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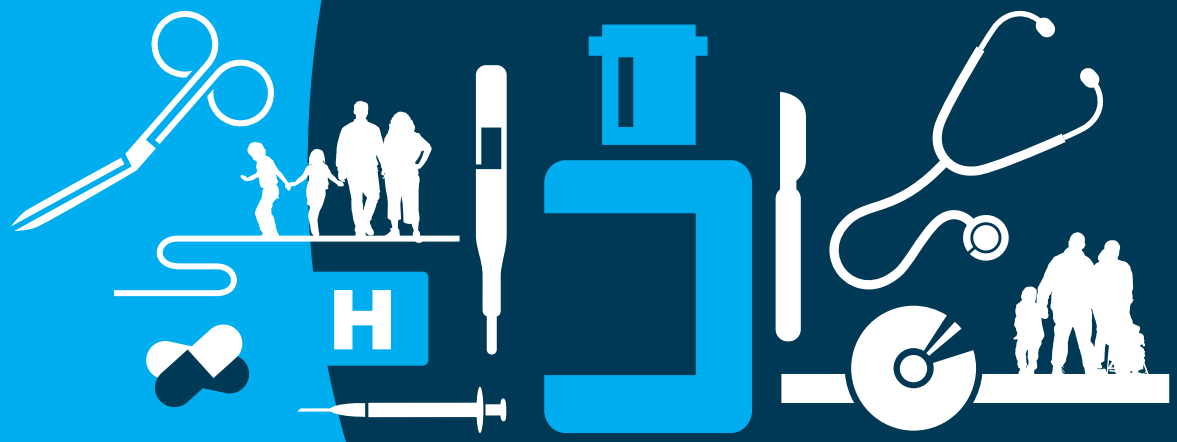
Pharmaceutical Management Agency
Annual Report

For the year ended 30 June 2013

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



New Zealand Government

PHARMAC
Pharmaceutical Management Agency

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PHARMAC DIRECTORY

(as at 30 June 2013)

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Pharmacology & Therapeutics Advisory Committee Dr Sisira Jayathissa – Chair	**Consumer Advisory Committee** Kate Russell – Chair
Auditors Audit New Zealand	**Bankers** ASB Bank Limited
Solicitors Bell Gully	**Insurers** Lumley General Insurance (NZ) Ltd AIG Insurance New Zealand Ltd QBE Insurance (International) Ltd

CHAIR'S REPORT

PHARMAC's contribution to the New Zealand healthcare sector is growing. PHARMAC's focus in the past year has been on delivering on the heightened expectations placed on it, and growing its capacity to meet the challenges ahead.

I believe PHARMAC is strongly positioned to deliver ongoing benefits to New Zealand from its expanded role.

Managing the National Immunisation Schedule

PHARMAC began managing the national immunisation schedule on 1 July 2012. In response to a public health issue over a pertussis (whooping cough) outbreak, PHARMAC widened access to the pertussis vaccine to make it also available for women in the late stages of pregnancy from 1 January 2013. The aim of this step is to protect the most vulnerable group – newborn babies – from whooping cough.

PHARMAC also made a notable change to the access criteria for funded influenza vaccine. From 1 April 2013 this was widened to also include children under the age of five years with significant respiratory illness.

These two changes are examples of how PHARMAC can move swiftly to respond to the health needs of New Zealanders in need of vaccines.

Establishing the national Hospital Medicines List

Hospital medicines was also an area of strong focus for PHARMAC – although the fruits of this work will be delivered in the future. The Hospital Medicines List (Section H of the Pharmaceutical Schedule) is a nationally-consistent list of hospital medicines that will come into effect from 1 July 2013. Its publication means patients will have access to the same hospital medicines regardless of where they live.

The hospital medicines work, and work on hospital medical devices, emerged from recommendations in the 2010 Ministerial Review Group report. The past year has seen a team from PHARMAC busy meeting with senior DHB clinicians, pharmacists and planning staff to sort out the contents of the list, and agree the rules around funding. An exceptions policy, part of the overall Named Patient Pharmaceutical Assessment (NPPA), has also been developed.

We are grateful to the many senior health sector staff who have contributed to this important project and helped it come to fruition. It is likely the relationships that have been established will also assist in progressing PHARMAC's longer term work on hospital medical devices.

Medicine funding

It has been another significant year for PHARMAC in making funded medicines more accessible to New Zealanders. During 2012/13, PHARMAC made 60 new investment decisions leading to 20 newly-listed pharmaceuticals and access being widened to a further 40. This is more than double the number of pharmaceutical investments made in the previous financial year, and reflects the impact of large-volume drugs coming off patent in recent years.

Medicines such as atorvastatin (for raised cholesterol), omeprazole (for reflux and gastric ulcers), clopidogrel (heart disease), metoprolol (heart disease), and quetiapine (psychoses) have all come off patent in the past three years and been the subject of competitive processes, which have served to drive down prices. This has led to considerable savings, which PHARMAC has been able to use to reinvest in new medicines.

The benefits of competition leading to savings from generic medicines have been essential to enable PHARMAC to achieve the level of investment that has been made over the past year.

Funding decisions 2008-2013

Year	New listings	Widened access	Total
2008	5	15	20
2009	8	55	63
2010	20	25	45
2011	39	43	82
2012	14	10	24
2013	20	40	60

Key decisions in 2012/13 have included:

- Buprenorphine with naloxone (Suboxone) – a newly-funded treatment for drug dependence
- Gefitinib (Iressa) – a new generation lung cancer treatment that can be targeted to patients most likely to benefit
- Insulin pumps and consumables – two brands of insulin pumps were listed on the Pharmaceutical Schedule for the first time to enable people to better manage their diabetes
- Filgrastim – a biosimilar version of this treatment for low white blood cell count has been funded
- Atripla and Truvada – two new funded combination therapies to help patients manage HIV infection

High cost medicines

Medicines access continues to be targeted at those with the highest health need who can benefit from the available treatments. The majority of the Combined Pharmaceutical Budget (CPB) is consumed by a small number of New Zealanders. In 2011/12 87% of gross expenditure was for treatments for just 20% of all patients. We estimate that this percentage of gross expenditure is likely to be higher for the 2012/13 financial year. There continues to be a funding provision within the CPB of $8 million annually to support applications from patients with exceptional clinical circumstances, through our Named Patient Pharmaceutical Assessment (NPPA) policy.

Named Patient Pharmaceutical Assessment (NPPA) Impact

PHARMAC introduced the NPPA policy in early 2012. In its first full year, there was a 25% increase in applications to NPPA, compared to the Exceptional Circumstances policies it replaced. PHARMAC received 1105 applications: 705 (64%) were approved and 20 (1.8%) were declined (the remainder were still in progress or withdrawn). In addition there have been 36 NPPA renewal applications.

The NPPA policy also saw 14 medicines that were the subject of multiple NPPA approvals, moved into the Pharmaceutical Schedule over the past year. These included benzbromarone for gout, pegaspargase for acute lymphoblastic leukaemia, protionamide for tuberculosis and paromomycin for cryptosporidium infection.

Listing provides greater access to patients, and reduces administrative effort for clinicians. While individually each of these medicines only account for a handful of NPPA approvals, collectively they represent considerable workloads both for PHARMAC and for treating doctors. In addition to reducing workload, shifting these treatments from NPPA into the Pharmaceutical Schedule also makes it easier for patients to access the medicines they need and provides greater certainty of access for patients and clinicians.

Diabetes product changes

Major transactions occurred during the year around diabetes management products. In 2011/12 PHARMAC ran competitive processes for testing products such as blood glucose testing meters and strips, blood ketone and urine ketone analysis strips, insulin pumps and some forms of insulin.

As a result of these processes, PHARMAC listed insulin pumps on the Pharmaceutical Schedule for the first time from 1 September 2012. These expensive pieces of equipment – costing several thousand dollars each - can help people with insulin-dependent diabetes better manage themselves. Previously they had been available through some DHBs, but not all. Funding insulin pumps is an investment of approximately $3.3 million per year.

The most high-profile change concerned blood glucose testing meters and strips. PHARMAC approved a supply agreement with Pharmaco for three CareSens branded meters and their associated strips. The agreement followed careful consideration of clinical and public feedback, and independent testing of the meters to determine their accuracy. PHARMAC made changes to its funding proposal in response to feedback, such as providing a mechanism for some patients to remain on their existing meters, and to list a higher-spec meter than those originally proposed. The changes were phased in from 1 September 2012, and by May 2013 PHARMAC estimated nearly 100,000 people had changed to the CareSens meters.

Funding the CareSens range is estimated to save DHBs $10 million per year. This is important because, as outlined above, such savings are vital to enable reinvestment funds so PHARMAC can provide New Zealanders with enhanced access to medicines.

Budget management

Pharmaceutical funding was achieved on budget for DHBs at $783.6 million, with PHARMAC contributing a further $2.06 million from its Discretionary Pharmaceutical Fund. Overall spending grew by $6.2 million, with the CPB now including funding for community pharmaceuticals, pharmaceutical cancer treatments and vaccines.

The number of prescriptions funded grew to 42.2 million, an increase of 2.7%, with some 3.4 million patients receiving funded medicines. PHARMAC estimates that 52,398 additional patients benefited from PHARMAC's decisions implemented over the past 12 months.

Our people

I would like to thank the Board and staff of PHARMAC, our consumer and clinical advisory committees and sub-committees for their ongoing dedication to our agency's work. In particularly I would like to recognise the contribution of Professor Carl Burgess, whose tenure as chair of the Pharmacology and Therapeutics Advisory Committee ended in 2012. It was pleasing to see Prof Burgess's contribution recognised in the 2013 Queen's Birthday Honours.

As PHARMAC's responsibility continues to increase within a very important sector for New Zealand, so too does the number of staff. The continued high performance of PHARMAC is indicative of the quality leadership and commitment of all staff to PHARMAC's goals and objectives.

Stuart McLauchlan
Chair

On behalf of the PHARMAC Board

OVERVIEW OF PHARMAC

PHARMAC is the New Zealand government agency that decides, on behalf of District Health Boards (DHBs), which medicines and related products are publicly funded in New Zealand and to what level. PHARMAC's decisions are based on a standard process and include clinical advice from advisory committees, analysis based on examinations of clinical evidence, and – usually – the community's views sought through consultation.

PHARMAC's decisions affect the lives of almost every New Zealander in terms of their access to medicines, whether through medicines listed on the Pharmaceutical Schedule or accessed through an assessment of their individual situation through the Named Patient Pharmaceutical Assessment (NPPA) policy. As such, these decisions attract high degrees of public and clinical scrutiny. Making robust, evidence-based decisions within a capped budget is central to PHARMAC's processes.

High quality decision-making is essential and PHARMAC's processes have been tested in both the Courts, via judicial review, and by the Ombudsman, via investigations of complaints. PHARMAC has used the outcomes of these reviews and investigations to improve its processes.

PHARMAC's main roles include:

- managing the Combined Pharmaceutical Budget for community medicines, vaccines, and hospital cancer medicines;
- determining the Pharmaceutical Schedule (the list of Government-funded medicines prescribed and dispensed in the community, medicines available in DHB hospitals (including pharmaceutical cancer treatments) and vaccines);
- managing access to medicines for named individuals through NPPA, and other special access programmes;
- promoting the responsible use of medicines; and
- engaging in research, policy work and support to others in the health sector.

From 1 July 2013, PHARMAC will manage the national Hospital Medicines List. This will standardise the funding of medicines in DHB hospitals throughout the country, and new hospital medicines will be introduced on a nationally-consistent basis.

PHARMAC is also working with Health Benefits Ltd (HBL) to progress work on management of hospital medical devices.

PHARMAC is guided by relevant legislation (including the Public Health and Disability Act 2000 and the Crown Entities Act 2004), and current Government expectations, as outlined in relevant Letters of Expectations.

