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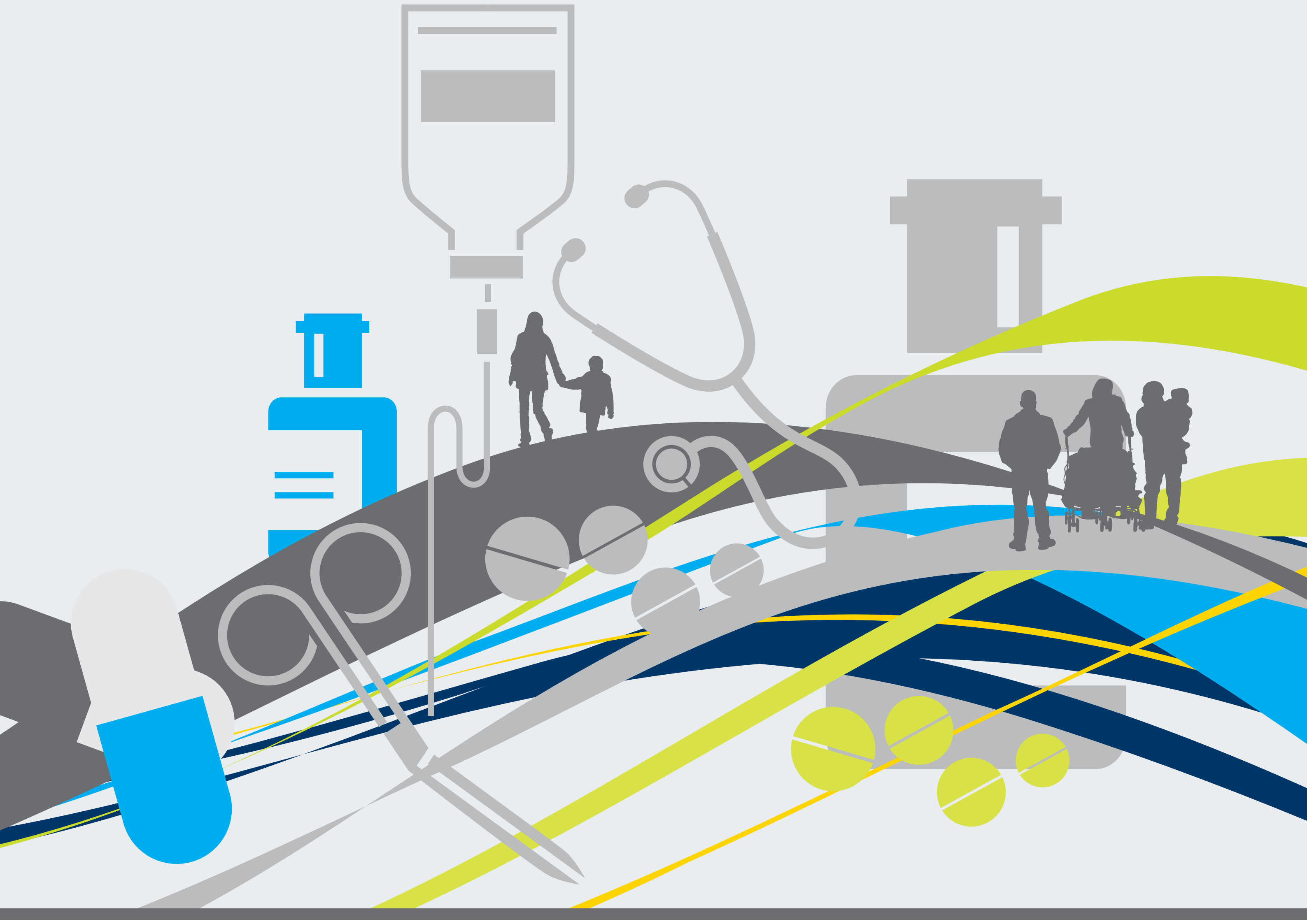
Pharmaceutical Management Agency
Annual Report
For the year ended 30 June 2012



New Zealand Government

PHARMAC
Pharmaceutical Management Agency

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PHARMAC DIRECTORY

(as at 30 June 2012)

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Pharmacology & Therapeutics Advisory Committee Prof Carl Burgess – Chair	**Consumer Advisory Committee** Kate Russell – Chair
Auditors Audit New Zealand	**Bankers** ASB Bank Limited
Solicitors Bell Gully	**Insurers** Lumley General Insurance (NZ) Ltd American Home Assurance Company QBE Insurance (International) Ltd

CHAIR'S REPORT

Growing, learning and adapting will be key themes for PHARMAC in the coming years. Our work in 2011/12 continued our legacy and also set us in good stead for the challenges we have ahead, as we focus on delivering on the expectations around our expanded role within the New Zealand health sector.

PHARMAC's impacts

Access to Medicines

Medicine funding

PHARMAC made 24 new investments during the year, enhancing the range of funded medicines for New Zealanders. Of these, 14 were newly-funded medicines or new formulations that represent a significant shift in treatment options. We expect an additional 56,840 patients to benefit from these decisions in a full year – over and above those patients already receiving funded medicines. During the year, 3.3 million New Zealanders received funded medicines, the highest number yet.

Significant new investments included:

- Dabigatran – a new generation anti-coagulant (blood-thinner) to treat the heart condition atrial fibrillation
- Dornase alpha – widening access to this treatment for cystic fibrosis
- Etanercept and adalimumab – widening access to these auto-immune condition treatments so they can be funded to treat psoriatic arthritis (they are also funded for other forms of arthritis)
- Lapatinib – newly-funded treatment for late-stage breast cancer
- Pazopanib – a new generation treatment for late-stage kidney cancer
- Prasugrel – a new treatment available to patients with heart conditions, who are allergic to the standard blood-thinning treatment clopidogrel
- Raloxifene – a newly funded treatment for the bone-thinning disease osteoporosis
- Rituximab – widening access to this hospital treatment for auto-immune conditions
- Teriparatide – newly funded treatment for osteoporosis

Named Patient Pharmaceutical Assessment

In March 2012 the Named Patient Pharmaceutical Assessment (NPPA) policy replaced the three former Exceptional Circumstances schemes. While NPPA has some of the objectives of the schemes it replaces, it also seeks to align individual funding requests with those for larger population groups that could be progressed through the Pharmaceutical Schedule. Rarity is no longer a criterion for entry to the programme, and we expect that over time NPPA will be more permissive than Exceptional Circumstances, and lead to a larger number of applications being processed.

In the first few months of the scheme there was a small increase in NPPA applications compared to the corresponding period in 2011. Between March and June 2012, we received 367 NPPA first-time applications compared to 343 for EC in the same period a year before. The ratio of approvals (94%) was higher under NPPA, although some applications had not been processed as further information was being sought.

Each application for an individual patient takes into account individual circumstances. Some notable NPPA approvals included funding for individual patients with lysosomal storage diseases for enzyme replacement therapy as treatment associated with bone marrow transplant. One of these approvals had a cost of $110,400 for 12 weeks' treatment. The next highest cost approvals were for a variety of cancer treatments with the total cost for four patients of $334,000. These add to a range of treatments where funding remains ongoing, including one where the annual cost is up to $500,000.

PHARMAC is continuing to closely monitor the implementation of the policy to ensure it meets the needs of clinicians and patients.

PHARMAC Forum

The 2012 Forum included a new outreach component, with a series of community engagement Forums held in 2011 to enable better input from consumers. Feedback from previous Forums was that consumers and front line health professionals don't find it convenient to attend a one-day conference at a centralised location.

So, taking on board that feedback, we decided to hold a series of six community Forums at different locations throughout New Zealand. These community Forums, in Auckland (North Shore), Auckland (Manukau), Rotorua, Taupo, Porirua and Christchurch gave community groups, consumers and local health professionals an opportunity to meet face to face with us and talk about PHARMAC's work. Key themes from these Forums were used to feed into the National Forum in Wellington in February and to support the work of the Consumer Advisory Committee.

The National Forum was welcomed by stakeholders with more than 100 people from a range of organisations attending. As usual there was open and frank discussion, with PHARMAC taking away many comments and ideas that we will use to inform our work such as the management of hospital medicines and medical devices, and the review of our Operating Policies and Procedures.

