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Pharmaceutical Management Agency
Annual Report

For the year ended 30 June 2010

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

New Zealand Government

PHARMAC
Pharmaceutical Management Agency

CONTENTS

PHARMAC DIRECTORY

(as at 30 June 2010)

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Board Members Richard Waddel – Chair Stuart McLauchlan – Deputy Chair Kura Denness – Chair, Audit Committee Dr David Kerr David Moore Adrienne von Tunzelmann	**Chief Executive** Matthew Brougham
Pharmacology & Therapeutics Advisory Committee Prof Carl Burgess – Chair	**Consumer Advisory Committee** Sandra Coney – Chair
Auditors Audit New Zealand	**Bankers** ASB Bank Limited
Solicitors Bell Gully	**Insurers** Lumley General Insurance (NZ) Ltd American Home Assurance Company QBE Insurance (International) Ltd

CHAIR'S REPORT

The past financial year was one in which PHARMAC continued to effectively manage pharmaceutical spending and improve its relationships. PHARMAC defined four broad areas of focus and most of our work during the year fell within these four strategic priorities, as outlined below.

Keeping the core strong

PHARMAC's central role continues to be the effective management of pharmaceutical spending. In 2009/10 the Government agreed to a $40 million lift in pharmaceutical funding. This put the pressure on PHARMAC to step up and find funding opportunities that meant PHARMAC's portion of this new money could be allocated in the most cost-effective way. By year-end PHARMAC had succeeded in funding 20 new medicines or strengths with significant access widening for 25 more. Once again, PHARMAC achieved this enhanced access to medicines, including pharmaceutical cancer treatments, while keeping spending within the budget. Year-end spending on the Community Pharmaceuticals Budget was $693.8 million from a budget of $694 million.

New investments during the year included:

- **Bosentan, Iloprost, Sildenafil** – treatments for the respiratory condition pulmonary arterial hypertension
- **Bupropion** – a newly funded treatment for people wanting to stop smoking
- **Dasatinib** – new treatment for people living with chronic myeloid leukaemia
- **Raltegravir** – a new antiviral treatment for people with HIV/AIDS
- **Adalimumab** – accessed widened to this biologic drug to treat a range of auto-immune conditions
- **Dipyridamole** – stroke prevention, as an alternative to low-dose aspirin
- **Rituximab** – access widened so it can also be used to treat non-Hodgkin's lymphoma
- **Pioglitazone** – wider access to this treatment for non-insulin dependent diabetes
- **Gemcitabine** – wider access to this cancer drug so it can also be funded to treat Hodgkin's disease and T cell lymphoma.

Together, these investments added to the list of already-funded medicines that ensure New Zealanders continue to have fully funded access to a broad range of medicines, at a cost the country can afford. A full analysis of the impact of these decisions is provided later in the Annual Report.

Our Access and Optimal Use work is also a core part of PHARMAC's role, and the rollout of our flagship One Heart Many Lives (OHML) cardiovascular programme continued during the year. OHML is moving from a regional-based programme to a more national footing with PHARMAC providing the foundation to enable this. During the year we held 'Boot Camps' for men involved in the programme to come together, share their experiences and gain encouragement to take the programme back to their communities. There was an almost immediate spin-off with one man from a Boot Camp inspiring his Whanganui PHO to set up a cardiac monitoring programme for men. PHARMAC is also supporting the campaign at the grass roots by taking OHML to community days such as Porirua's Creekfest, Pasifika at Western Springs, and Auckland and Lower Hutt's Te Ra o te Raukura festival on Waitangi Day.

Aligned with this work in promoting messages around cardiovascular disease, we managed the implementation of the new cardiovascular guidelines on behalf of the Ministry of Health.

Ensuring sustainable value from generics

Major brand changes affecting more than half a million New Zealanders continued their bedding-in. These primarily affected the gastric medicine omeprazole and cholesterol-lowering simvastatin, but brand changes also occurred for a large number of other medicines. To help support the role pharmacists play, on behalf of DHBs we assisted in establishing a pharmacy payment mechanism, to recognise the work pharmacists put in to help people adjust to brand changes and to recognise the reduction in revenue from the lower cost of generics.

Brand changes will continue to be important, so to provide ongoing support we helped negotiate brand switch payments for pharmacists through DHBs' national pharmacy contract. DHBs will begin funding these during the 2010/11 financial year.

We also piloted a campaign to provide information to the public about generics and brand changes in the Bay of Plenty region.

Generic medicines continue to promote competition and allow us to negotiate favourable prices for pharmaceuticals. Significant changes during the year included the medicines metoprolol (for heart conditions), pioglitazone (for diabetes), aromatase inhibitors for breast cancer, and blood glucose testing strips for diabetes. Together these helped produce savings of about $40 million this year.

Managing `new and innovative' medicines

The Government's High Cost Highly Specialised Medicines review panel completed its report and made 17 recommendations. Overall, the report supported the broader implementation of the PHARMAC model into other areas, such as hospital medicines, vaccines and medical devices. This echoed the findings of the earlier Ministerial Review Group report. In line with the Panel's recommendations the Minister subsequently announced a review of the Exceptional Circumstances schemes to be carried out in 2010/11.

We also published a revised edition of the pharmaceutical funding Application Guidelines, which aims to clarify the quality and type of information we seek to support funding applications.

Better connecting with people

The 2009 PHARMAC Forum brought together more than 100 stakeholders to discuss issues and provide input to PHARMAC. The Forum was welcomed by stakeholders and was a significant way for PHARMAC to provide greater accessibility and transparency, and to commit to action in response to suggestions. We are now implementing the actions identified in the Forum workplan.

At the Forum, we also released a discussion paper on how we could take steps to improve our engagement with consumers. This began a months-long process which included a review of the Terms of Reference for the Consumer Advisory Committee, and a process to refresh the membership of the Committee. This also aligned with recommendations in *Actioning Medicines New Zealand.*

The information we provide to doctors continued to improve with the expansion of our PHO Newsletter. We remain committed to making continual improvements to our written information, and having two projects shortlisted for 2009 Plain English awards provides further proof that we are heading in the right direction.

Our people

This year ended the tenure of Richard Waddel who stood down on 31 July 2010 as PHARMAC Board chair, a position he has held since 2000. Richard has been a great leader and supporter of PHARMAC over the years and on behalf of the Board I would like to wish him well for the future. Another long-serving Board member, Adrienne von Tunzelmann, also concluded her term in July 2010. I would like to thank her for her service and contributions and wish her well in future endeavours. The Board continues to have a strong mix of skills through the appointment of Professor Jens Mueller of Waikato University, and Auckland paediatric surgeon Anne Kolbe.

Stuart McLauchlan
Chair

On behalf of the PHARMAC Board

OVERVIEW OF PHARMAC

PHARMAC, a Crown Entity accountable to the Minister of Health, is the government agency that decides which medicines are subsidised. PHARMAC's objective, as set out in the New Zealand Public Health and Disability Act 2000, 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 deciding how health funds are spent to improve the health of their communities. PHARMAC's role, on behalf of DHBs, is to make funding decisions that lead to the best possible health outcomes being achieved from subsidised medicines.

PHARMAC has four main functions:

- managing the Pharmaceutical Schedule, the list of subsidised medicines;
- promoting the responsible use of medicines;
- 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 more detailed description of PHARMAC's activity, 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, and the health needs of Māori 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 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 to attract a range of candidates, according to the type of role. Induction programmes are run for all new staff.

Employee Development, Promotion and Exit

As a small-to-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

Provided business needs are met, employees may work flexible hours and work remotely. Seven 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.

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 2009/10, three permanent staff left (4.9% of total staff). The turnover rate showed a significant decrease from the previous year (18% of total staff left). At 30 June 2010, PHARMAC comprised 65 staff with the following broad composition:

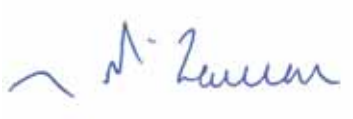
Gender	Part time	Full time	Total
Men	0	29	29
Women	7	29	36
Total	**7**	**58**	**65**

STATEMENT OF RESPONSIBILITY

The Board of PHARMAC accepts 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 2010 fairly reflect the financial position and operations of PHARMAC.