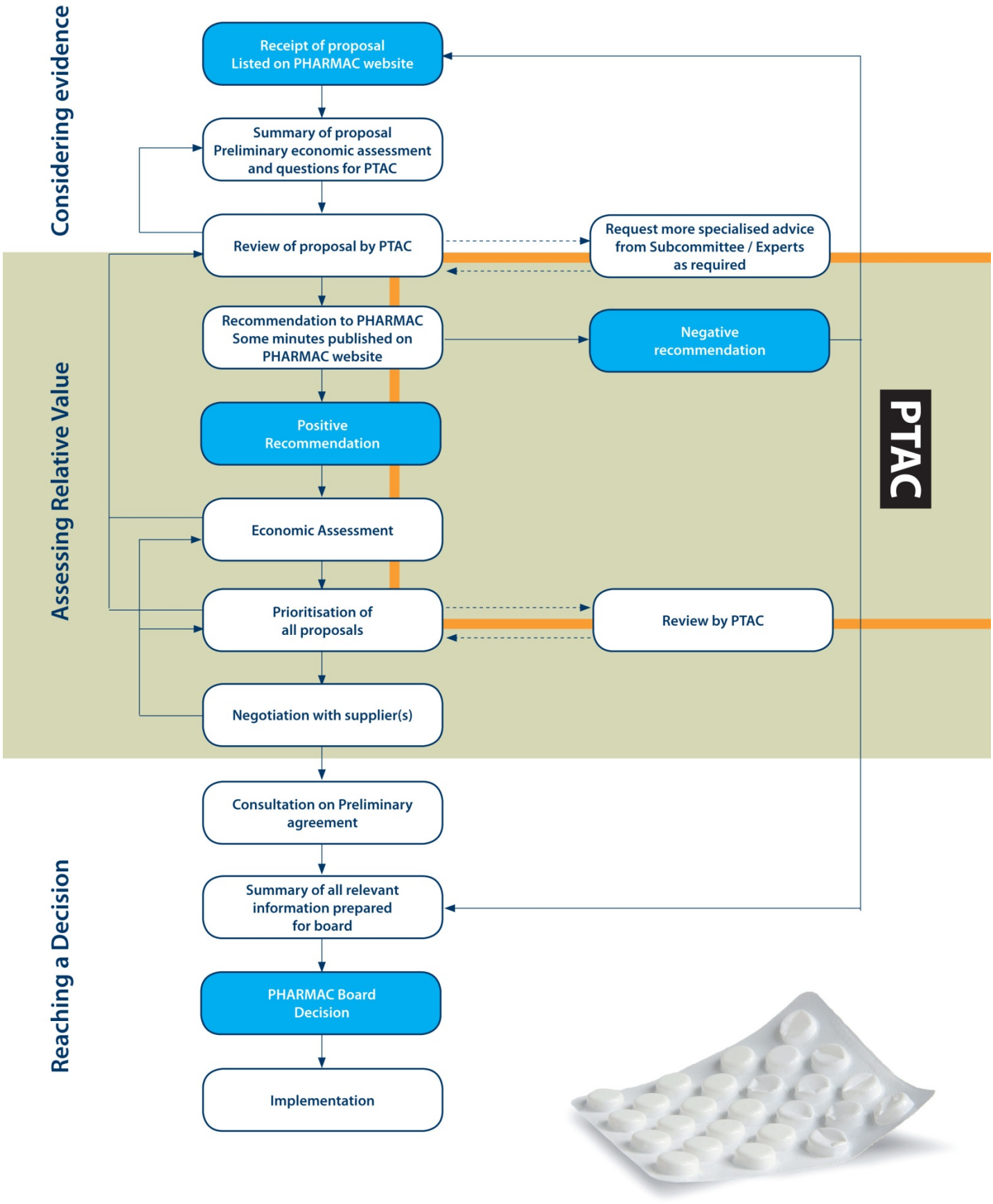
PHARMAC is one of many Government agencies that influence the health of New Zealanders. Our roles in pharmaceutical assessment, funding, procurement for DHBs and promoting the optimal use of medicines, influence health and disability system outcomes both directly and indirectly. These outcomes are:

- New Zealanders live longer, healthier, more independent lives; and
- The health system is cost effective and supports a productive economy.

For a more detailed description of PHARMAC's activity, refer to PHARMAC's Information Sheets (www.pharmac.govt.nz/infosheets).

Schedule decision making process

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



PHARMAC AS A GOOD EMPLOYER

PHARMAC's success depends on high calibre employees, so recruiting and retaining high performing people is critical. PHARMAC has a range of policies to support this, which encompass good employer principles and obligations. These include:

Leadership, Accountability and Culture
PHARMAC has the necessary leadership capability, and we treat our accountability requirements with high priority. Drawing on internal and external feedback, we continue to build an organisational culture fit for current and future challenges.

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, and the approach will vary according to the type of role. Induction programmes are run for all new staff.

Employee Development, Promotion and Exit
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, acting in more senior roles, external training, support for formal study, and secondments. Our performance management system includes individual and team goals which link to organisational priorities, and includes a focus on individual professional development. Departing employees are offered exit interviews.

Flexibility and Work Design
Provided business needs are met, employees may work flexible hours and at times work remotely. Fifteen 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. We have policies in place to manage harassment and bullying, and such behaviour is not tolerated.

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. The health and safety of our working environment is monitored, including business continuity planning and emergency preparedness.

Staffing
PHARMAC is currently in a significant growth phase with 25 more employees than at 30 June 2012. This is anticipated to continue to increase during the next two years.

In 2012/13, 8 permanent staff resigned (10.12% of total permanent staff). Turnover has decreased from the previous year, although as our total staff numbers are not high, a small change in numbers leaving may have a disproportionate effect on the relative turnover percentage. Overall, analysis shows there are no significant organisational "push" factors. As a small organisation with a relatively flat management structure, opportunities for internal progression can be limited, so there is a level of turnover driven by that factor.

Three staff went on parental leave during this year and three staff returned from parental leave. There is a relatively high number of part-time staff and at 30 June 2013, 15% of permanent staff worked part-time. We have a total of 94 staff; 79 permanent employees, plus 15 fixed term employees.

We are currently supporting staff with disabilities and a disability register is held in case of emergency. The number of staff of Māori origin is reported at 3% and 0% of Pacific Island origin. We invite staff to provide information on their ethnicity, however providing this information is voluntary. Therefore, the figures are not a true representation of the ethnicity mix with 34 staff (36%) choosing not to provide this information.

Permanent employees			
Gender	**Part time**	**Full time**	**Total**
Men	3	26	29
Women	9	41	50
Total	**12**	**67**	**79**

Fixed Term employees			
Gender	**Part time**	**Full time**	**Total**
Men	1	4	5
Women	2	8	10
Total	**3**	**12**	**15**

Senior Management Team

Steffan Crausaz (BPharm, MSc, MRPharmS): Chief Executive
Steffan was appointed Chief Executive of PHARMAC in July 2012. Prior to taking up the Chief Executive position in an interim capacity in 2011, Steffan was Manager of Funding and Procurement, leading PHARMAC's commercial and health technology assessment activities. Before joining PHARMAC in 2003, Steffan trained as a pharmacist in the UK. He also worked in the pharmaceutical industry (branded and generic) while undertaking his Masters in pharmacoeconomics and pharmaceutical policy. Steffan oversees the Senior Management Team and is directly answerable to the PHARMAC Board.

Dr Peter Moodie (BSc, MBChB, FRNZCGP): Medical Director
Peter has worked as PHARMAC's Medical Director for 14 years. During this time he has continued to work as a general practitioner. Peter's experience, leadership and understanding of the sector has been pivotal to the successful operation of PHARMAC. As medical director, Peter is accountable for clinical governance, and oversees the medical team that provide medical advice across PHARMAC's operations and manage medicine access programmes (including access to some high cost medicines and the NPPA policy). Peter also oversees PHARMAC's relationship with PTAC (Pharmacology & Therapeutics Advisory Committee), our main clinical advisory committee.

Sarah Fitt (BPharm, Dip Mgt): Director of Operations
Sarah joined the PHARMAC management team in April 2013. Sarah brings a breadth of experience and sector knowledge to PHARMAC having spent the last 12 years as Chief Pharmacist at Auckland DHB. As Director of Operations, Sarah oversees the team that manages medicines and medical devices procurement and PHARMAC's funding process.

Marama Parore (Ngati Whatua, Ngati Kahu, Nga Puhi): Manager, Access and Optimal Use (AOU) & Māori Health
Marama has worked in the Heath Sector for more than 20 years in a number of government and non-government organisations, and has worked at PHARMAC for nine years. Marama has a background in community nursing, training, teaching and management. Marama's team is actively involved in implementing and supporting initiatives that influence prescriber and consumer behaviours through education, increased awareness and population health programmes. Marama also leads the implementation of Te Whaioranga (PHARMAC's Māori Responsiveness Strategy).

Rico Schoeler (Diplom - Volkswirt (Economist)): Manager, Analysis and Assessment
Rico joined the Management team as Manager, Analysis and Assessment in 2006 after working for a number of years for PHARMAC, firstly as an analyst then after a period overseas, returning to PHARMAC as a senior analyst. Rico's experience and strong analytical skills are an asset to the Management Team. Rico's team of analysts and economists carry out data analysis and cost modelling of funding applications, and undertake cost utility analysis to inform decision making.

Jude Urlich (MPP(Dist), BA, DipBsStd(PR), APR): Manager, Corporate and External Relations
With a background in the state sector and in running her own consultancy, Jude brings a wide range of organisational experience to PHARMAC's senior management team. She has worked extensively in communications and social marketing, and held functional leadership roles in the public service, tertiary education and wider state sector. Jude has qualifications in public policy and has been a media spokesperson for national organisations for more than 20 years. Since joining PHARMAC in early 2010, Jude has managed corporate services and external relations activities.

Rachel Mackay (BA, NZMIR): Manager, Schedule and Contracts
Rachel brings a wealth of knowledge to the PHARMAC management team, having worked in the health sector for more than 20 years. Rachel has built strong strategic skills, industry knowledge and sector relationships in her 14 years at PHARMAC. The Schedule and Contracts team manage the content and publication of the Pharmaceutical Schedule, PHARMAC's 0800 line, pharmaceutical supply contracts and any stock supply situations that arise.

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
Anne Kolbe	Disclosed an interest as Head of the Auckland Clinical School, Faculty of Medical and Health Sciences, the University of Auckland. The University of Auckland is one of three providers PHARMAC is using for its Space to Breathe programme.	Board	The Board noted the interest and determined that Anne could comment and add to the discussion, but could not vote.	This determination is for any Board meeting at which the Space to breathe programme was discussed.
Anne Kolbe	Disclosed interest as Chair of National Health Committee in relation to a proposed Memorandum of Understanding. between PHARMAC and the National Health Committee	Board	The Board noted the interest and determined that Anne could comment and add to the discussion, but could not vote.	This determination was for the Board meeting in question.

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 2013 fairly reflect the financial position and operations of PHARMAC.

Stuart McLauchlan
Chair

27 September 2013

Jens Mueller
Director

27 September 2013

PHARMACEUTICAL EXPENDITURE

Key figures: Combined Pharmaceutical Budget

- **$783.6 million** – yearly DHBs' combined pharmaceutical expenditure (on budget)
- **$785.7 million** – total combined pharmaceutical expenditure
- **42.2 million** – number of funded prescriptions filled (2.7% increase)
- **3.4 million** – number of New Zealanders receiving funded medicines
- **$56.5 million** – amount of savings achieved
- **20** – number of new medicines funded
- **40** – number of medicines with access widened
- **12** – number of vaccines included within the CPB
- **52,398** – estimated number of additional patients benefitting from these decisions in a full year

Key figures: Hospital Pharmaceuticals

- **$4.1 million** – first full year savings to DHB hospitals from annual tender

Hospital Pharmaceutical Savings in 2012/13

PHARMAC manages an annual tender for a range of products used in District Health Board (DHB) hospitals. In 2012/13 this returned full year savings of $4.1 million to DHB hospitals. In addition, PHARMAC estimates that it will collect $3.5 million (excl GST) of rebates for DHB hospital pharmacies, for the 2012/13 financial year.

Combined Pharmaceutical Expenditure in 2012/13

PHARMAC manages the annual Combined Pharmaceutical Budget (CPB), which is agreed each year with DHBs and set by the Minister of Health. DHBs hold funding for the CPB. PHARMAC works to ensure spending does not exceed the CPB.

In addition, PHARMAC holds a multi-year Discretionary Pharmaceutical Fund (DPF), which allows PHARMAC to take a long-term approach to spending decisions. The DPF may be supplemented by DHB CPB underspends in any financial year and may also be used to reimburse DHBs if there is any collective overspend in the CPB.

The total spend by DHBs was $783.6 million. This consisted of $785.7 million on combined pharmaceuticals (including pharmaceutical cancer treatments and the National Immunisation Schedule vaccines), and $2.1 million transferred from the DPF to DHBs.

The DHBs' combined pharmaceuticals spend represents an increase of $6.2 million over the previous year's expenditure. For 2012/13, net spending is made up of gross expenditure of $926.4 million plus $1.3 million of other expenditure, less an estimated $139.4 million expected from suppliers as rebates.

The key drivers of expenditure growth were:

- $100.6 million net spending increase in the number of prescriptions for subsidised pharmaceuticals filled (including the addition of the National Immunisation Schedule vaccines); and
- $17.4 million net expenditure on new investments and increased access to medicines this financial year.

PHARMAC has to work to offset the effect of this continuing volume/mix growth through savings programmes on currently funded medicines ($40.1 million net savings, plus $21.9 million from the annual tender of off-patent medicines). 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 table below summarises the factors that have contributed to this increase.