Medicine Usage

Our Space to Breathe childhood asthma management programme also entered a new phase, with the beginning of a pilot project in West Auckland. The programme aims to determine the impact of asthma assessment and education in early childhood education centres on asthma awareness and management within pre-school children.

The programme involves nearly 800 children attending Early Childhood Education centres, and we expect results to be available in late 2013.

Economic and system impacts

Managing the budget

The Combined Pharmaceutical Budget grew this year, in part to accommodate DHB spending on hospital cancer medicines, which PHARMAC now manages through the Pharmaceutical Schedule. PHARMAC continued to manage spending on budget - $777.4 million for the year.

The number of funded prescriptions grew to 41.1 million, with some 3.3 million New Zealanders receiving funded medicines. These are all-time high figures for these two measures.

We took a fresh look at the value we get from the decisions we make. This compared the health gains obtained from decisions made, compared to what health gains would have been achieved from funding all potential spending options available to us. This revealed that the medicines we invested in produced 22 Quality-Adjusted Life Years (QALYs)[1] per million dollars spent. If we had invested in all funding options available to us (including the ones we ultimately did take), this would have produced much lower health gain for each million dollars spent (13 QALYs). The analysis gives us an

[1] A Quality Adjusted Life Year is a standard measure of health gain, taking into account differences in quality and quantity of life. By using the QALY, assessments can be undertaken on different health interventions on a more-or-less equal basis.

assurance that the decisions we made represented the best value on this particular measure, for District Health Boards and the people of New Zealand.

Expanded role

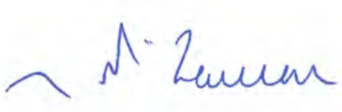
PHARMAC's expanding role now has three new facets. Work continued during the year on development work to establish management of hospital medicines, and hospital medical devices. In line with recommendations from Government reports, from 1 July 2012 PHARMAC also took on management of the national immunisation schedule (vaccines).

We are moving smoothly to integrate hospital medicines into our core work. We reached a small milestone with an agreement to list parecoxib injections (Dynastat) for the short-term management of surgical pain. The agreement with Pfizer includes a 33% price reduction, and savings to DHB hospitals of around $1 million over five years.

Preliminary work was also under way in relation to medical devices, which PHARMAC will be moving in stages towards full budget management of by 2017. PHARMAC will be working closely with Health Benefits Ltd (HBL), the Government agency leading work on national contracting and procurement in DHB hospitals. Significant developments in this area began at the outset of the 2012/13 financial year and will form an important part of PHARMAC's future work.

People

I would like to thank the Board and staff of PHARMAC, our consumer and clinical advisory committees and sub-committees, for their ongoing commitment to the agency's work. Following an extensive process, the Board decided to appoint Steffan Crausaz as Chief Executive in June 2012. Steffan had been in the Acting CE role since Matthew Brougham's departure. The Board has every confidence that Steffan is the right person to lead PHARMAC as it takes on greater responsibility within an important sector for New Zealand.



Stuart McLauchlan
Chair

On behalf of the PHARMAC Board

OVERVIEW OF PHARMAC

PHARMAC is the New Zealand government agency that makes decisions, on behalf of District Health Boards (DHBs), on 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 inputs 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 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 Pharmaceutical Budget for community and hospital cancer medicines;
- determining the Pharmaceutical Schedule (the list of Government-funded medicines prescribed and dispensed in the community and the list of pharmaceutical cancer treatments);
- managing access to medicines for named individuals through NPPA, and other special access programmes;
- promoting the responsible use of medicines;
- managing national contracts for some medicines and related products used in public hospitals; and
- engaging in research, policy work and support to others in the health sector.

From 1 July 2012, PHARMAC will take on management of the national immunisation schedule, which was previously managed by the Ministry of Health, which will be funded within the Combined Pharmaceuticals Budget.

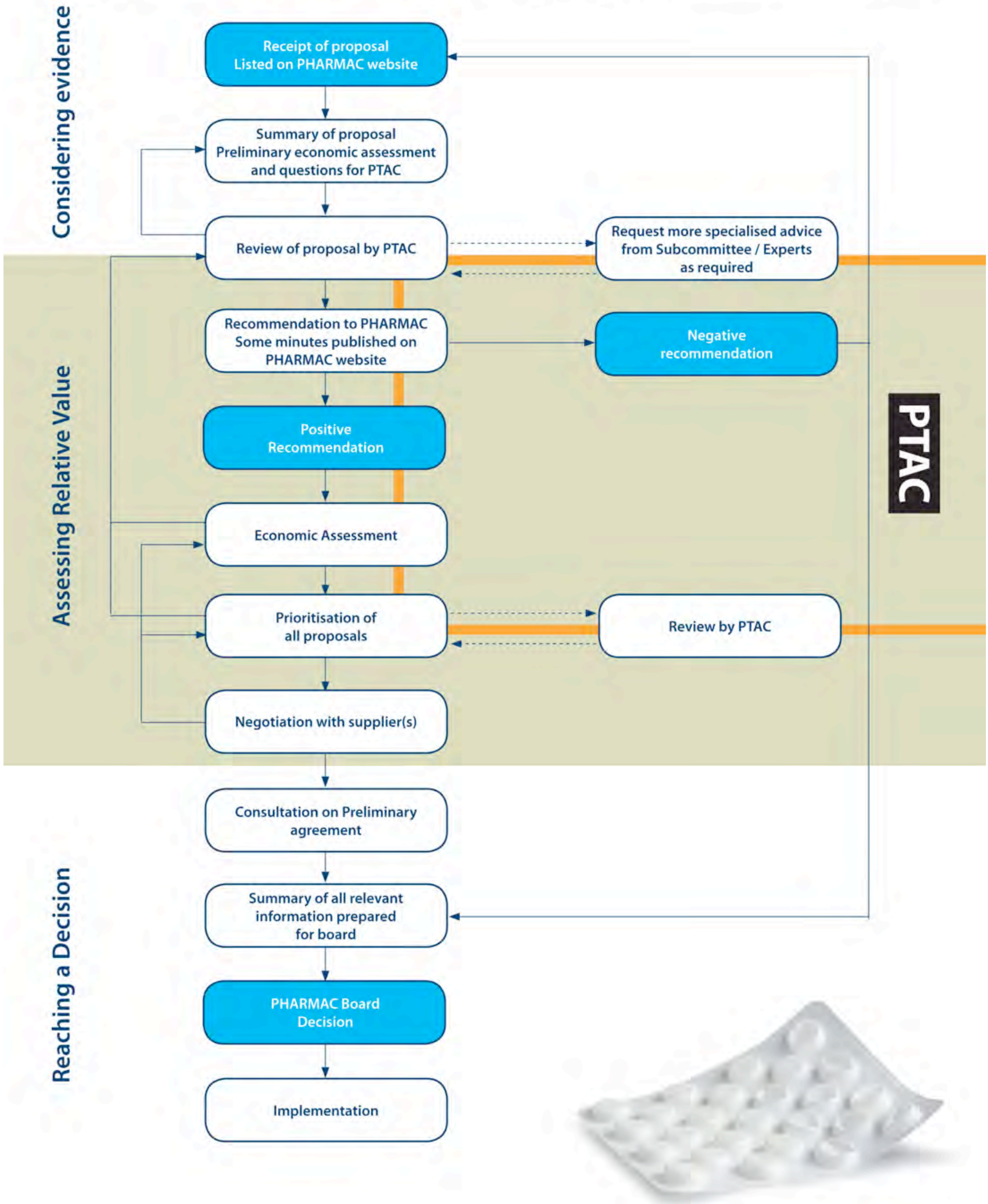
PHARMAC is guided by relevant legislation (including the Public Health and Disability Act and the Crown Entities Act), and current Government expectations, as outlined in relevant Letters of Expectations.

PHARMAC contributes to the Government's goal of a growing, sustainable economy through being part of the New Zealand health and disability system. We contribute to system outcomes of 'supporting New Zealand's economic growth' and 'longer, healthier and more independent lives for New Zealanders' primarily through our contribution to the outcomes defined in Medicines New Zealand – the strategy for the medicines system.

