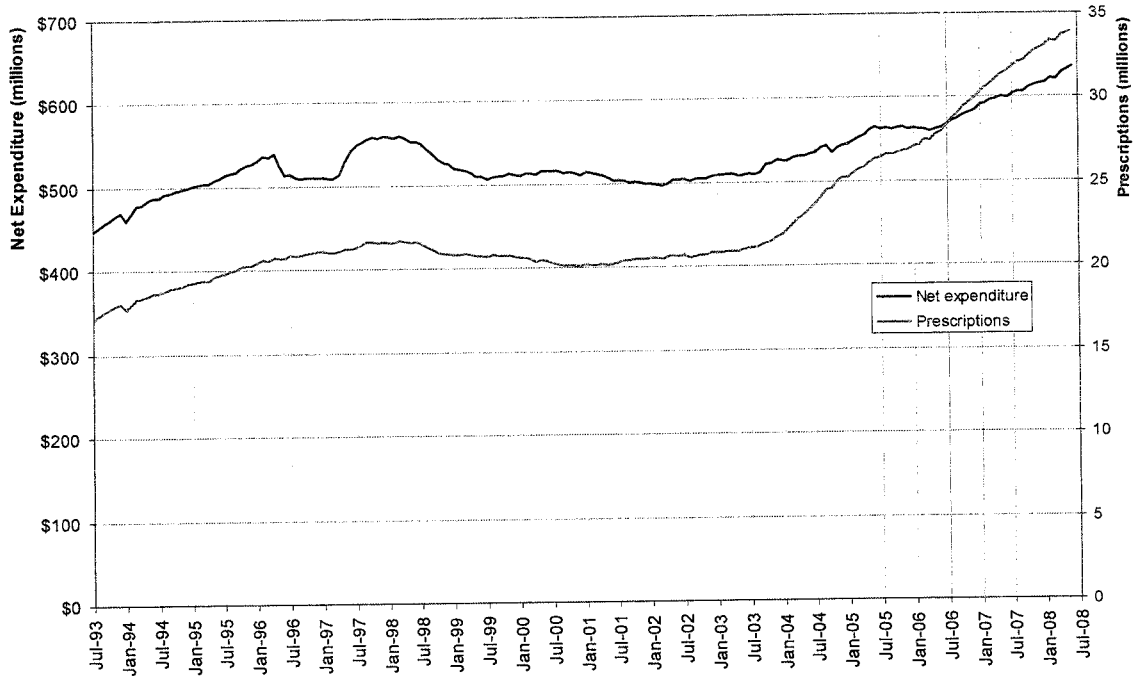
A summary of factors that contributed to the 2007/08 expenditure outcome is set out below.

	Expenditure ($ million)	Impact 0607	Full year Impact
Year End Jun 07 (less Rebates)	$599.37		
Volume Increases in 07/08		$55.99	
Volume Decreases in 07/08		-$14.43	
Access Widening in 07/08		$9.93	
Specialist Restrictions removed 07/08		$2.35	
New Investments 05/06 to 06/07		$19.37	
New Investments 07/08		$1.45	
Volume Changes for 07/08	$74.66		
Subsidy Increases in 07/08		$4.63	$6.26
Subsidy Decreases in 07/08		-$25.96	-$34.83
Subsidy Changes 06/07		-$33.92	
Tender 07/08		-$2.76	-$4.20
Tender ACP 07/08		-$0.06	-$0.08
Delistings 07/08		$0.00	-$0.99
Subsidy Changes for 07/08	-$58.08		
Year Ending Jun 08 Drug Cost	$615.95		
Rebate Changes 06/07 to 07/08	$19.40		
Year End Jun 08 (less Rebates)	**$635.35**		

A history of growing access and controlled spending

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

Pharmaceutical expenditure and prescribing growth



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

Period	Issue/event
1993 – 1998	Rebates are excluded. These are less than $6m.
1993 – 2000	Some or all of the expenditure was based on date claimed, rather than date dispensed.
1996 – 1997	The initial decrease is due to the change from all at once to monthly dispensing. The series then increases as the 12 month total moves back towards its original trend.
1998 – 1999	Savings from reference pricing of statins, ACE inhibitors and macrolides.
1997/98	Implementation of tendering. Tender savings to date are estimated to be over $300 million dollars.
October 2003	Partial return to all at once dispensing.
July 2004 – June 2006	Rebate disputes and settlements occurring in the 2005 and 2006 financial years resulted in a distortion to the time series trend. This means expenditure growth is overstated in the 2005 financial year and understated in 2006.
July 2004	Implementation of $3 maximum co-payments for enrolled PHO patients aged 65+.
July 2005	Implementation of $3 maximum co-payments for enrolled PHO patients aged 18 – 24.
July 2006	Implementation of $3 maximum co-payments for enrolled PHO patients aged 45 – 64.
July 2007	Implementation of $3 maximum co-payments for enrolled PHO patients aged 25 – 44.

PHARMAC has continued to achieve savings on currently subsidised medicines. This is achieved through a variety of purchasing methods, including tendering for off-patent medicines and reference pricing. Subsidy reductions in the 2007-08 financial year resulted in savings of approximately $28.79 million ($39.11 million annualised). Subsidy increases in the 2006-07 financial year resulted in an additional cost of $4.63 million. The breakdown of these figures across therapeutic groups is shown in the table below (figures are $ million).

Therapeutic Group	Increase	Saving	Net
Alimentary Tract and Metabolism	$0.33	-$8.61	-$8.28
Blood and Blood Forming Organs	$0.03	-$5.68	-$5.65
Cardiovascular System	$2.52	-$0.11	$2.41
Dermatologicals	$0.15	$0.00	$0.15
Genito-Urinary System	$0.00	$0.00	$0.00
Hormone Preparations - Systemic Excluding Contraceptive Hormones	$0.79	-$0.39	$0.40
Infections - Agents for Systemic Use	$0.04	-$0.18	-$0.14
Musculo-skeletal System	$0.07	-$0.04	$0.03
Nervous System	$0.37	-$9.86	-$9.49
Oncology Agents and Immunosuppressants	$0.00	-$0.11	-$0.11
Respiratory System and Allergies	$0.00	-$0.14	-$0.14
Sensory Organs	$0.00	-$0.03	-$0.03
Special Foods	$0.15	-$0.01	$0.14
Tender	$0.15	-$2.76	-$2.62
Tender ACP	$0.03	-$0.06	-$0.03
EC Expenditure	$0.00	-$0.81	-$0.81
Totals	**$4.63**	**-$28.79**	**-$24.16**

Medicines funded in 2007/08

PHARMAC made 20 major investments during 2007/08, summarised below.

