

Pharmaceutical Management Agency **Annual Report**

For the year ended 30 June 2009

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



CONTENTS

CHAIRMAN'S REPORT	1
OVERVIEW OF PHARMAC	1
OUR ROLES AND RESPONSIBILITIES	1
PHARMAC AS A GOOD EMPLOYER	2
IMPLEMENTING MEDICINES NEW ZEALAND	3
STATEMENT OF RESPONSIBILITY	5
AUDIT REPORT	6
STATEMENT OF SERVICE PERFORMANCE	9
LEGAL RISK FUND	23
INTERESTS	23
STATEMENT OF ACCOUNTING POLICIES	25
FINANCIAL STATEMENTS	30
NOTES TO THE FINANCIAL STATEMENTS	36

PHARMAC DIRECTORY

<p>Head Office Level 9, Simpl House 40 Mercer Street Wellington</p>	<p>Postal Address PO Box 10-254 Wellington Telephone: (04) 460 4990 Facsimile: (04) 460 4995 Website: www.pharmac.govt.nz</p>
<p>Board Members Richard Waddel – Chair Prof Gregor Coster CNZM – Deputy Chair (term ended July 2009) Kura Denness – Chair, Audit Committee Dr David Kerr David Moore Adrienne von Tunzelmann Stuart McLauchlan – appointed Deputy Chair from 1 August 2009</p>	<p>Chief Executive Matthew Brougham</p>
<p>Pharmacology & Therapeutics Advisory Committee Prof Carl Burgess – Chair</p>	<p>Consumer Advisory Committee Sandra Coney – Chair</p>
<p>Auditors Audit New Zealand</p>	<p>Bankers ASB Bank Limited</p>
<p>Solicitors Bell Gully</p>	<p>Insurers Lumley General Insurance (NZ) Ltd American Home Assurance Company QBE Insurance (International) Ltd</p>

CHAIRMAN'S REPORT

PHARMAC's interactions with its stakeholders have taken a step forward in the past year. We had identified the need to improve our communications, engagement and understanding of stakeholder views; something that was also underscored in the setting of a strategy for the medicines system, *Medicines New Zealand*. We also set ourselves a work programme that followed the 2007 *PHARMAC Forum*, much of which related to responding to the needs of stakeholders. Updates on a range of activity, including our *Medicines New Zealand* workplan is set out in this Annual Report.

Highlights

In addition to our business-as-usual work, a number of business improvement initiatives were commenced or completed. Some highlights are summarised below.

Improving brand changes

We recognise that brand changes can have impacts for people, so we have worked to improve the way they are implemented. This includes making careful choices about which brand changes to make; better engagement with health professionals; additional work with bpac^{NZ} to assist GPs in this area; beginning survey work to better understand consumer perceptions of generic medicines; and payment by DHBs to pharmacists of a so-called wholesaler uplift fee (recognising some specific circumstances around some brand changes). This year saw some of the biggest brand changes in PHARMAC's history (by patient number) and, overall, the changes went very well.

PTAC Terms of Reference review

We conducted a thorough review of the way our clinical committee, the Pharmacology and Therapeutics Advisory Committee, operates. Changes included publishing more details on PTAC's deliberations, publishing the minutes of sub-committees, and broadening the membership base. Overall, the changes were designed to clarify the committee's role and functions and increase public confidence in its operations.

Fixing niggles in the system

Our Special Authority system, used for targeting access to medicines, has been streamlined. Our review of Special Authorities led to specialist restrictions being removed from 29 medicines – adding to the 43 removed in the previous year. Our electronic Special Authority system also continues to grow in popularity, and now accounts for more applications than the manual system.

Better information

There have been a wide range of changes that have sought to make PHARMAC a more effective communicator. We published Information Sheets in late 2008, and also a separate brochure *Having Your Say in our Decisions*. These are designed to be user-friendly guides to PHARMAC's work. We also improved our consultation and notification publications.

Better engagement

We have continued to seek to improve our understanding of stakeholder views, and how we explain our own views and decisions. We are continuing to review all of our consumer engagement activity to assess how it can be improved. This includes reviewing the Terms of Reference for our Consumer Advisory Committee.

Medicine funding

Medicine funding and effective budget management continues as the core of PHARMAC's work. It is pleasing to note a full year expenditure result on budget of \$653 million. Major funding decisions during the year included:

- Imiquimod – a cream for some forms of skin cancer or to treat genital warts
- Extended release methylphenidate, and atomoxetine – long-acting treatments for children with ADHD
- Topiramate – widened access to this epilepsy treatment for treating migraines
- Bicalutamide and finasteride – for prostate disease (including prostate cancer)
- Amisulpride – a new treatment for schizophrenia
- Isotretinoin – an acne drug that can now be funded when prescribed by a GP
- Pegylated interferon – now funded to treat hepatitis B and hepatitis C
- Levetiracetam – a new treatment for epilepsy.

New funding decisions are dependent on available funding, so our savings transactions continue to be important. We made some large-scale brand changes during the year, affecting some of the most commonly-prescribed medicines such as paracetamol, omeprazole (for gastric problems) and simvastatin for raised cholesterol. PHARMAC is paying increased attention to implementing brand changes, including additional work with bpac^{NZ} and working more effectively with health professionals. We also began work to improve people's understanding about generic medicines; work that will continue in the coming year.

Optimal use of medicines

One of the key themes of *Medicines New Zealand* was increasing effort to ensure medicines are used well – the optimal use of medicines. We have continued work in this area, and added a new campaign aimed at children with asthma, *Space to Breathe – He Tapu te Hā*.

Space to Breathe was launched as a pilot programme in Taranaki. We will be evaluating the pilot before deciding on a national rollout. Campaigns like *Space to Breathe* require us to work alongside a broad range of stakeholders, in this case the Taranaki District Health Board and local Primary Healthcare Organisations, the Paediatric Society and the Asthma and Respiratory Foundation. Such engagement and community support is critical for campaign effectiveness.

One Heart Many Lives, our cardiovascular risk (awareness and reduction) campaign, continues to grow and is now active, with the support of District Health Boards, in Hawke's Bay, Northland and Lakes (Rotorua). Over the summer we also took opportunities to broaden exposure of *One Heart Many Lives* through our presence at festivals like Lower Hutt's Te Ra o te Raukura.

Our people

I am grateful to PHARMAC Board members for their dedication to PHARMAC. The Board welcomes Stuart McLauchlan, a Chartered Accountant and experienced director, as new Deputy Chair. We farewell PHARMAC's former Deputy Chair, Professor Gregor Coster, who made an extensive and valuable contribution to PHARMAC's work over a period of 9 years.

I would also like to acknowledge the commitment, capability and professionalism of our staff. The Board is very grateful for the high quality work undertaken within PHARMAC, and the commitment to ongoing improvement in PHARMAC's work.

Richard A Waddel
Chair

On behalf of the PHARMAC Board

OVERVIEW OF PHARMAC

PHARMAC is the government agency that decides which medicines are subsidised. 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 functions:

- managing the Pharmaceutical Schedule, the list of subsidised medicines;
- promoting the responsible use of medicines, including through continued implementation of PHARMAC's Māori Responsiveness Strategy;
- assisting DHBs with national procurement initiatives and management of hospital medicines; 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. For a general overview of PHARMAC's activity, please refer to PHARMAC's Information Sheets (www.pharmac.govt.nz/infosheets).

OUR ROLES AND RESPONSIBILITIES

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.