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, 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. Thirteen 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
In 2011/12, 10 permanent staff resigned (14% of total staff). Turnover has increased from the previous year although as our total staff numbers are not high a small increase in numbers leaving has 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. Two staff went on parental leave during the year. There has been a growing increase in recent years in the number of part-time staff and at 30 June, 19% of staff worked part-time.

Gender	Part time	Full time	Total
Men	2	26	28
Women	11	30	41
Total	**13**	**56**	**69**

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 2012 fairly reflect the financial position and operations of PHARMAC.

Stuart McLauchlan
Chair

26 October 2012

Kura Denness
Chair, Audit Committee

26 October 2012

PHARMACEUTICAL EXPENDITURE

Key figures

- **$777.4 million** – yearly combined pharmaceutical expenditure (on budget)
- **41.1 million** – number of funded prescriptions written (3.5% increase)
- **3.3 million** – number of New Zealanders receiving funded medicines
- **$57.4 million** – amount of savings achieved
- **14** – number of new medicines funded
- **10** – number of medicines with access widened
- **56,840** – estimated number of additional patients benefitting from these decisions in a full year

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PHARMAC manages the annual Combined Pharmaceutical Budget (CPB), which is agreed each year with District Health Boards (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.

Combined Pharmaceutical Expenditure in 2011/12

The total spend by DHBs was $777.4 million. This consisted of $766.1 million on combined pharmaceuticals (including pharmaceutical cancer treatments), and $11.3 million transferred to the DPF.

The combined pharmaceuticals spend represents an increase of $60 million over the previous year's expenditure. For 2011/12, net spending is made up of gross expenditure of $924.8 million plus $2.8 million of other expenditure, less an estimated $161.5 million expected from suppliers as rebates.

The key drivers of expenditure growth were:

- $31.9 million net spending increase in the number of prescriptions for subsidised pharmaceuticals filled; and
- growth associated with new investments and widened access to medicines over the past four years.

PHARMAC has to work to offset the effect of this continuing volume/mix growth, through savings programmes on currently funded medicines ($35.7 million net savings, plus $15.7 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 on the following page summarises the factors that have contributed to this increase.

Summary of Combined Pharmaceutical Expenditure 2011/12 ($ million)			
	Expenditure	**Impact in 2011/12**	**Full year Impact**
Expenditure for year ended 30 June 2011[1]	$706.1		
Volume changes			
Volume increases[2]		$123.8	
Volume decreases		-$17.0	
Increased access to medicines already funded		$14.6	
New investments		$9.1	$15.1
Net volume changes	$130.5		
Subsidy changes			
Subsidy increases		$6.2	$6.7
Subsidy decreases		-$41.9	-$50.4
Savings from annual tenders		-$15.7	-$27.0
Savings from alternative commercial proposals		-$0.9	-$1.0
De-listings		-$5.4	
Residual subsidy increases from 2010/11		$13.9	
Residual subsidy decreases from 2010/11		-$26.3	
Net subsidy changes	-$70.1		
Additional rebates not included above	-$0.4		
DPF Movement	$11.3		
Total Expenditure for year ended 30 June 2012	$777.4		
Total change from previous year[2]	*$60.0*		

[1] In 2010/11 the CPB did not include Pharmaceutical Cancer Treatments.
[2] In 2011/12 volume increases include the addition of Pharmaceutical Cancer Treatments.
[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	-$2.0	-$1.9
Blood and Blood Forming Organs	$0.1	-$7.6	-$7.4
Cardiovascular System	$0.0	-$0.9	-$0.9
Dermatologicals	$0.2	$0.0	$0.2
Genito-Urinary System	$0.0	-$0.5	-$0.5
Hormone Preparations - Systemic Excluding Contraceptive Hormones	$0.0	$0.0	$0.0
Infections - Agents for Systemic Use	$0.1	-$0.4	-$0.3
Musculo-skeletal System	$0.1	-$1.8	-$1.7
Nervous System	$3.2	-$19.1	-$15.9
Oncology Agents and Immunosuppressants	$0.4	-$0.3	$0.1
Respiratory System and Allergies	$0.7	-$1.2	-$0.5
Sensory Organs	$0.0	-$0.1	-$0.1
Special Foods	$0.0	-$0.3	-$0.3
Pharmaceutical Cancer Treatments	$0.3	-$7.7	-$7.4
Tender	$0.6	-$15.7	-$15.0
Tender ACP	$0.0	-$0.9	-$0.9
EC Expenditure	$0.4	$0.0	$0.4
Totals	**$6.2**	**-$58.5**	**-$52.3**

Medicine funding and health outcomes 2011/12

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.

By comparing the investments made this year to all potential investments, we can calculate that the investments made provided greater cost-effectiveness. Funded proposals provided a weighted average of 22 QALYs per million dollars spent, compared with an average of 13 QALYs/$1m from all those 49 proposals considered that had cost-effectiveness estimates (including both those funded and those not funded).

Table of pharmaceutical funding decisions 2011/12

The table below lists details of the medicines investment decisions made in 2011/12 financial year.

- New listings refers to listing or relisting of any pharmaceutical not presently on the Schedule and new formulations 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	Estimated cost in 2011/12	Estimated # new patients in 2011/12	Estimated # new patients in 2012/13
July 2011					
Dabigatran	Atrial fibrillation	New listing	$16,100,000	8,800	19,000
Olanzapine depot injection	Schizophrenia	New listing (new formulation)	$500,000	70	160
Raloxifene	Osteoporosis	New listing	$600,000	800	1,200
Teriparatide	Osteoporosis	New listing	$350,000	60	100
Docetaxel	Cancer treatment	Access Widening	$102,000	340	370
August 2011					
Rituximab	Cancer treatment	Access widening	$2,250,000	100	90
Oxazepam	Anxiety, relief of alcohol withdrawal symptoms	Access widening	$35,000	n/a	n/a
September 2011					
Budesonide	Crohn's disease	Access widening	$40,000	75	90
Etanercept	Rheumatoid arthritis, ankylosing spondylitis, juvenile idiopathic arthritis, psoriasis, psoriatic arthritis	Access widening (psoriatic arthritis only)	$86,000	4	6
Adalimumab	Rheumatoid arthritis, ankylosing spondylitis, Crohn's disease, psoriasis, psoriatic arthritis	Access widening (psoriatic arthritis only)	$214,000	9	10

Pharmaceutical	Used to treat	Decision type	Estimated cost in 2011/12	Estimated # new patients in 2011/12	Estimated # new patients in 2012/13
Losartan*	Hypertension, heart failure	Access widening	n/a	n/a	n/a
November 2011					
Pravastatin	Dyslipidaemia	Access widening	$2,000	20	60
February 2012					
Inhaled corticosteroids with long-acting beta-adrenoceptor agonists	Asthma	Access widening	$225,000	17,000	34,000
March 2012					
Pazopanib	Metastatic renal cell carcinoma	New listing	$124,000	2	63
Lapatinib	Metastatic breast cancer	New listing	$262,000	31	47
April 2012					
Aminoacid formula without phenylalanine	Metabolic conditions	New listing	-$6,000	n/a	n/a
High fat formula with vitamins, minerals and trace elements and low in protein and carbohydrate	Epilepsy and metabolic conditions	New listing	$13,000	n/a	n/a
Paediatric enteral feed with fibre 0.75 kcal/ml	Patients requiring feeding pumps	New listing	-$8,000	135	135
Paediatric enteral feed with fibre 1.5 kcal/ml	Patients requiring feeding pumps	New listing	$8,000	60	60
Prasugrel hydrochloride	Clopidogrel-allergic patients post percutaneous coronary interventions	New listing	$30,000	24	99
Preterm post-discharge infant formula powder	Premature babies	New listing	-$1,000	7	34
Bisoprolol	Heart failure	New listing	$7,000	70	500
May 2012					
Dornase alpha	Cystic fibrosis	Access widening	$570,000	24	66
June 2012					
Azithromycin powder for oral suspension	Pertussis (whooping cough)	New formulation	$1,000	60	750
Total			**$21,504,000**	**27,691**	**56,840**

*Additional costs from the access widening to losartan are estimated to be low as the previous Special Authority criteria reflected typical treatment practice.

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 DHBs to achieve wider value for money in other procurement initiatives.