Major funding decisions 2007/08			
Chemical	**Product**	**Indication**	**Comments**
Clopidogrel	Plavix	Aspirin-naïve patients	Widened Special Authority criteria to include aspirin-naïve patients
Capecitabine	Xeloda	Duke's C colorectal cancer	Widened Special Authority criteria to include treatment of Duke's C colorectal cancer
Docetaxel	Taxotere	Breast cancer	Special Authority criteria widened to be able to be used with trastuzumab for early breast cancer
Trastuzumab	Herceptin	HER2-positive early breast cancer (9 week treatment course)	Special Authority criteria widened to be able to be used for HER2-positive early breast cancer as a 9 week treatment
Tiotropium	Spiriva	Moderate chronic obstructive pulmonary disease (COPD)	Widened Special Authority criteria to include patients with FEV1 <0.6 predicted
Benzathine benzylpenicillin - Inj 1.2 mega u per 2 ml	Bicillin LA	Prevention of further rheumatic fever episodes with risks of consequent heart valve and other damage (long-acting injection with monthly not daily dosing)	Improved access due to being a less painful injection and with better ease of administration
Sirolimus	Rapamune	Kidney and other organ transplant rejection	New listing

Major funding decisions 2007/08			
Chemical	**Product**	**Indication**	**Comments**
Ziprasidone	Zeldox	Schizophrenia	New listing
Exemestane	Aromasin	Breast cancer	New listing
Ondansetron	Zofran and Zofran Zydis	Nausea and vomiting, particularly from cancer treatments	Improved access for some patients by having Special Authority that waives prescription limits when undergoing cancer treatments that are highly emetogenic
Macrogol 3350	Movicol	Problematic severe constipation (e.g. Patients with terminal cancer requiring opiate pain relief)	New listing
Thyroxine	Eltroxin	Thyroid hormone deficiency	Price increase causing an opportunity cost to the Pharmaceutical Schedule
Oxaliplatin	Eloxatin/ Baxter	Stage III (Duke's C) colorectal cancer	Special Authority criteria expanded to include Stage III (Duke's C) colorectal cancer
Paclitaxel	Taxol, Paclitaxel Ebewe	Relapsed germ cell cancer of the testis, relapsed ovarian cancer, node-negative HER2 positive early breast cancer	Removal or Special Authority criteria
Vinorelbine		Adjuvant treatment of stage IB-IIIA non-small cell lung cancer	Special Authority criteria expanded to include stage IB-IIIA non-small cell lung cancer
Metoprolol succinate	Betaloc CR	Raised blood pressure (cardiovascular risk), heart failure	Price increase causing an opportunity cost to the Pharmaceutical Schedule
Condoms	Gold Knight & Shield	Contraception	New listing and reference pricing of alternative brands
Losartan, losartan with hydrochlorothiazide	Cozaar and Hyzaar	Renal disease, treatment-resistant raised blood pressure, etc.	Access widened to a number of patient groups including patients with renal disease and those with treatment-resistant raised blood pressure
Rizatriptan wafers	Maxalt Melt	Acute migraine	New listing
Removal of specialist restrictions for 43 chemicals		Various	Removal of specialist restrictions (special authority criteria widened to be available from any relevant practitioner, or any medical practitioner on the recommendation of a specialist, or removal of retail pharmacy-specialist restriction)

Report on PHARMAC's performance

Introduction

PHARMAC's performance against deliverables specified in PHARMAC's 2007/08 SOI is set out below. PHARMAC's deliverables were set in six areas:

- Schedule management;
- Exceptional circumstances;
- Assessment and procurement on behalf of DHBs;
- Responsible use of pharmaceuticals (including social marketing);
- Equitable access; and
- Research.

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

Deliverable 2007/08	Timing	Outcome
1.1 Cost-utility assessment of all major investments.	As required	Achieved. Cost-utility assessments were undertaken on all major investments in the past financial year. In addition, cost-utility assessments were undertaken on all proposals prior to prioritisation. A total of 63 cost-utility analyses were undertaken: • 34 were for community pharmaceuticals; • 15 for cancer treatments and the wider health sector; • 6 for Access and Optimal use initiatives, and • 8 for exceptional circumstances.
1.2 Printing and dissemination of the Community Pharmaceutical Schedule.	4-monthly book, with monthly updates	Achieved. The Pharmaceutical Schedule was produced and distributed in August and December 2007, and in April 2008.
1.3 Printing and dissemination of the Hospital Pharmaceutical Schedule.	4-monthly book.	Achieved. Section H (the Hospital Schedule) was produced and distributed in July and November 2007, and in March 2008.
1.4 -1.7 Managing expenditure on community pharmaceuticals.	Quarter 1: $160.8m Quarter 2: $159.09m Quarter 3: $153.1m Quarter 4: $163.01m	Substantively achieved. The expenditure figures for each quarter were: Quarter 1: $156.17m Quarter 2: $162.45m Quarter 3: $152.80m Quarter 4: $163.93m Overall funding was managed within the annual budget. Two of the quarterly targets identified were not achieved within target. Further detail on the annual expenditure targets is provided in the section above..
1.8 Monitor and manage supplier contracts, so that DHBs receive maximum benefit from supply agreements, including rebate payments.	Ongoing	Achieved. PHARMAC established two Contract Manager positions in January 2007 to place an increased focus on monitoring, and ensuring compliance with, contract events (including management of actual or potential stock shortages). No significant out of stock issues have arisen in 2007/08. Contract Managers have monitored rebate payments compared to contractual requirements. Payments of rebates received from suppliers are made to DHBs quarterly.

1.9 Establish a protocol to communicate and manage stock levels with pharmacy groups.	30 June 2008	Achieved. A protocol has been agreed with the Pharmacy Guild and this will be communicated with pharmacists & set up as web-page on PHARMAC's website.

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

Deliverable 2007/08	Timing	Outcome
2.1. Turnaround for community, hospital and cancer-related exceptional circumstances applications of 4 weeks, 48 hours and 72 hours respectively	As required	Substantively achieved. The percentages of Exceptional Circumstances applications turned around within the indicated timeframes are as follows: • Community EC - CEC 97.6% within 4 weeks. • Hospital EC - 91.2 % within 48 hrs • Cancer EC - 80.4% within 72 hrs There are a number of reasons why applications may not be processed within the target period – for example if some information is missing or further checking needs to be done. PHARMAC considers the clearance rates achieved to be acceptable.
2.2 Continue active management to ensure efficiencies in delivering the Hospital Exceptional Circumstances and Discretionary Community Supply programmes	As required	Achieved. Review of the DCS list is ongoing. One product (lignocaine) was added to the DCS list in 2007/08.