Management

The Chief Executive is responsible for managing PHARMAC's operations. PHARMAC's staff have a wide range of skills and experience to ensure its effective functioning, including people with health backgrounds (doctors, pharmacists, nurses), public health, economic analysis, business analysis, financial and legal skills.

Advisory Committees

Committee	Meets	Primary role
Pharmacology and Therapeutics Advisory Committee (PTAC)	Quarterly	Provides clinical advice on pharmaceuticals being considered for funding. Members are independently appointed by the Director-General of the Ministry 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.

Committee	Meets	Primary role
Consumer Advisory Committee	Twice yearly and as required	Provides 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 Pacific People.
Hospital Pharmaceuticals Advisory Committee	As required	Advice on pharmaceuticals used in hospitals.

PHARMAC AS A GOOD EMPLOYER

PHARMAC's success depends on high calibre employees and, as a result, recruiting and retaining high performing people is critical. PHARMAC has a range of human resources (personnel) policies to support this, which encompass good employer principles and obligations. A summary of PHARMAC's good employer obligations, and related activity, is set out below.

Leadership, Accountability and Culture

PHARMAC has a culture of high performance and high integrity. Organisational values have been developed with staff involvement, and there is a high level of internal commitment to "living the values". Surveys of the climate and employee engagement are periodically undertaken.

Recruitment, Selection and Induction

PHARMAC is an equal opportunities employer and aims to recruit the best person in each case. Vacancies are advertised in order to attract a range of candidates, according to the type of role. Induction programmes are run for all new staff, which include an introduction to all parts of the organisation, our organisational values and policies.

Employee Development, Promotion and Exit

As a small-medium agency, most PHARMAC roles offer significant levels of autonomy and responsibility. We aim to develop the skills and careers of our employees, including moving within the organisation, temporarily acting in more senior/management roles, external training, support for formal study, and secondments. Our performance management system includes individual and team goals, and links to organisational priorities, and includes a focus on individual professional development. All departing employees are offered exit interviews.

Flexibility and Work Design

PHARMAC has had a policy offering flexible working arrangements for some time, predating legal requirements in this area. Provided business needs are met, employees may work flexible hours and, as appropriate, work remotely. Eight employees currently work part-time. PHARMAC also offers parental leave entitlements, in addition to legal entitlements, for both men and women.

Remuneration, Recognition and Conditions

PHARMAC uses independent job evaluation and market remuneration information to set salary ranges for positions. Remuneration is performance-based, and pay ranges are reviewed annually with regard to market changes and Government expectations. Changes to KiwiSaver rules in the past year required some amendment of our remuneration and retirement savings policies.

Harassment and Bullying Prevention

Conduct and behaviour expectations are clearly communicated through policies and at induction of new employees, and are regularly reinforced.

Safe and Healthy Environment

PHARMAC's health and safety committee includes employee representatives. Information on health and safety responsibilities is included in induction information for new employees. PHARMAC also supports the health of employees through support for fitness-related activities, and the provision of workstation assessments, flu injections and eye tests.

Organisational Makeup

In 2008/09, 11 permanent staff left (18% of total staff) and a further 8 fixed term or casual staff left due to their contract finishing. We have analysed turnover, and though the numbers of permanent staff departing during 2008/09 are up from the previous year, half of those leaving did so due to personal circumstances, rather than any identifiable "push" factors from PHARMAC. Three female staff who took parental leave all returned to work after their leave period. At 30 June 2009, PHARMAC comprised 59 staff with the following broad composition:

Gender	Part time	Full time	Total
Men	0	26	26
Women	8	25	33
Total	8	51	59

IMPLEMENTING MEDICINES NEW ZEALAND

Actioning Medicines New Zealand identified a number of actions for PHARMAC. For those activities not included in the Statement of Service Performance (SSP), the following table provides a summary of PHARMAC's response.

Action	Progress
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.	<p>PHARMAC consulted on a proposal to provide a mechanism for people remaining on their existing medicine brands, called Alternative Brand Allowance (ABA). Feedback from the consultation, primarily from the pharmaceutical industry, was that such a mechanism would not be workable, because of the small size of some pharmaceutical markets and companies carrying the risk of unused stock expiring.</p> <p>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 difficulties for patients.</p> <p>PHARMAC will continue to consider alternative approaches to minimising the impact of brand changes.</p>
Moving, with DHBs, to a principles based approach to setting the community pharmaceuticals budget.	<p>PHARMAC and DHBs referred to the principles identified in the Medicines Strategy consultation document when setting the 2009/10 Community Pharmaceuticals Budget.</p> <p>PHARMAC is participating in the Ministry of Health-led work on budget-setting during 2009/10.</p>

Action	Progress
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.
Formally invite funding applicants to meet PHARMAC staff at the start of the funding process.	We started formally inviting funding applicants to meet with us from April 2008. This is now a routine part of our funding process.
Encourage stakeholders to provide views on individual funding applications and consider these in decision-making.	<p>We've changed some of our documents to better outline medicine funding proposals, and to better explain decisions that have been made. Specific changes were:</p> <ul style="list-style-type: none"> • consultation letters – these now summarise 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. <p>Other work includes:</p> <ul style="list-style-type: none"> • 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.	<p>We published Information Sheets, and a dedicated resource <i>Having Your Say in our Decisions</i>, in December 2008.</p> <p>Our website's front page features opportunities for participation in consultation, which can be received via RSS feeds. The consultation page is now included in the newzealand.govt.nz website consultation search.</p> <p>We will continue to work to identify additional opportunities for raising awareness of consultation opportunities.</p>
Developing user-friendly and linked websites across the medicines system, enabling stakeholders to easily navigate the medicine system and find the information they require.	<p>Our new website was launched 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 including Medsafe and District Health Boards.</p> <p>In 2009 PHARMAC also created an online 'shop' to access PHARMAC resources, pharmaonline.co.nz.</p>
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.	<p>We have continued working with District Health Boards to ensure that our Access and Optimal Use Campaigns are well-integrated into DHB activity. A joint working group, including PHARMAC and DHB representatives, has been formed.</p> <p>We will assist with the Ministry of Health's work on a mechanism for optimal use of medicines practices.</p>

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 2009 fairly reflect the financial position and operations of PHARMAC.



Richard A Waddel
Chair

30 September 2009



Kura Denness
Chair, Audit Committee

30 September 2009

AUDIT REPORT

**To the readers of the
Pharmaceutical Management Agency's
financial statements and statement of service performance
for the year ended 30 June 2009**

The Auditor-General is the auditor of the Pharmaceutical Management Agency (the Agency). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit. 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 2009.

Unqualified Opinion

In our opinion:

- The financial statements of the Agency on pages 25 to 49:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Agency's financial position as at 30 June 2009; 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 9 to 22:
 - 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 30 September 2009, 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

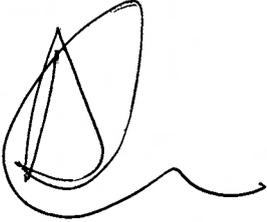
The Board is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Agency as at 30 June 2009 and the results of its operations 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 Pharmaceutical Management Agency (Pharmac) for the year ended 30 June 2009 included on Pharmac's website. Pharmac's Board is responsible for the maintenance and integrity of Pharmac's website. We have not been engaged to report on the integrity of Pharmac'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 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 as well as the related audit report dated 30 September 2009 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 how PHARMAC has performed against measures outlined in its 2008/09 Statement of Intent (SOI).