Summary of Combined Pharmaceutical Expenditure 2012/13 ($ million)

	Expenditure	Impact in 2012/13	Full year Impact
Expenditure for year ended 30 June 2012[1]	$777.4		
Volume changes			
Volume increases[2]		$100.6	
Volume decreases		-$21.1	
Increased access to medicines already funded		$4.7	
New investments		$12.7	$13.7
Net volume changes	$96.9		
Subsidy changes			
Subsidy increases		$5.5	$5.2
Subsidy decreases		-$39.3	-$48.0
Savings from annual tenders		-$21.9	-$30.3
Savings from alternative commercial proposals		-$0.8	-$0.8
De-listings		-$2.7	
Residual subsidy increases from 2011/12		$10.0	
Residual subsidy decreases from 2011/12		-$22.2	
Net subsidy changes	-$71.4		
Change in additional items not included above	-$5.9		
Change in DPF income	-$13.4		
Total Expenditure for year ended 30 June 2013	$783.6		
Total change from previous year[3]	*$19.6*		

[1] In 2011/12 the CPB did not include the National Immunisation Schedule vaccines.
[2] In 2012/13 volume increases include the addition of the National Immunisation Schedule vaccines.
[3] Total change in expenditure excluding DPF movement.

Savings
The breakdown of savings across therapeutic groups is shown below ($ million).

Therapeutic Group	Increase	Saving	Net
Alimentary Tract and Metabolism	$0.1	-$5.4	-$5.3
Blood and Blood Forming Organs	$3.3	-$0.2	$3.1
Cardiovascular System	$0.0	-$14.2	-$14.2
Dermatologicals	$0.1	-$0.3	-$0.2
Genito-Urinary System	$0.1	-$0.6	-$0.5
Hormone Preparations - Systemic Excluding Contraceptive Hormones	$0.0	$0.0	$0.0
Infections - Agents for Systemic Use	$0.0	-$0.5	-$0.5
Musculo-skeletal System	$0.0	-$0.6	-$0.6
Nervous System	$0.2	-$6.1	-$5.9
Oncology Agents and Immunosuppressants	$0.1	-$0.7	-$0.6
Respiratory System and Allergies	$0.0	-$8.1	-$8.1
Sensory Organs	$0.0	-$0.3	-$0.3
Special Foods	$0.5	-$0.4	$0.1
Pharmaceutical Cancer Treatments	$0.3	-$1.8	-$1.5
Tender	$0.2	-$21.9	-$21.7
Tender ACP	$0.0	-$0.8	-$0.8
EC Expenditure	$0.6	-$0.1	$0.5
Totals	**$5.5**	**-$62.0**	**-$56.5**

Medicine funding and health outcomes 2012/13

We are able to demonstrate the value we get from pharmaceutical spending, through increasing effectiveness of medicines and reducing the cost of medicines. PHARMAC assesses additional health gains from these funding decisions. We use cost-utility analysis and measure outcomes in quality adjusted life years (QALYs).

The QALY is a standard measure used internationally that takes account of different medicines' ability to improve quality of life, or to extend life. In this way, medicines that do different things can be compared on a more-or-less equal basis. For example, a person who regularly takes their asthma preventer inhaler as directed not only reduces their small chance of premature death, they also are more able to go about daily tasks such as walking the children to school, doing the housework or paid work. Such factors are all taken into account in the QALY measure.

We have compared the investments made this year to all potential investments to determine if PHARMAC has selected proposals that are more cost-effective than the average options. For cost-saving proposals, the health gain was often not calculated, meaning that the average gain is a minimum and will therefore be higher. Funded proposals provided a minimum weighted average of 27 QALYs per million dollars spent, compared with an average of 19 QALYs per million spent from all proposals considered to have health gains.

Table of combined pharmaceutical funding decisions 2012/13

The table overleaf lists details of the medicines investment decisions implemented in the 2012/13 financial year.

- New listings refer to listing or relisting of any pharmaceutical not presently on the Schedule and new formulations and presentations that represent a significant shift in treatment options.
- 'Widened access' refers to changes in access criteria of existing pharmaceuticals affecting a wider patient population or populations.

Pharmaceutical	Used to treat	Decision type	Gross spending 2012/13	Estimated # new patients in 2012/13	Estimated # new patients in 2013/14
July 2012					
Buprenorphine with naloxone	Opiate dependence	New listing	$2,400,000	933	1240
Vaccines on National Immunisation Schedule (11)	Infectious diseases	Transfer from Ministry of Health	n/a	n/a	n/a
August 2012					
Candesartan	Hypertension, heart failure	Access widening	$120,000	5,070	17,300
Gefitinib	Lung cancer	Access widening	$760,000	53	107
Ivermectin	Scabies	New listing	$333,000	10,500	11,600
Montelukast	Asthma	New listing	$467,000	7,330	8,400
Paediatric Products - Special Foods (5)	Malabsorption, failure to thrive, increased nutritional requirements, tube feeding	Access widening	$37,300	140	140
Standard Supplements - Special Foods (6)	Epidermolysis bullosa, AIDS, chronic pancreatitis, hyperemesis gravidarum and pregnancies with multiple births	Access widening	$215,000	1170	1170
September 2012					
Insulin pumps and consumables[1]	Diabetes	New listing	$2,000,000	573	840
Filgrastim[1]	Neutropenia	New listing	$2,000,000	n/a	n/a
October 2012					
Nicorandil	Angina	New listing	$93,300	293	293
Mexiletine[2]	Ventricular arrhythmias	New listing	$6,700	13	13
November 2012					
Azithromycin	Lung infections	Access widening	$13,300	n/a	n/a
Tolterodine	Overactive bladder	New listing	$57,300	n/a	n/a
Voriconazole	Invasive fungal infection	New listing	$427,000	n/a	n/a
Sunitinib	Cancer	Access widening	$240,000	n/a	n/a
Valganciclovir	Cytomegalovirus	New listing	$533,000	19	36
December 2012					
Gemcitabine hydrochloride	Metastatic breast cancer, Hodgkin's Disease, soft tissue sarcoma	Access widening	$46,700	59	100
Anagrelide hydrochloride	Essential thrombocytosis	Access widening	$16,000	5	11
Irinotecan	Advanced pancreatic cancer, small bowel cancer	Access widening	$127,000	100	200
Oxaliplatin	Advanced pancreatic cancer, small bowel cancer, advanced oesophagogastric cancer	Access widening	$64,000	191	300
Vinorelbine	Breast cancer, non-small	Access widening	$2,670	5	11

Pharmaceutical	Used to treat	Decision type	Gross spending 2012/13	Estimated # new patients in 2012/13	Estimated # new patients in 2013/14
	cell lung cancer				
Pioglitazone	Type 2 diabetes	Access widening	$18,700	132	271
Capecitabine	Metastatic breast cancer, colorectal cancer	Access widening	$629,000	188	300
Octreotide (somatostatin analogue)	Acute upper gastrointestinal bleeding, short bowel syndrome, rapid gastric emptying, high output stomas and intractable diarrhoea	Access widening	$116,000	47	100
Emtricitabine with tenofovir disoproxil fumarate[3]	HIV	New listing	$3,400,000	910	1,100
Efavirenz with emtricitabine and tenofovir disoproxil [3]	HIV	New listing	$1,100,000	470	540
January 2013					
Second insulin pump brand	Diabetes	New listing	As above for first insulin pump brand		
Tramadol SR	Pain	New presentation	$850,000	n/a	n/a
Pertussis, diphtheria, and tetanus vaccine	Whooping cough vaccination for pregnant women	Access widening	$260,000	30,000	30,000
Posaconazole	Prophylaxis of invasive fungal infections	New listing	$540,000	80	170
Testosterone undecanoate	Hypogonadism	New listing	$230,000	780	960
February 2013					
Capsaicin 0.025% cream	Osteoarthritis in patients who are non-responsive to or cannot tolerate other treatments	New listing	$250,000	1800	4400
Atenolol oral liquid	Heart conditions in children	New presentation	$7,000	n/a	n/a
Bosentan	Children with idiopathic pulmonary arterial hypertension or pulmonary hypertension secondary to congenital heart disease	Access widening	$130,000	15	25
Seasonal influenza vaccine	Influenza for people over 65 or with various chronic conditions	Transfer from DHBs	$5,400,000	n/a	n/a
March 2013					
Sildenafil	Raynaud's phenomenon	Access widening	$17,000	50	100

April 2013					
Ready to drink liquid sip feeds	Severe epidermolysis bullosa	Access widening	$4,000	30	30
Metolazone	Heart failure for patients who are intolerant or not responsive to ACE inhibitors and/or angiotensin receptor blockers	Access widening	$19,000	n/a	n/a
Hydralazine	Refractory hypertension or the treatment of heart failure in ACE inhibitor/angiotensin receptor blockers intolerant/non responsive patients	Access widening	$13,000	n/a	n/a
Propranolol oral liquid	Heart conditions in children	New presentation	$13,000	300	300
Benzbromarone	Gout	Access widening	$36,000	180	900
Pegaspargase	Acute lymphoblastic leukaemia	Access widening	$114,422	3	14
Diazoxide	Hypoglycaemia caused by hyperinsulinism	Access widening	$7,670	n/a	n/a
Para-amino salicylic acid	Tuberculosis	Access widening	$2,500	n/a	n/a
Protionamide	Tuberculosis	Access widening	$1,250	n/a	n/a
Paromomycin	Cryptosporidium infection	Access widening	$88	0	1
Tetracycline	Treatment of helicobacter pylori	Access widening	$28,000	150	1,150
Bismuth trioxide	Helicobacter pylori	Access widening	$10,000	150	1,150
Stiripentol	Dravet syndrome	Access widening	$23,000	n/a	n/a
Glyceryl trinitrate ointment (0.2%)	Anal fissures in the community	New listing	$44,000	500	2,000
Seasonal Influence Vaccine	Influenza for patients aged four and under who are susceptible to respiratory illness.	Access widening	$120,000	7,000	8,000
May 2013					
Perindopril	Cardiovascular (renal tubular diseases)	Access widening	-$30,000	0	500
June 2013 – *no new investments*					
Total (unadjusted)			$23,387,900	69,864	101,272
Total (adjusted)[4]			$17,540,925	52,398	75,954

Notes:
1. Some of the insulin pumps and consumables and filgrastim investments represent an expenditure transfer from DHBs
2. Mexiletine has been subsidised previously until a supplier discontinuation occurred.
3. New combination tablet version of medicines that were listed previously.
4. The total figures are adjusted to align with historic performance compared to forecast.

IMPACTS – THE INFLUENCE PHARMAC HAS

PHARMAC's work directly affects the lives of New Zealanders, many of whom rely on medicines to go about their daily lives. PHARMAC is one of many Government agencies that influence the health of New Zealanders. We work alongside others in the health sector to be well informed about evidence-based medicines and we provide assistance to District Health Boards (DHBs) to achieve wider value for money in other procurement initiatives.

Impacts

Our work creates impacts, or intermediate outcomes, that contribute to the outcomes of the Government's *Medicines New Zealand strategy*. We have defined these impacts as:

- Access impacts – our influence over people's ability to obtain medicines;
- Usage impacts – influencing people's use of medicines to ensure they aren't under-, over- or misused; and
- Economic and System impacts – helping the health system work more effectively, and improving value for money.