Stuart McLauchlan
Chair

1 October 2010

Kura Denness
Chair, Audit Committee

1 October 2010

PHARMACEUTICAL EXPENDITURE

Key figures

- **$693.8 million** – yearly pharmaceutical expenditure (on budget)
- **37.1 million** – number of funded prescriptions written (5.0% increase)
- **3.2 million** – number of New Zealanders receiving funded medicines
- **$41.5 million** – amount of savings achieved
- **20** – number of new medicines funded
- **25** – number of medicines with access widened
- **149,000** – number of additional patients benefitting from these decisions in a full year

Community Pharmaceutical Expenditure

PHARMAC's key deliverable is the management of the Community Pharmaceutical Budget (Deliverable 1.1), specifically managing expenditure within $694 million for the year to 30 June 2010.

Result

We estimate that expenditure for the year ending 30 June 2010 is $693.8 million, $200,000 within budget. This represents an increase of $40.8 million of pharmaceutical spending from the previous year's expenditure. For 2009/10, net spending is made up of gross expenditure of $748.8 million plus $3.6 million of other expenditure, less an estimated $58.6 million expected from suppliers as rebates.

Prescribing volume (the number of prescriptions being written) continues to be the main driver of expenditure growth ($51.8 million spending increase). PHARMAC has to work to offset the effect of this continuing volume growth, through savings programmes on currently funded medicines ($35.5 million savings, plus $6.1 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.

The following table summarises the factors that have contributed to this increase.

Summary of Pharmaceutical Expenditure 2009/10			
	Expenditure ($ million)	**Impact in 2009/10**	**Full year Impact**
Expenditure for year ending 30 June 2009	$653.0		
Volume changes			
Volume increases		$51.8	
Volume decreases		-$9.5	
Increased access to medicines already funded		$12.2	
New investments		$8.1	$19.7
Growth on new investments 2006/07 to 2008/09		$11.2	
Net volume changes	$73.8		
Subsidy changes			
Subsidy increases		$7.5	$10.3
Subsidy decreases		-$35.5	-$46.7
Savings from annual tenders		-$5.7	-$10.1
Savings from alternative commercial proposals		-$0.4	-$0.6
Delistings		$0.0	-$2.3
Residual subsidy increases from 2008/09		$6.2	
Residual subsidy decreases from 2008/09		-$27.4	
Net subsidy changes	-$55.2		
Additional rebates not included above	$22.2		
Total change from previous year	$40.8		
Expenditure for year ending 30 June 2010	$693.8		

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	$0.41	-$3.86	-$3.44
Blood and Blood Forming Organs	$2.26	-$0.75	$1.52
Cardiovascular System	$0.15	-$10.93	-$10.78
Dermatologicals	$0.03	-$1.27	-$1.24
Genito-Urinary System	$0.00	-$0.07	-$0.07
Hormone Preparations - Systemic Excluding Contraceptive Hormones	$0.00	-$1.63	-$1.63
Infections - Agents for Systemic Use	$0.10	-$2.45	-$2.35
Musculo-skeletal System	$0.98	-$7.15	-$6.16
Nervous System	$0.10	-$3.06	-$2.96
Oncology Agents and Immunosuppressants	$0.09	-$2.28	-$2.19
Respiratory System and Allergies	$0.09	-$0.13	-$0.05
Sensory Organs	$0.02	-$0.10	-$0.08
Special Foods	$1.74	-$1.79	-$0.05
Tender	$1.22	-$5.69	-$4.47
Tender ACP	$0.02	-$0.36	-$0.34
EC Expenditure	$0.30		$0.30
Totals	**$7.51**	**-$41.52**	**-$34.01**

Summary of major changes to the Schedule

In 2009/10 PHARMAC funded 20 new medicines and widened access to 25.

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

Product	Used for	Status change
adalimumab	ankylosing spondylitits	widening of access
	Crohn's disease	widening of access
	psoriasis	widening of access
	psoriatic arthritis	widening of access
alendronate	osteoporosis	widening of access
ambrisentan	pulmonary arterial hypertension	new listing
aprepitant	nausea associated with chemotherapy	new listing
azithromycin	cystic fibrosis	widening of access
blood ketone test strips	insulin-dependent diabetes mellitus	new listing
bosentan	pulmonary arterial hypertension	new listing
bupropion	smoking cessation	new listing
cyclosporin A	steroid-resistant nephrotic syndrome	widening of access
dasatinib	chronic myeloid leukemia - resistant or intolerant to imatinib	new listing
dipyridamole	prevention of thrombosis - cerebrovascular disease and aspirin-intolerant patients	widening of access
enoxaparin (low molecular weight heparin)	prevention of pulmonary embolism	new listing
entecavir	chronic Hepatitis B (treatment-naive)	new listing
fentanyl citrate injections	palliative care (severe pain)	new listing
fluticasone propionate nasal spray	allergic rhinitis	new listing
gemcitabine	T-cell lymphoma	widening of access
	treatment-resistant Hodgkin's disease	widening of access
iloprost	pulmonary arterial hypertension	new listing
mirtazapine	moderate to severe depression	new listing
multivitamin preparations	children with epilepsy on ketogenic diets and vitamin/mineral deficient	widening of access
mycophenolate	immunosuppression incl. liver transplant patients	widening of access
nicotine replacement therapies	smoking cessation	widening of access
pancreatic enzyme	pancreatic enzyme deficiency	widening of access
phytomenadione (Vitamin K)	prevention of bleeding in neonates	widening of access
raltegravir	HIV/AIDS	new listing
rituximab	Non Hodgkin's lymphoma	widening of access
sildenafil	pulmonary arterial hypertension	new listing
solifenacin	urinary incontinence	new listing
somatropin	adult growth hormone deficiency	widening of access
tenofovir	Hepatitis B	widening of access
tramadol	acute and chronic pain	new listing
ursodeoxycholic acid	pregnant women with cholestasis of pregnancy	widening of access
valaciclovir	antiviral	new listing
vinorelbine	T-cell lymphoma	widening of access
	treatment-resistant Hodgkin's disease	widening of access
zuclopenthixol	schizophrenia & related psychoses	new listing

PHARMAC'S CONTRIBUTION TO HEALTH OUTCOMES

Outcome 1 – Best possible decisions

By freeing up spending on existing medicines and choosing the best new funding options we want to demonstrate that we have made the best possible funding decisions from competing choices.

New investment decisions
The following tables outline the new investment decisions (new medicines funded and access widened) for the 2009/10 financial year[1].

New Listings					
Month started	Funding Decision	Condition treated	No. new patients in 2009/10	Estimated no. new patients in first year	Estimated costs in first year
July 2009	blood ketone test strips	insulin-dependent diabetes mellitus	1,001	1,001	$16,141
	bosentan	pulmonary arterial hypertension	25	25	$929,380
	bupropion	smoking cessation	23,612	23,612	$5,239,176
	iloprost	pulmonary arterial hypertension	15	15	$617,859
	sildenafil	pulmonary arterial hypertension	129	129	$1,076,901
	valaciclovir	antiviral	76	76	$49,559
August 2009	amsacrine	Acute lymphoblastic leukaemia	22	24	$46,430
	dasatinib	chronic myeloid leukemia – resistant or intolerant to imatinib	31	33	$1,192,956
	enoxaparin (low molecular weight heparin)	prevention of pulmonary embolism	3,266	3,570	$1,919,808
	entecavir	chronic Hepatitis B (treatment-naive)	315	333	$764,427
	fentanyl citrate injections	palliative care (severe pain)	680	859	$71,809
September 2009	zuclopenthixol	schizophrenia & related psychoses	112	119	$12,871
October 2009	aprepitant	nausea associated with chemotherapy	612	834	$209,612
	raltegravir	HIV/AIDS	88	97	$851,265
November 2009	mirtazapine	moderate to severe depression	1,942	3,121	$148,481
January 2010	solifenacin	urinary incontinence	1,922	5,007	$307,589
February 2010	fluticasone propionate nasal spray	allergic rhinitis	14,763	64,203	$282,747
April 2010	ambrisentan	pulmonary arterial hypertension	0	n.avail	n.avail
May 2010	lignocaine gel	Pain	23	n.avail	$965
June 2010	tramadol	acute and chronic pain	14,891	14,891	$63,235
Total			**63,525**	**117,949**	**$17,789,633**

[1] Note that data are not available for all investment decisions. Where no data is available, the medicine has been omitted from these tables.