Key figures

- **\$653 million** – yearly pharmaceutical expenditure (on budget)
- **35.3 million** – number of funded prescriptions written (3.9% increase)
- **3.1 million** – number of New Zealanders receiving funded medicines
- **\$32.6 million** – amount of savings achieved
- **8** – number of new medicines funded

Community Pharmaceutical Expenditure

PHARMAC's key deliverable is the management of the Community Pharmaceutical Budget (Deliverable 1.1), specifically managing expenditure within \$653 million for the year to 30 June 2009.

Result

We estimate that expenditure for the year ending 30 June 2009 is \$653.0 million, which is on budget. This includes gross expenditure of \$762.5 million, less an estimated \$109.5 million expected from suppliers as rebates. The table below summarises the factors that have contributed to this increase.

	Expenditure (\$ million)	Impact in 2008/09	Full year Impact ¹
Expenditure for year ending 30 June 2008	\$635.4		
Volume changes			
Volume increases		\$55.5	
Volume decreases		-\$12.0	
Increased access to medicines already funded		\$0.1	
Removal of prescriber restrictions		\$0.0	
New investments		\$2.9	
Growth on new investments made in 2006/07 and 2007/08		\$10.0	
Net volume changes	\$56.6		
Subsidy changes			
Subsidy increases		\$4.6	\$6.4
Subsidy decreases		-\$27.5	-\$51.9
Savings from annual tenders		-\$4.1	-\$17.9
Savings from alternative commercial proposals		-\$1.0	-\$1.5
Delistings		\$0.0	-\$0.3
Residual subsidy increases from 2007/08		\$3.0	
Residual subsidy decreases from 2007/08		-\$10.2	
Net subsidy changes	-\$35.3		
Additional rebates not included above	-\$3.7		
Total change from previous year	\$17.6		
Expenditure for year ending 30 June 2009	\$653.0		

Prescribing volume (the number of prescriptions being written) continues to be the main driver of expenditure growth (\$56.6 million spending increase). PHARMAC has to work to offset the effect of this continuing volume growth, through savings programmes on currently funded medicines (\$27.5 million savings, plus \$5.1 million from the tender).

This activity has enabled PHARMAC to continue its track record, since 1993, of effectively managing pharmaceutical expenditure, while increasing access to new and existing medicines. A summary of the main influences on expenditure over time is included in PHARMAC's 2007/08 Annual Report. Note: figures may not add to total due to rounding.

Expenditure for the year to 30 June 2009 rose \$17.6 million from the previous year's expenditure of \$635.4 million.

Savings

The breakdown of savings across therapeutic groups is shown below (\$ million). Note: figures may not add to total due to rounding.

Therapeutic Group	Increase	Saving	Net
Alimentary Tract and Metabolism	\$0.05	-\$3.73	-\$3.67
Blood and Blood Forming Organs	\$0.39	-\$9.09	-\$8.69
Cardiovascular System	\$1.27	-\$2.01	-\$0.74
Dermatologicals	\$0.09	-\$0.08	\$0.01
Genito-Urinary System	\$0.00	-\$0.17	-\$0.17
Hormone Preparations - Systemic Excluding Contraceptive Hormones	\$0.00	-\$0.03	-\$0.02
Infections - Agents for Systemic Use	\$0.06	-\$0.21	-\$0.15
Musculo-skeletal System	\$0.86	-\$9.45	-\$8.59
Nervous System	\$0.17	-\$0.44	-\$0.26
Oncology Agents and Immunosuppressants	\$0.41	-\$0.68	-\$0.27
Respiratory System and Allergies	\$0.02	-\$0.14	-\$0.13
Sensory Organs	\$0.18	-\$0.06	\$0.12
Special Foods	\$0.48	-\$0.99	-\$0.51
Tender	\$0.35	-\$4.11	-\$3.76
Tender ACP	\$0.26	-\$1.00	-\$0.73
EC Expenditure		-\$0.43	-\$0.43
Totals	\$4.60	-\$32.60	-\$28.00

PHARMAC makes savings through a variety of purchasing methods, including tendering for off-patent medicines and reference pricing. Subsidy reductions in the 2008/09 financial year resulted in savings of approximately \$32.60 million (\$71.2 million annualised). Subsidy increases resulted in an additional cost of \$4.60 million.

Summary of major changes to the Schedule

In 2008/09 PHARMAC funded eight new medicines, and widened access to 55. Many of these access widenings (approximately 29) were the result of PHARMAC's ongoing review and removal of specialist prescriber restrictions.

A summary of the major funding decisions made during the year is provided in the following table:

Product	Used for	Status change
Levetiracetam (Keppra)	Epilepsy	New listing
Aripiprazole (Abilify)	Psychosis	New listing
Imiquimod (Aldara)	Some forms of skin cancer, genital warts	New listing
Risperidone (Risperdal Consta)	Psychosis	Wider access, can now be funded when prescribed by any relevant practitioner
Finasteride (Fintral)	Prostate cancer	New listing
Insulin lispro with insulin lispro protamine (Humalog Mix 25 and 50)	Diabetes	New listing
Bicalutamide (Bicalox)	Prostate disorders	New listing
Amisulpride (Solian)	Psychosis	New Listing
Isotretinoin	Severe acne	Removal of dermatologist prescriber restriction, can now be funded when prescribed by general practitioners.
Atomoxetine (Strattera)	ADHD	New listing
Pegylated interferon alpha-2A and 2B (Pegasys, Pegatron)	Hepatitis B and C	Widening of funded access to include treatment of Hepatitis B and Hepatitis C (genotype 2 and 3 not progressed to cirrhosis)
Topiramate (Topamax)	Epilepsy	Removal of Special Authority restriction, now also funded to treat migraines.
Various minor changes in access (29 medicines)		Widening of access through removal of specialist prescriber restrictions and Hospital Pharmacy restrictions.

Report on PHARMAC's performance

Introduction

PHARMAC's performance against deliverables specified in PHARMAC's 2008/09 Statement of Intent is set out below. PHARMAC's deliverables were set in six areas:

- Schedule management & Contract Management;
- Special access to medicines;
- Assessment and procurement on behalf of DHBs;
- Responsible use of pharmaceuticals (including social marketing);
- Equitable access; and
- Research.

Many of these deliverables include activities specified in *Medicines New Zealand*, the medicines strategy. Activities related to Medicines New Zealand are indicated with an asterisk (*) in the following pages.

#	2008/09 Initiative / Activity	Measure	Result
1.1	Manage community pharmaceutical expenditure.	Expenditure managed within \$653 million as at 30 June 2009.	Achieved. Full year expenditure was on budget. A detailed analysis is outlined earlier in this report.
		Conduct economic assessments on all major pharmaceutical investments.	Achieved. Cost-utility analyses were undertaken on all major investments.
		Consult as appropriate on management of the Pharmaceutical Schedule.	Achieved. We issued 48 consultations involving 103 pharmaceuticals. In addition, there was one consultation related to Schedule rule and policy changes.