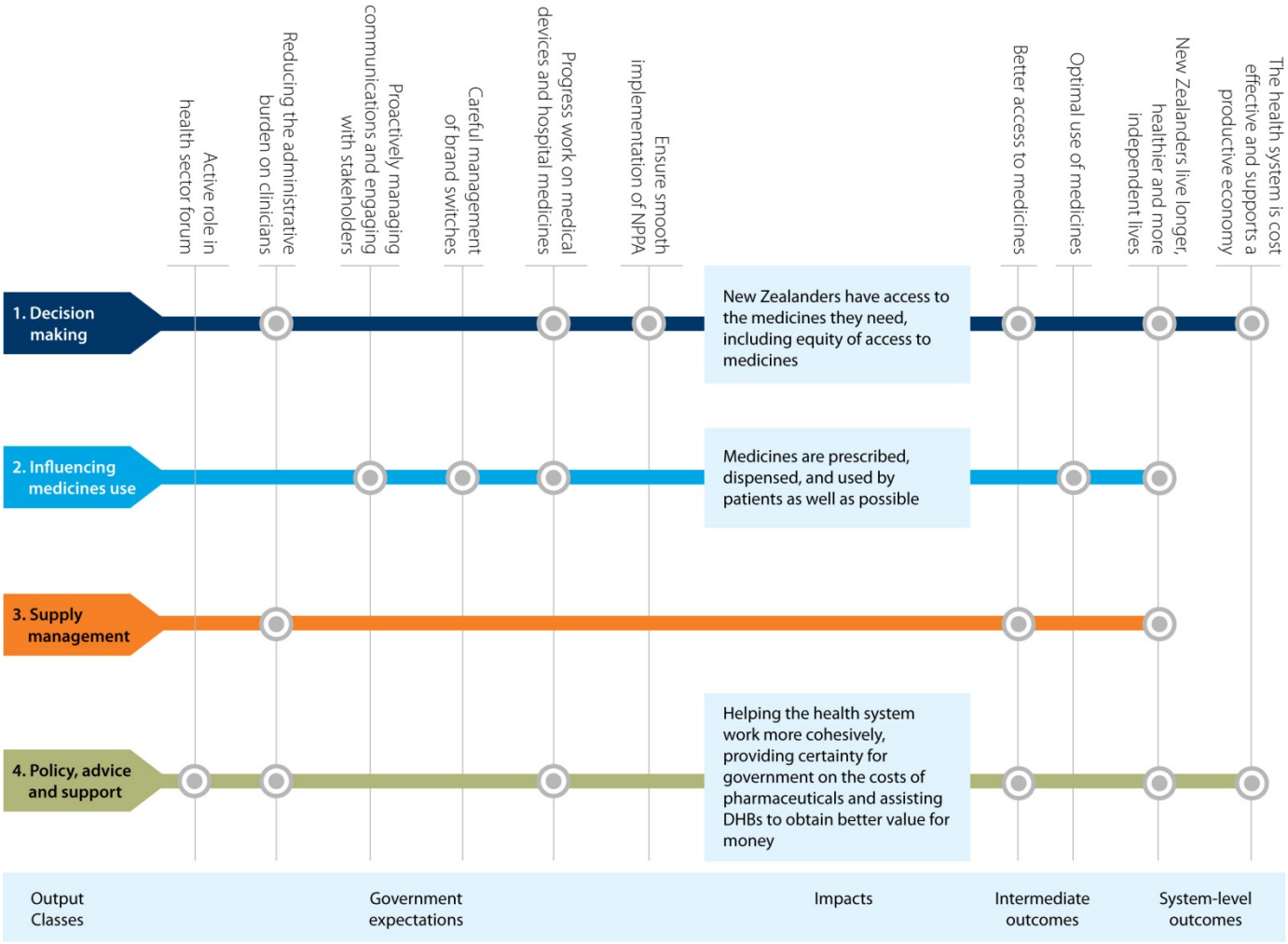
These impacts are made possible through the services we provide – our outputs - which are grouped under the following four categories (Output Classes):

Output class	Description	Outputs
1. Making decisions about pharmaceuticals	Work that leads to new medicines being funded and money being saved on older medicines.	1.1. Community Pharmaceutical Schedule 1.2. Hospital Schedule 1.3. Special access panels 1.4. Named Patient Pharmaceutical Assessment 1.5. Schedule Rules 1.6. Medical devices
2. Influencing medicines use	Promoting the optimal use of medicines and ensuring decisions are understood.	2.1. Explaining decisions/ sharing information 2.2. Population Health Programmes
3. Managing supply of pharmaceuticals	Ensuring the medicines that are funded are available for patients when they need them.	3.1. Contract management, including rebates collection 3.2. Supply vigilance 3.3. Direct distribution
4. Providing policy, advice and support	Assisting the cohesiveness of the broader health sector.	4.1. Advice and support services to the health sector 4.2. Policy advice 4.3. Fund management

These are reported on in full in our Statement of Service Performance (SSP – pages 27 to 33).

PHARMAC's outcomes framework

The framework below shows the relationship of Government expectations to health sector outcomes, PHARMAC's impacts and PHARMAC's activities (output classes).



1. Access impacts

We want to improve people's ability to have equitable access to medicines

How we influence access to medicines

PHARMAC's decisions to subsidise medicines mean they are equally affordable for people, regardless of their geographic location. Many medicines are expensive and priced outside people's reach. This is particularly the case for new technology medicines such as biologics (these are medicines that treat conditions such as auto-immune diseases and some forms of cancer). When a medicine is fully funded by PHARMAC, patients will typically only pay the co-payment that is set by the Government. This reduces the cost factor which is the main barrier to people accessing medicines.

PHARMAC isn't the only agency that has an impact on access to medicines. The Government regulator Medsafe, DHB funders, doctors and pharmacists all have an impact on access. PHARMAC's particular impact is on negotiating contracts that apply nationally and make medicines affordable. In addition, by managing funds we manage risk and optimise cashflows within the system.

Our work in managing contracts and keeping watch on the pharmaceutical supply chain helps ensure medicines are available when people need them.

Sometimes when a medicine is funded it is subject to subsidy rules. While these may be seen as an administrative hurdle for clinicians, they help ensure medicines are targeted to people who most need them. This helps to ensure funded medicines are used cost-effectively.

Measuring our impact on access to medicines

In the 2012/13 financial year, PHARMAC added 20 pharmaceuticals to the Pharmaceutical Schedule and widened access to 40 others. In addition, PHARMAC has included 12 vaccines within the CPB which were previously the responsibility of the Ministry of Health or DHBs.

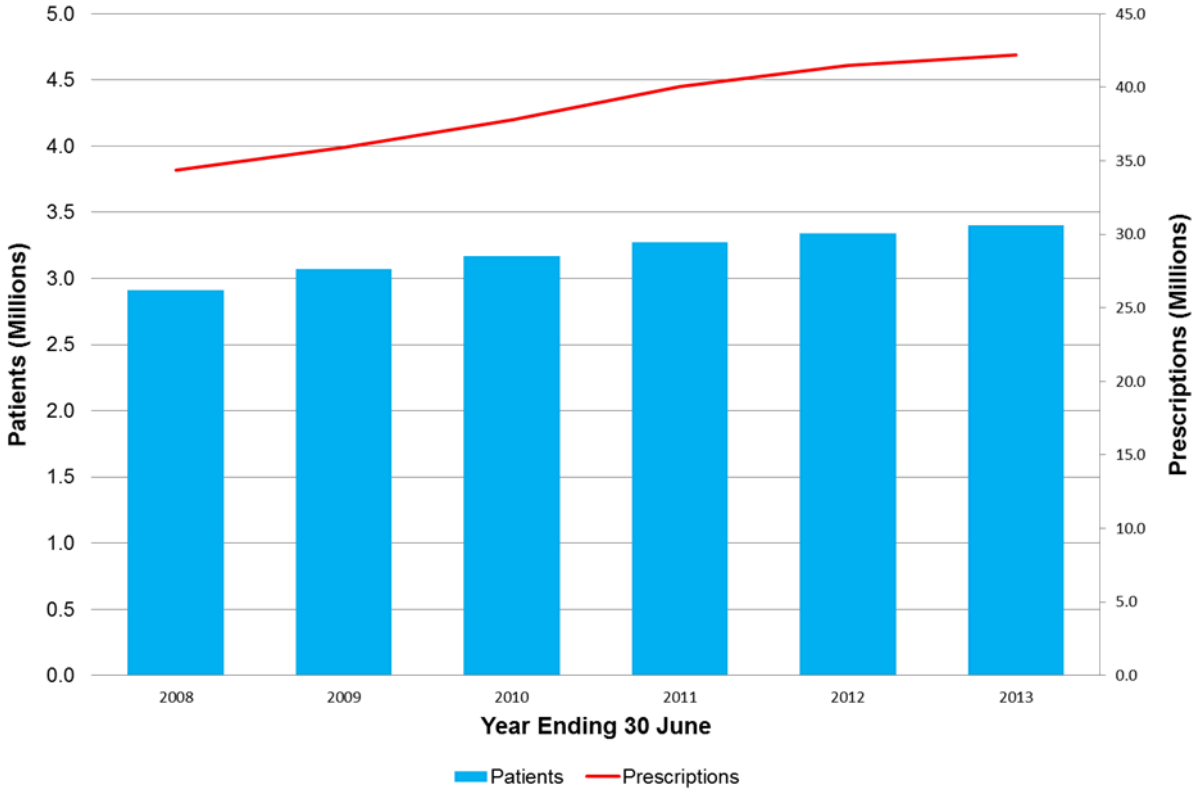
These decisions have led to $17.5 million of gross expenditure, and approximately 52,000 patients receiving these medications.

Patients receiving subsidised medicines and number of subsidised prescriptions from 2010-2013:

	2010/11	2011/12	2012/13
Patients	3.3 million	3.3 million	3.4 million
Prescriptions	39.7 million	41.1 million	42.2 million

The graph illustrates patient access to community medicines has increased (blue bars). The orange line shows the number of prescriptions rising at a steeper rate. This indicates that the average number of prescriptions per patient is rising. Note that this does not include the number of items per prescription, which varies depending on health need and to a certain extent, age.

Prescription numbers and patient numbers 2008-2013



2. Usage impacts

We want medicines to be prescribed, dispensed and used by patients as well as possible. If medicines are over-, or under- or mis-used, then people miss out on the health benefits the medicines could provide them.

How we influence usage of medicines

We work to ensure health professionals are well informed about funded medicines and provide services to help clinicians become better informed about evidence-based medicine. This includes funding the provision of high quality evidence-based prescriber educational materials (currently provided via competitive tender by Best Practice Advocacy Centre (bpac$_{nz}$)) and running the PHARMAC Seminar Series for health professionals.

Pharmacists play an important role in helping people understand their medicines, and we provide information to support pharmacists to help people adjust to brand changes.

Our population health programmes and campaigns often include messages promoting access to, and the optimal use of, medicines. Each of these programmes has targets and measures to gauge the programme's success, and we evaluate them to see whether those targets have been met. By publishing the evaluations, we can demonstrate the effectiveness of our programmes.

Medicines adherence

PHARMAC has been working with stakeholders to seek out innovative ways to enhance patients' medication.

In January 2012, PHARMAC released a request for information (RFI) to gather information on the use of technology to support medication adherence. Evaluation of these responses has been helpful for us in understanding the products available, and defining what we would seek from a potential future provider of such products/services.

Following this we ran a request for proposals (RFP) process which closed in mid-June. We are currently evaluating the responses of the RFP to determine which provider/s we will engage with during the 2013/14 financial year for activities to support medical adherence.

Measuring our impact on usage of medicines

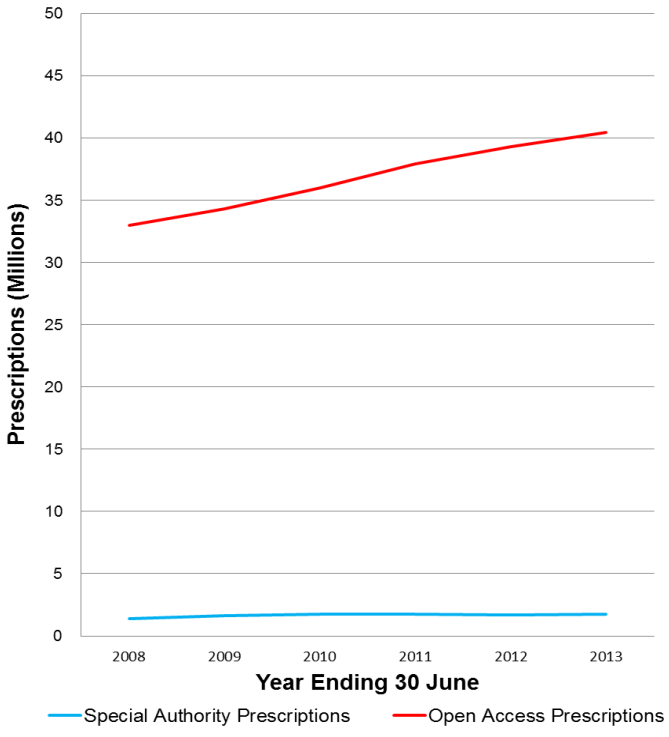
PHARMAC expects that prescriptions for open-access medicines will grow at a faster rate than prescriptions for medicines prescribed under Special Authority.

Number of prescriptions for special authority and number of prescriptions with open access

	2010/11	2011/12	2012/13
Number of prescriptions for Special Authority medicine	1.8 million	1.7 million	1.7 million
Number of prescriptions for medicines with open access	37.9 million	39.4 million	40.5 million

The trend is illustrated in the graph below (line illustrate numbers of prescriptions for open access and special authority medicines)

Prescription trends – open access and Special Authority medicines



3. Economic and system impacts

Helping the health system work more cohesively, providing certainty for government on the costs of pharmaceuticals and assisting DHBs to obtain better value for money.

How we contribute to economic and system impacts

PHARMAC's economic impact supports the Government's overall fiscal management through tight budgetary control. This is particularly important at a time of fiscal restraint and tight budgets.