In 2009/10, PHARMAC listed 20 new chemicals (plus one additional strength of prednisolone eye drops that results in additional health gains) for approximately 118,000 patients and costing approximately $18 million in the first year (i.e. actual or estimates for 12 months' use following implementation). However, through other cost offsets the net cost to DHBs of these decisions is expected to be substantially less than this.

Widening Access

Month started	Funding Decision	Condition treated	No. new patients in 2009/10	Estimated no. new patients in first year	Estimated costs in first year
July 2009	azithromycin	cystic fibrosis	93	93	$20,319
	dipyridamole	prevention of thrombosis - cerebrovascular disease and aspirin-intolerant patients	1,365	1,365	$103,089
	multivitamin preparations	children with epilepsy on ketogenic diets and vitamin/mineral deficient	2	2	$449
	mycophenolate	immunosuppression incl. liver transplant patients	103	103	$273,307
	pioglitazone	Type 2 diabetes	853	853	$51,527
	rituximab	Non Hodgkin's lymphoma	230	230	$4,229,778
August 2009	adalimumab	ankylosing spondylitits	172	186	$1,596,529
		Crohn's disease	210	226	$1,294,143
		psoriasis	111	129	$2,096,007
		psoriatic arthritis	127	132	$3,090,463
	cyclosporin A	steroid-resistant nephrotic syndrome	184	214	$270,228
	leuprorelin	breast cancer, prostate cancer, endometriosis, precocious puberty, uterine fibroids	87	94	$108,242
September 2009	goserelin	breast cancer, prostate cancer, endometriosis, precocious puberty, uterine fibroids	249	284	$241,085
	nicotine replacement therapies	smoking cessation	19,611	25,158	$1,763,661
October 2009	alendronate	osteoporosis	707	1,121	$97,948
	lancets	diabetes management	472	761	$45,903
	phytomenadione (Vitamin K)	prevention of bleeding in neonates	0	n.avail	n.avail
December 2009	tenofovir	Hepatitis B	168	250	$369,260
March 2010	ursodeoxycholic acid	pregnant women with cholestasis of pregnancy	24	72	$3,618
April 2010	somatropin	adult growth hormone deficiency	7	46	$8,100

May 2010	gemcitabine	T-cell lymphoma	2	n.avail	$1,437
		treatment-resistant Hodgkin's disease	2	n.avail	$479
	vinorelbine	T-cell lymphoma	1	n.avail	$225
		treatment-resistant Hodgkin's disease	1	n.avail	$75
June 2010	pancreatic enzyme	pancreatic enzyme deficiency	0	n.avail	n.avail
Total			**24,781**	**31,319**	**$18,422,864**

Overall Total	**88,306**	**149,268**	**$36,212,497**

Estimated patients and costs in first year are by 12 months' implementation

During the past year PHARMAC has increased access to 25 existing chemicals for an additional 150,000 patients, at an estimated cost of $18 million in the first year.

Funding options not taken

PHARMAC is developing an online tool (the Application Tracker) that will enable people to view funding proposals under consideration and those progressing through the PHARMAC funding process. The Application Tracker will be launched in late 2010.

In the interim, and to satisfy the requirements of the PHARMAC 2009/10 Statement of Intent, a table illustrating the funding options PHARMAC had during 2009/10 that were not implemented during the year is published on www.pharmac.govt.nz the PHARMAC website.

Outcome 2 – Getting more for less

We want to demonstrate that we get better value from pharmaceutical spending, through increasing effectiveness of medicines and reducing the cost of medicines.

Additional health gains from new funding decisions

PHARMAC also assesses the health gains obtained through its investments. PHARMAC uses cost-utility analysis and measures outcomes in quality adjusted life years (QALYs). This measure enables medicines that perform different functions (such as extending or improving quality of life) to be compared.

Data are available for 20 new investments to show the impact on people's health, and are outlined in the table below.

Funding Decision	Condition treated	Estimated no. new patients in first year	Estimated pharmaceutical costs in first year	Estimated QALY gains over timespan (discounted)
QALYs from New Listings				
aprepitant	nausea associated with chemotherapy	834	$313,292	1.8
blood ketone test strips	insulin-dependent diabetes mellitus	1,001	$16,141	60.1
bosentan	pulmonary arterial hypertension	25	$929,380	45.0
bupropion	smoking cessation	23,612	$5,239,176	1,371.4
dasatinib	chronic myeloid leukemia - resistant or intolerant to imatinib	33	$1,298,177	48.4

entecavir	chronic Hepatitis B (treatment-naive)	333	$881,565	365.3
iloprost	pulmonary arterial hypertension	15	$617,859	27.0
raltegravir	HIV/AIDS	97	$1,239,654	95.1
sildenafil	pulmonary arterial hypertension	129	$1,076,901	232.2
solifenacin	urinary incontinence	5,007	$1,261,567	65.1
tramadol	acute and chronic pain	14,891	$758,817	1.5
QALYs from Widening Access				
adalimumab	ankylosing spondylitits	186	$2,422,283	57.7
	Crohn's disease	226	$3,531,747	88.1
	psoriasis	129	$1,539,733	45.8
	psoriatic arthritis	132	$1,838,499	248.7
dipyridamole	prevention of thrombosis - cerebrovascular disease and aspirin-intolerant patients	1,365	$103,089	32.8
multivitamin preparations	children with epilepsy on ketogenic diets and vitamin/mineral deficient	2	$449	0.0
nicotine replacement therapies	smoking cessation	25,158	$2,046,114	1,317.0
rituximab	Non Hodgkin's lymphoma	230	$4,229,778	202.4
somatropin	adult growth hormone deficiency	46	$271,800	526.7
Total QALYs		**73,451**	**$29,616,022**	**4,832.1**

Estimated patients and costs in first year are by 12 months' implementation

In the first year these medicines were (or will likely be) used by 73,000 patients at a cost of approximately $29.6 million to the Pharmaceutical Schedule (i.e. actual or estimates for 12 months' use following implementation). As these patients keep using the medicines over remaining treatment timespans, they may gain consequent improvements in quality of life and/or increased life-expectancy. These medicines for these patients alone will likely give approximately 4,800 QALYs over remaining treatment timespans more than from standard current treatments, although these extra gains may be as few as 2,800 or as many as 13,500 QALYs (as there is uncertainty with the estimates of individuals' timespan gains).

