

PHARMAC's DELEGATION POLICY

Introduction

Section 73 of the Crown Entities Act 2004 (the CE Act) and clause 24 of Schedule 6 of the New Zealand Public Health and Disability Act 2000 (the NZPHD Act) requires the PHARMAC Board (the Board) to formulate a delegation policy.

Nature of the Delegation Authority

The Board wishes to have a delegation policy that ensures that proposals with any significant risk are still forwarded to the Board for its consideration, but which enables the Board to spend the majority of its time considering the overall strategic development of PHARMAC.

In this context the Board will consider the strategic impact to PHARMAC prior to delegating any of its powers and give consideration to the potential financial impact on the DHBs' budgets; achievement of funding agreement targets; and the level of contention in relation to each matter.

The Board has determined that it should consider proposals that:

- are not consistent with previous Board decisions or policy;
- are in the opinion of the Chief Executive Officer legally, politically, medically, publicly or for any other reason contentious (for example a change in the subsidy arrangements for a product which results in a large number of patients needing to change medication or a decision which may result in a pharmaceutical company suing PHARMAC);
- may impact negatively on PHARMAC's ability to operate within PHARMAC's funding agreement with the Crown except when the negative impact is due to PHARMAC being forecast to exceed any of its:
 - (i) pharmaceutical; and/or
 - (ii) operating; and/or
 - (iii) promotion of the responsible use of pharmaceuticals (**Demand Side**), expenditure targets contained in that funding agreement and the proposal will commit expenditure with a positive Financial Impact (NPV) of less than \$100,000; or
- have potential long term financial risks, such as listing a product for which demand may increase dramatically.

The Board has presently determined that an appropriate level of financial delegation is one where the change in the forecast cost to DHBs is no greater than \$10 million Net Present Value (**NPV**) over 5 years. Net Present Value is calculated as the sum of all the component parts of a transaction, discounted by the appropriate interest factor. For example, if a transaction has NPV savings of \$6 million and NPV investments of \$5 million, the NPV of the transaction would be \$1 million, not \$11 million.

The Board has also presently determined that the Chief Executive Officer generally has full authority to commit expenditure under the pharmaceutical and/or operating and/or Demand Side budgets within the funding limits for PHARMAC specified in PHARMAC's funding agreement with the Crown or outside of those funding limits when PHARMAC is forecast to exceed any of the above budgets and the proposal will commit expenditure with a positive Financial Impact (NPV) of less than \$100,000, and to make decisions on management matters relating to PHARMAC (including, but not limited to, recruitment and management of personnel, lease arrangements and insurance arrangements).

The Chief Executive Officer must gain Board approval for:

1. overseas travel, except to Australia; and

2. commitment of established risk reserves.

The Board has also presently determined that the Medical Director has authority to commit expenditure in respect of applications under the Exceptional Circumstances scheme where the total cost of treatment course is not greater than \$30,000.

The Board will from time to time, as it considers appropriate, review whether the above levels of financial delegation ensure that proposals with any significant risk are still forwarded to the Board for its consideration.

Notification

The Board will be notified of all decisions made by the Chief Executive Officer under delegated authority relating to the DHBs' budgets and will be notified when an Acting Chief Executive Officer is appointed.

The Board may be notified when the Chief Executive Officer makes a decision under delegated authority relating to the operating budget if the Chief Executive Officer considers that the decision is significant, such as a major technology investment.

The Chief Executive Officer may also notify the PHARMAC Board of any exercise of his or her power of sub-delegation to PHARMAC staff, under the operating or Demand Side budgets, if the Chief Executive Officer decides that it is appropriate to do so. The sub-delegation will be limited to operating or Demand Side expenditure of up to \$15,000 per decision.

Parameters of Delegation

PHARMAC does not intend to delegate functions to persons outside PHARMAC. Such a delegation would only occur with the consent of the Minister of Health.

Consistent with legislation

This delegation policy will be exercised in accordance with the CE Act and the NZPHD Act.

Control by the Board of entry into joint ventures

The Board has not specifically covered entry into joint ventures under this delegation policy because it is not anticipated, at this stage, that PHARMAC will enter into joint ventures.

ATTACHMENT ONE

Delegated Authority

Introduction

Generally

The delegation authority procedures described below will be exercised in accordance with the New Zealand Public Health and Disability Act 2000 and the Crown Entities Act 2004.

Definitions

Financial Impact (NPV): of a proposal means and is to be calculated on the basis of the net present value of the proposed subsidy and/or purchase (ex-manufacturer, exclusive of GST) over 5 years at a discount rate of 8% to be paid by the funder for the product(s) and the forecast demand, taking into account any effect of the change/decision on that demand, versus the status quo;

Minor Schedule Change: means a Schedule change that has an estimated Financial Impact (NPV) of less than \$250,000, or a financial impact that is difficult to estimate but is likely to have a minimal financial impact, and which meets the Additional Criteria;

Other Schedule Change: means a Schedule change that has an estimated Financial Impact (NPV) of less than \$10,000,000, and is not a Minor Schedule Change, and which meets the Additional Criteria;

Additional Criteria: means:

- (a) the change is consistent with previous Board decisions or policy;
- (b) in the opinion of the Chief Executive Officer, the change is not considered contentious (legally, politically, medically, publicly or for any other reason);
- (c) the change is within the funding limits for PHARMAC specified in PHARMAC's funding agreement with the Crown, or has an estimated positive Financial Impact (NPV) of less than \$100,000 where the change is outside of the funding limits due to PHARMAC being forecast to exceed any of its:
 - (i) pharmaceutical; and/or
 - (ii) operating; and/or
 - (iii) Demand Side,expenditure targets contained in that funding agreement;
- (d) there are no potential long term financial risks.

Delegation Authority concerning Pharmaceutical expenditure

General Delegation

Subject to the limits specified below, the Chief Executive Officer has full authority to commit expenditure under the DHBs' budgets within the funding limits for PHARMAC specified in PHARMAC's funding agreement with the Crown or outside of those funding limits when PHARMAC is forecast to exceed any of its:

- (i) pharmaceutical; and/or
- (ii) operating; and/or
- (iii) Demand Side,

expenditure targets contained in that funding agreement and the proposal will commit expenditure with a positive Financial Impact (NPV) of less than \$100,000, and manage the purchasing of any or all pharmaceuticals, whether used in either a hospital or outside it, on behalf of DHBs:

Specific Limitations

- Listing contracts with pharmaceutical companies with an estimated Financial Impact (NPV) of more than \$10,000,000 of the DHBs' budgets must be made conditional on Board approval.
- The Chief Executive Officer may make Minor Schedule Changes and Other Schedule Changes (as defined in the definitions section above).

Delegation Authority for appointing an Acting Chief Executive Officer

General Delegation

The Chief Executive Officer may sub-delegate his or her delegated authority to any Acting Chief Executive Officer duly appointed from time to time in accordance with the delegation procedure drafted by PHARMAC.

Specific Limitations

- Unless the written approval of the Chief Executive Officer is first obtained, the level of financial authority of the Acting Chief Executive is limited to Minor Schedule Changes (as defined in the definitions section above), and expenditure from the operating budget of up to \$15,000 per decision.

Delegation Authority for Medical Director to approve Exceptional Circumstances applications

General Delegation

The Medical Director has authority to commit expenditure in respect of applications under the Exceptional Circumstances scheme where the total cost of treatment course is not greater than \$30,000.