WS
W

#	2008/09 Initiative / Activity	Measure	Result
		Use commercial strategies to obtain best health outcomes from the available pharmaceutical funding.	Achieved. We issued 13 requests for proposals (RFPs) involving 39 pharmaceuticals. 10 resulted in agreements, with three still open at year end. 167 tender contracts were awarded in 2008/09 (from the 2006/07, 2007/08 and 2008/09 Tenders). 41 agreements involving 99 pharmaceuticals, including some involving price reductions and rebates on expenditure, were negotiated.
		Make decisions on >90% of line items in the 2008 tender by 30 September 2008.	Achieved. Over 90% of awardable (Medsafe registered) line items in the 2007/08 Tender were resolved by 30 September 2008.
		Consult on the contents of the 2009 tender by 31 October 2008.	Achieved. Consultation on contents of the 2009 tender began in September 2008.
		Update DHBs quarterly on pharmaceutical budget management.	Achieved. DHBs were sent letters at the end of each quarter.
1.2	Produce and distribute the Community Pharmaceutical Schedule.	Produce and distribute the Community Schedule in August 2008, December 2008, and April 2009. Publish and distribute monthly updates to the Pharmaceutical Schedule.	Achieved.
1.3	Produce and distribute the Hospital Pharmaceutical Schedule.	Provide real-time electronic access to the Schedule via the PHARMAC website.	Achieved. We are also investigating further improvements to the online schedule to assist users.
		Produce and distribute the Hospital Schedule in July 2008, November 2008 and March 2009.	Achieved.

Handwritten initials/signature

#	2008/09 Initiative / Activity	Measure	Result
1.4	Manage pharmaceutical supplier contracts.	<p>Ensure suppliers make rebate payments by due dates.</p> <p>Investigate development of an improved system for delivery of hospital data from DHBs to PHARMAC by June 30 2009.</p> <p>Make rebate payments to DHBs three times per year.</p>	<p>Partially achieved. One rebate due was paid late (with interest).</p> <p>Achieved. A scoping document was prepared with additional work now being implemented.</p> <p>Achieved.</p>
1.5	Monitor DHB hospital compliance with restricted brand contracts.	<p>Provide a report to DHBs by 31 December 2008.</p> <p>Provide a report to suppliers by 31 December 2008.</p>	<p>Not achieved. This work was completed but delivered late (July 2009).</p> <p>Not achieved. The report referred to above was also provided to suppliers in July 2009.</p>
1.6	Streamline and improve Special Authority rules including prescriber restrictions.	<p>* Review and amend, as appropriate, Special Authority restrictions.</p> <p>Increase uptake of electronic Special Authority service.</p>	<p>Achieved. The Special Authority criteria for 28 medicines were modified. In addition, specialist restrictions were removed from 29 medicines.</p> <p>Achieved. The last quarter has seen a significant increase in the use of the electronic system with 35% more applications made electronically than manually. Overall, 58% of Special Authority applications were being made electronically. All DHB hospitals now have clinicians registered to use the system.</p>
1.7	Receive objective advice from the Pharmacology and Therapeutics Advisory Committee.	<p>Convene a minimum of four PTAC meetings per year.</p>	<p>Achieved. The Pharmacology and Therapeutics Advisory Committee had four face to face meetings and one teleconference.</p>

2008/09 Initiative / Activity		Measure	Result
1.8	Setting the Community Pharmaceutical Budget.	Provide a budget proposal to DHBs by 31 January 2009. Make a budget recommendation to the Minister by 31 May 2009.	Achieved. PHARMAC's preliminary budget bid was provided in November 2008, with a follow-up final bid provided in early February 2009. Not achieved. The budget recommendation was provided to the Minister on 15 June 2009.
1.9	* Work with the Ministry of Health and DHBs to determine community pharmaceutical budget-setting principles.	Provide input to the Ministry of Health and DHBs as required within agreed timeframes.	Achieved. This work is being led by the Ministry of Health. PHARMAC has been involved in developing this work and will continue to assist the Ministry of Health as required.
1.10	The Pharmaceutical Schedule applies nationally.	Monitor compliance with the Pharmaceutical Schedule across DHBs.	Achieved. PHARMAC's monitoring identified some non-compliances, which were raised with relevant DHBs. These had the effect of further raising DHB awareness of the importance of compliance with the Schedule (and the wider risks posed by non-compliance).
Special access to medicines – PHARMAC will undertake timely and robust consideration of pharmaceutical use in exceptional circumstances, and manage special access medicines through specialist panels.			
2.1	Management of Exceptional Circumstances schemes.	Process at least 90% of applications for Community Exceptional Circumstances applications within 4 weeks.	Achieved. 99.5% of applications were processed within a 4-week period.
		Process at least 80% of applications for Hospital Exceptional Circumstances applications within 48 hours.	Achieved. 97% of applications were processed within 48 hours.
		Process at least 80% of applications for Cancer Exceptional Circumstances applications within 72 hours.	Achieved. 92% of applications were processed within 72 hours.

#	2008/09 Initiative / Activity	Measure	Result
2.2	* Review of Exceptional Circumstances Schemes.	Consult with interested parties on a review by 31 December 2008. Make changes to the schemes as necessary by 30 June 2009.	Not achieved. This work was delayed to better align with the Government's review of high-cost highly-specialised medicines.
		Maintain an accurate database of patients receiving special access medicines.	Achieved.
2.3	Management of special access medicines.	Convene and consult with special access medicines panels as appropriate. Process applications for special access medicines in a timely way. Distribute special access medicines to patients in a timely way.	Achieved. All special access medicines panels have met in the agreed time frames with at least one face to face meeting and other meetings via teleconference. Achieved. 1784 patients were assessed for special access medicines. All applications were processed in the approved time frames of between 2 working days to 3 weeks. Achieved. 1035 patients received medicines under PHARMAC's direct to patient distribution network. All variations to the standard delivery timeframes were followed up and dealt with in a timely manner.

Handwritten signatures

#	2008/09 Initiative / Activity	Measure	Result
<p>Assessment and procurement on behalf of DHBs – PHARMAC will, as agreed with DHBs, assist in the procurement of hospital supplies in line with PHARMAC’s legislative functions. PHARMAC will robustly assess procurement opportunities, make procurement recommendations to DHBs as appropriate, and focus on continual service improvement to DHBs (including information sharing and communication of cost savings).</p>			
3.1	Economic assessments of hospital pharmaceuticals.	Conduct assessments based on DHB need and publish assessments on secure website (accessible to DHBs).	Achieved. Economic assessments were undertaken on 17 applications from clinicians for funding through exceptional circumstances, and 7 pharmaceutical cancer treatment applications for listing on the Pharmaceutical Schedule. In addition, information was sent to DHBs on the cost-effectiveness of TNF-inhibitors.
3.2	Management of national procurement contracts.	Monitor compliance with requirements of national supply contracts.	Achieved. 3 breaches of DV limits were noted.
3.3	Continue work in assisting DHBs to procure products used in DHB hospitals.	Complete investigation of options for orthopaedic prostheses purchasing by 31 December 2008.	Achieved. Investigation work was completed on time. DHBs are now leading this work.
		Implement actions resulting from investigation of orthopaedic prostheses market for the 2008/09 year.	Not achieved. DHBs are now leading this work.
		Conduct further work on national procurement as agreed with DHBs.	Achieved. DHBs requested that PHARMAC investigate additional options for managing new pharmaceutical technology adoption into DHB hospitals. An initial report was prepared and considered by DHBs.