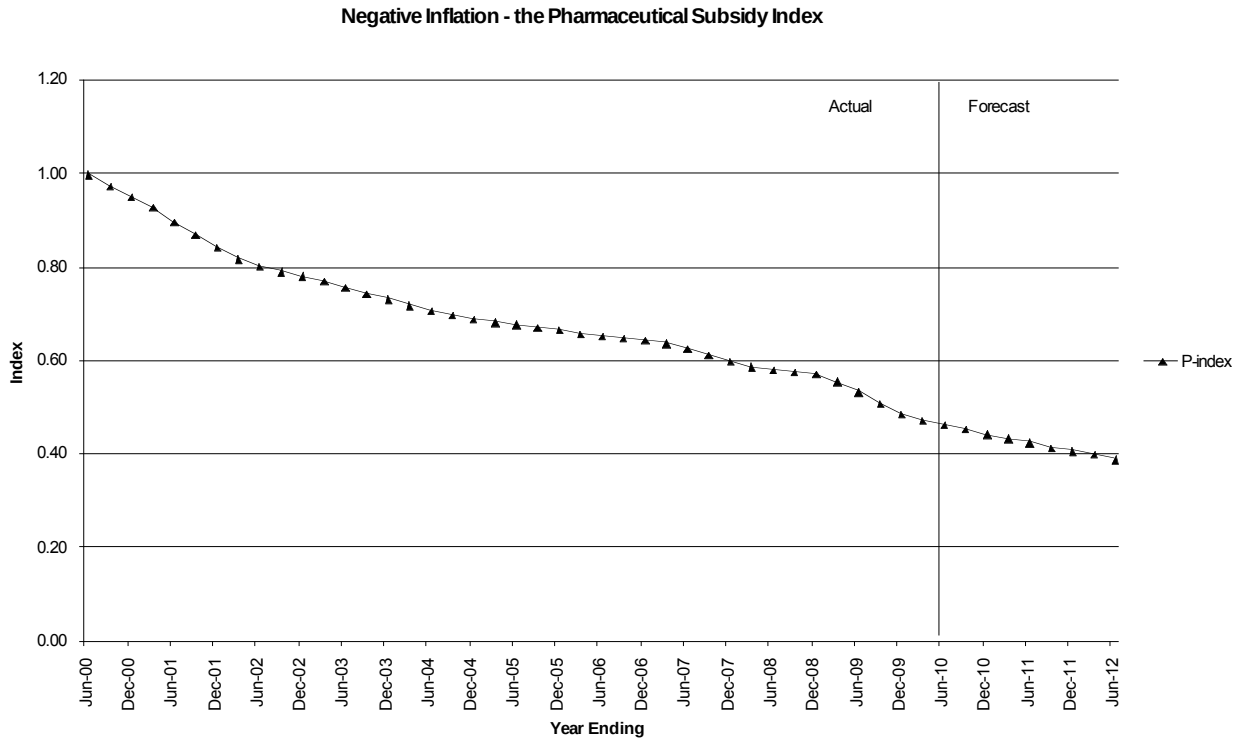
These are health gains over and above those already available through funded medicines. However, note that not all of the funding decisions had QALY information available, therefore it is likely to be an underestimate of the total QALY gains from the funding decisions in 2009/10.

For this financial year's reporting, the QALY estimates have been discounted (that is, future benefits are valued less than present benefits) at 3.5% – PHARMAC's annual discount rate for its economic analyses. We plan on providing undiscounted estimates in future years, and will thereby give a more accurate picture of the full extent of the health benefits that should occur in future.

Health gains will occur for other funding decisions as well, as will savings to the Health Sector from decreases in hospital use and the need for other health services.

Reduced pharmaceutical prices

Pharmaceutical prices are continuing to trend downwards, as illustrated by the graph below (excludes rebates)



Outcome 3 – Access to medicines

We aim for all New Zealanders to have access to the medicines they need when they need them. The areas identified below help to illustrate that New Zealanders are gaining equitable access to medicines.

Absence of post-code prescribing (DHBs' compliance with Pharmaceutical Schedule rules)

We observed at least one DHB (Waikato) funding Mirena outside of its Pharmaceutical Schedule funding criteria.

Some DHBs were funding the Emergency Contraceptive Pill through pharmacies without prescriptions. Pharmacists have been required to undertake a training programme.

We identified some instances of DHBs funding adalimumab (Humira) outside of Schedule rules.

We have written to all DHBs that we consider have breached the Schedule rules, reminding them of their obligation to operate consistently with the Schedule.

Number of part-funded medicines where there are no suitable fully funded alternatives

Generally speaking, PHARMAC does not part-fund medicines as this maintains a cost barrier for some people to access medicines. However, it arises from time to time as a result of, for example, reference pricing decisions.

The list of part-funded medicines for which we consider there are no fully-funded alternatives is outlined in the following table:

Medicine	Formulation	Treatment for	Comment
Simethicone	Oral liquid aluminium hydroxide 200 mg with magnesium hydroxide 200 mg and activated simethicone 20 mg per 5 ml	Reduce bloating symptoms of indigestion	No alternative treatment available for flatulence.
Protamine sulphate	Inj 10 mg per ml, 5 ml	Heparin-induced bleeding	Funding may not be required through Pharmaceutical Schedule, typically an emergency use product in hospitals – to be considered as part of current Pharmaceutical Subsidy Distribution Review.
Oxypentifylline	Tab 400 mg	Vasodilatation in vascular disease and circulatory disorders	Given low usage and historical context to funding, ongoing appropriateness of funding will need to be reviewed.
Urea	Crm 10%	Hydrating skin moisturiser	Decision to fully-fund urea cream has been made. Funding to commence 1 October 2010.
Acetic acid with hydroxyquinoline and ricinoleic acid	Jelly with glacial acetic acid 0.94%, hydroxyquinoline sulphate 0.025%, glycerol 5% and ricinoleic acid 0.75% with applicator	Maintain vaginal pH	Given low usage and historical context to funding, ongoing appropriateness of subsidy needs review.
Hyaluronidase	Inj 1,500 iu per ml	Increase speed of absorption following injection of fluids	Given low usage and historical context to funding, ongoing appropriateness of subsidy needs review.

Number of out of stocks

PHARMAC works alongside pharmaceutical suppliers and actively tracks stock levels to ensure continued uninterrupted medicine supply to New Zealand patients. This includes regular information from suppliers on stock supply issues that may require PHARMAC to seek other suppliers or take other remedial action. Stock management is also covered in contracts with suppliers, with minimum stock holding periods required and liquidated damages and indemnities for failure to supply.

In managing delicate stock issues, it is important that any communication is well planned as it can inadvertently lead to stock outages through creating a 'run' on stock.

During 2009/10 the most significant supply management issue was the supply of products from Canadian manufacturer Apotex. This arose as a result of a voluntary import ban by Apotex after problems were found at two of its Canadian factories. Supply issues covered a range of products and different strategies were used to manage the stock issues. These included:

- Temporarily listing new brands;
- Using Close Control to ration stock;
- Sourcing alternative brands through the PHARMAC tender; and
- Providing advice to clinicians on potential alternatives.

Through use of these strategies, and working alongside Apotex, Medsafe and other suppliers, we were able to provide ongoing supply to the New Zealand market.

Another potential supply issue arose with the eruption of the Iceland volcano Eyjafjallajokull in March/April 2010. With airspace in Europe closed and many suppliers sourcing stock from Europe (including the influenza vaccine), this presented a potential challenge. PHARMAC proactively contacted companies to confirm that supplies would not be disrupted by the volcanic activity. This was a contingency; however, no further action was required by PHARMAC.

Other major stock supply issues during the year included:

- **Docetaxel** - InterPharma had its product withdrawn due to quality issues from February to July 2010; an alternative product was supplied with no market disruption.

- **Glycerol suppositories** (API) - the supplier continues to have difficulty with the manufacture of this product.

- **Smoking cessation products** (multiple suppliers) - following the increase in tobacco excise tax there was a significant increase in demand for smoking cessation product, however through careful stock management the supplier was able to continue supplying.

- **Vistal eye drops** (AFT) - alternative treatment options are available.

- **Panadol suppositories** – GlaxoSmithKline had a short out-of-stock due to a production delay; however, there was sufficient stock in the supply chain for patients.

- **Multi vitamin** (Healtheries) - due to production scheduling, the original supplier was delisted and an alternative listed.

Outcome 4 – Optimal Use

We want medicines to be prescribed, dispensed and used by patients as well as possible. Through evaluating our campaigns we will maintain a strong emphasis on cost-effectiveness of optimal use initiatives.