Impacts

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

- Access impacts – our influence over people's ability to obtain medicines
- Usage impacts – how people use medicines, and
- Economic and System impacts – helping the health system work more effectively, and improving value for money.

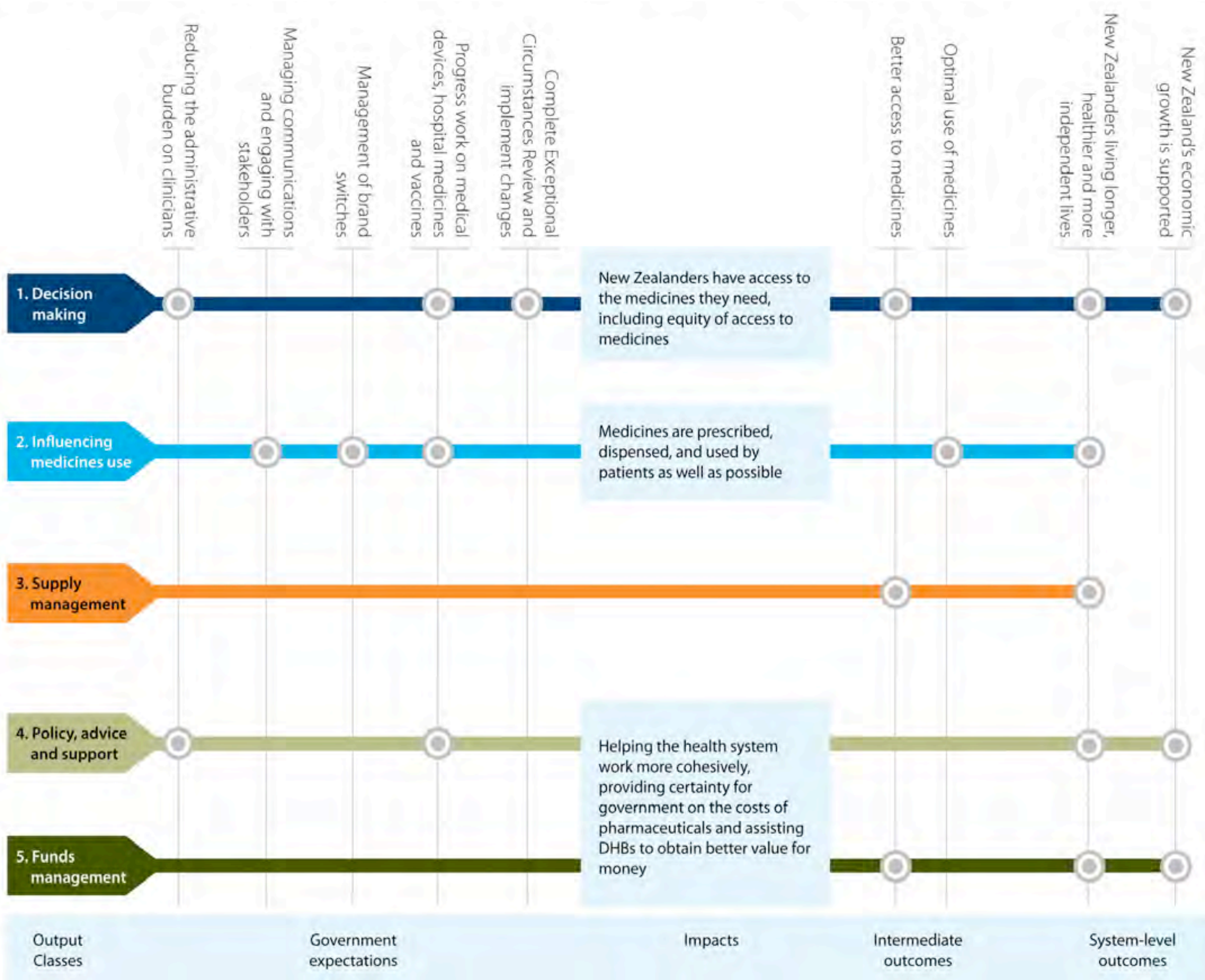
These impacts are made possible through the day to day work we do – our outputs - which are grouped under the following five classes:

Output class	Description	Outputs
1. Decision-making	Work that leads to new medicines being funded and money being saved on older medicines.	1.1. Community Pharmaceutical Schedule 1.2. Pharmaceutical Cancer Treatments 1.3. Hospital Schedule 1.4. Special access panels 1.5. Exceptional Circumstances Schemes 1.6. Schedule Rules 1.7. 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. Supply management	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. 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
5. Fund management	Effective administration of funds either held on behalf of DHBs or for the purposes of pharmaceutical funding/risk management	5.1. Discretionary Pharmaceutical Fund 5.2. Legal Risk Fund 5.3. Rebates distribution

These are reported on in full in our Statement of Service Performance (SSP – pages 22 to 25).

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

This is the influence PHARMAC has over people's ability to have equitable access to medicines.

PHARMAC's decisions to subsidise medicines mean they are affordable for people. 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 do help ensure medicines are targeted to the people who most need them. This helps ensure funded medicines are used cost-effectively.

Information and health education programmes aim to improve people's knowledge of how to obtain funded medicines.

Measuring our impact on access to medicines

Access Impact	Measure	Aim/target by 2013/14	2011/12 result
People have equitable access to medicines.	The Pharmaceutical Schedule applies consistently throughout New Zealand.	All instances of District Health Boards funding medicines outside of Pharmaceutical Schedule rules are brought to the attention of the DHB to remedy.	Achieved. We identified several instances of schemes where pharmacists were permitted to prescribe and dispense subsidised products outside Pharmaceutical Schedule rules, notably nicotine replacement therapy and compounded products. We identified an instance of a District Health Board funding medicines outside the Pharmaceutical Schedule rules. Waikato DHB has piloted one community pharmacy administering and claiming for influenza vaccine services. This service is contracted by Waikato DHB to continue into the 2012 influenza season. PHARMAC is working with DHBs to examine a more permissive framework for medicines to be funded outside of Schedule rules, in some circumstances. In the Bay of Plenty there is a scheme in place to provide medicines into schools using the Practitioner Supply Order. This avoids patients needing to go to a pharmacy to get their medicine and pay a co-payment. PHARMAC is working with the Ministry of Health to identify any impact on Ministry policy or Schedule rules and whether changes are required. Currently the Ministry is permitting these schemes to continue outside Pharmaceutical Schedule rules.

2. Usage impacts

We want medicines to be prescribed, dispensed and used by patients was 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.

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 a set of services currently provided by the Best Practice Advocacy Centre (BPACnz) 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 Access and Optimal Use programmes and campaigns often include messages promoting access to, and the optimal use of, medicines

Measuring our impact on usage of medicines

Usage impact	Measure	Aim/target by 2013/14	2011/12 result
People get optimal health benefit through appropriate medicines use.	Medicines are not misused, overused or underused.	All population health programmes show positive impact on use of medicines against programme targets.	On target. No evaluations of programmes were completed in the 2011/12 financial year. A long-term evaluation of the One Heart Many Lives programme was being completed at year-end.