#	2008/09 Initiative / Activity	Measure	Result
<p>Access and Optimal Use – PHARMAC will engage in strategies to promote the optimal prescribing and use of medicines. PHARMAC will seek to align with other health sector activity, particularly in relation to the management of chronic conditions. PHARMAC will engage in initiatives to promote the appropriate use of pharmaceuticals by disadvantaged populations, including Maori, to improve health outcomes.</p>			
4.1	Provide support for pharmaceutical funding decisions.	Produce information for patients and/or health professionals to assist the implementation of pharmaceutical funding decisions.	Achieved. PHARMAC developed, and widely distributed, materials for major medication brand changes such as omeprazole, simvastatin and paracetamol. A series of educational seminars on generic medications was also conducted nationally.
4.2	Optimal use of antipsychotic medications.	Evaluate the effectiveness of Drug Utilisation Evaluations for antipsychotics in managed care by 31 January 2009.	Not achieved. Evaluation at that time was considered premature, but will be undertaken following further promotion of the programme.
4.3	Identify and evaluate issues around multiple medicine use (polypharmacy).	Develop a programme in relation to high risk medicines for implementation in 2009/10 arising from the 2007 Polypharmacy Feasibility Study. Develop a nationally consistent tool kit for DHBs to implement Medicines Reconciliation projects within DHB hospitals by 30 June 2009.	Achieved. A business case was assessed and approved. A survey has been conducted to inform the programme's further development. Not achieved. This work is now being managed by the Safe Medication Management Programme on behalf of DHBs.
4.4	Wise Use of Antibiotics campaign.	Deliver the annual Wise Use of Antibiotics campaign by 31 July 2008. Evaluate the 2008 Wise Use of Antibiotics campaign by 30 April 2009.	Achieved. Achieved. Evaluation suggests that antibiotic prescribing for under-6s, previously declining, has begun to plateau. Further evaluation (planned for 2009/10) is needed before decisions about implications for the campaign can be made.

#	2008/09 Initiative / Activity	Measure	Result
		Support the continued implementation of the One Heart Many Lives campaign in Hawke's Bay.	Achieved. The programme is well embedded within Hawke's Bay. Both statin uptake and cardiovascular risk screening rates are consistently above the national average.
4.5	Deliver the One Heart Many Lives campaign.	Support the continued implementation of the One Heart Many Lives campaign in Northland.	Achieved. The programme is well embedded within Northland. Statin uptake is above the national average.
		Support the continued implementation of the One Heart Many Lives campaign in Lakes DHB region.	Achieved. Both statin uptake and cardiovascular risk screening rates are above the national average.
		Develop a One Heart Many Lives campaign in at least one other region.	Not achieved. An additional, regional campaign has not been launched at this stage. PHARMAC is continuing discussions with DHBs representing areas with high risks of cardiovascular disease.
4.6	Appropriate treatment of childhood asthma.	Implement decision support tools in line with evidence based guidelines by 1 December 2008.	Not achieved. The tool was completed and launched on 1 April 2009.
4.7	Work with other agencies to promote the optimal use of medicines.	Work with bpac ^{NZ} to promote the responsible use of pharmaceuticals through continuing medical education programmes.	Achieved. bpac ^{NZ} delivered a wide range of services consistent with its contract, including the development and distribution of eight Best Practice Journals and an annual prescribing report for all General Practitioners.
		Work with DHBs to improve optimal use of medicines, through engagement with the Safe and Quality Use of Medicines group and DHB Joint Working Group.	Achieved. PHARMAC has had active engagements with all these groups.

2008/09 Initiative / Activity		Measure	Result
4.8	* Development of a National Formulary.	Assist the Ministry of Health and DHBs to develop a National Formulary in line with agreed milestones.	Achieved. This is a Ministry of Health led initiative. PHARMAC has provided advice and input as required by the Ministry.
4.9	Improving access to medicines by reducing inequalities.	Continue the national roll out of He Rongoa Pai, He Oranga Whanau training programme and resources. Review the respiratory therapeutic group in relation to Māori health by 30 June 2009.	Achieved. All scheduled workshops were completed. Not achieved. This work remains important but has not yet been advanced due to competing work pressures.
Research – PHARMAC will manage research to generate further information on the optimal duration of Herceptin therapy.			
5.1	Manage funding for support of the SOLD clinical trial.	As per contract milestones.	Achieved. All milestones were met. Total payments of \$401,622 were made. A total of 333 patients were enrolled in the trial as at 26 June 2009.
5.2	Manage funding for New Zealand's participation in the SOLD trial.	Manage funding allocated for 2008/09 year Make timely payments for reimbursement of additional trastuzumab costs to oncology centres.	Achieved. Total payments for NZ patients enrolled in SOLD were \$33,215 (excl GST). The additional costs for 12 months trastuzumab treatment is funded through the Ministry of Health.
General expectations and business improvement – In line with PHARMAC's strategic plan and the expectations of Medicines New Zealand, PHARMAC will undertake work to improve its internal processes and improve relationships with stakeholders to improve the medicines system overall.			
6.1	Improve engagement with DHBs.	* Agree a Memorandum of Understanding with DHBs by 30 June 2009. Regularly update DHB decision groups (Service Improvement Group, regional agendas) on PHARMAC activity.	Not achieved. Preliminary work with DHBs has been undertaken, but the project delayed due to other work priorities of DHBs and PHARMAC. Achieved. PHARMAC engaged with various DHB work and decision groups during the year.

ms
llw

#	2008/09 Initiative / Activity	Measure	Result
6.2	Improve stakeholder engagement.	<p>* Publish guidance for stakeholders to enable them to better contribute to the pharmaceutical funding process by 31 December 2008.</p> <p>* Publish improved public summaries of pharmaceutical funding decisions by 30 June 2009.</p> <p>* Hold a PHARMAC Forum by 30 June 2009.</p>	<p>Achieved. PHARMAC published 'Having Your Say in our Decisions' in December 2008.</p> <p>Not achieved. Having updated our consultation and notification letters to better explain funding proposals, PHARMAC does not believe there is significant incremental benefit in publishing such summaries.</p> <p>Not achieved. The Forum will be held in October 2009.</p>
6.3	Improve communications.	<p>Develop a centralised resource management system to allow access to PHARMAC resources including patient and health professional information by 31 December 2008.</p> <p>Publish information sheets by 31 December 2008.</p>	<p>Not achieved. Development of the system www.pharmaonline.co.nz was completed by 31 December 2008, but the website not launched publicly until early 2009.</p> <p>Achieved. A suite of information sheets was developed and distributed in early December 2008.</p>
6.4	Ensure optimal advice and performance of advisory committees.	<p>* Work with the Ministry of Health to review the Pharmacology and Therapeutics Advisory Committee (PTAC) Appointment Protocol by 31 December 2008.</p> <p>* Consult on changes to the Pharmacology and Therapeutics Advisory Committee (PTAC) Guidelines by 31 December 2008.</p> <p>* Implement any changes to PTAC guidelines as required by 30 June 2009.</p>	<p>Achieved. The work was led by the Ministry and completed on time. PHARMAC provided input to the Ministry's work.</p> <p>Achieved. The revised ToR was consulted on and published at the end of October 2008.</p> <p>Achieved. The Guidelines were updated. The first PTAC meeting using the new Terms of Reference was held on 6 November 2008.</p>

		<p>* Consult on changes to the Terms of Reference of the Consumer Advisory Committee by 31 December 2008.</p> <p>* Implement any changes to CAC Terms of Reference as required by 30 June 2009.</p>	<p>Not achieved. PHARMAC sought early input to this work in April 2009. Work on changes to the ToR was delayed to better align with a wider review of consumer engagement.</p> <p>Not achieved. As outlined above, this work has been delayed to better align with a wider review of consumer engagement</p>
--	--	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

LEGAL RISK FUND

In performing its functions, PHARMAC also used its Legal Risk Fund. This fund can be used to initiate 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 existence of a legal risk fund recognises high litigation risk associated with the activity of a government agency (evidenced by PHARMAC's litigation history). The size and regularity of litigation can be unpredictable, and may extend beyond the level of litigation activity a government agency can manage within normal, year-to-year resourcing. A fund can help better manage litigation risk through being able (and without delay) to commence or continue with major or complex legal proceedings.