Evaluation of individual campaigns

Space to Breathe asthma campaign evaluation - The evaluation indicated that the campaign was successful in increasing awareness, knowledge and confidence in families of children with asthma, increasing recognition of asthma in primary care and increasing the provision of self-management education to families of children with asthma. However, the campaign did not appear to have been effective in increasing the ratio of asthma medicines in the target population (0-5 year olds) or decreasing asthma-related hospitalisations, in particular in improving the ratio of inhaled corticosteroids (ICS and combination ICS/long-acting beta agonists) to short-acting beta agonist medication. These had been key campaign objectives.

There were several limitations to the evaluation and data analyses These included the use of SABA (asthma relievers) to ICS (asthma preventers) ratios as an indicator of campaign success, given variations in use of asthma medication at individual level and loss of some campaign effects due to the use of aggregated data. Moreover, the campaign had not been implemented for long enough for sustained behaviour changes to have occurred and be captured by analysis of evaluation data.

Despite findings from evaluation activities and limitations in data analyses, we consider it was worthwhile continuing investment in the Space to Breathe campaign over a number of years, as initially intended. Two options have been proposed and approved by PHARMAC's Board for further investigation. These are prescribing feedback for general practice and repeating the childhood asthma education programme to early childhood educators using a research based approach.

Antipsychotics in dementia evaluation - There was a low uptake of the antipsychotics in dementia programme within residential care (36 facilities). Those that took part found the reviews worthwhile; however, some barriers were noted as to why there was low uptake including lack of time, lack of priority placed on the medication management of patients, and lack of clinical staff to perform the reviews. PHARMAC is currently investigating future options for increasing the uptake of the programme and potentially altering the programme structure.

Overview of evaluations

Overall, evaluations demonstrate that Access and Optimal Use campaigns continue to meet campaign objectives and provide health gains for patients.

In addition to the Space to Breathe and Antipsychotics in dementia evaluations outlined above, campaigns demonstrate increased use of pharmaceuticals (e.g. increased use of statin medications in those areas where the One Heart Many Lives campaign is active) and increased uptake of programme activities (e.g. increased awareness of and attendance at the He Rongoa Pai – He Oranga Whanau – Māori staying well with medicines programme).

Evaluation of the consumer-focussed generic medicines pilot is not yet complete. The findings will help to determine the approach and expected impact of longer term implementation. The pilot activities were based on formative evaluation findings of the consumer-focussed survey which highlighted the key issues for consumers around generic medicines.

We have ceased the Wise Use of Antibiotics campaign for the winter 2010 period to measure what effect there is on key campaign measures, such as consumer perception of the use of antibiotics and antibiotic prescriptions during the winter months.

We are approaching the end of the current 5-year contract with bpac^{NZ} to promote the responsible use of pharmaceuticals through continuing medical education programmes with general practitioners, pharmacists and nurses. Evaluation activities are planned and currently under way to measure the effectiveness and impact of the activities that bpac^{NZ} provides. A survey with users of the bpac^{NZ} suite of materials was conducted in November 2009 and found that readers considered the bpac^{NZ} materials to be useful, of high quality, and trustworthy.

Outcome 5 – Confidence

We want our decisions to be seen as impartial, carefully considered and fair, and for the public to have confidence in our work.

In media commentary, calls to our 0800 number and inward correspondence, there is little comment expressing a lack of confidence in particular PHARMAC decisions. A number of reports have commented favourably on the PHARMAC model. However, the model has been criticised in statements by the pharmaceutical industry (through the Researched Medicines Industry).

In consultation around a potentially expanded role for PHARMAC in hospital medicines and devices, there was recognition of the need for greater cost management of hospital medicines and recognition that PHARMAC had performed this role well in the community. However, there were some concerns around PHARMAC's activity potentially limiting choice or restricting clinicians' ability to perform their jobs optimally. We will be addressing these concerns through ongoing consultation and engagement with frontline health professionals as we move into an increased role in hospitals.

Audit Report

To the readers of the Pharmaceutical Management Agency's financial statements and statement of service performance for the year ended 30 June 2010

The Auditor-General is the auditor of the Pharmaceutical Management Agency (the Agency). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Agency for the year ended 30 June 2010.

Unqualified opinion

In our opinion:

- The financial statements of the Agency on pages 26 to 47:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Agency's financial position as at 30 June 2010; 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 19 to 24:
  - 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 1 October 2010 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 2010 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 New Zealand Institute of Chartered Accountants.

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

Kelly Rushton
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Pharmaceutical Management Agency (Pharmac) for the year ended 30 June 2010 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 since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. 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 as well as the related audit report dated 1 October 2010 to confirm the information included in the audited financial statements 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 2009/10 Statement of Intent (SOI).

PHARMAC has one output class "*securing the best achievable health outcomes from pharmaceutical treatment, within the amount of funding provided*". The Statement of Comprehensive Income provides the actual revenue and expenses incurred compared with budget.

Medicines used in the community

Output / activity		Measures	Results
1.1	Manage community pharmaceutical expenditure	a) Expenditure managed within $694 million as at 30 June 2010.	Achieved. Expenditure for the year was $693.8 million. A full breakdown of expenditure is available on pages 5-11.
		b) Make decisions on >90% of line items (excluding bids held open while awaiting Medsafe registration) within 6 months of the tender closing.	92% (by line items) of tender decisions were made within 6 months of the tender closing.
1.2	Produce and distribute the Community Pharmaceutical Schedule	a) Produce and distribute the Community Schedule in August 2009, December 2009, and April 2010.	Achieved. The Community Schedule was published and distributed in line with the published targets.
		b) Publish and distribute monthly updates to the Pharmaceutical Schedule.	Achieved. Monthly Updates were published and distributed throughout the year.
		c) Provide real-time electronic access to the Schedule via the PHARMAC website.	Achieved. The Schedule was available throughout the year with real-time updates available on the PHARMAC website.
1.3	Management of Exceptional Circumstances schemes	Applications for Exceptional Circumstances funding are processed in a timely manner. Target times for processing applications are: • Community EC: 1 month • Hospital EC: 48 hours • Cancer EC: 72 hours.	For the 2009/10 financial year, the percentage of applications processed within target times were: • Community EC: 99% • Hospital EC: 98% • Cancer EC: 97%.

Medicines used in DHB hospitals

Output / activity		Measures	Results
2.1	Produce and distribute the Hospital Pharmaceutical Schedule	Produce and distribute the Hospital Schedule in July 2009, November 2009 and March 2010.	Achieved. The Hospital Schedule was published and distributed in line with the published targets.
2.2	Monitor DHB hospital compliance with restricted brand contracts	Provide a report to DHBs and pharmaceutical suppliers by 31 December 2009.	Achieved (March 2010). Two minor breaches were identified which the suppliers did not pursue. Delay was due to data issues and there is a project under way to improve data delivery from DHBs.
2.3	Manage (some) expenditure on pharmaceutical cancer treatments (PCT)	a) Achieve savings of 5% on PCT treatments expenditure.	Achieved. Savings worth approximately $4.4 million have been achieved. This is in excess of 5% of PCT expenditure.
		b) Make new investments in PCT, with costs in 2009/10 up to an amount agreed with DHBs, plus the value of any savings achieved.	Achieved. Access was widened to rituximab (MabThera) for patients with Indolent Non Hodgkins Lymphoma from 1 July 2009. For the 2009/10 financial year, this decision had a net effect on PCT expenditure of $750,000. New listings were also made for amsacrine and thiotepa (effective 1 August 2009), however these two treatments were previously funded through Cancer Exceptional Circumstances, so no new spending may result. In addition access was widened to gemcitabine and vinorelbine for patients with T-cell Lymphoma and relapsed/refractory Hodgkins Disease from 1 May 2010.For the 2009/10 financial year, this decision had a net effect on PCT expenditure of $42,000.