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

Deliverable 2007/08	Timing	Outcome
3.1 Provide a report to the Ministry of Health on transfer of management of Hospital Pharmaceutical Cancer Treatments to PHARMAC.	31 December 2007	Not achieved within the stated timeframe. A report was sent to the Ministry of Health in February 2008. The report indicated that PHARMAC does not have full data from all DHB hospitals on cancer drug spending, so is not able to predict spending with sufficient accuracy to request a full budget transfer from DHBs. For 2008/09 PHARMAC proposed a different approach, a savings and investment target. In addition, PHARMAC will also continue to seek advice from DHBs where PHARMAC considers that new cancer medicines compare favourably with other pharmaceutical funding options

Deliverable 2007/08	Timing	Outcome
3.2 Provide a report to DHBs and the supplier annually about DHB hospital compliance with restricted brand contracts.	31 December 2007	Not achieved within the stated timeframe. This report was delayed because of issues with receiving, analysing and checking data. By 30 June 2008 all information was available and checked, and a report was provided to DHBs early in the 2008/09 financial year.
3.3 Monitor Recombinant Factor VIII, bulk IV fluids and radiological contrast media national contracts to ensure compliance with national contracts.	Ongoing	Substantively achieved. All components of this deliverable were completed by 30 June 2008, with the exception of the Discretionary Variance (DV) review of the radiological contrast media contract.
3.4 Prepare a report for the Ministry of Health on compliance with national contracts.	30 June 2008	At 30 June 2008 the majority of information had been compiled, however the report was delayed due to issues with finalising data on DHB compliance with restricted brand contracts. The report was provided to the Ministry early in the 2008/09 financial year.
3.5 Continue work in assisting DHBs to procure products used in DHB hospitals, such as cardiac stents, wound care products, orthopaedic prostheses, antidotes and antivenoms.	30 June 2008	In late 2007 DHBs indicated they wanted PHARMAC to cease examining the wound care products and cardiac stents projects, as it was perceived earlier savings could be made from initiatives already underway at individual DHBs. PHARMAC established a clinical advisory committee for orthopaedic prostheses, and has been seeking information from this group, DHBs and suppliers on possible options in this market.
3.6 Produce a report to the Ministry of Health detailing work undertaken to assist DHB hospitals in procurement activities.	30 June 2008	Not met. A report was provided in early 2008/09 financial year.
3.7 Produce a report for the Ministry of Health detailing economic assessments of new hospital pharmaceuticals.	30 June 2008	Not met. A report was provided in early 2008/09 financial year.

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

Deliverable 2007/08	Timing	Outcome
4.1 Deliver the annual Wise Use of Antibiotics campaign and present a report to the Ministry evaluating the 2007 campaign.	1 March 2008	Achieved. The winter 2007 campaign was completed and an evaluation report sent to the Ministry of Health in February 2008. The evaluation demonstrated a continued decline in prescribing of antibiotics in the under six age group and continued public awareness regarding the use of antibiotics. This winter's campaign 2008 was launched on 13 May 2008.
4.2 Continue to roll out and implement the One Heart Many Lives campaign in Hawke's Bay and Northland.	Ongoing	Achieved. During the financial year a number of community based social marketing interventions were supported in Northland, resulting in an increase in cardiovascular risk assessments. Work in Hawke's Bay has continued with improvements in CVD risk assessment.
4.3 Develop a One Heart Many Lives campaign in at least one other region.	30 June 2008	Achieved. The One Heart Many Lives campaign was launched in the Lakes DHB region on 23 April 2008. This involved the initial development of regional specific social marketing tools.
4.4 Continue to work with Diabetes NZ on implementing patient education information, and provide a summary of work to the Ministry of Health.	30 June 2008	Achieved by target date. During the contract period several patient information pamphlets were updated, a consumer product guide developed and a nutrition education programme for primary care nurses developed.
4.5 Roll out and evaluate the Gut Reaction campaign.	30 June 2008	Achieved by target date. The effect of the campaign is demonstrated in the decrease in proton pump inhibitor (PPI) prescriptions growth, impact analysis of the campaign interventions and the value realised, and the change in prescribing practice of general practitioners.
4.6 Complete the report of feasibility study findings on Polypharmacy and develop a programme for national roll out.	30 June 2008	Achieved by target date. The report showed three areas of feasible activity for PHARMAC. 1: Polypharmacy. 2: Addressing high-risk medications. 3: Improving consumer medicines information. PHARMAC has developed a project plan for medicines reconciliation. The programme will be delivered by DHBs through the Safe Medication Management Programme.
4.7 Develop childhood asthma projects and resources for children and their families.	30 June 2008	Achieved. PHARMAC has worked with stakeholders to develop the framework and strategies for a childhood asthma project. Resources have also been developed. These are likely to be available from October onwards.

Deliverable 2007/08	Timing	Outcome
4.8 Continue to work with bpacNZ.	Ongoing	Achieved. BPAC NZ has met all core deliverables under its agreement including the production and distribution of the Best Practice Journal. In addition supplementary services in relation to Maori health have been delivered.
4.9 Continue to administer and maintain the Green Prescription Programme with SPARC.	Ongoing	Achieved. SPARC has met all core deliverables under its agreement. PHARMAC and SPARC have worked together to return the contract to Ministry of Health Management as of 1 July 2008.

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

Deliverable 2007/08	Timing	Outcome
5.1 Further develop the Maori Use of Medicines programme and roll out nationally	30 June 2008	Achieved. The He Rongoā Pai – He Oranga Whānau programme is currently in the national role out phase with workshops being conducted in 5 regions to date.
5.2 Publish Te Whaioranga, PHARMAC's Maori Health Action Plan	31 December 2007	Achieved. Te Whaioranga was approved by PHARMAC's Board in November 2007.
5.3 Review the Cardiovascular therapeutic group in relation to Maori health and prepare a report on Maori use of medicines for cardiovascular disease	30 June 2008	Achieved. A review has been undertaken and a report completed by the target date. The report will be publicly released following further review.

6. ***Research*** *– PHARMAC will engage in research to generate further information on the optimal duration of Herceptin therapy*

Deliverable 2007/08	Timing	Outcome
6.1 Complete contract negotiations with SOLD trial investigators with agreement on payment milestones for funding up to $3.2 million	1 September 2007	Not achieved within the stated timeframe. A contract was signed with clinical investigators dated 5 October 2007.
6.2 Provide payments as agreed under the contract to SOLD trial investigators	As per funding contract	Achieved. The payment of funds committed to SOLD is dependent on the recruitment timeframe of the study and invoicing from the Finnish Study Coordinators. $216,882 was paid up to June 2008 with $136,900 accrued.