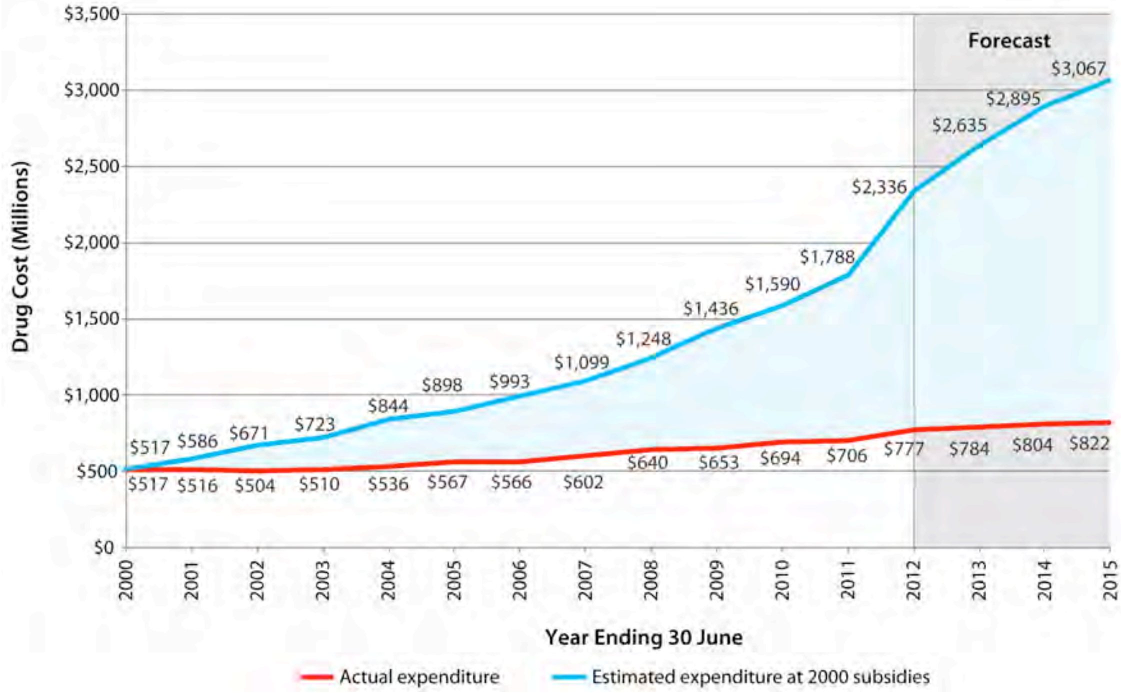
3. Economic and system impacts

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.

PHARMAC manages expenditure of community and cancer pharmaceutical funds held by DHBs, and through effective negotiations and procurement initiatives reduce their expenditure on some hospital medicines. Through our legislative role to manage spending within budget, PHARMAC gives Government and DHBs certainty that this area of spending will be effectively managed. In addition, PHARMAC's work in achieving efficiencies in DHB hospital spending gives DHBs spending options they wouldn't otherwise have. PHARMAC's economic impact supports the government's overall fiscal management through tight budgetary control. At a time of fiscal restraint and tight budgets, PHARMAC's contribution is increasingly important.

Our work has meant that, since 2000, PHARMAC's activities have saved District Health Boards a cumulative total of more than $5 billion. 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. By 2010, the difference in that year alone was $937 million. 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.

Impact of PHARMAC on drug expenditure over time (actual and predicted 2000 to 2015)



The shaded area between the graph's lines indicates the total amount saved since 2000. This is the difference between estimated spending without savings, and actual spending.

Measuring our contribution to economic and system impacts

Economic and System Impact	Measure	Aim/target by 2013/14	2011/12 result
Government has certainty over pharmaceutical expenditure.	Pharmaceutical spending is effectively managed.	Community pharmaceutical expenditure is within the available budget.	Achieved. Pharmaceutical spending was managed on budget ($777.4 million). Details on the breakdown of this spending is provided in the section on pages 10 to 12.
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 weighted average of 22 QALYs/$1m, compared to an average of 13 QALYs/$1m from all proposals considered. This demonstrates PHARMAC obtained the best value from the available funding options. Detail on the investment comparison is below.

Demonstrating best value for money from pharmaceutical spending

PHARMAC's investments for 2011/12 represented the best value from those options that were available to PHARMAC during the year. Funded proposals provided a weighted average of 22 QALYs/$1m, compared to an average of 13 QALYs/$1m from all proposals considered.

In the 2011/12 financial year, 24 products were either newly funded or had access widened. We anticipate that in the 2012/13 financial year, 56,840 new patients will use these products, at a gross cost to the CPB of $47.8m.

This analysis considers the set of investments chosen by PHARMAC this year, and whether they are better than other possible sets of investments, by looking at the effects of the investments on the 2012/2013 financial year.

Investments considered were those made between 1 July 2011 and 30 June 2012. The comparison investments are those that PHARMAC had assessed and prioritised by March 2012. Groups of proposals where cost-utility analysis and budget impact analysis were not performed, such as those recommended for decline by PTAC, not under active consideration, or commercial proposals not yet assessed, have not been considered.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of the
Pharmaceutical Management Agency's
financial statements and statement of service performance
for the year ended 30 June 2012

The Auditor-General is the auditor of the 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 statement of service performance of Pharmac on her behalf.

We have audited:

- the financial statements of Pharmac on pages 27 to 49, that comprise the statement of financial position as at 30 June 2012, 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 statement of service performance of Pharmac on pages 22 to 25.

Opinion

In our opinion:

- the financial statements of Pharmac on pages 27 to 49:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect Pharmac's:
    - financial position as at 30 June 2012; and
    - financial performance and cash flows for the year ended on that date.
- the statement of service performance of Pharmac on pages 22 to 25:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects, for each class of outputs for the year ended 30 June 2012, Pharmac's:
    - service performance compared with the forecasts in the statement of forecast service performance for the financial year; and
    - 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 26 October 2012. 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 statement of service performance are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance, 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 statement of service performance 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 adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

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

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

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 statement of service performance 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 New Zealand Institute of Chartered Accountants.

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

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

STATEMENT OF SERVICE PERFORMANCE

This Statement of Service Performance (SSP) records how PHARMAC has performed against targets outlined in its 2011/12 Statement of Intent (SOI).

PHARMAC defined five output classes for 2011/12. Note that not all outputs are measured and reported on. The Statement of Comprehensive Income 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 DHBs for community pharmaceuticals. From 2011/12 funding for pharmaceutical cancer treatments is met from within the expanded Community Pharmaceutical Budget. 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 (see Output Class 5).

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 & 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

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.

Impact	Output		2011/12 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. All PHARMAC funding decision papers (to PHARMAC Board or Chief Executive) also 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. Decisions had been made on 99% of line items (excluding bids held open while awaiting Medsafe registration) by the end of April 2012. Some decisions from 2010/11 were held until July 2011 as they were for price increases.

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. Beyond providing information, this work includes workforce development, seeking community input, information for the public and working with health professionals to deliver the programmes so that the medicines that are funded for people are used optimally.

Impact	Output		2011/12 target	Result
Access Usage	2.2	Population health programmes.	Amount of campaign materials distributed is greater than previous year.	Achieved. Resource orders from www.pharmaconline.co.nz for the period 1 July 2011 to 30 June 2012 totalled 1195 with an average of 2.7 different types of resource per order. In the 2010/11 financial year, there were 1241 orders received. Contributing to the achievement of this target, PHARMAC delivered materials widely outside the online ordering system. In addition to online orders, campaign materials were distributed at public events such as the Regional Forums held with consumers throughout the country. While a count of these materials was not made, staff report that several hundred copies of campaign materials were provided at these forums.
			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. 92.3% of respondents indicated their satisfaction with the service was at least four out of five.

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.

Impact	Output		2011/12 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. In 2011/12, PHARMAC worked closely with suppliers to manage low stock situations for diazepam 10mg enema, cefaclor antibiotics, the cancer medicine capecitabine, and Sustanon brand testosterone esters. We have also been working to manage supply of products supplied by Sandoz, including its Ebewe brand cancer medicines.

Output Class 4: Policy advice and support

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-commissioned reports have 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.

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.

Impact	Output		2011/12 target	Result
Economic and system	4.2	Policy Advice.	Survey of policy requesters indicates satisfaction with timeliness and quality of PHARMAC's policy advice.	Achieved. PHARMAC surveyed policy requesters in June/July 2012. The results of the survey give PHARMAC an average, out of a possible score of 5. Scores, with baseline from the 2011 survey in brackets showed no significant difference in results: • 4.88 (4.33) for timeliness of advice; • 4.50 (4.78) for quality of analysis given; • 4.50 (4.89) for relevance of the advice; • 4.63 (4.56) for thoroughness; • 4.25 (4.33) for clarity; and • 4.75 (4.56) for informal policy support and availability. This survey will be repeated annually to maintain a time series of results.

Output Class 5: Fund management

PHARMAC manages pharmaceutical expenditure on behalf of DHBs within the amount approved by the Minister of Health. From 2010/11 PHARMAC established a funding mechanism to enable more effective use of the pharmaceutical budget across years.