2.4	Undertake procurement activity for pharmaceuticals, on behalf of DHB hospitals	a) Issue a multi-product tender for hospital pharmaceuticals and make decisions on >90% of line items (excluding bids held open while awaiting Medsafe registration) within 6 months of the tender closing.	Achieved. 92% (by line items) of tender decisions were made within 6 months of the tender closing.
		b) Complete a procurement process for volatile anaesthetics by 30 June 2010.	Achieved. A new agreement is expected to save $5 million over 3 years for DHB Hospitals. The agreement led to a brand change which required DHBs to make some changes to devices as part of the agreement. This was co-ordinated by the incoming supplier and transition to the new brand went very smoothly.
		c) Complete a procurement process for radiological contrast media by 30 June 2010.	Achieved. Main agreements securing supply of the key products were completed in January 2010. Further agreements may be entered into if necessary.

Procurement of DHB hospital supplies

Output / activity		Measures	Results
3.1	Management of national procurement contracts	Monitor compliance of Hospital only contracts requiring sales data to be provided to PHARMAC by suppliers.	Achieved. All data has been provided in accordance with contracts.
3.2	Continue work in assisting DHBs to procure products used in DHB hospitals	Conduct further work on national procurement as agreed with DHBs or Ministry of Health.	Achieved. Savings have been obtained in volatile anaesthetics, radiological contrast media, and bulk intravenous fluids. We are available to assist with consideration of an extended role for PHARMAC, as required.

Optimal Use initiatives

Key output / activity		Key measures	Results
4.1	Communication of brand changes	Produce information for patients and/or health professionals to assist with the implementation of pharmaceutical funding decisions.	Achieved. PHARMAC staff provided information to support brand changes to bendrofluazide, sumatriptan, and aromatase inhibitors.
4.2	Wise Use of Antibiotics campaign	Deliver the annual Wise Use of Antibiotics campaign by 31 September 2009.	Achieved. Campaign will cease in 2010 and be reviewed at a later date.

4.3	One Heart Many Lives campaign	a) Support the continued implementation of the One Heart Many Lives campaign in Northland and Lakes DHB regions.	Achieved. This is ongoing with the emphasis on community involvement. Community events were held over the summer where heart checks have been offered. People are then followed up and referred back to their GP.
		b) Develop the One Heart Many Lives campaign nationally.	Achieved. Two 'Boot Camps' have been held for Māori and Pacific men who have been involved in One Heart Many Lives. This was held to establish these men as ambassadors for their community. One Heart Many Lives national work has extended into Whanganui, Taranaki and Capital and Coast DHBs. One Heart Many Lives events with a Pacific-oriented look and feel have also been underway including as part of the Pasifika festival, Auckland.
4.4	Space to Breathe campaign	Pilot the early childhood education programme by December 2009.	Achieved. A pilot was completed in August 2009. Main findings indicate increased awareness and knowledge about asthma, triggers and medicines among those who participated in the programme. Delivery of information and resources, along with flexibility around arranging programme delivery were considered vital contributors to the successful reach of the programme.
4.5	Providing information for prescribers on the optimal use of medicines	a) Work with bpac^{NZ} to promote the responsible use of pharmaceuticals through continuing medical education programmes.	Achieved. Bpac^{nz} continues to meet contractual deliverables. PHARMAC is working with bpac^{NZ} to develop and implement an evaluation framework for the continuing medical education campaigns.
		b) Work with DHBs through the Safe and Quality Use of Medicines group, the DHB Safe Medication Management Programme and PHARMAC-DHB Joint Working Group.	Achieved. A DHB Joint working group meeting was held in March 2010.

4.6	Improving access to medicines by reducing inequalities, including implementation of PHARMAC's Māori Responsiveness Strategy	Continue the national roll out of He Rongoa Pai, He Oranga Whanau training programme and resources.	Achieved. Five courses have been run so far, with a further four scheduled.
4.7	Information on generic medicines	a) Conduct and analyse a survey of consumers on understanding of and attitudes about generic medicines.	Achieved. The survey gave insights into people's understanding of generic medicines and ideas for improving understanding.
		b) Undertake actions as appropriate arising from the analysis of the consumer survey on generic medicines.	Achieved. A pilot programme has been implemented in the Bay of Plenty region. Evaluation activities will determine national roll out activities as appropriate.

Research

Key output / activity		Key measures	Results
5.1	Manage funding for support of the SOLD clinical trial	As per contract milestones.	Achieved. $322,238 was spent compared to a budget of $778,000. A total of 347 patients were recruited in the financial year to 30 June 2010, compared to a forecast of 732.

Quality processes and Decisions

Key output / activity		Key measures	Results
6.1	Improve stakeholder engagement	Hold a PHARMAC Forum by 31 December 2009.	Achieved. The PHARMAC Forum was held on 9 October 2009. The resulting action plan has been distributed to attendees, and is being implemented.

6.2	Optimal performance of advisory committees	a) Consult on changes to the Terms of Reference for the Consumer Advisory Committee by 31 December 2009.	Achieved but not by the published deadline. Consultation on the revised Consumer Advisory Committee Terms of Reference was delayed while we conducted related work on the optimal way for consumers to participate in PHARMAC's work. This ended in December 2009. Consultation on changes to the CAC Terms of Reference ended in March 2010.
		b) Implement any changes to the Terms of Reference as required.	Achieved. A revised Terms of Reference was published in April 2010 and changes are being implemented.
6.3	Improve engagement with DHBs	Agree to a Memorandum of Understanding with DHBs by 30 June 2010.	Achieved. A memorandum of understanding was agreed with DHBs, and was subject to final signature at year-end.

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 legal risk fund was accessed for four litigation actions during 2009/10, three of which related to patent litigation activity while the fourth was the Commerce Commission vs AstraZeneca case that PHARMAC was a party to.

In the year to 30 June 2010, spending from the Legal Risk Fund was $352,671.05.

As part of a commercial agreement as a result of one of these litigations, PHARMAC received payments amounting to $1.5 million which have been used to replenish the fund for the costs incurred in undertaking legal action.

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 Kerr	Disclosed that, in relation to a chemical that was under consideration for a funding decision by the Board, he was Chair of a provider of retirement villages.	Board	The Board noted the interest and determined that David should be allowed to remain at the meeting, but that he could not participate in the discussion or decision.	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 2010. The financial statements were authorised by the Board of PHARMAC on 24 September 2010.

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

Changes in Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

PHARMAC has adopted the following revision to accounting standards during the financial year which has only had a presentational effect:

NZ IAS 1 Presentation of Financial Statements (revised 2007) replaces NZ IAS 1 Presentation of Financial Statements (Issued 2004). The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with the Crown in its capacity as "owner". PHARMAC has decided to prepare a single statement of comprehensive income for the year ended 30 June 2010 under the revised standard.

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

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to PHARMAC, include:

NZIFRS 9 Financial Instruments will eventually replace NZIAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 on the classification measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ended 2014. PHARMAC has not yet assessed the effect of the new standard and expects it will not be early adopted.

NZIAS 24 Related Party Disclosures (Revised 2009) replaces NZIAS 24 Related Party Disclosures (Issued 2004) and is effective for reporting periods commencing on or after 1 January 2011. The revised related party standards:

i. Removes the previous disclosure concessions applied by PHARMAC for arms-length transactions between PHARMAC and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between PHARMAC and entities controlled or significantly influenced by the Crown.

ii. Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the Minister of Health, PHARMAC will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown.

iii. Clarifies that related party transactions include commitments with related parties.

PHARMAC has not yet assessed the effect of the new standard and expects it will not be early adopted.

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 comprehensive income.

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 comprehensive income. 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, computer hardware, furniture and office equipment, and are 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 comprehensive income.

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 comprehensive income.

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%
Computer Hardware	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 comprehensive income. 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 payables 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.

PHARMAC recognises a liability and an expense for bonuses where it is contractually bound to pay them.

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, Herceptin SOLD trial fund 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 2007 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 2009/10 Statement of Intent and 2009/10 Output Agreement. The Output Agreement reflects the subsequent reduction in funding from the Crown.

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 5.

