



Office of Hon Tony Ryall

Minister of Health
Minister of State Services

23 FEB 2011

21 FEB 2011

Mr Stuart McLauchlan
Chair
PHARMAC
PO Box 10-254
WELLINGTON

Dear Mr McLauchlan

Letter of Expectations 2011/12

I write to convey my expectations of the Pharmaceutical Management Agency (PHARMAC) for the coming financial year, to assist in the development of the PHARMAC's 2011/12 Statement of Intent. Please read this letter alongside the enduring letter of expectations that the Minister of Finance and the Minister of State Services sent on 22 December 2008.

The driving goal of the Government is to grow the New Zealand economy in order to deliver greater prosperity, security and opportunities to all New Zealanders. The ongoing challenging fiscal environment reinforces the need for the different parts of the health system to work together. It is important that health and disability Crown entities think as part of the system and work in co-operation and co-ordination with the wider sector, including the Ministry of Health (the Ministry), National Health Board, District Health Boards, and other Crown entities as appropriate.

Budget 2011 and the fiscal outlook

Lower Government income coupled with the need to address an unsustainable expenditure growth path means that I expect the health sector to remain focused on cost management. The economic outlook has not changed and the Government is still facing fiscal deficits for a number of years to come. In order to move the country into surplus earlier, the operating allowance for Budget 2011 is likely to be significantly lower than last year's \$1.1 billion. Given this climate, in general I do not expect to receive any requests for additional funding from any Crown entity.

In line with the fiscal context, I expect your board and entity to:

- have financial sustainability as a critical part of your strategy

- demonstrate a strong understanding of the business (eg, price, quantity and standards of services, cost drivers and how the board will manage them)
- set tight, realistic budgets and manage within those budgets
- have realistic pay and employment conditions, in line with the Government's refreshed *Expectations for Pay and Employment Conditions in the State Sector* (released by the State Services Commission on 1 June 2010)
- be aware of increased public scrutiny of agencies' expenditure, particularly around international travel, conference expenditure, entertainment and staff expenses
- continue to review how your entity's services can be delivered better and more cost effectively. Services need to represent good value-for-money and be delivered in a timely manner. I encourage you to explore options for working with other Crown entities where possible (eg, sharing premises), as well as looking at opportunities to use technology or shared services agreements to lower costs and improve services.

Strategic direction and board performance

I expect the board to develop a strong strategic direction for PHARMAC in line with PHARMAC's statutory objectives and functions, and embody this in PHARMAC's Statement of Intent. The Statement of Intent must be understandable, direct about what can be achieved, stated in simple language and be capable of being reported against. Through this meaningful performance information, Parliament and the public can be assured that PHARMAC is contributing to improving health outcomes.

I also expect you to lead the board in evaluating the board's performance, both individual members' contributions and as a whole, and report back to me on any identified skills gaps or other issues which may arise through this process.

Priorities for PHARMAC

In addition to the general expectations which I have referred to, I have certain expectations which relate specifically to PHARMAC. In developing your Statement of Intent, I expect that you will have regard to Government priorities as indicated within *Actioning Medicines New Zealand* and in particular you will respond to the following specific expectations and areas of focus:

- improving access to high cost, highly specialised medicines. The Exceptional Circumstances review needs to be completed by the end of June 2011, and key actions need to be implemented in a timely way. I expect you to keep me and the Associate Minister of Health fully up to date as this review progresses.
- PHARMAC needs to work closely with me, the Ministry of Health, and other key stakeholders to advance the medical devices, hospital pharmaceuticals and vaccines policy work flowing on from recent Cabinet decisions. I particularly expect PHARMAC to work closely with Health Benefits Limited and clinicians to manage transition risks and ensure the smooth progression of the medical devices work. Please keep me and the Associate Minister of Health apprised as the hospital pharmaceuticals work develops further.

- manage brand switches and high profile funding decisions in a way which enhances the confidence of consumers and clinicians
- communications need to be handled proactively and you need to continue to engage with the public and key stakeholders including clinicians, in order to build confidence. I am pleased to note that PHARMAC's relationship with the sector has improved in recent times and it would be useful for board members to continue attending consultation events.
- PHARMAC needs to look for opportunities to lower the administrative burden on clinicians.

I expect PHARMAC to maintain the 'no surprises' policy, which is a critical component of ensuring Ministerial trust and confidence in your Crown entity. To this end, I require early warning of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative. The Ministry, as your monitoring department, should also be informed. Open and effective communication between the board, the Ministry and me is vital to building strong relationships, while maintaining clear lines of accountability.

I recently received a copy of PHARMAC's audit letter for 2009/10. The Office of the Auditor-General has recommended that you address several areas of your performance framework in your next Statement of Intent, namely:

- enhancing the range of performance measures covering the quality dimension of PHARMAC's outputs and impacts
- ensuring that performance measures relate to the outputs provided by PHARMAC (not to internal systems and processes)
- setting clear targets and include current level of performance for outputs and impacts
- in statements and commentary around access, usage and economic impacts, more clearly specifying PHARMAC's contribution to these areas.

I understand that you are currently working with Auditors to address these areas and ask that you please give these recommendations all due priority in your business improvement work.

I look forward to continuing to work with you over the coming year.

Yours sincerely



Hon Tony Ryall
Minister of Health

cc Hon Peter Dunne, Associate Minister of Health
Mr Matthew Brougham, Chief Executive, PHARMAC