Impact	Output		2011/12 target	Progress
Economic and system	5.3	Rebates distribution.	All fund use is in accordance with PHARMAC policy.	Achieved. All rebates collected were distributed to DHBs in accordance with PHARMAC policy. *2010/11 Rebates* PHARMAC made a payment of $40.08 million to DHBs on 25 November 2011. This was the fourth payment for the 2010/11 financial year, and brought total rebates distributed to DHBs for 2010/11 to $107.7 million. *2011/12 Rebates* In 2011/12 financial year we have made payments to DHBs for rebates accrued in the 2011/12 financial year of $15 million (paid 25 November 2011), $28 million (24 February 2012), and $42 million (25 May 2012).

LEGAL RISK FUND

In performing its functions, PHARMAC used its legal risk fund. This fund can be used to initiate or defend legal action PHARMAC is a party to. The PHARMAC Board is responsible for approving access to PHARMAC's legal risk fund on the basis of defined rules.

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

$100,084 was spent from the Legal Risk Fund during 2011/12. The bulk of this spending ($92,500) related to a judicial review action sought by AstraZeneca into PHARMAC's funding decision relating to certain asthma medicines. PHARMAC successfully defended this judicial review and was awarded costs of $13,000 which were returned to the Legal Risk Fund. The remainder related to final matters in patent litigation proceedings that were initiated in the 2010/11 financial year.

We note that PHARMAC's litigation budget ($200,000) 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 2012 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 2011/12 financial year DHBs were required to pay $6.12 million to bring the required DPF minimum balance to $10 million. DHBs contributed a further $5.2 million to the DPF at the end of the 2011/12 financial year making a total DPF contribution of $11.3 million. This meant DHB CPB expenditure for the 2011/12 year was $777.40 million.

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 2011/12 Output Agreement.

In the year to 30 June 2012, spending from the Herceptin SOLD trial fund was $379,000.

The balance of the Fund stands at $1,424,000 at year end.

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
David Kerr	Disclosed an interest as the Chairman of Ryman Healthcare, with regard to close control and access exemption rule changes.	Board	The Board noted the interest and determined that David could comment and add to the discussion, but could not vote.	This determination was for the Board meeting in question.
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 the any Board meeting at which the Space to breathe programme was discussed.

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 2012. The financial statements were authorised by the Board of PHARMAC on 26 October 2012.

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.

NZ IAS 8.28 PHARMAC has adopted the following revisions to accounting standards during the financial year, which have had only a presentational or disclosure effect:

- Amendments to NZ IAS 1 Presentation of Financial Statements. The amendments introduce a requirement to present, either in the statement of changes in equity or the notes, for each component of equity, an analysis of other comprehensive income by item. This will have no effects on PHARMAC reporting.
- FRS-44 New Zealand Additional Disclosures and Amendments to NZ IFRS to harmonise with IFRS and Australian Accounting Standards (Harmonisation Amendments). The purpose of the new standard and amendments is to harmonise Australian and New Zealand accounting standards with source IFRS and to eliminate many of the differences between the accounting standards in each jurisdiction. This will have no effects on PHARMAC reporting.

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 2016. 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 2012.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	Note	Actual 2012 $000	SOI Budget 2012 $000	Actual 2011 $000
Income				
Crown funding		14,187	14,187	24,744
DHB - Operating funding		3,615	3,170	2,920
DHB - Discretionary Pharmaceutical Fund	4	11,317	2,570	0
Other:				
Interest received - Operating		301	130	268
- Discretionary Pharmaceutical Fund	4	1	0	0
- Legal Risk Fund		260	280	275
Other revenue - Operating		498	365	199
- Legal Risk Fund		13	0	0
Total Income		30,192	20,702	28,406
Expenditure				
Operating costs		4,518	4,674	3,569
Personnel costs	1	7,181	7,348	6,649
Audit Fees		33	33	31
Depreciation & amortisation costs	8&9	489	417	418
Director Fees		108	129	117
Discretionary Pharmaceutical Fund	4	0	2,570	6,116
Finance Costs	2	11	9	10
Herceptin SOLD trial administration		379	683	425
Legal Risk Fund		113	280	94
Occupancy costs		462	480	461
Responsible use of pharmaceuticals		4,430	4,812	4,151
Total expenditure		17,724	21,435	22,041
Net surplus/(deficit) for the period		12,468	(733)	6,365
Other comprehensive income		0	0	0
Total comprehensive income		**$12,468**	**(733)**	**$6,365**

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 2012

	Note	Actual 2012 $000	SOI Budget 2012 $000	Actual 2011 $000
Balance at 1 July		14,912	17,050	8,547
Total Comprehensive Income		12,468	(733)	6,365
Balance at 30 June	3	**$27,380**	**$16,317**	**$14,912**

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 2012

	Note	Actual 2012 $000	SOI Budget 2012 $000	Actual 2011 $000
PUBLIC EQUITY				
Retained earnings and reserves	3	4,301	1,600	2,932
Discretionary Pharmaceutical Fund	3	15,202	7,430	3,884
Herceptin SOLD Trial fund	3	1,424	1,187	1,803
Legal risk fund	3	6,453	6,100	6,293
TOTAL PUBLIC EQUITY		**$27,380**	**$16,317**	**$14,912**
Represented by:				
Current assets				
Cash and cash equivalents		10,185	17,584	15,465
DPF monies deposited into rebates account	5	10,059	0	0
Investments	6	3,300	0	0
Debtors and other receivables	7	6,528	100	6
Prepayments		1	0	128
GST Refund		0	0	859
Total current assets		30,073	17,684	16,458
Non-current assets				
Property, plant and equipment	8	725	450	685
Intangible Assets	9	177	483	270
Total non-current assets		902	933	955
Total assets		30,975	18,617	17,413
Current liabilities				
Creditors and other payables	10	1,923	1,800	1,790
Employee entitlements	11	596	500	536
GST Payable		890	0	0
Total current liabilities		3,409	2,300	2,326
Non-current liabilities				
Provisions	12	186	0	175
Total liabilities		3,595	2,300	2,501
NET ASSETS		**$27,380**	**$16,317**	**$14,912**

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 2012

	Note	Actual 2012 $000	SOI Budget 2012 $000	Actual 2011 $000
CASH FLOWS – OPERATING ACTIVITIES				
Cash was provided from:				
- Crown		14,187	14,187	24,744
- DHBs Operating		3,170	3,170	2,920
- DHBs Discretionary Pharmaceutical Fund		6,116	2,570	0
- Interest Operating		301	130	271
- Interest Discretionary Fund		1	0	0
- Interest Legal Risk Fund		260	280	275
- Other Operating		465	365	243
- Other Legal Risk Fund		13	0	0
		24,513	20,702	28,453
Cash was disbursed to:				
- Legal Risk Fund expenses		(113)	0	(94)
- Discretionary Pharmaceutical Fund expenses		0	0	(6,116)
- Discretionary Pharmaceutical Fund deposited in rebates bank account		(10,059)	0	0
- Payments to suppliers and employees		(16,780)	(20,618)	(15,408)
- Goods and services tax (net)		906	(400)	(938)
		(26,046)	(21,018)	(22,556)
Net cash flow from operating activities	13	(1,533)	(316)	5,897
CASH FLOWS – INVESTING ACTIVITIES				
- Purchase of property, plant and equipment		(350)	(400)	(389)
- Purchase of intangible assets		(97)	(200)	(259)
- Purchase of investments		(3,300)	0	0
Net cash flow from investing activities		(3,747)	(600)	(648)
Net increase/(decrease) in cash		(5,280)	(916)	5,249
Cash at the beginning of the year		15,465	18,500	10,216
Cash at the end of the year		10,185	17,584	15,465

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 2012

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**

Output SOI 2011/12	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	8,571	296	550	(9,808)	(391)
Influencing Medicine Use	6,778	2,280	100	(9,441)	(283)
Supply Management	609	130	100	(866)	(27)
Policy Advice and support	769	434	20	(1,255)	(32)
Fund Management	30	30	5	(65)	0
Total	**16,757**	**3,170**	**775**	**(21,435)**	**(733)**

Output Actual 2010/11	Funding MOH	Funding DHB	Funding Other	Output expenditure	Net surplus/(deficit)
Decision Making	16,659	300	565	(12,049)	5,475
Influencing Medicine Use	6,698	2,100	72	(8,037)	833
Supply Management	602	120	71	(790)	3
Policy Advice and Support	760	400	0	(1,105)	55
Fund Management	25	0	34	(60)	(1)
Total	**24,744**	**2,920**	**742**	**(22,041)**	**6,365**

STATEMENT OF COMMITMENTS

As at 30 June 2012

Operating leases as lessee.