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 2010.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	Note	Actual 2010 $000	Output Agreement Budget 2010 $000	SOI Budget 2010 $000	Actual 2009 $000
Income					
Crown		13,033	13,033	13,757	12,184
DHB		2,820	2,820	2,820	3,130
Other:					
Interest received		191	120	120	745
Interest received - legal risk fund		212	0	0	318
Other revenue		490	94	94	197
Other revenue - legal risk fund		1,505	0	0	0
Total Income		18,251	16,067	16,791	16,574
Expenditure					
Operating costs		4,299	3,431	3,504	5,667
Personnel costs	1	6,777	6,558	6,558	6,265
Audit Fees		29	28	28	31
Director Fees		131	129	129	129
Occupancy costs		461	461	461	461
Depreciation & amortisation costs	5 & 6	443	467	467	487
Finance Costs	2	10	10	10	8
Herceptin trial pharmaceutical costs		0	0	0	5,000
Herceptin SOLD trial administration		322	778	778	295
Responsible use of pharmaceuticals		4,548	5,297	5,297	4,310
Total expenditure		17,020	17,159	17,232	22,653
Net (deficit)/surplus for the period		**$1,231**	**$(1,092)**	**$(441)**	**$(6,079)**
Other comprehensive income		0	0	0	0
Total comprehensive income		**$1,231**	**$(1,092)**	**$(441)**	**$(6,079)**

Explanations of significant variances against budget are detailed in note 20.

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

STATEMENT OF MOVEMENTS IN PUBLIC EQUITY

For the year ended 30 June 2010

	Note	Actual 2010 $000	Output Agreement Budget 2010 $000	SOI Budget 2010 $000	Actual 2009 $000
Balance at 1 July		7,316	7,292	6,641	13,395
Total Comprehensive Income		1,231	(1,092)	(441)	(6,079)
Balance at 30 June	3	**$8,547**	**$6,200**	**$6,200**	**$7,316**

Explanations of significant variances against budget are detailed in note 20.

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	Actual 2010 $000	Output Agreement Budget 2010 $000	SOI Budget 2010 $000	Actual 2009 $000
PUBLIC EQUITY					
Retained earnings and reserves	3	1,600	1,600	1,600	2,705
Herceptin SOLD Trial fund	3	971	0	0	0
Legal risk fund	3	5,976	4,600	4,600	4,611
TOTAL PUBLIC EQUITY		**$8,547**	**$6,200**	**$6,200**	**$7,316**
Represented by:					
Current assets					
Cash and cash equivalents		10,216	7,503	7,759	8,595
Debtors and other receivables	4	53	100	100	112
Prepayments		0	0	0	62
GST Refund		0	0	0	18
Total current assets		10,269	7,603	7,859	8,787
Non-current assets					
Property, plant and equipment	5	540	580	580	789
Intangible Assets	6	195	520	520	345
Total non-current assets		735	1,100	1,100	1,134
Total assets		11,004	8,703	8,959	9,921
Current liabilities					
Creditors and other payables	7	1,694	1,838	2,224	1,965
Employee entitlements	8	519	500	370	485
GST Payable		79	0	0	0
Total current liabilities		2,292	2,338	2,594	2,450
Non-current liabilities					
Provisions	9	165	165	165	155
Total liabilities		2,457	2,503	2,759	2,605
Net assets		**$8,547**	**$6,200**	**$6,200**	**$7,316**

Explanations of significant variances against budget are detailed in note 20.

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

	Note	Actual 2010 $000	Output Agreement Budget 2010 $000	SOI Budget 2010 $000	Actual 2009 $000
CASH FLOWS – OPERATING ACTIVITIES					
Cash was provided from:					
- Crown		13,033	13,033	13,757	12,184
- DHBs		2,820	2,820	2,820	3,130
- Interest		420	120	120	802
- Other		1,995	94	0	304
		18,268	16,067	16,697	16,420
Cash was disbursed to:					
- Payments to suppliers and employees		(15,560)	(16,292)	(16,271)	(23,065)
- Goods and services tax (net)		(1,043)	(400)	(400)	(396)
		(16,603)	(16,692)	(16,671)	(23,461)
Net cash flow from operating activities	10	1,665	(625)	26	(7,041)
CASH FLOWS – INVESTING ACTIVITIES					
- Receipts from sale of investments		0	0	0	2,000
- Purchase of property, plant and equipment		(21)	(300)	(300)	(541)
- Purchase of intangible assets		(23)	(167)	(167)	(18)
- Purchase of investments		0	0	0	0
Net cash flow from investing activities		(44)	(467)	(467)	1,441
Net increase/(decrease) in cash		1,621	(1,092)	(441)	(5,600)
Cash at the beginning of the year		8,595	8,595	8,200	14,195
Cash at the end of the year		10,216	7,503	7,759	8,595

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 20.

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

STATEMENT OF COMMITMENTS

As at 30 June 2010

Operating leases as lessee.

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

	Actual 2010 $000	Actual 2009 $000
Capital commitments approved and contracted	-	-
Operating commitments approved and contracted		
Not later than one year	461	461
Later than one year and not later than five years	1,844	1,844
Later than five years and not later than ten years	1,383	1,844
Total commitments	**$3,688**	**$4,149**

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 on 31 October 2011 with a right of renewal until 24 July 2013.

PHARMAC has recognised a make good provision of $165,000 (2009 $155,000).

STATEMENT OF CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2010

PHARMAC had no contingent assets at 30 June 2010 (2009: $nil).

PHARMAC had no contingent liabilities at 30 June 2010 (2009: $nil).

Explanations of significant variances against budget are detailed in note 20.

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Personnel Costs

	Actual 2010 $000	Actual 2009 $000
Salaries and related costs	6,553	6,139
Employer contributions to defined contribution plans	117	123
Increase/(decrease) in employee entitlements	107	3
Total personnel costs	**$6,777**	**$6,265**

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

Note 2: Finance Costs

	Actual 2010 $000	Actual 2009 $000
Discount unwind on provisions (note 9)	**$10**	**$8**

Note 3: Public Equity

Retained earnings	Actual 2010 $000	Actual 2009 $000
Balance at 1 July	2,705	3,432
Net surplus/(deficit)	1,231	(6,079)
Net transfer from/(to) international Herceptin trial fund	0	5,000
Net transfer from/(to) Herceptin SOLD trial fund	(971)	0
Net transfer from/(to) legal risk fund	(1,365)	352
Balance at 30 June	**$1,600**	**$2,705**

Herceptin SOLD Trial fund	Actual 2010 $000	Actual 2009 $000
Balance at 1 July	0	0
Add:Net transfer from/(to) retained earnings	971	0
Balance at 30 June	**$971**	**$0**

Legal risk fund	Actual 2010 $000	Actual 2009 $000
Balance at 1 July	4,611	4,963
Add: Interest received transferred from/(to) retained earnings	212	318
Add: Other Income received transferred from/(to) retained earnings	1,505	0
Less: Litigation expenses transferred from/(to) retained earnings	(352)	(670)
Balance at 30 June	**$5,976**	**$4,611**
Total public equity	**$8,547**	**$7,316**

Note 4: 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 2010 all overdue receivables have been assessed for impairment.