The fund was used during 2008/09 for two cases:

- \$79,351 for judicial review proceedings initiated by AstraZeneca against the Commerce Commission, related to an investigation by the Commission into actions taken by AstraZeneca in 2007. This expenditure covered hearings at both the High Court and Court of Appeal – both of which upheld the Commission's right to investigate.¹; and
- \$669,795 for preparing for and initiating litigation against Merck & Co, Inc (Merck) over the validity of its Patent No. 501807 for a certain use of its osteoporosis drug alendronate (Fosamax). In August 2009 PHARMAC approved an agreement with Merck NZ, which included alendronate. The savings offered from the agreement are confidential and as a result of the agreement, both PHARMAC and Merck discontinued their proceedings.

INTERESTS

Section 68(6) of the Crown Entities Act 2004 requires the Board to disclose any interests to which a permission to act has been granted, despite a member being interested in a matter. Below are the relevant disclosures:

Member	Details of the Interest	Permission granted by	Conditions of permission	Revocation/Changes to Permission
Adrienne von Tunzelmann	Disclosed she was prescribed a chemical under consideration for a funding decision by the Board	Board	The Board decided she may participate in discussion but not decision making.	The permission granted was a one-off dispensation for the Board meeting in question.
David Moore	Works with LECG who were contracted to do work for PHARMAC	Board	No conditions. The Board was provided the contract work (done by other consultants at LECG) as an input to discussions, and the Board did not consider any potential conflict to be significant.	The permission granted was a one-off dispensation for the Board meeting in question.

¹ AstraZeneca appealed the Court of Appeal decision and in August 2009, the Supreme Court ruled in favour of AstraZeneca, ruling that the section 98 notice issued by the Commission was invalid. This hearing and decision fell outside the timeframe covered by this report.

Member	Details of the Interest	Permission granted by	Conditions of permission	Revocation/Changes to Permission
David Moore	Disclosed a family relationship with someone at a pharmaceutical company, relevant to a funding decision before the Board	Board	No conditions. The Board did not consider any potential conflict to be significant.	The permission granted was a one-off dispensation for the Board meeting in question.
Richard Waddel	Disclosed was prescribed a chemical under consideration by the Board	Board	No conditions. The Board did not consider any potential conflict to be significant.	The permission granted was a one-off dispensation for the Board meeting in question.
Kura Denness	Disclosed she was prescribed a chemical under consideration by the Board	Board	The Board decided she may participate in discussion but not decision making.	The permission granted was a one-off dispensation for the Board meeting in question.
Kura Denness	Disclosed a family member was prescribed a chemical under consideration by the Board	Board	No conditions. The Board did not consider any potential conflict to be significant.	The permission granted was a one-off dispensation for the Board meeting in question.
Kura Denness	Disclosed involvement with an organisation that made a submission on a PHARMAC issue	Board	No conditions. The Board did not consider any potential conflict to be significant.	The permission granted was a one-off dispensation for the Board meeting in question.

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 2009. The financial statements were authorised by the Board of PHARMAC on 30 September 2009.

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.

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.

NZ IFRS 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 (2008)" 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.

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 banks 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 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, EDP equipment, 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 life 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 2008/09 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.

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 2009.

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2009

	Note	Actual 2009 \$000	Budget 2009 \$000	Actual 2008 \$000
Revenue				
Crown:				
Operating		8,889	13,889	14,081
Responsible use of pharmaceuticals		3,295	3,100	3,000
DHB:				
Operating		1,200	1,200	900
Responsible use of pharmaceuticals		1,930	1,930	1,677
Other:				
Interest received		745	651	522
Interest received - legal risk fund		318	-	438
Other revenue		197	73	68
Total revenue		16,574	20,843	20,686
Expenditure				
Operating costs		5,667	4,898	5,214
Personnel costs	1	6,265	6,767	6,224
Occupancy costs		461	387	251
Other costs	2	160	161	162
Depreciation & amortisation expense	3	487	383	341
Finance Costs	4	8	-	5
Herceptin trial pharmaceutical costs		5,000	5,000	-
Herceptin SOLD trial administration		295	750	354
Responsible use of pharmaceuticals		4,310	5,030	4,761
Total expenditure		22,653	23,376	17,312
Net (deficit)/surplus for the period		\$(6,079)	\$(2,533)	\$3,374

Explanations of significant variances against budget are detailed in note 23.

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

STATEMENT OF MOVEMENTS IN PUBLIC EQUITY

For the year ended 30 June 2009

	Note	Actual 2009 \$000	Budget 2009 \$000	Actual 2008 \$000
Balance at 1 July		13,395	14,273	10,021
Net (deficit)/surplus for the period		(6,079)	(2,533)	3,374
Total recognised income and expense for the period		(6,079)	(2,533)	3,374
Balance at 30 June	5	\$7,316	11,740	\$13,395

Explanations of significant variances against budget are detailed in note 23.

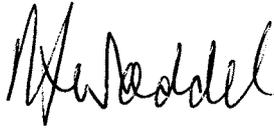
The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Note	Actual 2009 \$000	Budget 2009 \$000	Actual 2008 \$000
PUBLIC EQUITY				
Retained earnings and reserves	5	2,705	6,600	8,432
Legal risk fund	5	4,611	5,140	4,963
TOTAL PUBLIC EQUITY		\$7,316	\$11,740	\$13,395
Represented by:				
Current assets				
Cash and cash equivalents		8,595	12,831	14,195
Debtors and other receivables	6	112	460	187
Investments	7	-	-	2,000
Prepayments		62	200	9
GST Refund		18	-	-
Total current assets		8,787	13,491	16,391
Non-current assets				
Property, plant and equipment	8	789	221	555
Intangible Assets	9	345	428	515
Total non-current assets		1,134	649	1,070
Total assets		9,921	14,140	17,461
Current liabilities				
Creditors and other payables	10	1,965	1,762	3,490
Employee entitlements	11	485	638	482
Total current liabilities		2,450	2,400	3,972
Non-current liabilities				
Provisions	12	155	-	94
Total liabilities		2,605	2,400	4,066
Net assets		\$7,316	\$11,740	\$13,395

Signed this 30th day of September 2009



Richard Waddel
Chairman

Signed this 30th day of September 2009



Kura Denness
Chair, Audit Committee

Explanations of significant variances against budget are detailed in note 23.