We estimate health gain in terms of Quality Adjusted Life Years (QALYs – see description in box opposite). Each year PHARMAC is faced with a list of medicines seeking funding, and prioritises how best to spend the available funding in order to maximise health outcomes. Prioritisation is necessary because the demand for funding is always greater than the amount of available funding. We do this by using our decision criteria (box on page 26).

We measure our decision-making effectiveness by calculating the average value of the funding options we had available (our prioritisation list), and comparing that figure with the average value of the funding decisions actually made. Value is expressed in terms of the number of QALYs gained per million dollars spent. We have out-performed the average value of the funding options available, and this illustrates PHARMAC's ability to select the best-value funding options available to use during the year.

Measuring our impact – the QALY

PHARMAC measures the impact of its decisions using QALYs (quality-adjusted life years). This is an international standard measure that takes into account the impact a pharmaceutical or other medical intervention has on quality and quantity of life.

For example, a person who regularly takes their asthma preventer inhaler as directed not only reduces their chance of premature death, they also may be more able to go about daily tasks such as walking the children to school, doing the housework or even being able to return to work. Such factors are all taken into account in the QALY measure.

Measuring our contribution to economic and system impacts

In 2012/13 PHARMAC's operating budget increased to enable growth in capacity to engage in establishment work on medical devices management, and the Combined Pharmaceutical Budget (CPB) grew to accommodate the immunisation schedule. An efficiency dividend of $28.9 million was returned to DHBs to be used to meet Government's health priorities. PHARMAC anticipates that the volume of medicines funded will continue to increase by 6-7%, and the number of new medicines will also grow. So more New Zealanders will receive funded medicines and the range will grow while overall less is spent.

Our work has meant that, since 2002, we have saved District Health Boards a cumulative total of $3.8 billion. At the same time, the number of new medicines and patients receiving them has increased. This estimate is based on pharmaceutical prices in 1999 mapped onto actual prescribing activity, and compares actual spending with what would have happened had PHARMAC taken no action. If not for PHARMAC, this funding would have had to come from other areas of health spending.

In short, PHARMAC's work gives District Health Boards funding choices they wouldn't otherwise have.

PHARMAC's activity in 2012/13 included:

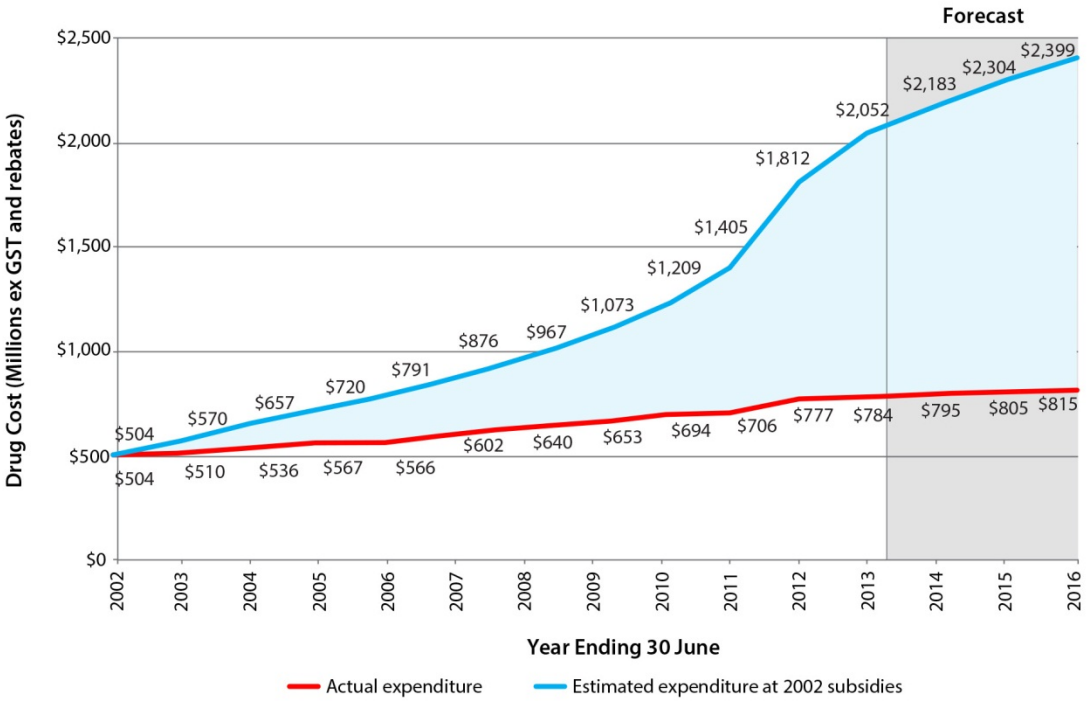
- Seeking clinical advice through PTAC and PTAC sub-committees on potential new pharmaceutical investments, resulting in 20 new medicines funded in 2012/13;
- Reviewing (where appropriate) access to currently funded medicines and removed access barriers where possible, resulting in 40 medicines with widened access in 2012/13;

- Continuing to work with pharmaceutical suppliers to reach cost-effective and mutually acceptable agreements for new pharmaceuticals; and
- Continuing to run commercial processes to extract value from currently-funded medicines; including the tender process, requests for proposals (RFP) and requests for information (RFI).

Economic and System Impact	Measure	Aim/target by 2014/15	Result
DHBs get best value for money	Average value of funding decisions is greater than the average value of all opportunities.	The average value of funding decisions is greater than the average value of funding opportunities we could have chosen during that year.	Achieved. Funded proposals provided a minimum weighted average of 27 QALYs per million dollars spent, compared with an average of 19 QALYs/$1m from all proposals considered to have health gains. This demonstrates PHARMAC obtained the best value from the available funding options.

The graph below shows the impact of PHARMAC on drug expenditure in the Combined Pharmaceutical Budget.

Impact of PHARMAC on drug expenditure over time (actual and predicted 2002 to 2016)



The shaded area between the graph's lines indicates the total amount saved since 2002. This is the difference between estimated spending without savings, and actual spending.

The value of the CPB includes nicotine replacement therapy from 2010/11, pharmaceutical cancer treatments from 2011/12, and vaccines from 2012/13. The inclusion of these additional items makes predictions of future expenditure trends less certain. Expenditure beyond 2013 is estimated and actual figures are subject to change. Predictions of future expenditure do not take into account the possibility of further spending being included, such as hospital medicines or of additional savings being made.

Independent Auditor's Report

To the readers of Pharmaceutical Management Agency's financial statements and non-financial performance information for the year ended 30 June 2013

The Auditor-General is the auditor of Pharmaceutical Management Agency (Pharmac). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and non-financial performance information of Pharmac on her behalf.

We have audited:

- the financial statements of Pharmac on pages 34 to 54, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of movements in public equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and

- the non-financial performance information of Pharmac that comprises the statement of service performance on pages 27 to 33 and the report about outcomes on pages 17 to 23.

Opinion

In our opinion:

- the financial statements of Pharmac on pages 34 to 54:
    - comply with generally accepted accounting practice in New Zealand; and
    - fairly reflect Pharmac's:
        - financial position as at 30 June 2013; and
        - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of Pharmac on pages 27 to 33 and 17 to 23:
    - complies with generally accepted accounting practice in New Zealand; and
    - fairly reflects Pharmac's service performance and outcomes for the year ended 30 June 2013, including for each class of outputs:
        - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
        - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 27 September 2013. This 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 our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of Pharmac's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Pharmac's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported non-financial performance information within Pharmac's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect Pharmac's financial position, financial performance and cash flows; and
- fairly reflect its service performance and outcomes.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Board's responsibilities arise from the Crown Entities Act 2004 and the New Zealand Public Health and Disability Act 2000.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our 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 External Reporting Board.

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

K M 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 2013 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 30 September 2011 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 targets outlined in its 2012/13 Statement of Intent (SOI).

PHARMAC defined four output classes for 2012/13. Note that not all outputs are measured and reported on. The Statement of Comprehensive Income by output class provides the actual revenue and expenses incurred compared with budget.

Output class 1: Decision-making

We want to ensure our processes are as efficient and effective as possible, because good quality processes increase the likelihood of making the best possible decisions. Our decisions follow a standard process that involves economic analysis, clinical advice from the Pharmacology and Therapeutics Advisory Committee (PTAC), negotiations with pharmaceutical suppliers and, often, public consultation. In making its decisions PHARMAC uses nine decision criteria (see box panel).

Our decisions around whether to fund medicines are a major component of our role in securing for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided. PHARMAC is tasked with managing the notional budget set aside by District Health Boards (DHBs) for community pharmaceuticals. From 2011/12 funding for pharmaceutical cancer treatments was met from within the expanded Combined Pharmaceutical Budget (CPB). From 2012/13, the CPB also included funds for vaccines. PHARMAC does not hold these funds – however, it monitors spending with the aim of ensuring that spending does not exceed that agreed notional budget. From 2010/11 PHARMAC established a Discretionary Pharmaceutical Fund that supports pharmaceutical decision-making.

Decisions involve choice. One of the ways in which PHARMAC's performance can be measured is in considering the average value for money of the choices it makes compared with the average value of all available choices. Assurance to the question, "is PHARMAC making good choices" is met through the robust inputs employed by PHARMAC to manage its decision-making processes.

PHARMAC'S DECISION CRITERIA:

PHARMAC uses the criteria set out below, where applicable and giving such weight to each criterion as PHARMAC considers appropriate, when making Pharmaceutical Schedule decisions:

- The health needs of all eligible people;
- The particular health needs of Māori and Pacific peoples;
- The availability and suitability of existing medicines, therapeutic medical devices and related products and related things;
- The clinical benefits and risks of pharmaceuticals;
- The cost-effectiveness of meeting health needs by funding pharmaceuticals rather than using other publicly funded health & disability support services;
- The budgetary impact (in terms of the pharmaceutical budget and the Government's overall health budget) of any changes to the Schedule;
- The direct cost to health service users;
- The Government's priorities for health funding, as set out in any objectives notified by the Crown to PHARMAC, or in PHARMAC's Funding Agreement, or elsewhere; *and*
- Such other criteria as PHARMAC thinks fit.

One of our activities in support of effective decision making involves monitoring pharmaceutical patents and, where appropriate, questioning or challenging them.

Not all of PHARMAC's decisions result in funding medicines – PHARMAC can also decline funding. These are decisions that also have impacts – for example, ensuring funding is available for other, more cost-effective medicines. An online Application Tracker on PHARMAC's website (www.pharmac.govt.nz) enables consumers, clinicians and industry representatives to track the progress of population-based funding applications.

PHARMAC's decision-making framework is described in its Operating Policies and Procedures. A consultation process to review these commenced in February 2012 at the National PHARMAC Forum.

Output 1.1 Community Pharmaceutical Schedule
This is the list of medicines, medical devices and vaccines funded for all New Zealanders, and dispensed in the community, as well as hospital pharmaceutical cancer treatments. The Schedule is a comprehensive list of medicines covering the majority of New Zealanders' health needs. The Schedule decision-making process is outlined in the diagram on page 6.

Output 1.2 Section H, Hospital Schedule
In addition to the Community Pharmaceutical Schedule, PHARMAC also manages Section H, a list of hospital medicines for which PHARMAC has negotiated national supply terms. Section H medicines are funded through DHB hospitals, so are not included in the CPB. In 2010 Government tasked PHARMAC with managing all hospital pharmaceuticals (see box panel). From 1 July 2013 Section H is to be expanded to include the Hospital Medicines List (Part II), the list of which medicines (and as applicable, which brands of those medicines) will be available for use by DHB hospitals, including for use in the community. The new Section H introduces rules for how the list works, including information on exceptions and exemptions schemes. Part III covers other PHARMAC contracted products for optional use in DHB hospitals, including some medical supplies.

Output 1.3 Special Access Panels
Some medicines are very expensive, and to help ensure these are appropriately targeted PHARMAC manages panels of expert doctors to apply the criteria on which patients can access treatment. Around 4000 panel applications are received each year for:

- Cystic Fibrosis;
- Gaucher's Disease;
- Multiple Sclerosis;
- Pulmonary Arterial Hypertension;
- Human Growth Hormone (children and adult)
- Insulin pumps and consumables; and
- Treatments for chronic myeloid leukaemia (imatinib, dasatinib).

Output 1.4 Named Patient Pharmaceutical Assessment
This is the mechanism that gives individual patients access to medicines that are not otherwise funded through the Pharmaceutical Schedule or through DHB Hospitals. PHARMAC introduced NPPA in 2012 following a comprehensive review of the previous Exceptional Circumstances schemes for community, hospital, and cancer medicines. Expenditure for NPPA community and cancer treatments continues to be drawn from the CPB, while hospital pharmaceuticals in the community approvals are funded by individual DHB hospitals.