6.3 Provide a report six-monthly to the Ministry of Health on progress of the SOLD trial	31 December 2007 30 June 2008	Achieved. In summary, PHARMAC reported that the first patient was enrolled into the SOLD study on 4 January 2008 in Finland. As at 30 May 2008, internationally, 59 patients had been enrolled. At 30 June 2008, no patients had yet been enrolled in New Zealand. At 30 June, four centres in New Zealand had Ethics Committee approval to conduct the study and a further three New Zealand centres were considering participation. Once contracts between New Zealand cancer centres and the Finnish study coordinators are in place, NZ centres will be able to enrol patients.
6.4 Manage funds for the treatment costs of the 12 month treatment regimen in the SOLD trial	By 30 June 2008	Achieved. As part of an amendment to its 2007/08 SOI, PHARMAC received $5m from the Ministry of Health as a contribution to funding the 12 month arm of the SOLD trial. No New Zealand patients were enrolled in the trial by this date, so the funding was retained for use in the 2008/09 financial year.
6.5 Provide payments to DHBs on a per woman basis for women enrolled in the 12 month regimen of the SOLD trial.	By 30 June 2008.	By 30 June 2008 no New Zealand women had been enrolled in the SOLD trial, therefore no payments were made.

Legal Risk Fund

In performing its functions as set out above, PHARMAC also used its Legal Risk Fund. This fund can be used to undertake or defend legal action PHARMAC is a party to. The PHARMAC Board is responsible for approving access to PHARMAC's legal risk fund on the basis of defined rules.

The fund was used during 2007/08 for the purpose of defending judicial review proceedings related to Herceptin. In 2007/08, PHARMAC spent $772,417 defending the case, including the initial case relating to an application for interim orders. Of this amount, $574,674 was drawn from the legal risk fund, with the remainder funded from PHARMAC's normal operating funding for legal costs.

Litigation summary

Eight plaintiffs challenged PHARMAC decisions relating to the funding of Herceptin in the High Court. At the substantive hearing, of 28 grounds of appeal considered by the Court, 27 were not upheld. The Court found:

- All allegations that the decisions were biased, unreasonable, pre-determined or irrational were without basis.
- The individual applications for Cancer Exceptional Circumstances funding were properly and robustly considered, and the applicants were "afforded every opportunity" to put forward their cases.
- PTAC, PHARMAC's clinical advisory committee, is entitled to consider both the costs and benefits of medicines.

With respect to PHARMAC's decision to fund a 9 week treatment, the Court found that decision was robust. Justice Gendall referred to the consultation as "comprehensive". The judge found that none of the grounds challenging PHARMAC's 9-week funding decision were valid and said:

> "The public was told, in clear terms, what PHARMAC's proposal was. All who wanted to express a view were heard. No procedural unfairness occurred. The decision to fund the nine weeks regime was not unreasonable or irrational in any legal sense. There was ample evidence to support it being reasonable, though many may have disagreed."

The Court did, however, find that PHARMAC ought to have consulted on its July 2006 decision not to fund Herceptin at that time, and set that decision aside. The Court ordered that PHARMAC consult on the funding of 12 months' Herceptin. PHARMAC went on to do this in early-mid 2008, culminating in a further decision not to fund a 12 month treatment, announced in August 2008.

PHARMAC remains open to funding a longer treatment regimen of Herceptin if evidence suggests that it, relative to other medicines that could be funded, would achieve the best health outcomes for New Zealanders.

Purpose of the legal risk fund

The existence of a legal risk fund recognises high litigation risk associated with the activity of a government agency (evidenced by PHARMAC's litigation history). Litigation can be unpredictable in regard to both occurrence and size, and therefore may extend beyond the level of litigation activity a government agency can manage within normal, year-to-year resourcing. A fund can facilitate litigation risk being better managed through an agency being able (and without delay) to commence or continue with major or complex legal proceedings.

STATEMENT OF ACCOUNTING POLICIES

Reporting entity

These are the financial statements of Pharmaceutical Management Agency (PHARMAC), a Crown entity in terms of the Crown Entities Act 2004. PHARMAC acts as an agent of the Crown for the purpose of meeting its obligations in relation to the operation and development of a national Pharmaceutical Schedule.

PHARMAC has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"). The financial statements of PHARMAC are for the year ended 30 June 2008. The financial statements were authorised by the Board of PHARMAC on 24 September 2008.

Basis of Preparation

The financial statements of PHARMAC have been prepared in accordance with, and comply with:

- New Zealand generally accepted accounting practices (NZ GAAP);
- requirements of the Crown Entities Act 2004 and the New Zealand Public Health and Disability Act 2000;
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit entities.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and in preparing an opening NZ IFRS statement of financial position as at 1 July 2006 for the purposes of the transition to NZ IFRS.

The financial statements have been prepared on a historical cost basis, and are presented in New Zealand dollars (rounded to the nearest thousand dollars ($000)), being the functional currency of PHARMAC.

This is the first set of financial statements prepared using NZ IFRS. The comparatives for the year ended 30 June 2007 have been restated to NZ IFRS accordingly. Reconciliations of public equity and net surplus/(deficit) for the year ended 30 June 2007 under NZ IFRS to the balances reported in the 30 June 2007 financial statements are detailed in note 19. Standards, amendments and interpretations issued that are not yet effective and have not been early adopted, and which are relevant to PHARMAC include:

- "NZ IAS 1 Presentation of Financial Statements (2007)" and is effective for reporting periods on or after 1 January 2009. PHARMAC intends to adopt this standard ending 30 June 2010, and is yet to decide whether it will prepare a single statement of comprehensive income or a separate income statement followed by a statement of comprehensive income.

- "NZ IAS 23 Borrowing Costs" and is effective for reporting periods beginning on or after 1 January 2009. PHARMAC intends to adopt this standard ending 30 June 2010 and has not yet quantified the potential impact of the new standard.

- "NZ IFRS 3 Business Combinations (revised 2008)" and the amended "NZ IAS 27 Consolidated and separate Financial Statements" are effective for reporting periods beginning on or after 1 July 2009. PHARMAC intends to adopt this standard ending 30 June 2010. This standard is not expected to have any impact on PHARMAC's financial statements.

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 and cash equivalents include cash on hand, deposits held at call with bank both domestic and international, other short term, highly liquid investments, with original maturities of three months or less and bank overdrafts.

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.

Investments

At each balance sheet date PHARMAC assesses whether there is any objective evidence that an investment is impaired.

Bank deposits

Investments in bank deposits are initially measured at fair value plus transaction costs.