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2009

	Note	Actual 2009 \$000	Budget 2009 \$000	Actual 2008 \$000
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Crown		12,184	16,989	17,081
- DHBs		3,130	3,130	2,577
- Interest		802	651	635
- Goods and services tax (net)		-	-	389
- Other		304	-	682
		16,420	20,770	21,364
Cash was disbursed to:				
- Payments to suppliers and employees		(23,065)	(22,320)	(14,749)
- Goods and services tax (net)		(396)	(600)	-
		(23,461)	(22,920)	(14,749)
Net cash flow from operating activities	13	\$(7,041)	\$(2,150)	\$6,615
CASH FLOWS – INVESTING ACTIVITIES				
-Receipts from sale of investments		2,000	-	3,000
- Purchase of property, plant and equipment		(541)	(200)	(227)
- Purchase of intangible assets		(18)	(50)	(172)
-Acquisition of investments		-	-	(2,000)
		\$1,441	\$(250)	\$601
Net increase/(decrease) in cash		(5,600)	(2,400)	7,216
Cash at the beginning of the year		14,195	15,231	6,979
Cash at the end of the year		\$8,595	\$12,831	\$14,195

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 23.

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

STATEMENT OF COMMITMENTS

As at 30 June 2009

Operating leases as lessee

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

	Actual 2009 \$000	Actual 2008 \$000
Capital commitments approved and contracted	-	-
Operating commitments approved and contracted		
Not later than one year	461	410
Later than one year and not later than five years	1,844	1,640
Later than five years and not later than ten years	1,844	2,050
Total commitments	<u><u>\$4,149</u></u>	<u><u>\$4,100</u></u>

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 \$155,000 (2008 \$94,000).

STATEMENT OF CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2009

PHARMAC had no contingent assets at 30 June 2009 (2008: \$nil).

PHARMAC had no contingent liabilities at 30 June 2009 (2008:\$nil).

Explanations of significant variances against budget are detailed in note 23.

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Personnel Costs

	Actual 2009 \$000	Actual 2008 \$000
Salaries and related costs	6,139	5,700
Employer contributions to defined contribution plans	123	133
Increase/(decrease) in employee entitlements	3	391
<i>Total personnel costs</i>	\$6,265	\$6,224

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

Note 2: Other Costs

	Actual 2009 \$000	Actual 2008 \$000
Fees paid to auditors		
- external audit	29	28
- IFRS Audit Fee	-	5
Board members' fees	131	129
<i>Total other costs</i>	\$160	\$162

Note 3: Depreciation & Amortisation Costs

	Actual 2009 \$000	Actual 2008 \$000
Depreciation:		
Furniture and fittings	32	35
EDP equipment	125	107
Office equipment	40	39
Leasehold improvements	103	35
<i>Total depreciation costs</i>	\$299	\$216
Amortisation:		
Intangible assets	188	125
<i>Total amortisation costs</i>	\$188	\$125
Total depreciation & amortisation costs	\$487	\$341

Note 4: Finance Costs

	Actual 2009 \$000	Actual 2008 \$000
Discount unwind on provisions (note 12)	\$8	\$5



Note 5: Public Equity**Retained earnings**

	Actual 2009 \$000	Actual 2008 \$000
Balance at 1 July	3,432	4,842
Net surplus/(deficit)	(6,079)	3,374
Net transfer from/(to) international Herceptin trial fund	5,000	(5,000)
Net transfer from/(to) legal risk fund	352	216
Balance at 30 June	<u>\$2,705</u>	<u>\$3,432</u>

International Herceptin trial fund

	Actual 2009 \$000	Actual 2008 \$000
Balance at 1 July	5,000	-
Net transfer from/(to) retained earnings	(5,000)	5,000
Balance at 30 June	<u>\$ -</u>	<u>\$5,000</u>
Total Retained Earnings & Reserves	<u>\$2,705</u>	<u>\$8,432</u>

Legal risk fund

	Actual 2009 \$000	Actual 2008 \$000
Balance at 1 July	4,963	5,179
Add: Interest received transferred from/(to) retained earnings	318	438
Less: Litigation expenses transferred from/(to) retained earnings	(670)	(614)
Less: Proceeds of legal settlement transferred from/(to) retained earnings	-	(40)
Balance at 30 June	<u>4,611</u>	<u>4,963</u>
Total public equity	<u>\$7,316</u>	<u>\$13,395</u>

Note 6: Debtors and Other Receivables

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 2009 all overdue receivables have been assessed for impairment and appropriate provisions applied.

	2009			2008		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	112	0	112	177	0	177
Past due 30-60 days	0	0	0	0	0	0
Past due 61-90 days	0	0	0	0	0	0
Past due > 91 days	0	0	0	10	0	10
Total	\$112	\$0	\$112	\$187	\$0	\$187

Note 7: Investments

There are no impairment provisions for investments (2008: \$nil).

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

	Actual 2009 \$000	Actual 2008 \$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
<i>Weighted average effective interest rate</i>		8.80%
Total	\$-	\$2,000

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
2008							
Furniture and fittings	403	13	-	313	35	-	68
EDP equipment	864	117	3	723	107	-	148
Office equipment	372	98	51	251	39	-	129
Leasehold improvements	299	-	-	149	35	-	115
Fixed asset work in progress	48	95	-	-	-	48	95
Total PPE Assets	\$1,986	\$323	\$54	\$1,436	\$216	\$48	\$555
2009							
Furniture and fittings	416	55	-	348	32	-	91
EDP equipment	978	102	-	830	125	-	125
Office equipment	419	0	-	290	40	-	89
Leasehold improvements	299	472	-	184	103	-	484
Fixed asset work in progress	95	-	95	-	-	-	-
Total PPE Assets	\$2,207	\$629	\$95	\$1,652	\$300	\$-	\$789

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
2008							
Total Intangible Assets	\$585	\$172	\$-	\$117	\$125	\$-	\$515
2009							
Total Intangible Assets	\$757	\$ 18	\$-	\$242	\$188	\$-	\$345

Note 10: Trade and Other Payables

	Actual 2009 \$000	Actual 2008 \$000
Creditors	1,156	2,173
Accrued expenses	809	988
GST payable	-	329
Total trade and other payables	\$1,965	\$3,490

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

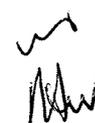
	Actual 2009 \$000	Actual 2008 \$000
Annual leave entitlement	398	331
Sick leave liability	-	2
Accrued salaries and wages	87	149
Total employee entitlements	\$485	\$482

Note 12: Provisions

	Actual 2009 \$000	Actual 2008 \$000
Non-current provisions are represented by:		
Lease make-good	155	94
Total provisions	<u>155</u>	<u>94</u>

Movement for "make good" provision

	2009 \$000	2008 \$000
Balance at 1 July	94	89
Additional provisions made	53	0
Amount used	0	0
Unused amounts reversed	0	0
Discount unwind	8	5
Balance at 30 June	<u>155</u>	<u>94</u>



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

	Actual 2009 \$000	Budget 2009 \$000	Actual 2008 \$000
Net (deficit)/surplus from operations	\$(6,079)	\$(2,533)	\$3,374
<i>Add non-cash items:</i>			
Discount on unwind provision	8	-	5
Depreciation & Amortisation	487	383	341
Total non-cash items	\$495	\$383	\$346
<i>Add (less) movements in working capital items:</i>			
Decrease/(increase) in debtors and other receivables	57	-	583
Decrease/(increase) in prepayments	(53)	-	24
(Decrease)/increase in payables	(1,196)	-	1,903
(Decrease)/increase in make good provision	61	-	5
(Decrease)/increase in employee entitlements	3	-	127
(Decrease)/increase in net GST	(329)	-	253
Net movements in working capital items	\$(1,457)	\$-	\$2,895
Net cash flow from operating activities	\$(7,041)	\$(2,150)	\$6,615

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		Balance	
		year ended 30 June		outstanding year	
		2009	2008	2009	2008
		\$000	\$000	\$000	\$000
LECG Limited	(i)	\$ 40	\$-	\$ -	\$-
Tui Ora limited	(ii)	\$ 232	\$-	\$ 25	\$-
NZ Medical Association	(iii)	\$ 1	\$-	\$ -	\$-
BPAC NZ	(iv)	\$2,023	\$-	\$149	\$-

Specific notes on each transaction follow noting that all transactions were carried out, and service providers appointed, in accordance with PHARMAC's procurement processes.