HOSPITAL MEDICINES AND MEDICAL DEVICES

During 2010 the Government gave PHARMAC expanded roles, including taking a greater role in managing hospital medicines, and in planning for the management of medical devices. These are multi-year projects that will see changes being implemented over the next two to three years.

Hospital Medicines

There is variation in the hospital medicines each DHB funds for its patients. The hospital medicines project aims to construct a list of medicines that every DHB funds, with changes made on a nationally-consistent basis. This aims to eliminate the phenomenon known as postcode prescribing, and may also create greater efficiencies through using a central agency (PHARMAC).

This is a multi-year project involving a staged approach to information-gathering and engagement with hospital clinicians, DHB managers, consumers and industry. During 2012/13 all 16 therapeutic groups were reviewed, Schedule Rules were developed and consulted on including changes to the NPPA policy, and the first edition of the Hospital Medicines List was published on 24 June to take effect from 1 July 2013.

Medical Devices

Government agencies are working to examine national management of medical devices.

Work has begun developing a proposed clinical analysis and advice framework to underpin medical devices management by PHARMAC.

An Interim Procurement Project is underway, with PHARMAC looking to procure a selection of products in the next financial year. Consultation has begun with clinicians, consumers, DHB managers and industry, on an initial list of 11 categories of medical devices suitable for national procurement.

Output 1.5 Schedule Rules

Once a medicine is listed, it may be prescribed for a patient in accordance with the Schedule Rules. Community pharmaceuticals are dispensed by pharmacists, who are contracted by their DHBs to provide services. Pharmacy claims are paid by Ministry of Health Sector Services, on behalf of DHBs. New Schedule Rules for hospital pharmaceuticals were decided on during 2012/13.

Output 1.6 Medical devices

We are responsible for a small number of medical devices. In the community these include:

- Pregnancy test kits;
- Blood glucose testing and management (i.e. test strips/meters and insulin needles/syringes);
- Insulin pumps and consumables;
- Asthma management (peak flow meters, spacers, masks)
- Contraception/IUDs; and
- Urine testing for blood/protein.

In the community, PHARMAC undertook funding consideration of insulin pumps, a new medical device, leading to a new listing from 1 September 2012.

In DHB Hospitals we administer contracts for volatile anaesthetic agents which require a vaporiser device (Sevoflurane, Isoflurane, Desflurane). The device is supplied under the contract for the anaesthetic agent. We also procure radiological contrast media.

During 2010/11 PHARMAC was given greater responsibility to begin assuming responsibility for purchasing medical devices (see box panel page 27) and this work continues to grow in consultation with other health sector agencies. PHARMAC commenced consultation on specific procurement activities to help develop its systems and generate benefits for the DHBs over the next 12-18 months. This includes:

- Anti-embolism stockings
- Disposable sterile instruments
- Hand hygiene
- Interventional cardiology
- Mechanical compression devices and consumables
- Orthopaedic implants – maximisation of suite of contracts
- Sterile surgical gloves
- Sterilisation wrap, tray liners and associated consumables
- Sutures
- Thermometers
- Wound care

Making decisions about pharmaceutical output measures

Impact	Output		2012/13 target	Result
Access Economic and system	1.1	Community pharmaceutical Schedule decisions.	All funding decisions are supported by evidence and made using PHARMAC's nine decision criteria.	Achieved (2012: Achieved). All PHARMAC funding decision papers (to PHARMAC Board or its Delegate) include information on how the decision aligns with the nine decision criteria.
			Decisions on >90% of line items (excluding bids held open while awaiting Medsafe registration) made within 6 months of the tender closing.	Achieved (2012: Achieved). Decisions on approximately 91% of line items (excluding bids held open while awaiting Medsafe registration) were made within 6 months of the tender closing.

Output Class 2: Influencing medicines use

Making decisions to subsidise medicines is only part of the pathway in medicines reaching New Zealanders. We have a legislative role to promote the responsible use of medicines. To do this, we communicate our decisions and provide information and support to help ensure medicines are prescribed and used well. This helps people to understand the reasons behind decisions. It also helps ensure that the health outcomes sought through the funding decision are realised, and that medicines aren't overused, underused or misused by patients. Medicine adherence – ensuring patients take the medicine prescribed for them in the way intended by their prescriber – is a further important component. Beyond providing information, this work includes workforce development, seeking community input, and working with health professionals to deliver the programmes so that the medicines that are funded for people are used optimally.

Our Population Health Programmes

One Heart Many Lives - aims to increase awareness of cardiovascular risk and provide tools for reduction of cardiovascular risk, particularly among Māori and Pacific men aged over 35.

Space to Breathe - aims to reduce hospitalisations among Māori and Pacific children with asthma through education and the use of preventer medication and self-management plans.

Generic medicines - aims to reduce the concerns people have about generic medicines, such as effectiveness, safety, side effects and country of manufacture.

Antipsychotics in dementia - aims initially to assess the extent of inappropriate prescribing of antipsychotics for behavioural and psychological symptoms of dementia in residential care facilities. This review will inform development of an appropriate education, resource and support programme to address inappropriate prescribing of antipsychotics in this setting.

Output 2.1 Explaining decisions/ sharing information

We work to better explain our decisions through our notification letters, the PHARMAC website and information sent to health professionals and patients to help them adjust to the introduction of new medicines or brand changes. Our Consumer Advisory Committee provides, from a patient or consumer point of view, advice to PHARMAC on obtaining consumer views, and communicating and engaging with consumers.

Output 2.2 Population Health Programmes

Our population health programmes are developed in response to evidence-based analysis and identified unmet need, and aim to improve access and promote optimal use of medicines. Key projects that have progressed in 2012/13 are outlined in the box opposite.

Sometimes decision implementation is supported by information provided to health professionals and consumers through our health education programmes, such as He Rongoā Pai He Oranga Whānau, a programme that provides seminars to Māori Community Health Workers and Primary Care Nurses.

We also work to share information and promote evidence-based prescribing to health professionals through our management of the PHARMAC Seminar Series and the work of $bpac_{nz}$ who currently provide (following a competitive tender) services to promote appropriate prescribing through high-quality educational materials and resources.

Influencing medicines use output measures

Impact	Output		2012/13 target	Result
Access	2.2	Population health programmes.	Amount of campaign materials distributed is greater than previous year.	Achieved (2012: Achieved). During the 2012/13 year, there were 1815 orders for campaign materials, with an average of 2.9 different 'products' per order. This compares with a total of 1195 orders, with an average of 2.7 different 'products' per order, during the 2011/12 year.
Usage		Population health programmes.	Surveys of Seminar Series attendees show minimum 90% of respondents rate their satisfaction with the Seminars at least four out of five (where 1 = poor, 5 = excellent).	Achieved (2012: Achieved). PHARMAC hosted 19 seminars in the period 1 July 2012 to 30 June 2013. Feedback was received from 96% of attendees, and of those, 93% rated the seminars at least four out of five (where 1 = poor, 5 = excellent).

Output Class 3: Supply management

When a medicine is funded, this usually results in a supply contract that is negotiated between PHARMAC and the supplier.

Output 3.1 Contract management

PHARMAC has dedicated contract management resources which enable us to be more aware of when supply shortages might arise, and taking action to mitigate them. Better contract management has also enabled PHARMAC to more effectively manage rebate payments from pharmaceutical suppliers.

Output 3.2 Supply vigilance

We're also aware that medicines not on contract are important to patients and need to be monitored. This requires ongoing vigilance of the supply chain to ensure adequate supplies between pharmaceutical companies, wholesalers, pharmacists and patients.

Output 3.3 Direct distribution

PHARMAC also manages direct distribution of some high cost medicines directly to patients. This includes some medicines used to treat leukaemia, multiple sclerosis and enzyme deficiency disorders. In these cases, PHARMAC's active management helps ensure patients have timely access to the medicines they need, and that wastage of these expensive medicines is kept to a minimum. This helps ensure public funding for these medicines is used efficiently. In addition to these high cost medicines, PHARMAC helps manage ordering and distribution of nicotine replacement therapies to providers contracted by the Ministry of Health.

Managing supply of pharmaceuticals output measure

Impact	Output		2012/13 target	Result
Economic and system	3.1	Contract management.	Respond to low medicine stock reports, communicate effectively and take action as necessary to ensure patient needs for medicines are met.	Achieved (2012: Achieved). PHARMAC worked with suppliers to manage several stock events. A significant number required intervention management by PHARMAC staff; this resulted in continuity of supply to patients. Activities included sourcing alternative supply with suppliers and liaison with Medsafe, wholesalers and distributors.

Output Class 4: Policy advice and support

Output 4.1 Advice and support services to the health sector

PHARMAC provides advice and support work for other health sector agencies to improve the cost effectiveness of health spending. This includes management of pharmaceutical spending in the community, advice and support to DHBs on a range of matters including pharmacy contracting and medicines distribution, and contribution to the development of a NZ Universal List of Medicines and National Formulary, amongst other sector-wide initiatives including those that seek to reduce the administrative workload of clinicians.

We undertake work to assist health sector procurement where it fits with PHARMAC's skills, for example with the influenza vaccine and some blood products. Government has identified further potential value-for-money initiatives that PHARMAC can contribute to – either through its activities or through providing advice and support to DHBs or the Ministry of Health.

Output 4.2 Policy advice

We provide specialist operational policy advice to Ministers and officials from a range of government agencies. This includes meetings, papers, submissions, Ministerial support services and other information.

Output 4.3 Fund management

PHARMAC manages pharmaceutical expenditure on behalf of DHBs within the amount approved by the Minister of Health. PHARMAC collects rebates from pharmaceutical suppliers and distributes these back to District Health Boards. This includes rebates for community, hospital, vaccine, haemophilia and pharmaceutical cancer treatments. PHARMAC also has access to a legal risk fund, with a value of $6.7 million in 2012/13, which is used to meet litigation costs that are not otherwise met from PHARMAC's regular operational spending on legal services. From 2010/11 PHARMAC established the Discretionary Pharmaceutical Fund, a funding mechanism to enable more effective use of the pharmaceutical budget across financial years.

Impact	Output		2012/13 target	Result
Economic and system	4.2	Policy Advice	In a survey of PHARMAC policy requesters, an average survey score of at least 4.5 in each area.	*Not Achieved* (2012: Achieved). PHARMAC surveyed policy requesters in July 2013. The following scores give PHARMAC an average score out of 5: • 4.33 (4.88) for timeliness of advice; • 4.11 (4.50) for relevance of the advice; • 4.11 (4.63) for thoroughness; • 4.11 (4.25) for clarity; • 4.22 (4.50) for the quality of the analysis; • 4.33 (4.75) for informal policy support and availability.
	4.3	Rebates distribution	All fund use is in accordance with PHARMAC policy.	Achieved (2012: Achieved). A payment of $25 million was made to DHBs in relation to the Combined Pharmaceutical Budget on 31 May 2013. This was the second payment for the 2012/13 financial year The total CPB rebate distribution for 2012/13 is now $35.34m.

Fund Management on behalf of third parties

PHARMAC manages funds on behalf of third parties. Receipts consist of monies collected and interest earned. Payments include those agreed to be paid on behalf of third parties or distributed direct to them.

	2013	2012
	$000	$000
Opening Balance 01 July	84,492	77,791
Receipts from third parties	145,980	166,056
Interest received	939	600
Total collected	146,919	166,656
Payments on behalf of third parties	48,279	7,328
Distributions to third parties	104,340	152,627
Total distributed	152,619	159,955
Closing Balance 30 June	**$78,792**	**$84,492**

Legal Risk Fund

In performing its functions, PHARMAC maintains a 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.

No funds were spent from the Legal Risk Fund during 2012/13.

We note that PHARMAC's litigation budget ($150,000) is used to replenish the legal risk fund at financial year end, in the event that funds remain in that budget. As at 30 June 2013 no funds remained in the litigation budget.

Discretionary Pharmaceutical Fund (DPF)

The 2010/11 Output Agreement between the Minister of Health and PHARMAC included the provision for establishment of a multi-year fund called the 'Discretionary Pharmaceutical Fund' (DPF). The purpose of the DPF is to enable PHARMAC to take advantage of investment opportunities that might not otherwise be able to be funded in that year, as well as deal with the sometimes lumpy effects of growth in pharmaceutical usage.

At the start of the 2012/13 financial year the DPF balance was $15,202,456.17. Interest of $1,111.53 was added during the year. DHB CPB expenditure for the 2012/13 year was $2,063,517.28 over the agreed budget which was paid from the DPF on 28 June 2013. The closing balance on 30 June 2013 was $13,140,050.42.