After liquid recognition investments in bank deposits are measured at amortised cost using the effective interest method.

For bank deposits, impairment is established when there is objective evidence PHARMAC will not be able to collect amounts due according to the original terms of the deposit. Significant financial difficulties of the bank, probability that the bank will enter into bankruptcy, and default in payments are considered indicators that the deposit is impaired.

Property, Plant and Equipment

Property, plant and equipment consist of leasehold improvements, furniture and office equipment, and 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%
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, 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.

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

Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by PHARMAC are recognised as an intangible asset. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with the development and maintenance of PHARMAC's website are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the statement of financial performance. For computer software (the only identified intangible asset), the useful live is assumed as 2-5 years with a corresponding depreciation rate of 20-50%.

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.

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-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable 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.

Budget Figures

The budget figures are those included in PHARMAC's 2007/08 Statement of Intent.

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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- *value of property, plant and equipment* – at each balance date, PHARMAC reviews the useful lives and residual values of its property, plant and equipment, including considering factors such as the physical condition of the asset, expected period of use of the asset by PHARMAC, and expected disposal proceeds from the future sale of the asset. PHARMAC has not made significant changes to past assumptions concerning useful lives

and residual values. The carrying amounts of property, plant and equipment are disclosed in note 8;

- *expenditure on the SOLD trial* – PHARMAC's contribution to administration of the SOLD trial, and the additional pharmaceutical costs associated with New Zealand's participation in the SOLD trial, depend on payment milestones being achieved. Best estimates have been made, but actual activity may differ from those forecasts;

- *use of the Legal Risk Fund* – this fund may be accessed, subject to access criteria and approval of the PHARMAC Board. Any litigation during the year will impact on the balance of the fund; and

- *extent of financial reserves generally* – the PHARMAC Board may decide to use financial reserves for activities consistent with PHARMAC's statutory functions. Other than the budgeted use of reserves, there is no intention to spend additional reserves but this remains at the discretion of the PHARMAC Board.

Critical judgements in applying PHARMAC's accounting policies

Management has exercised no critical judgements in applying PHARMAC's accounting policies for the period ended 30 June 2008.

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2008

	Note	Actual 2008 $000	Budget 2008 $000	Actual 2007 $000
Revenue				
Crown:				
Operating		14,081	8,481	8,060
Responsible use of pharmaceuticals		3,000	3,000	2,895
DHB:				
Operating		900	900	987
Responsible use of pharmaceuticals		1,677	1,677	1,990
Other:				
Interest received		522	300	478
Interest received - legal risk fund		438	-	389
Other revenue		68	34	93
Total revenue		20,686	14,392	14,892
Expenditure				
Operating costs		5,214	5,030	4,565
Personnel costs	1	6,224	6,170	5,173
Occupancy costs plus discount on unwind provision		251	248	248
Other costs	2	162	156	161
Depreciation & amortisation expense	3	341	484	322
Finance Costs	4	5	0	5
Herceptin SOLD trial administration		354	615	-
Responsible use of pharmaceuticals		4,761	4,677	4,600
Total expenditure		17,312	17,380	15,074
Net (deficit)/surplus for the period		**$3,374**	**($2,988)**	**($182)**

Explanations of significant variances against budget are detailed in note 24.

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

STATEMENT OF MOVEMENTS IN PUBLIC EQUITY

For the year ended 30 June 2008

	Note	Actual 2008 $000	Budget 2008 $000	Actual 2007 $000
Balance at 1 July		10,021	9,624	10,203
Net (deficit)/surplus for the period		3,374	(2,988)	(182)
Total recognised income and expense for the period		3,374	(2,988)	(182)
Balance at 30 June	5	**$13,395**	**$6,636**	**$10,021**

Explanations of significant variances against budget are detailed in note 24.

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2008

	Note	Actual 2008 $000	Budget 2008 $000	Actual 2007 $000
PUBLIC EQUITY				
Retained earnings and reserves	5	8,432	1,574	4,842
Legal risk fund	5	4,963	5,062	5,179
TOTAL PUBLIC EQUITY		$13,395	$6,636	$10,021
Represented by:				
Current assets				
Cash and cash equivalents		14,195	8,223	6,979
Debtors and other receivables	6	187	100	770
Investments	7	2,000	0	3,000
Prepayments		9	0	33
Total current assets		16,391	8,323	10,782
Non-current assets				
Property, plant and equipment	8	555	329	549
Intangible Assets	9	515	521	468
Total non-current assets		1,070	850	1,017
Total assets		17,461	9,173	11,799
Current liabilities				
Creditors and other payables	10	3,490	2,343	1,408
Employee entitlements	11	482	194	281
Provisions	12	9	0	5
Total non-current liabilities		3,981	2,537	1,694
Non-current liabilities				
Provisions	12	85	0	84
Total liabilities		4,066	2,537	1,778
Net assets		13,395	6,636	10,021

Signed this 24th day of September 2008

Chairman

Signed this 24th day of September 2008

Deputy Chairman

Explanations of significant variances against budget are detailed in note 24.

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2008

	Note	Actual 2008 $000	Budget 2008 $000	Actual 2007 $000
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Crown		17,081	11,481	10,955
- DHBs		2,577	2,577	2,977
- Interest		635	300	303
- Goods and services tax (net)		389	-	-
- Other		682	-	93
		21,364	14,358	14,328
Cash was disbursed to:				
- Payments to suppliers and employees		(14,749)	(16,462)	(14,760)
- Goods and services tax (net)		-	(400)	(579)
		(14,749)	(16,862)	(15,339)
Net cash flow from operating activities	13	6,615	(2,504)	(1,011)
CASH FLOWS – INVESTING ACTIVITIES				
-Receipts from sale of investments		3,000	0	442
- Purchase of property, plant and equipment		(227)	(484)	(518)
- Purchase of intangible assets		(172)	0	0
-Acquisition of investments		(2,000)	0	(3,000)
Net cash flow from investing activities		601	(484)	(3,076)
Net increase/(decrease) in cash		7,216	(2,988)	(4,087)
Cash at the beginning of the year		6,979	11,211	11,066
Cash at the end of the year		14,195	8,223	6,979

The GST (net) component of operating activities reflects the net GST paid and received.

The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Explanations of significant variances against budget are detailed in note 24.

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

STATEMENT OF COMMITMENTS

As at 30 June 2008

Operating leases as lessee

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2008 $000	Actual 2007 $000
Capital commitments approved and contracted	-	-
Operating commitments approved and contracted		
Not later than one year	410	248
Later than one year and not later than five years	1,640	21
Later than five years and not later than ten years	2,050	0
Total commitments	$4,100	$269

The lease expires 24 July 2013 with an additional right of renewal for a further term of five years.