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

	Actual 2012 $000	**Actual 2011** $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	461	922
Total commitments	**$2,766**	**$3,227**

The rental lease expires 24 July 2018. The commitment is recognised for the full term of 6 years.

PHARMAC leases three floors of an office building. Part of one floor is sublet due to it being surplus to requirements. The sub-lease is periodic, renewable on a monthly basis.

PHARMAC has recognised a make good provision of $186,000 (2011: $175,000).

STATEMENT OF CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2012

PHARMAC had no contingent assets at 30 June 2012 (2011: $nil).

PHARMAC had no contingent liabilities at 30 June 2012 (2011: $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 2012 $000	Actual 2011 $000
Salaries and related costs	6,984	6,558
Employer contributions to defined contribution plans	138	88
Increase/(decrease) in employee entitlements	59	3
Total personnel costs	**$7,181**	**$6,649**

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

Note 2: Finance Costs

	Actual 2012 $000	Actual 2011 $000
Discount unwind on provisions (note 10)	**$11**	**$10**

Note 3: Public Equity

RETAINED EARNINGS	Actual 2012 $000	Actual 2011 $000
Balance at 1 July	2,932	1,600
Net surplus/(deficit)	12,468	6,365
Net transfer from/(to) Herceptin SOLD trial fund	379	(832)
Net transfer from/(to) discretionary pharmaceutical fund	(11,318)	(3,884)
Net transfer from/(to) legal risk fund	(160)	(317)
Balance at 30 June	**$4,301**	**$2,932**

HERCEPTIN SOLD TRIAL FUND	Actual 2012 $000	Actual 2011 $000
Balance at 1 July	1,803	971
Add:Net transfer from/(to) retained earnings	(379)	832
Balance at 30 June	**$1,424**	**$1,803**

LEGAL RISK FUND	Actual 2012 $000	Actual 2011 $000
Balance at 1 July	6,293	5,976
Add: Interest received transferred from/(to) retained earnings	260	274
Add: Other Income received transferred from/(to) retained earnings	13	137
Less: Litigation expenses transferred from/(to) retained earnings	(113)	(94)
Balance at 30 June	**$6,453**	**$6,293**

DISCRETIONARY PHARMACEUTICAL FUND	Actual 2012 $000	Actual 2011 $000
Balance at 1 July	3,884	0
Add: Income received transferred from/(to) retained earnings	11,317	10,000
Add: Interest received transferred from/(to) retained earnings	1	
Less: Pharmaceutical expenses transferred from/(to) retained earnings	0	(6,116)
Balance at 30 June	**$15,202**	**$3,884**
TOTAL PUBLIC EQUITY	**$27,380**	**$14,912**

Note 4: Discretionary Pharmaceutical Fund

The revenue in 2012 of $11,318,000; 2011 ($6,116,000) 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.

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 2012 $000	Actual 2011 $000
Current Portion		
Term Deposits	$3,300	$0
Total Investments	**$3,300**	**$0**

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.

	2012			2011		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due	6,505	0	6,505	6	0	6
Past due 30-60 days	0	0	0	0	0	0
Past due 61-90 days	0	0	0	0	0	0
Past due > 91 days	23	0	23	0	0	0
Total	**$6,528**	**$0**	**$6,528**	**$6**	**$0**	**$6**

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
2011							
Furniture and fittings	476	0	1	411	28	0	36
EDP equipment	1,090	347	1	1,044	65	0	327
Office equipment	420	35	5	364	33	0	53
Leasehold improvements	776	4	0	403	108	0	269
Fixed asset work in progress	0	0	0	0	0	0	0
Total PPE Assets	**$2,762**	**$386**	**$7**	**$2,222**	**$234**	**$0**	**$685**
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
Fixed asset work in progress	0	0	0	0	0	0	0
Total PPE Assets	**$3,141**	**$339**	**$0**	**$2,456**	**$299**	**$0**	**$725**

Note 9: Intangible assets

	Cost at beginning of year	Additions during the year	Disposals during the year	Accumulated Amortisation beginning of the year	Amortisation for the year	Elimination on disposals	Net Carrying Amount as at 30 June
	$000	$000	$000	$000	$000	$000	$000
2011							
Total Intangible Assets	$798	$259	0	$603	$184	0	$270
2012							
Total Intangible Assets	$1,057	$97	0	$787	$190	0	$177

Note 10: Creditors and Other payables

	Actual 2012 $000	**Actual 2011** $000
Creditors	1,167	1,107
Accrued expenses	756	683
Total trade and other payables	**$1,923**	**$1,790**

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 2012 $000	Actual 2011 $000
Annual leave entitlement	435	404
Accrued salaries and wages	161	132
Total employee entitlements	**$596**	**$536**

Note 12: Provisions

	Actual 2012 $000	Actual 2011 $000
Non-current provisions are represented by:		
Lease make-good	186	175
Total provisions	**$186**	**$175**

Movement for "make good" provision

	2012 $000	2011 $000
Balance at 1 July	175	165
Additional provisions made	0	0
Amount used	0	0
Unused amounts reversed	0	0
Discount unwind	11	10
Balance at 30 June	**$186**	**$175**

The make good provision relates to a rental lease that expires 24 July 2018. PHARMAC leases three floors of an office building. Part of one floor is sublet due to it being surplus to requirements. The sub-lease is periodic, renewable on a monthly basis.

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

	Actual 2012 $000	Actual 2011 $000
Net surplus/(deficit)	$12,468	$6,365
Add non-cash items:		
Discount on unwind provision	11	10
Depreciation & Amortisation	489	418
Total non-cash items	$500	$428

Add (less) movements in working capital items:

Note 13 cont:

Decrease/(increase) in debtors and other receivables	(6,522)	47
Decrease/(increase) in prepayments	127	(128)
(Decrease)/increase in payables	133	96
(Decrease)/increase in make good provision	11	10
(Decrease)/increase in employee entitlements	60	17
(Decrease)/increase in net GST	1,749	(938)
Net movements in working capital items	(4,442)	(896)
Other movements		
DPF monies deposited in rebates bank account	$10,059	0
Net cash flow from operating activities	**$(1,533)**	**$5,897**

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 $14.187 million (2011: $24.744 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 $9.286 million (2011: $2.920 million). The amount outstanding as at 30 June was $6.493 million (2011: $nil).

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 2012 totalled $0.576 million (2011: $0.524 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. There have been no changes in the definition of key management personnel from 2011. The following transactions were entered into during the year with key management personnel:

- 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 2012 $000	Actual 2011 $000
Salaries and other short term employee benefits and directors' fees	1,409	1,477
Post Employee Benefits	23	19
Total key management personnel compensation	**1,432**	**1,496**

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.