Herceptin SOLD Trial Fund

The Herceptin SOLD trial is an international research trial examining whether the nine week or 12 month duration of Herceptin offers a better treatment. The trial is headed by Professor Heikke Joennsuu of the University of Helsinki in Finland. In February 2007 PHARMAC contracted to contribute $3.2 million over at least 10 years towards the trial costs. The PHARMAC Board established a fund in 2009/10 to ensure PHARMAC could meet its contractual obligations over future years. The fund is noted in the 2012/13 Output Agreement.

In the year to 30 June 2013, spending from the Herceptin SOLD Trial Fund was $315,224.

The balance of the Fund stands at $1,109,000 at year end.

STATEMENT OF ACCOUNTING POLICIES

Reporting entity

These are the financial statements of the 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 2013. The financial statements were authorised by the Board of PHARMAC on 27 September 2013.

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, and
- 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

There have been no changes in accounting policies during the financial year.

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:

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 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 assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, PHARMAC is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July

2014. This means PHARMAC expects to transition to the new standards in preparing its 30 June 2015 financial statements. As the PAS are still under development, PHARMAC is unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

SIGNIFICANT ACCOUNTING POLICIES

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.

Investments are initially measured at fair value plus transaction costs.

After recognition investments are measured at amortised cost using the effective interest method.

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.

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 - 5 years	20% - 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

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, Discretionary Pharmaceutical 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.

Cost allocation

PHARMAC has determined the cost of outputs using the cost allocation system outlined below.
Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output.

Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity or usage information.

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:

- The value of PHARMAC's Discretionary Pharmaceutical Fund is dependent of the value of the final estimate of the District Health Boards' Combined Pharmaceutical Budget.

Critical judgements in applying PHARMAC's accounting policies

Management has not exercised any critical judgements in applying PHARMAC's accounting policies for the period ended 30 June 2013.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2013

	Note	Forecast 2013	Actual 2013	Output Agreement 2013	SOI Budget 2013	Actual 2012
		$000	$000	$000	$000	$000
Income						
Crown funding		15,135	15,135	15,135	15,135	14,187
DHB - Operating funding		3,760	3,760	3,312	3,312	3,615
DHB - Discretionary Pharmaceutical Fund	4	0	0	0	0	11,317
Additional Sector Contribution		1,400	1,400	1,400	0	0
Other:						
Interest received - Operating		356	353	130	130	301
- Discretionary Pharmaceutical Fund	4	2	1	0	0	1
- Legal Risk Fund		290	260	200	200	260
Other revenue - Operating		75	77	189	189	498
- Legal Risk Fund		0	0	0	0	13
Total Income		21,018	20,986	20,366	18,966	30,192
Expenditure						
Operating costs		5,489	5,244	5,839	5,039	4,518
Personnel costs	1	8,800	8,550	8,860	8,260	7,181
Audit Fees		40	40	29	29	33
Depreciation & amortisation costs	8&9	528	527	528	528	489
Director Fees		136	135	129	129	108
Discretionary Pharmaceutical Fund	4	2,063	2,063	578	578	0
Finance Costs	2	10	11	9	9	11
Herceptin SOLD trial administration		322	315	574	574	379
Legal Risk Fund		0	0	200	200	113
Occupancy costs		480	461	480	480	462
Responsible use of pharmaceuticals		5,023	5,063	4,707	4,707	4,430
Total expenditure		22,891	22,409	21,933	20,533	17,724
Net surplus/(deficit) for the period		(1,873)	(1,423)	(1,567)	(1,567)	12,468
Other comprehensive income		0	0	0	0	0
Total comprehensive income		**$(1,873)**	**$(1,423)**	**$(1,567)**	**$(1,567)**	**$12,468**

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

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

STATEMENT OF MOVEMENTS IN PUBLIC EQUITY

For the year ended 30 June 2013

	Note	Forecast 2013	Actual 2013	Output Agreement 2013	SOI Budget 2013	Actual 2012
		$000	$000	$000	$000	$000
Balance at 1 July		27,380	27,380	26,510	26,510	14,912
Total Comprehensive Income		(1,873)	(1,423)	(1,567)	(1,567)	12,468
Balance at 30 June	3	**$25,507**	**$25,957**	**$24,943**	**$24,943**	**$27,380**

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

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Note	Forecast 2013	Actual 2013	Output Agreement 2013	SOI Budget 2013	Actual 2012
		$000	$000	$000	$000	$000
PUBLIC EQUITY						
Retained earnings and reserves	3	4,523	4,995	2,822	2,822	4,301
Herceptin SOLD Trial fund	3	1,102	1,109	809	809	1,424
Legal risk fund	3	6,743	6,713	6,343	6,343	6,453
Discretionary Pharmaceutical Fund	3	13,139	13,140	14,969	14,969	15,202
TOTAL PUBLIC EQUITY		**$25,507**	**$25,957**	**$24,943**	**$24,943**	**$27,380**
Represented by:						
Current assets						
Cash and cash equivalents		7,096	7,023	17,462	17,462	10,185
DPF monies deposited into rebates account	5	13,139	13,140	9,481	9,481	10,059
Investments	6	6,180	6,035	0	0	3,300
Debtors and other receivables	7	1,400	1,645	100	100	6,528
Prepayments		30	37	0	0	1
GST Receivable		0	278	0	0	0
Total current assets		27,845	28,158	27,043	27,043	30,073
Non-current assets						
Property, plant and equipment	8	700	696	700	700	725
Intangible Assets	9	150	124	200	200	177
Total non-current assets		850	820	900	900	902
Total assets		28,695	28,978	27,943	27,943	30,975
Current liabilities						
Creditors and other payables	10	2,200	2,036	2,203	2,203	1,923
Employee entitlements	11	719	788	500	500	596
GST Payable		72	0	100	100	890
Total current liabilities		2,991	2,824	2,803	2,803	3,409
Non-current liabilities						
Provisions	12	197	197	197	197	186
Total liabilities		3,188	3,021	3,000	3,000	3,595
NET ASSETS		**$25,507**	**$25,957**	**$24,943**	**$24,943**	**$27,380**

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

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2013

	Note	Forecast 2013	Actual 2013	Output Agreement 2013	SOI Budget 2013	Actual 2012
		$000	$000	$000	$000	$000
CASH FLOWS – OPERATING ACTIVITIES						
Cash was provided from:						
- Crown		15,135	15,135	15,135	15,135	14,187
- DHBs Operating		3,760	4,205	3,312	3,312	3,170
- DHBs Discretionary Pharmaceutical Fund		0	5,201	0	0	6,116
- Additional Sector Contribution		1,400	77	1,400	0	0
- Interest Operating		358	343	130	130	301
- Interest Discretionary Pharmaceutical Fund		0	1	0	0	1
- Interest Legal Risk Fund		260	235	200	200	260
- Other Operating		75	35	189	189	465
- Other Legal Risk Fund		0	0	0	0	13
		20,988	25,232	20,366	18,966	24,513
Cash was disbursed to:						
- Legal Risk Fund expenses		0	0	0	(200)	(113)
- Discretionary Pharmaceutical Fund expenses		(2,063)	(2,063)	0	(578)	0
- Discretionary Pharmaceutical Fund deposited in rebates bank account		(3,081)	(3,081)	0	(3,081)	(10,059)
- Payments to suppliers and employees		(13,569)	(19,523)	(20,405)	(15,246)	(16,780)
- Goods and services tax (net)		(2,168)	(531)	(500)	(400)	906
		(20,881)	(25,198)	(20,905)	(19,505)	(26,046)
Net cash flow from operating activities	13	107	34	(539)	(539)	(1,533)
CASH FLOWS – INVESTING ACTIVITIES						
- Purchase of property, plant and equipment		(366)	(381)	(398)	(398)	(350)
- Purchase of intangible assets		(95)	(80)	(130)	(130)	(97)
- Purchase of investments		(2,735)	(2,735)	0	0	(3,300)
Net cash flow from investing activities		(3,196)	(3,196)	(528)	(528)	(3,747)
Net increase/(decrease) in cash		(3,089)	(3,162)	(1,067)	(1,067)	(5,280)
Cash at the beginning of the year		10,185	10,185	28,010	28,010	15,465
Cash at the end of the year		7,096	7,023	26,943	26,943	10,185

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 and to be consistent with the presentation basis of the other primary financial statements.

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

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

STATEMENT OF COMPREHENSIVE INCOME, BY OUTPUT CLASS

For the year ended 30 June 2013

Output Forecast 2012/13	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	7,010	150	996	(9,280)	(1,124)
Influencing Medicine Use	6,042	2,790	996	(10,369)	(541)
Supply Management	1,090	300	21	(1,554)	(143)
Policy Advice and support	993	520	110	(1,688)	(65)
Total	**15,135**	**3,760**	**2,123**	**(22,891)**	**(1,873)**

Output Actual 2012/13	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	7,010	150	980	(9,687)	(1,547)
Influencing Medicine Use	6,042	2,790	980	(9,671)	141
Supply Management	1,090	300	21	(1,763)	(352)
Policy Advice and support	993	520	110	(1,288)	335
Total	**15,135**	**3,760**	**2,091**	**(22,409)**	**(1,423)**

Output Agreement 2012/13	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	7,010	150	900	(8,892)	(832)
Influencing Medicine Use	6,042	2,342	900	(9,936)	(652)
Supply Management	1,090	300	19	(1,494)	(85)
Policy Advice and support	993	520	100	(1,611)	2
Total	**15,135**	**3,312**	**1,919**	**(21,933)**	**(1,567)**

Output SOI Budget 2012/13	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	7,010	150	0	(7,992)	(832)
Influencing Medicine Use	6,042	2,342	500	(9,536)	(652)
Supply Management	1,090	300	19	(1,494)	(85)
Policy Advice and support	993	520	0	(1,511)	2
Total	**15,135**	**3,312**	**519**	**(20,533)**	**(1,567)**

Output Actual 2011/12	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	6,097	11,617	480	(6,647)	11,547
Influencing Medicine Use	6,698	2,795	300	(8,871)	922
Supply Management	602	120	200	(923)	(1)
Policy Advice and support	760	400	15	(1,175)	0
Fund Management	30	0	78	(108)	0
Total	**14,187**	**14,932**	**1,073**	**(17,724)**	**12,468**

STATEMENT OF COMMITMENTS

As at 30 June 2013

Operating leases as lessee.

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

	Actual 2013 $000	Actual 2012 $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	0	461
Total commitments	**$2,305**	**$2,766**

The rental lease expires 24 July 2018. The commitment is recognised for the full term of 5 years.

PHARMAC has recognised a make good provision of $197,000 (2012: $186,000).

STATEMENT OF CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2013

PHARMAC had no contingent assets at 30 June 2013 (2012: $nil).

PHARMAC had no contingent liabilities at 30 June 2013 (2012: $nil).

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

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Personnel Costs

	Actual 2013 $000	Actual 2012 $000
Salaries and related costs	7,974	6,984
Employer contributions to defined contribution plans	161	138
Increase/(decrease) in employee entitlements	415	59
Total personnel costs	**$8,550**	**$7,181**

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

Note 2: Finance Costs

	Actual 2013 $000	Actual 2012 $000
Discount unwind on provisions (note 12)	**$11**	**$11**

Note 3: Public Equity

RETAINED EARNINGS	Actual 2013 $000	Actual 2012 $000
Balance at 1 July	4,301	2,932
Net surplus/(deficit)	(1,423)	12,468
Net transfer from/(to) Herceptin SOLD trial fund	315	379
Net transfer from/(to) discretionary pharmaceutical fund	2,062	(11,318)
Net transfer from/(to) legal risk fund	(260)	(160)
Balance at 30 June	**$4,995**	**$4,301**

HERCEPTIN SOLD TRIAL FUND	Actual 2013 $000	Actual 2012 $000
Balance at 1 July	1,424	1,803
Add:Net transfer from/(to) retained earnings	(315)	(379)
Balance at 30 June	**$1,109**	**$1,424**

LEGAL RISK FUND	Actual 2013 $000	Actual 2012 $000
Balance at 1 July	6,453	6,293
Add: Interest received transferred from/(to) retained earnings	260	260
Add: Other Income received transferred from/(to) retained earnings	0	13
Less: Litigation expenses transferred from/(to) retained earnings	0	(113)
Balance at 30 June	**$6,713**	**$6,453**

DISCRETIONARY PHARMACEUTICAL FUND	Actual 2013 $000	Actual 2012 $000
Balance at 1 July	15,202	3,884
Add: Income received transferred from/(to) retained earnings	0	11,317
Add: Interest received transferred from/(to) retained earnings	1	1
Less: Pharmaceutical expenses transferred from/(to) retained earnings	(2,063)	0
Balance at 30 June	**$13,140**	**$15,202**
TOTAL PUBLIC EQUITY	**$25,957**	**$27,380**

Note 4: Discretionary Pharmaceutical Fund

The revenue in 2013 of $(1,111): 2012 ($11,317,000) relates to the purpose of the DPF to enable PHARMAC to take advantage of investment opportunities that might not otherwise be able to be funded in that year. The expenditure in 2013 $2,063,000: 2012 ($nil) relates to a payout to DHBs so that the CPB expenditure does not exceed the CPB budget $783.6m.