It is expected that this right of renewal will be exercised; therefore the commitment is recognised for the full term of 10 years.

PHARMAC leases three floors of an office building. Half a floor is sublet due to it being surplus to requirements. The sub-lease expires 30 June 2013.

PHARMAC has recognised a make good provision of $94,000 (2007 $89,000).

STATEMENT OF CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2008

PHARMAC had no contingent assets at 30 June 2008 (2007: nil).

PHARMAC had no contingent liabilities at 30 June 2008 (2007: nil).

Explanations of significant variances against budget are detailed in note 24.

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Personnel Costs

	Actual 2008 $000	Actual 2007 $000
Salaries and related costs	5,700	4,901
Employer contributions to defined contribution plans	133	123
Increase/(decrease) in employee entitlements	391	149
Total personnel costs	$6,224	$5,173

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Savings Scheme and Kiwisaver. Kiwisaver contributions began in the 2008 year.

Note 2: Other Costs

	Actual 2008 $000	Actual 2007 $000
Fees paid to auditors		
- external audit	28	29
- IFRS Audit Fee	5	3
Board members' fees	129	129
Total other costs	$162	$161

Note 3: Depreciation & Amortisation Costs

	Actual 2008 $000	Actual 2007 $000
Depreciation:		
Furniture and fittings	35	32
EDP equipment	107	110
Office equipment	39	46
Leasehold improvements	35	33
Total depreciation costs	$216	$221
Amortisation:		
Intangible assets	125	101
Total amortisation costs	$125	$101
Total depreciation & amortisation costs	$341	$322

Note 4: Finance Costs

	Actual 2008 $000	Actual 2007 $000
Discount unwind on provisions (note 12)	$5	$5

Note 5: Public Equity

Retained earnings

	Actual 2008 $000	Actual 2007 $000
Balance at 1 July	4,842	5,300
Net surplus/(deficit)	3,374	(182)
Net transfer to international Herceptin trial fund	(5,000)	-
Net transfer from legal risk fund	216	(276)
Balance at 30 June	3,432	4,842

International Herceptin trial fund

	Actual 2008 $000	Actual 2007 $000
Balance at 1 July	-	-
Net transfer from retained earnings	5,000	-
Balance at 30 June	5,000	-
Total Retained Earnings & Reserves	**$8,432**	**$4,842**

Legal risk fund

	Actual 2008 $000	Actual 2007 $000
Balance at 1 July	5,179	4,903
Add: Interest received transferred from General funds	438	389
Less: Litigation expenses transferred from/(to) General funds	(614)	(113)
Less: Proceeds of legal settlement	(40)	0
Balance at 30 June	4,963	5,179
Total public equity	**$13,395**	**$10,021**

Note 6: Debtors and Other Receivables

	2008			2007		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due	177	0	177	768	0	768
Past due 30-60 days	0	0	0	2	0	2
Past due 61-90 days	0	0	0	0	0	0
Past due > 91 days	10	0	10	0	0	0
Total	**$187**	**$0**	**$187**	**$770**	**$0**	**$770**

The carrying value of debtors and other receivables approximates their fair value. Debtors are non-interest bearing and generally on 30 day terms.

As at 30 June 2008 and 2007, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

Note 7: Investments

There are no impairment provisions for investments.

The maturity dates and weighted average effective interest rates for term deposits are as follows:

	Actual 2008 $000	Actual 2007 $000
Term deposits with maturity of 4-6 months (average maturity 155 days		
Current investments are represented by:		
Term Deposits with maturities of 6-12 months	2,000	3,000
Weighed average effective interest rate	8.80%	7.77%
Total	$2,000	$3,000

Note 8: Property, Plant and Equipment

	Cost at beginning of year	Additions during the year	Disposals during the year	Accumulated Depreciation beginning of the year	Depreciation for the year	Elimination on disposals	Net Carrying Amount as at 30 June
	$000	$000	$000	$000	$000	$000	$000
2007							
Furniture and fittings	362	41	0	281	32	0	90
EDP equipment	729	137	2	613	110	0	141
Office equipment	251	121	0	205	46	0	121
Leasehold improvements	193	106	0	117	33	0	149
Fixed asset work in progress	396	48	0	0	0	396	48
Total PPE Assets	**$1,931**	**$453**	**$2**	**$1,216**	**$221**	**$396**	**$549**
2008							
Furniture and fittings	403	13	0	313	35	0	68
EDP equipment	864	117	3	723	107	0	148
Office equipment	372	98	51	251	39	0	129
Leasehold improvements	299	0	0	149	35	0	115
Fixed asset work in progress	48	95	0	0	0	48	95
Total PPE Assets	**$1,986**	**$323**	**$54**	**$1,436**	**$216**	**$48**	**$555**

Note 9 Intangible assets

	Cost at beginning of year	Additions during the year	Disposals during the year	Accumulated Amortisation beginning of the year	Amortisation for the year	Elimination on disposals	Net Carrying Amount as at 30 June
	$000	$000	$000	$000	$000	$000	$000
2007							
Total Intangible Assets	$37	$548	$0	$16	$101	$0	$468
2008							
Total Intangible Assets	$585	$172	$0	$117	$125	$0	$515

Note 10: Trade and Other Payables

	Actual 2008 $000	Actual 2007 $000
Creditors	2,173	886
Accrued expenses	988	446
GST payable	329	76
Total trade and other payables	$3,490	$1,408

Creditors and other payables are non-interest bearing and are normally settled on 30 day terms. The carrying value of creditors and other payables approximates their fair value.

Note 11: Employee Entitlements

	Actual 2008 $000	Actual 2007 $000
Annual leave entitlement	331	247
Sick leave liability	2	4
Accrued salaries and wages and PAYE	149	30
Total employee entitlements	**$482**	**$281**

Note 12: Provisions

	Actual 2008 $000	Actual 2007 $000
Current provisions are represented by:		
Lease make-good	9	5
Non-current provisions are represented by:		
Lease make-good	85	84
Total provisions	94	89

Movement for "make good" provision

	2008 $000	2007 $000
Balance at 1 July	89	0
Additional provisions made	0	84
Amount used	0	0
Unused amounts reversed	0	0
Discount unwind	5	5
Balance at 30 June	94	89

Note 13: Reconciliation of the Net Surplus from Operations with the Net Cash Flows from Operating Activities

	Actual 2008 $000	Actual 2007 $000
Net (deficit)/surplus from operations	3,374	(182)
Add non-cash items:		
Discount on unwind provision	5	5
Depreciation & Amortisation	341	322
Total non-cash items	346	327
Add (less) movements in working capital items:		
Decrease/(increase) in debtors and other receivables	583	(1,186)
Decrease/(increase) in prepayments	24	13
(Decrease)/increase in payables	1,903	(131)
(Decrease)/increase in make good provision	5	-
(Decrease)/increase in employee entitlements	127	69
(Decrease)/increase in net GST	253	79
Net movements in working capital items	2,895	(1,156)
Net cash flow from operating activities	$6,615	($1,011)

Note 14: Related Party Transactions

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

PHARMAC enters into transactions with other government entities on an arm's length basis. Those transactions that occur within a normal supplier relationship, on terms and conditions no more or less favourable than those which it is reasonable to expect PHARMAC would have adopted if dealing with that entity at arm's length in the same circumstance, are not disclosed.