	2012 Less than 6 months $000	**2011** Less than 6 months $000
Creditors and other payables	**$1,923**	**$1,790**

Fair value

The carrying amounts of financial instruments as disclosed in the financial statements at 30 June 2012 and 30 June 2011 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 2012 $000	Actual 2011 $000
Cash and cash equivalents	23,544	15,465
Debtors and other receivables	6,528	6
Total loans and receivables	**$30,072**	**$15,471**

Financial Liabilities: Financial Liabilities At Amortised Cost	Actual 2012 $000	Actual 2011 $000
Trade and other payables	1,923	1,790
Total financial liabilities at amortised cost	**$1, 923**	**$1,790**

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	**2012**	**2011**
100 – 110	9	6
110 – 120	4	5
120 – 130	3	3
130 – 140	1	1
140 – 150	1	0
150 – 160	1	0
160 – 170	0	1
170 – 180	2	1
190 – 200	0	2
200 – 210	1	0
210 – 220	0	1
220 – 230	1	0
250 – 260	1	0
290 – 300	0	1

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	
	2012	2011
	$000	$000
Mr Stuart McLauchlan (Chair)	36	36
Ms Kura Denness	18	18
Dr David Kerr	18	18
Mrs Anne Kolbe	18	18
Mr David Moore	0	9
Prof Jens Mueller	18	18
Total Board fees	**$108**	**$117**

Committee and PTAC Sub-Committee members paid more than $500 are listed below. Some members do not claim fees. In 2011/12 the following fees were paid:

Committees

Consumer Advisory Committee	Payment ($000)
Shane Bradbrook	2
Anne Fitisemanu	2
Maurice Gianotti	1
Barbara Greer	1
Jennie Michel	1
Anna Mitchell	1
Moana Papa	1
Katerina Pihera	2
Kate Russell	7

PTAC	Payment ($000)
Carl Burgess	20
Christina Cameron	16
Melissa Copland	15
Stuart Dalziel	9
Ian Hosford	19
Sisira Jayathissa	15
George Laking	15
Jim Lello	4
Dee Mangin	5
Graham Mills	17
Mark Weatherall	13
Howard Wilson	16

Note 21 cont: Board and Committee Fees

PTAC Sub-Committees

	Payment ($000)
Cardiology	
Malcolm Abernethy	5
John Elliott	1
Sisira Jayathissa	3
Lannes Johnson	4
Dee Mangin	2
Stewart Mann	1
Richard Medlicott	2
Mark Weatherall	2
Mark Webster	1
Anti-Infective	
Bruce Arroll	2
Emma Best	1
Simon Briggs	2
Steve Chambers	2
James Chisnall	2
Iain Loan	1
Tim Matthews	2
Graham Mills	3
Howard Wilson	1
Endrocrinology	
Chris Cameron	1
Ian Holdaway	1
Stella Milsom	1
Bruce Small	1
Howard Wilson	1
Esko Wiltshire	1
Diabetes	
Chris Cameron	2
Nic Crook	2
Craig Jefferies	2
George Laking	4
Peter Moore	2
Bruce Small	1
Analgesic	
Kieran Davis	1
Bruce Foggo	1
Ian Hosford	1
Geoffrey Robinson	1
Jane Thomas	1
Howard Wilson	2
Growth Hormone	
Wayne Cutfield	1
Ian Holdaway	3
Penelope Hunt	3
Patrick Manning	3
Reproductive & Sexual Health	
Debbie Hughes	1
Mira Harrison-Woolrych	1
Tania Milne	1
Ian Page	1

	Payment ($000)
CaTSOP	
Scott Babington	4
Carl Burgess	3
Bernie Fitzharris	3
Tim Hawkins	4
Vernon Harvey	3
George Laking	5
Lochie Teague	2
Gastrointestinal	
Murray Barclay	1
Alan Fraser	1
Ian Hosford	1
Russell Walmsley	1
Ophthalmology	
Carl Burgess	1
Rose Dodd	1
Peter Grimmer	1
Allan Simpson	1
Hospital	
Billy Alan	8
Murray Barclay	4
Carl Burgess	9
Marilyn Crawley	7
Matthew Dawes	5
Sarah Fitt	6
Jan Goddard	7
Andrew Herbert	6
Christopher Jay	7
Paul Tomlinson	6
Mark Weatherall	8
Respiratory	
Tim Christmas	1
Jim Lello	1
Ian Shaw	1
Tender	
Sarah Fitt	1
Jim Lello	1
John McDougall	2
Graham Mills	2
John Savory	1
David Simpson	2
Paul Tomlinson	1
Rheumatology	
Melissa Copland	1
Andrew Harrison	1
Sisira Jayathissa	2
Nora Lynch	3
Sue Rudge	1
Lisa Stamp	2
Will Taylor	1

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 one payment to a former employee during the 2012 financial year for $11,538 (2011: $nil).

Note 23: Explanation of Major Variances Against Budget

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

Statement of comprehensive income
The net profit for the year ended 30 June 2012 of $12,468,000 is $13,201,000 more than the SOI budgeted deficit of $733,000.

The main differences in revenue include increased DHB funding of $8,747,000 for the DPF and $400,000 for decision implementation support, and $45,000 for pharmacists' schedule subscriptions; an increase in interest revenue of $152,000 and receipt of $150,000 in payments for liquidated damages.

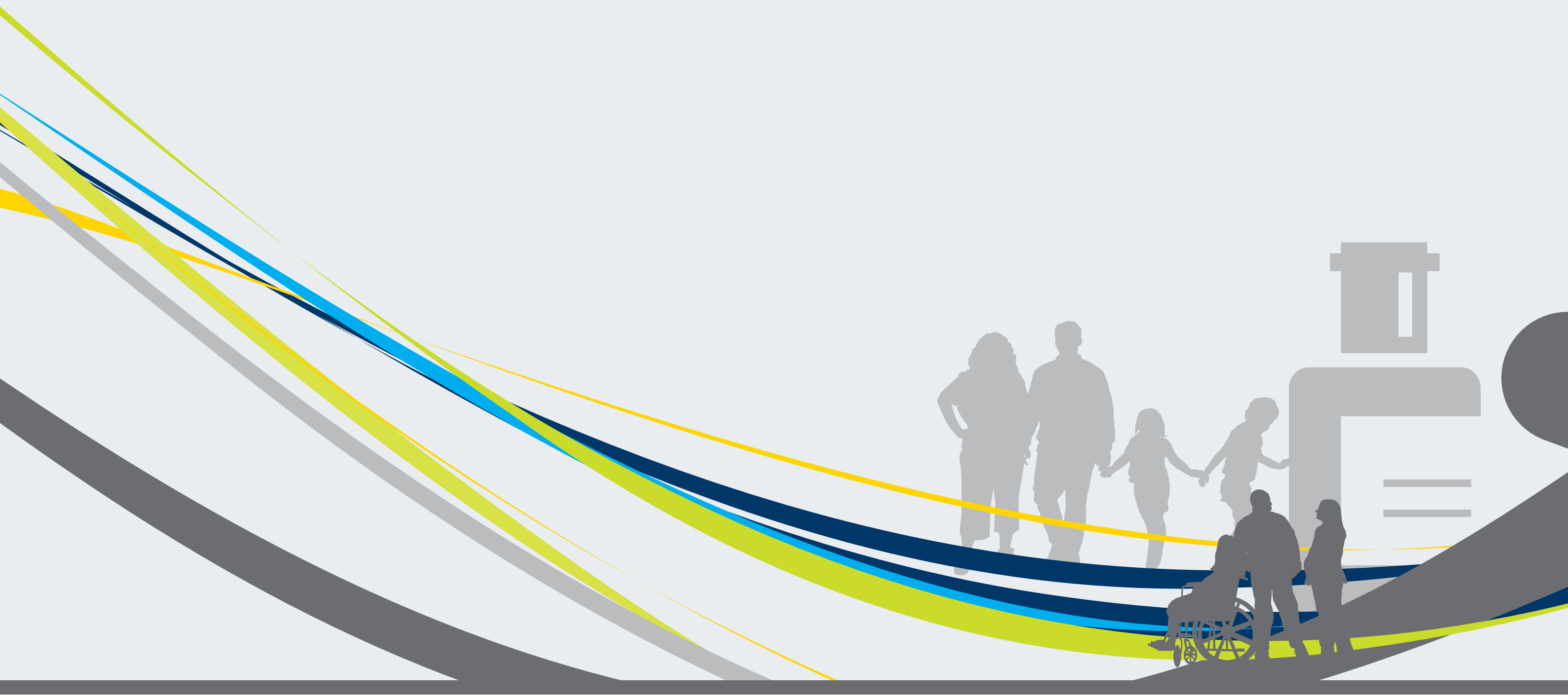
The main differences in operating expenditure reduction results from under-expenditure $2,570,000 DPF, $382,000 health promotion programmes, $73,343 seminar series, $304,000 delay in costs associated with the Herceptin SOLD trial, $166,927 in vacancies unfilled, reduction in legal costs of $106,084, and $72,000.

Statement of financial position
Cash and cash equivalents are $5,960,000 more than the SOI budget reflecting the movements above.

The increase in debtors and GST payable largely arises from DHB funding invoiced in June 2012.

The increase in public equity, retained earnings and reserves $2,701,000 and the DPF $772,000 also reflect the movements above.

ISSN 1179-3759 (Print)
ISSN 1179-3767 (Online)



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