Note 5: DPF Monies

During the year, PHARMAC advances DPF monies to DHBs via the PHARMAC–managed Combined Rebates Bank Account to enable earlier payout of accrued rebates to DHBs. The DPF is utilised at year end should DHB pharmaceutical expenditure exceed the CPB value. Where this is forecast, PHARMAC ensures it recovers any advanced DPF cash prior to year end.

Note 6: Investments

	Actual 2013 $000	Actual 2012 $000
Current Portion		
Term Deposits	$6,035	$3,300
Total Investments	**$6,035**	**$3,300**

Note 7: 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 days terms.

	2013			2012		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due	35	0	35	6,505	0	6,505
Past due 30-60 days	1,610	0	1,610	0	0	0
Past due 61-90 days	0	0	0	0	0	0
Past due > 91 days	0	0	0	23	0	23
Total	**$1,645**	**$0**	**$1,645**	**$6,528**	**$0**	**$6,528**

All receivables greater than 30 days in age are considered to be past due.

Note 8: Property, Plant and Equipment

	Cost at beginning of year	Additions during the year	Disposals during the year	Accumulated Depreciation beginning of the year	Depreciation for the year	Elimination on disposals	Net Carrying Amount as at 30 June
	$000	$000	$000	$000	$000	$000	$000
2012							
Furniture and fittings	475	27	0	439	21	0	42
EDP equipment	1,436	155	0	1,109	153	0	329
Office equipment	450	21	0	397	22	0	52
Leasehold improvements	780	136	0	511	103	0	302
Total PPE Assets	**$3,141**	**$339**	**$0**	**$2,456**	**$299**	**$0**	**$725**
2013							
Furniture and fittings	502	40	32	460	21	(32)	61
EDP equipment	1,591	136	0	1,262	206	0	259
Office equipment	471	51	11	419	19	0	73
Leasehold improvements	916	149	0	614	148	0	303
Total PPE Assets	**$3,480**	**$376**	**$43**	**$2,755**	**$394**	**($32)**	**$696**

Note 9: Intangible assets

	Cost at beginning of year $000	Additions during the year $000	Disposals during the year $000	Accumulated Amortisation beginning of the year $000	Amortisation for the year $000	Elimination on disposals $000	Net Carrying Amount as at 30 June $000
2012							
Total Intangible Assets	$1,057	$97	0	$787	$190	0	$177
2013							
Total Intangible Assets	$1,154	$85	$5	$977	$133	0	$124

Note 10: Creditors and Other payables

	Actual 2013 $000	Actual 2012 $000
Creditors	1,407	1,167
Accrued expenses	629	756
Total trade and other payables	**$2,036**	**$1,923**

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

Note 11: Employee Entitlements

	Actual 2013 $000	Actual 2012 $000
Annual leave entitlement	567	435
Accrued salaries and wages	221	161
Total employee entitlements	**$788**	**$596**

Note 12: Provisions

	Actual 2013 $000	Actual 2012 $000
Non-current provisions are represented by:		
Lease make-good	197	186
Total provisions	**$197**	**$186**

Movement for "make good" provision

	2013 $000	2012 $000
Balance at 1 July	186	175
Additional provisions made	0	0
Amount used	0	0
Unused amounts reversed	0	0
Discount unwind	11	11
Balance at 30 June	**$197**	**$186**

The make good provision relates to a rental lease that expires 24 July 2018. PHARMAC leases three floors of an office building.

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

	Actual 2013 $000	Actual 2012 $000
Net surplus/(deficit)	$(1,423)	$12,468
Add non-cash items:		
Discount on unwind provision	11	11
Depreciation & Amortisation	532	489
Total non-cash items	$543	$500
Add (less) movements in working capital items:		
Decrease/(increase) in debtors and other receivables	4,883	(6,522)
Decrease/(increase) in prepayments	(36)	127
(Decrease)/increase in payables	113	133
(Decrease)/increase in make good provision	11	11
(Decrease)/increase in employee entitlements	192	60
(Decrease)/increase in net GST	(1,168)	1,749
Net movements in working capital items	3,995	(4,442)
Other movements		
DPF monies deposited in rebates bank account	$(3,081)	$10,059
Net cash flow from operating activities	**$34**	**$(1,533)**

Note 14: Related Party Transactions

All related party transactions have been entered into on an arm's length basis.

PHARMAC is a wholly owned entity of the Crown.

Significant transactions with government-related entities

PHARMAC has been provided with funding from the Crown of $15.135 million (2012: $14.187 million) for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations.

PHARMAC has also received funding from the DHBs of $3.760 million and additional sector services of $1.400 million (2012: $9.286 million). The amount outstanding as at 30 June was $1.400 million (2012: $6,493).

Collectively, but not individually, significant, transactions with government-related entities

In conducting its activities, the PHARMAC is required to pay various taxes and levies (such as GST, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. PHARMAC is exempt from paying income tax.

PHARMAC also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2013 totalled $0.570 million (2012: $0.576 million). These purchases included the purchase of electricity from Genesis, air travel from Air New Zealand, and postal services from New Zealand Post.

Key management personnel

Key management personnel includes the Chief Executive, Directors and six managers. The following transactions were entered into during the year with key management personnel:

- Our Chair, Stuart McLauchlan is a Director of University of Otago Holdings Limited which has a 20% ownership of $bpac_{nz}$. PHARMAC has a contract with $bpac_{nz}$ to provide responsible use of pharmaceutical information to the primary healthcare sector for 2013 financial year $2.200 million (2012:$1.900 million).
- There is a close family member of key management personnel employed by PHARMAC. The terms and conditions of those arrangements are no more favourable than PHARMAC would have adopted if there were no relationship to key management personnel.

Key management personnel compensation

	Actual 2013 $000	**Actual 2012** $000
Salaries and other short term employee benefits and directors' fees	1,467	1,409
Post employee benefits	22	23
Total key management personnel compensation	**$1,489**	**$1,432**

Note 15: Events after the Balance Sheet Date

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

Note 16: Financial Instrument Risks

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. There are no financial instruments that expose PHARMAC to foreign exchange risk.

Interest rate risk

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

PHARMAC only financial instruments that are interest bearing are short term deposits. Accordingly, PHARMAC has limited 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.

	2013 Less than 6 months $000	2012 Less than 6 months $000
Creditors and other payables	**$2,036**	**$1,923**

Fair value

The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2013 and 30 June 2012 approximate their fair values.

Note 17: Categories of Financial Instruments

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

Financial Assets: Loans And Receivables	**Actual 2013** $000	**Actual 2012** $000
Cash and cash equivalents	26,198	23,544
Debtors and other receivables	1,960	6,528
Total loans and receivables	**$28,158**	**$30,072**

Financial Liabilities: Financial Liabilities At Amortised Cost	**Actual 2013** $000	**Actual 2012** $000
Trade and other payables	2,036	1,923
Total financial liabilities at amortised cost	**$2,036**	**$1,923**

Note 18: Capital Management

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

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

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

PHARMAC is currently exempt from the imposition of the Crown's capital charge.

Note 19: Employee Remuneration

Total Remuneration and Benefits	Number of Employees	
$000	**2013**	**2012**
100 – 110	7	9
110 – 120	5	4
120 – 130	5	3
130 – 140	1	1
140 – 150	2	1
150 – 160	2	1
160 – 170	1	0
170 – 180	1	2
180 – 190	1	0
200 – 210	0	1
210 – 220	1	0
220 – 230	0	1
250 – 260	1	1
330 – 340	1	0

Note 20: Indemnities and Insurance Cover for Board Members and Employees

This information is presented in accordance with sections 152(1) (e) and (f) of the Crown Entities Act 2004. Under individual employment contracts, PHARMAC indemnifies employees should they be found liable in any proceedings for damages arising out of the 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 21: Board and Committee Fees

Board members received the following fees during the year:

Member	Fees	
	2013	**2012**
	$000	$000
Mr Stuart McLauchlan (Chair)	40	36
Ms Kura Denness	20	18
Dr David Kerr	20	18
Mrs Anne Kolbe	20	18
Prof Jens Mueller	20	18
Dr Janis White	15	0
Total Board fees	**$135**	**$108**

Committee and PTAC Sub-Committee members paid more than $500 are listed below. Some members do not claim fees. In 2012/13 the following fees were paid:

Note 21 cont: Board and Committee Fees

PTAC Sub-Committees

	Payment ($000)
Anti-Infective	
Bruce Arroll	1
Emma Best	1
Simon Briggs	1
Steve Chambers	1
James Chisnall	1
Iain Loan	1
Tim Matthews	1
Graham Mills	2
Jane Morgan	2
Howard Wilson	1
Endrocrinology	
Anna Fenton	1
Craig Jefferies	1
Haematology	
Nyree Cole	2
Tim Hawkins	1
Paul Ockelford	1
Mark Weatherall	2
Immunisations	
Stuart Dalziel	4
Cameron Grant	2
Patricia Priest	2
Gary Reynolds	3
Tony Walls	2
Elizabeth Wilson	3
Mental Health	
Ian Hosford	1
Verity Humberstone	1
Gavin Lobo	1
Richard Porter	1
Respiratory	
Tim Christmas	1
Jim Lello	2
Ian Shaw	1
Justin Travers	1
Stuart Dalziel	1
Special Foods	
Simon Chin	3
Stuart Dalziel	1
Kim Herbison	1
Victoria Logan	2
Kerry McIlroy	2
Moira Styles	1
Russell Walmsley	2

	Payment ($000)
CaTSOP	
Scott Babington	1
Carl Burgess	1
Bernie Fitzharris	2
Tim Hawkins	1
Peter Ganley	1
Vernon Harvey	4
Sisira Jayathissa	2
Lochie Teague	2
Hospital	
William Allan	2
Murray Barclay	2
Carl Burgess	1
Sarah Fitt	2
Jan Goddard	2
Christopher Jay	2
Paul Tomlinson	6
Mark Weatherall	1
Immunosuppressants	
Richard Robson	1
Paul Tomlinson	1
Howard Wilson	1
Neurological	
Ian Rosemergy	2
Jim Lello	2
John Mottershead	2
Mark Weatherall	1
Paul Timmings	2
Peter Bergin	2
Richard Hornabrook	1
Sisira Jayathissa	2
William Wallis	2
Tender	
Melissa Copland	1
Ben Hudson	1
John McDougall	1
Craig McKenzie	1
Graham Mills	3
Clare Randell	1
Geoff Savell	2
John Savory	2
David Simpson	2
Paul Tomlinson	1
Ken Whyte	1
William Allan	1

Note 21 cont: Board and Committee Fees

Committees

	Payment ($000)		Payment ($000)
Consumer Advisory Committee		**PTAC**	
Shane Bradbrook	2	Carl Burgess	20
Anne Fitisemanu	2	Christina Cameron	16
Maurice Gianotti	1	Melissa Copland	15
Barbara Greer	1	Stuart Dalziel	9
Jennie Michel	1	Ian Hosford	19
Anna Mitchell	1	Sisira Jayathissa	15
Moana Papa	1	George Laking	15
Katerina Pihera	2	Jim Lello	4
Kate Russell	7	Dee Mangin	5
		Graham Mills	17
		Mark Weatherall	13
		Howard Wilson	16

Note 22: 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. PHARMAC made no payments during the 2013 financial year compared to a payment to a former employee during the 2012 financial year for $11,538.

Note 23: Explanation of Major Variances Against Budget

The Output Agreement reflects an agreed increase in funding from the original Statement of Intent (SOI) of $1,400,000 additional sector funding. This additional funding is to go towards the establishment of Medical Devices management.

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

Statement of comprehensive income
The net surplus for the year ended 30 June 2013 of $1,423,000 is $144,000 less than the SOI budgeted deficit of $1,567,000.

The main differences in revenue include increased DHB funding of $448,000 for decision implementation support; and an increase in interest revenue of $284,000.

The main differences in operating expenditure arise from over-expenditure of $1,485,000 Discretionary Pharmaceutical Fund (DPF), $290,000 personnel costs due to recruitment delays, $356,000 responsible use of pharmaceuticals, and under expenditure of $259,000 delay in costs associated with the Herceptin SOLD trial and $200,000 in Legal Risk Fund expenditure.

Statement of financial position
The decrease in cash and cash equivalents of $10,439,000 arises from increase in investments of $6,035,000, increase in debtors of $1,545,000, increase in GST receivable of $1,168,000, DPF deposit into rebates account $3,859,000 and other sundry movements.

The increase in public equity, retained earnings and reserves $2,173,000, and decrease in DPF $1,829,000 also reflect the movements above.

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