All related party transactions have been entered into on an arms length basis. Other than described above, the value of transactions relating to key management personnel and entities over which they have control or significant influence were as follows:

Transaction	Reference	Transaction value year ended 30 June		Balance outstanding year ended 30 June	
		2008	2007	2008	2007
		$0	$0	$0	$0
David Moore -Director	(i)	0	146,789	0	13,979

(i) LECG Limited that employs David Moore, provided consultancy services to PHARMAC. Assessment indicated that using this company was the most appropriate course of action for PHARMAC. Amounts were negotiated and commensurate with general market rates for the provision of the relevant services. Payments were under normal commercial terms. The relevant Director was not involved in discussions, negotiations or provision of the services.

No provision has been required, nor expense recognised for impairment of receivables from related parties (2007 $nil).

Key management personnel compensation include CEO, Directors and Managers

	Actual 2008 $000	Actual 2007 $000
Salaries and other short term employee benefits and directors fees	1,367,900	1,714,100

Note 15: Events after the Balance Sheet Date

There have been no significant events after the balance sheet date.

Note 16: Financial Instrument Risks

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

There are no financial instruments that expose PHARMAC to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate or, the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

PHARMAC has no interest bearing financial instruments and, accordingly has no exposure to interest rate risk.

Credit risk

Credit risk is the risk that a third party will default on its obligation to PHARMAC, causing PHARMAC to incur a loss.

In the normal course of its business, credit risk arises from debtors and deposits with banks.

PHARMAC's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and debtors. There is no collateral held as security against these financial instruments. PHARMAC is only permitted to deposit funds with New Zealand registered banks. PHARMAC does not have a bank overdraft facility.

PHARMAC does not have significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that PHARMAC will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, PHARMAC closely monitors its forecast cash requirements. The table below analyses PHARMAC's financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	2008 Less than 6 months $000	2007 Less than 6 months $000
Creditors and other payables	3,490	1,408

Fair value

The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2008 approximate their fair values.

Note 17: Categories of Financial Instruments

The carrying amounts of financial assets and liabilities are as follows:

Financial assets

LOANS AND RECEIVABLES	**Actual 2008** $000	**Actual 2007** $000
Cash and cash equivalents	14,195	6,979
Investments	2,000	3,000
Debtors and other receivables	196	770
Total loans and receivables	$16,391	$10,749

Financial Liabilities

FINANCIAL LIABILITIES AT AMORTISED COST	**Actual 2008** $000	**Actual 2007** $000
Trade and other payables	3,490	1,408
Total financial liabilities at amortised cost	$3,490	$1,408

Note 18: Capital management

PHARMAC's capital is its equity, which comprises accumulated funds and other reserves. Equity is represented by net assets.

PHARMAC is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which imposes restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives.

PHARMAC manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure PHARMAC effectively achieves its objectives and purpose, whilst remaining a going concern.

Note 19: Explanation of Transition to NZ IFRS

PHARMAC's financial statements for the year ended 30 June 2008 are the first financial statements that comply with NZ IFRS. PHARMAC has applied NZ IFRS 1 *First-time Adoption of NZ IFRS* (NZ IFRS 1) in preparing these financial statements. PHARMAC's transition date is 1 July 2006. PHARMAC prepared its opening NZ IFRS balance sheet at that date. The reporting date of these financial statements is 30 June 2008. PHARMAC's adoption date is 1 July 2007.

Reconciliation of public equity

The following table shows the change in public equity, resulting from the transition from previous NZ GAAP to NZ IFRS as at 1 July 2006 and 30 June 2007.

	Previous NZ GAAP	Effect on transition to NZ IFRS	NZ IFRS	Previous NZ GAAP	Effect on transition to NZ IFRS	NZ IFRS
	1 Jul 06 $000	1 Jul 06 $000	1 July 06 $000	30 Jun 07 $000	30 Jun 07 $000	30 Jun 07 $000
Public equity						
Retained earnings and reserves	5,310	(10)	5,300	4,859	(17)	4,842
Legal risk fund	4,903	0	4,903	5,179	0	5,179
Total public equity	$10,213	($10)	$10,203	$10,038	($17)	$10,021
Represented by:						
Current assets						
Cash and cash equivalents	11,066	0	11,066	9,979	(3,000)	6,979
Investment	0	0	0	0	3,000	3,000
Debtors and other receivables	29	0	29	770	0	770
Prepayments	46	0	46	33	0	33
Total current assets	$11,141	$0	$11,141	$10,782	$0	$10,782
Non-current assets						
Property, plant and equipment	737	63	800	941	(392)	549
Intangible Assets	0	21	21	0	468	468
Total non-current assets	$737	$84	$821	$941	$76	$1,017
Total assets	11,878	84	11,962	11,723	76	11,799
Current liabilities						
Creditors and other payables	1,493	0	1,493	1,438	(30)	1,408
Employee entitlements	172	10	182	247	34	281
Provision	0	8	8	0	5	5
Total current liabilities	$1,665	$18	$1,683	$1,685	$9	$1,694
Provision	0	76	76	0	84	84
Non current liabilities	$0	$76	$76	$0	$84	$84
Total Liabilities	$1,665	$94	$1,759	$1,685	$93	$1,778
Net assets	$10,213	($10)	$10,203	$10,038	($17)	$10,021

Explanatory notes – Reconciliation of equity

a. Employment entitlements – sick leave

Sick leave was not recognised as a liability under previous NZ GAAP. NZ IAS 19 requires PHARMAC to recognise employees' unused sick leave entitlement that can be carried forward at balance date, to the extent that PHARMAC anticipates that it will be used by staff to cover future absences.

b. Make good provision

Make good provision, related to PHARMAC's accommodation, was not recognised in 2006/07. This provision has now been recognised and the effect shown in the reconciliations explain the differences prior to IFRS.

c. Intangible assets have been separated from PPE.