(i) David Moore, a PHARMAC Director, works with LECG. Specific consultants at LECG (not David Moore) were contracted to provide some specified policy-related consultancy services to PHARMAC. LECG was the most appropriate provider of services. Payments were negotiated and commensurate with general market rates for the provision of the relevant services. Contracting for the relevant services was a matter for the Chief Executive, not the Board. Accordingly, David Moore (nor any other Director) was not involved in discussions or negotiations related to the services. As specific consultants were contracted, David Moore was also not involved in provision of the services for LECG.

(ii) Kura Denness, a PHARMAC Director, is a Director of Tui Ora Limited, a provider of Maori health services. PHARMAC contracted with Tui Ora for the provision of services related to PHARMAC's Space to Breathe initiative. Having conducted a contestable process, it was decided that Tui Ora was the most appropriate provider of services. Tui Ora disclosed the Directorship of Kura Denness in their proposal for the work. Kura Denness also has a standing disclosure on the Board's interest register related to her involvement with Tui Ora. Contracting of the relevant services was a matter for the Chief Executive, not the Board. Accordingly, Kura Denness (nor any other Director) was not involved in discussions or negotiations related to the services. Kura Denness was also not involved in provision of the services for Tui Ora.

(iii) David Kerr, a PHARMAC Director, was the President of the NZMA at the time of some payments by PHARMAC to the NZMA for recruitment advertising and access to an online version of the NZ Medical Journal. Payments of this kind are a matter for the Chief Executive, not the Board. Accordingly, David Kerr (nor any other Director) was not involved in discussions or negotiations related to the services. David Kerr was also not involved in provision of the services for NZMA.

(iv) David Kerr, a PHARMAC Director, is a member of a bpac^{NZ} advisory group. PHARMAC contracts with bpac^{NZ} for a wide range of services related to promoting the optimal use of medicines. Contracting of the relevant services was a matter for the Chief Executive, not the Board. Accordingly, David Kerr (nor any other Director) was not involved in discussions or negotiations related to the services. David Kerr was also not involved in provision of the services for bpac^{NZ}.

No provision has been required, nor expense recognised for impairment of receivables from related parties (2008 \$nil).

Key management personnel compensation include CEO, Directors and Managers

	Actual 2009 \$000	Actual 2008 \$000
Salaries and other short term employee benefits and directors fees	\$1,460	\$1,368
Post Employee Benefits	\$ 18	\$ -

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.

	2009 Less than 6 months \$000	2008 Less than 6 months \$000
Creditors and other payables	\$1,965	\$3,490

Fair value

The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2009 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 2009 \$000	Actual 2008 \$000
Cash and cash equivalents	8,595	14,195
Investments	-	2,000
Debtors and other receivables	192	196
Total loans and receivables	\$8,787	\$16,391

Financial Liabilities

FINANCIAL LIABILITIES AT AMORTISED COST	Actual 2009 \$000	Actual 2008 \$000
Trade and other payables	1,965	3,490
Total financial liabilities at amortised cost	\$1,965	\$3,490

]

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: Employee Remuneration

	Total Remuneration and Benefits	Number of Employees	
	\$000	2009	2008
100 – 110		7	7
110 – 120		6	2
120 – 130		2	-
140 – 150		-	2
150 – 160		1	-
160 – 170		2	1
170 – 180		1	-
180 – 190		-	1
190 – 200		1	1
200 – 210		-	1
210 – 220		2	-
250 – 260		-	1
280 – 290		1	-

The Chief Executive's remuneration and benefits is in the \$280,000 - \$290,000 band.
(Chief Executive's remuneration and benefits 2008: \$250,000 - \$260,000 band)

Note 20: 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 21: Board and Committee Fees

Board members received the following fees during the year:

Member	Fees	
	2009	2008
	\$000	\$000
Richard Waddel (Chair)	36	36
Prof Gregor Coster	23	23
Kura Denness	18	17
Karen Guilliland	-	2
Dr David Kerr	18	16
David Moore	18	18
Adrienne von Tunzelmann	18	17

Note 21 cont: Board and Committee Fees

Advisory committee members received the following fees:

Committee	Payment (\$000)	Committee	Payment (\$000)
PTAC		Tender	
Carl Burgess	19	Sarah Fitt	2
Ian Hosford	16	Jim Lello	3
Sisira Jayathissa	17	Geoff Savell	2
Peter Jones	17	Clare Randall	1
Jim Lello	13	David Simpson	2
Peter Pillans	13	Graham Mills	1
Tom Thompson	5		
Paul Tomlinson	13	Pulmonary Arterial Hypertension	
Howard Wilson	19	Andrew Aitken	1
Graham Mills	15	Lutz Beckert	2
Mark Weatherall	7	Howard Wilson	3
George Laking	10		
		Gastrointestinal	
Anti Infective		Alan Fraser	1
Edward Gane	1	Russell Walmsley	1
Richard Meech	1	Simon Chin	1
Graham Mills	1		
Mark Thomas	1	Consumer Advisory	
Howard Wilson	1	Sandra Coney	5
		Matiu Dickson	1
CATSOP		Dennis Paget	2
Carl Burgess	3	Heather Thompson	1
Lochie Teague	2		
Scott Babington	3	Exceptional Circumstances	
Anne O'Donnell	2	Mel Brieseman	15
George Laking	4	Sharon Kletchko	13
Bernie Fitzharris	3	Paul Tomlinson	12
		David Waite	13
		Howard Wilson	22
		Andrew Herbert	12
Special Foods		Cardiovascular	
Kerry McIlroy	3	Malcolm Abernethy	2
Jo Stewart	2	Sisira Jayathissa	1
Maira Styles	1	Stewart Mann	1
Jim Lello	2	Richard Medicott	1
Simon Chin	3		
		Diabetes	
Hormone and Contraceptive		Nic Crook	1
Bruce Small	1	Peter Moore	1
Howard Wilson	1	Tom Thompson	2
Analgesic			
Peter Jones	1		
Howard Wilson	1		

Note 22: 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 23: 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 deficit for the year ended 30 June 2009 of \$6,079,000 is \$3,546,000 more than the budgeted deficit of \$2,533,000. The main difference relates to the International Herceptin trial fund (money used to fund the additional cost of a 12 month treatment as part of the SOLD trial) of \$5M in retained earnings being returned to the Ministry of Health for them to administer as part of the Government's decision to fund a 12 month Herceptin treatment.

Statement of financial position

Cash and cash equivalents is \$4,236,000 less than budget reflecting reimbursement of funding from the Crown as explained above, with the difference related to purchase of fixed assets greater than as budgeted.

Pharmaceutical Management Agency

Level 9, 40 Mercer Street, PO Box 10-254, Wellington 6143, New Zealand

Phone: 64 4 460 4990 - Fax: 64 4 460 4995 - www.pharmac.govt.nz

Freephone Information Line (9am-4pm weekdays) 0800 66 00 50

ISSN 1179-3759 (Print)

ISSN 1179-3767 (Online)



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.