	2010			2009		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due	48	0	48	112	0	112
Past due 30-60 days	5	0	5	0	0	0
Past due 61-90 days	0	0	0	0	0	0
Past due > 91 days	0	0	0	0	0	0
Total	**$53**	**$0**	**$53**	**$112**	**$0**	**$112**

Note 5: 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
2009							
Furniture and fittings	416	55	0	348	32	0	91
Computer hardware	978	102	0	830	125	0	125
Office equipment	419	0	0	290	40	0	89
Leasehold improvements	299	472	0	184	103	0	484
Fixed asset work in progress	95	0	95	0	0	0	-
Total PPE Assets	**$2,207**	**$629**	**$95**	**$1,652**	**$300**	**$0**	**$789**
2010							
Furniture and fittings	471	5	0	380	31	0	65
Computer hardware	1080	10	0	955	89	0	46
Office equipment	419	1	0	330	34	0	56
Leasehold improvements	771	5	0	287	116	0	373
Fixed asset work in progress	0	0	0	0	0	0	0
Total PPE Assets	**$2,741**	**$21**	**$0**	**$1,952**	**$270**	**$0**	**$540**

Note 6: 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
2009 Total Intangible Assets	$757	$ 18	$0	$242	$188	$0	$345
2010 Total Intangible Assets	$775	$23	0	$430	$173	0	$195

Note 7: Creditors and Other Payables

	Actual 2010 $000	Actual 2009 $000
Creditors	933	1,156
Accrued expenses	761	809
Total trade and other payables	**$1,694**	**$1,965**

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 8: Employee Entitlements

	Actual 2010 $000	Actual 2009 $000
Annual leave entitlement	401	398
Accrued salaries and wages	118	87
Total employee entitlements	**$519**	**$485**

Note 9: Provisions

	Actual 2010 $000	Actual 2009 $000
Non-current provisions are represented by:		
Lease make-good	165	155
Total provisions	**$165**	**$155**

Movement for “make good” provision

	2010 $000	2009 $000
Balance at 1 July	155	94
Additional provisions made	0	53
Amount used	0	0
Unused amounts reversed	0	0
Discount unwind	10	8
Balance at 30 June	**$165**	**$155**

Note 10: Reconciliation of the Net Surplus from Operations with the Net Cash Flows from Operating Activities

	Actual 2010 $000	Actual 2009 $000
Net (deficit)/surplus from operations	1,231	$(6,079)
Add non-cash items:		
Discount on unwind provision	10	8
Depreciation & Amortisation	443	487
Total non-cash items	$453	$495
Add (less) movements in working capital items:		
Decrease/(increase) in debtors and other receivables	59	57
Decrease/(increase) in prepayments	62	(53)
(Decrease)/increase in payables	(271)	(1,196)
(Decrease)/increase in make good provision	10	61
(Decrease)/increase in employee entitlements	34	3
(Decrease)/increase in net GST	87	(329)
Net movements in working capital items	$(19)	$(1,457)
Net cash flow from operating activities	**$1,665**	**$(7,041)**

Note 11: Related Party Transactions

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

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

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

Transaction	Reference	Transaction value year ended 30 June		Balance outstanding year ended 30 June	
		2010	2009	2010	2009
		$000	$000	$000	$000
LECG Limited	(i)	15	40	0	0
Tui Ora limited	(ii)	238	232	0	25
NZ Medical Association	(iii)	0	1	0	0
BPAC NZ	(iv)	0	2,023	0	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 Māori 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, was a member of a bpac^{NZ} advisory group in relation to a one off publication regarding antipsychotics in dementia. The advisory group was disbanded in October 2008. 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 (2009 $nil).

Key management personnel compensation

	Actual 2010 $000	Actual 2009 $000
Salaries and other short term employee benefits and directors' fees	1,487	1,460
Post Employee Benefits	22	18

Key management personnel includes the Chief Executive, Directors and six managers. There have been no changes in numbers of key management personnel from 2009.

Note 12: Events after the Balance Sheet Date

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

Note 13: 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.

	2010 Less than 6 months $000	2009 Less than 6 months $000
Creditors and other payables	**$1,694**	**$1,965**

Fair value

The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2010 approximate their fair values.

Note 14: Categories of Financial Instruments

THE CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES ARE AS FOLLOWS:

Financial assets

LOANS AND RECEIVABLES	Actual 2010 $000	Actual 2009 $000
Cash and cash equivalents	10,216	8,595
Debtors and other receivables	53	192
Total loans and receivables	**$10,269**	**$8,787**

Financial Liabilities

FINANCIAL LIABILITIES AT AMORTISED COST	Actual 2010 $000	Actual 2009 $000
Trade and other payables	1,694	1,965
Total financial liabilities at amortised cost	**$1, 694**	**$1,965**

Note 15: 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 16: Employee Remuneration

Total Remuneration and Benefits	Number of Employees	
$000	**2010**	**2009**
100 – 110	6	7
110 – 120	6	6
120 – 130	4	2
150 – 160	2	1
160 – 170	1	2
170 – 180	1	1
190 – 200	-	1
200 – 210	1	-
210 – 220	1	2
280 – 290	1	1

Note 17: 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 employee's 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 18: Board and Committee Fees

Board members received the following fees during the year:

Member	Fees	
	2010	**2009**
	$000	$000
Richard Waddel (Chair)	36	36
Prof Gregor Coster	2	23
Stuart McLauchlan	21	0
Kura Denness	18	18
Dr David Kerr	18	18
David Moore	18	18
Adrienne von Tunzelmann	18	18

Note 18 cont: Board and Committee Fees

Advisory committee members paid more than $500 are listed below. Some members do not claim fees.
In 2009/10 the following fees were paid.

Committee	Payment ($000)
PTAC	
Carl Burgess	22
Marianne Empson	4
Ian Hosford	16
Sisira Jayathissa	14
George Laking	19
Jim Lello	18
Graham Mills	11
Peter Pillans	11
Paul Tomlinson	4
Mark Weatherall	14
Howard Wilson	17
Anti Infective	
Simon Biggs	1
Steve Chambers	1
Graham Mills	1
Howard Wilson	1
CaTSOP	
Scott Babbington	3
Carl Burgess	1
Bernie Fitzharris	2
Tim Hawkins	3
George Laking	5
Lochie Teague	3
Special Foods	
Simon Chin	3
Jim Lello	1
Kerry McIlroy	4
Jo Stewart	4
Moira Styles	3
John Wyeth	1
Analgesic	
Jonathon Adler	1
Bruce Foggo	1
Lindsay Haas	1
Ian Hosford	1
Howard Wilson	1
Consumer Advisory	
Sandra Coney	5
Matiu Dickson	2
Maurice Gionotti	2
Anne Fitisemanu	2
Heather Thomson	1
Kate Russell	2
Jennie Michel	2
Vicki Burnett	2

Committee	Payment ($000)
Tender	
Sarah Fitt	1
Jim Lello	2
John McDougall	2
Graham Mills	2
Clare Randall	1
Geoff Savell	2
John Savory	2
David Simpson	1
Paul Tomlinson	2
Respiratory	
Carl Burgess	1
Tim Christmas	1
Jim Lello	2
John McLachlan	1
Ian Shaw	1
Exceptional Circumstances & LSA	
Mel Brieseman	19
Sharon Kletchko	24
Paul Tomlinson	11
David Waite	22
Howard Wilson	22
Andrew Herbert	11
Diabetes	
Pat Carlton	2
Nic Crook	1
David Hopcroft	2
Craig Jefferies	3
George Laking	4
Peter Moore	2
Andrea Rooderkerk	2
Bruce Small	1
Paul Tomlinson	1
Mental Health	
Jan Holmes	1
Ian Hosford	3
Verity Humberstone	2
Jim Lello	3
John Werry	1
Growth Hormone	
Carl Burgess	1
Ian Holdaway	2
Penelope Hunt	2
Patrick Manning	1

Note 19: Cessation Payments

This information is presented in accordance with section 152(1)(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 or members in relation to cessation. No cessation payments were made in 2009.

Note 20: Explanation of Major Variances Against Budget

The Output Agreement reflects a subsequent agreed reduction of funding from the original Statement of Intent (SOI) of $724,000 Crown funding.

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

Statement of comprehensive income

The net profit for the year ended 30 June 2010 of $1,231,000 is $1,672,000 more than the SOI budgeted deficit of $441,000. The main differences in revenue increasing include an unforeseen $1,500,000 contractual payment allocated by the Board to the Legal Risk Fund and an additional $396,000 in other revenue. The main differences in expenditure reduction include an underspend on the Herceptin SOLD trial of $456,000 owing to patient forecast not being met and delays in implementing responsible use of pharmaceuticals programmes leading to an underspend of $749,000. Expenditure on the cost of litigation increased by $350,000.

Statement of financial position

Cash and cash equivalents is $2,457,000 more reflecting the budget differences above.

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