Intangible assets were not recognised as a separate classification in 2006/07. Intangible assets have now been recognised and the effect shown in the reconciliation.

d. Investment separated from cash equivalent.

Investment was not recognised in 2006/07. Investment has now been recognised and the effect shown in the reconciliation.

Reconciliation of net (deficit)/surplus

The following table shows the changes in PHARMAC's net (deficit)/surplus, resulting from the transition from previous NZ GAAP to NZ IFRS for the year ended 30 June 2007.

	Note	Previous NZ GAAP 30 June 2007 $000	Effect on transition to NZ IFRS 30 June 2007 $000	NZ IFRS 30 June 2007 $000
Revenue				
Crown:				
Operating		8,060	-	8,060
Responsible use of pharmaceuticals		2,895	-	2,895
DHB:				
Operating		987	-	987
Responsible use of pharmaceuticals		1,990	-	1,990
Other:				
Interest received		478	-	478
Interest received - legal risk fund		389	-	389
Proceeds of legal settlement - legal risk fund		0	-	0
Other revenue		93	-	93
Total revenue		14,892	-	14,892
Expenditure				
Operating expenses		4,282	-	4,282
Personnel costs	a	5,179	(6)	5,173
Occupancy expenses		248	-	248
Audit fees		32	-	32
Board members' fees		129	-	129
Depreciation		314	8	322
Herceptin trial		0	-	0
Finance Costs		0	5	5
High cost medicines		283	-	283
Responsible use of pharmaceuticals		4,600	-	4,600
Total expenditure		15,067	7	15,074
Net (deficit)/surplus for the period		$(175)	$7	$(182)

Explanatory notes – Reconciliation of net (deficit)/surplus

a. Personnel costs – sick leave

This represents the increase in the leave provision, which was not recognised under previous NZ GAAP.

b. Statement of Cashflows

There were no movements on transition to IFRS.

Note 20: Employee Remuneration

Total Remuneration and Benefits	Number of Employees	
$000	**2008**	**2007**
100 – 110	7	6
110 – 120	2	1
120 – 130	-	1
130 – 140	-	1
140 – 150	2	-
150 – 160	-	-
160 – 170	1	-
170 – 180	-	1
180 – 190	1	1
190 – 200	1	-
200 – 210	1	1
210 – 220	-	-
220 – 230	-	-
230 – 240	-	1
240 – 250	-	-
250 – 260	1	-

The Chief Executive's remuneration and benefits is in the $250,000 - $260,000 band. (Acting Chief executive's remuneration and benefits 2007: $230,000 - $240,000 band)

Note 21: Indemnities And Insurance Cover For Board Members And Employees

This information is presented in accordance with sections 152(1)(e) and (f) of the Crown Entities Act 2004. Under individual employment contracts, PHARMAC indemnifies employees should they be found liable in any proceedings for damages arising out of the employees reasonable performance of their duties and responsibilities. Insurance cover is provided to board members and employees under Directors and Officers Liability, Personal Accident and Overseas Travel policies.

Note 22: Board and Committee Fees

Board members received the following fees during the year:

Member	Fees	
	2008	2007
	$000	$000
Richard Waddel (Chair)	36	36
Prof Gregor Coster	23	23
Kura Denness	17	17
Karen Guilliland	2	18
Dr David Kerr	16	0
David Moore	18	18
Adrienne von Tunzelmann	17	17

Advisory committee members received the following fees:

Committee	Payment ($000)
PTAC	
Carl Burgess	15
Ian Hosford	13
Sisira Jayathissa	16
Peter Jones	15
Peter Pillans	13
Tom Thompson	14
Paul Tomlinson	18
Howard Wilson	14
Jim Vause	7
Anti Infective	
Stephen Chambers	1
Paul Tomlinson	1
Howard Wilson	2
CATSOP	
Carl Burgess	3
Andrew Teague	1
Peter Ganley	1
Vernon Harvey	1
Tim Hawkins	1
Bernie Fitzharris	2
Anne O'Donnell	1
Loche Teague	2
Diabetes	
Pat Carlton	3
Nic Crook	1
Bruce Small	2
Wound Care	
Emil Schidt	1
Kathy Wright	1
Jim Vause	1

Committee	Payment ($000)
Tender	
Sarah Fitt	1
Jim Lello	3
Geoff Savell	1
David Simpson	2
Tom Thompson	1
Paul Tomlinson	2
Clare Randell	2
John Savory	1
Consumer Advisory Committee	
Sharron Cole	1
Sandra Coney	4
Matiu Dickson	2
Dennis Paget	4
Heather Thompson	2
Kuresa Tiumalu-Faleseuga	2
Exceptional Circumstances	
Mel Brieseman	8
Sharon Kletchko	22
Paul Tomlinson	8
David Waite	15
Howard Wilson	14
Andrew Herbert	10
Gastrointestinal	
Alan Fraser	1
Russel Walmsley	1
Ian St George	1
Peter Jones	1
Mental Health	
Jan Holmes	2
Ian Hosford	3
Verity Humberstone	1
Jim Lello	2

Special Foods	
Kerry McIlroy	1
Jo Stewart	1
Paul Tomlinson	2
Moira Styles	1
Jim Lello	2
John Kolbe	1
Simon Chin	1

Note 23: Cessation Payments

This information is presented in accordance with section 152(d) of the Crown Entities Act 2004. Cessation payments include payments that the person is entitled to under contract on cessation such as retirement payment, redundancy and gratuities. During the year PHARMAC made no payments to former employees in respect of cessation of employment with PHARMAC.

Note 24: Explanation of Major Variances Against Budget

Explanations of major variances from PHARMAC's estimated figures in the Statement of Intent are as follows:

Statement of financial performance

The net surplus for the year ended 30 June 2008 of $3,374,000 is $6,362,000 more than the budgeted deficit of $2,988,000. The main reasons for the difference are:

- Revenue from Crown was $5,600,000 more than budget owing to increased funding. $5,000,000 has, in effect, been pre-paid as part of the additional pharmaceutical costs related to New Zealand's participation in the SOLD trial. Further revenue for this purpose is yet to be paid to PHARMAC. PHARMAC is managing this funding, which will begin to be incurred during 2008/09. The additional $600,000 was additional funding (unbudgeted for 2007/08) for PHARMAC's activities decided by previous Minister of Health, Hon Pete Hodgson;

- underspending relative to budget for a variety of reasons.

Statement of financial position

Cash and cash equivalents is $5,972,000 more than budget reflecting increased funding from the Crown as explained above, with the difference related to purchase of fixed assets.

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