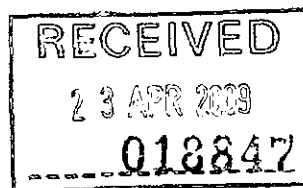




Office of Hon Tony Ryall

Minister of Health
Minister of State Services



15 APR 2009

Mr Richard Waddel
Chair
PHARMAC
PO Box 28 543
Remuera
AUCKLAND

Dear Mr Waddel

Letter of Expectations 2009/10

I am writing to you to convey my expectations for the Pharmaceutical Management Agency (PHARMAC) for the 2009/10 year. This letter is intended to aid your entity's direction and assist in the development of your 2009/10 Statement of Intent.

New Zealanders have high expectations in relation to the healthcare they receive. They want hospital services they can rely on. They want a smarter public health system that provides maximum value for each tax dollar. As the new Government, we have new priorities and expectations for health.

These expectations, and the challenging fiscal environment New Zealand will be facing in the short to medium term, reinforce the need to ensure the different parts of the health system are working in unison. I expect PHARMAC to think as part of the system and work in co-operation and co-ordination with the Ministry of Health, District Health Boards and other Crown entities.

Accountability is particularly important to me as Minister. I intend to hold you, along with all other health Crown entity chairs, directly accountable for the performance of your entity. I expect Boards, in turn, to hold Chief Executives accountable for improved performance within each Crown entity. I will meet with you on a bi-monthly basis to discuss performance. The Government will be looking particularly closely at your ability to deliver in our priority areas, while keeping within budget.

Expectations for all health Crown entities

Along with all Crown entities, the Government expects you to comply with the enduring letter of expectations sent by the Ministers of Finance and State Services to Crown entity boards on 22 December 2008. The following three expectations for all health Crown entities reiterate themes from the enduring letter of expectations and further emphasise the Government's priorities.

- 1) We expect your board to demonstrate gains in the efficient and effective use of your entity's resources and powers, consistent with the Government's priorities and with your empowering legislation. I expect you to report, in your quarterly reports, on initiatives to ensure value for money in your entity. Real improvements in value-for-money may be made by your board by:
 - reviewing how your entity's services can be delivered better and more cost effectively
 - setting tight, realistic budgets and managing within those budgets
 - improving your entity's ability to measure and report on performance. This is in line with the Auditor-General's observations on the quality of performance reporting.
- 2) We also expect you to have a constructive relationship with your monitoring department, the Ministry of Health (MoH). The MoH will assess your reporting for the extent to which your entity:
 - is taking account of longer term economic and fiscal impacts of its activities
 - uses and reports value-for-money indicators and benchmarks.
- 3) Further, on 22 December 2008, the Minister of Finance and the Minister of State Services also wrote to you about the 2009 Budget and improving value for money in the State sector. As a Crown entity I expect you will be involved in the process via the Ministry of Health in its monitoring role. I look forward to your co-operation and participation in this first important step in improving the quality and expenditure across all the government.

Expectations for PHARMAC

In addition to the general expectations which I have referred to, I have a number of expectations which relate specifically to PHARMAC. In meeting its statutory objectives and functions, I expect that PHARMAC will respond to the following specific expectations and areas of focus:

- achieving better access to medicines, which will include working with me to investigate ways to improve access to high cost, highly specialised medicines
- ensuring stakeholders, including clinicians and consumers, have the opportunity to provide perspectives that will contribute to PHARMAC's decision-making processes
- managing brand switches and high profile funding decisions in a way which enhances the confidence of consumers and clinicians
- improving the way you engage with the public, and with key stakeholders, in order to build public confidence
- handling communications proactively, and adhering to the 'no surprises' policy. To this end, I require early warning of any issues before they arise in the public sphere.

More generally, Parliament and the public expect high standards of governance from PHARMAC. It is of the utmost importance that the PHARMAC board operates to 'best practice' standards.

Government's Expectations for Pay and Employment Conditions in the State Sector – application to Health sector Crown entities

Attached to this letter is a copy of the Government's Expectations for Pay and Employment Conditions in the State Sector (the Expectations), given effect by CAB Min (09) 5/5A.

The Expectations are appropriate for the seriously deteriorating economic and fiscal environment, and necessary to support New Zealand's economic recovery. They bring together the Government's objectives and priorities for pay and employment conditions in the State sector within a consistent framework.

The Expectations apply more broadly than parameters which have been issued before. They constitute the Government's expectations of how all pay and employment conditions should be set for all employees (not just through collective bargaining) and they apply across the whole State sector, with the exception of State Owned Enterprises.

I expect you and your board to take the attached Expectations into account when pay and conditions are being established or reviewed at your organisation. Under the principle of no surprises as set out in your enduring letter of expectations, I expect your organisation to consult with the Director-General of Health regarding your employment relations and bargaining strategies. If your organisation intends to take action that could be seen to be at odds with the Expectations, this will, in some cases, require the approval of Ministers. In all cases, I will need to be informed.

Key messages from the Expectations are that pay and employment conditions should:

- contribute to the achievement of the strategic business outcomes of the agency, the overall improvement of front-line services, cost effectiveness and efficiencies
- foster continuous improvement and productivity enhancement, recognising and rewarding individual and collective contributions
- be fiscally sustainable within baselines, responsible, and demonstrate value for money
- be managed to avoid flow-on implications across the State sector
- be fair to employees and to taxpayers:
 - fairness to taxpayers means the value of all conditions, including remuneration, is taken into account, will not be extravagant and will not lead the wider labour market
 - fairness to employees (in this context) means that retention of employment is a key consideration and that all conditions, including remuneration, should be fair to the individual.

Additionally, in accordance with the attached, I expect you to provide me, the Ministry of Health and the State Services Commission each year (by 30 June) with aggregated information on remuneration, remuneration movement over the year, and future remuneration plans. Further details of remuneration information that is required will be provided by the State Services Commissioner.

Further information on the application and implementation of the Expectations will be issued by the Director-General of Health.

You may be aware that this Government has recently announced a cap on the size of core government administration. This does not apply to the PHARMAC, however, the Government expects all Crown entities to exercise restraint in back office staffing and focus on frontline service delivery as appropriate to their functions.

Should you require more information in the interim, please contact the Ministry of Health at employment_relations@moh.govt.nz.

I expect to see clear evidence of how you intend to progress my expectations and the Government's priority areas in your Statement of Intent for 2009/10. Parliament and the public need to be assured that New Zealand's health sector investment is being managed effectively and efficiently. In this regard, I strongly encourage you to provide meaningful performance information in your Statement of Intent. It is through these measures that Parliament and the public can ensure that PHARMAC is contributing to improving health outcomes.

I look forward to working with you.

Yours sincerely



Hon Tony Ryall
Minister of Health

cc Chief Executive, PHARMAC

encl Government's Expectations for Pay and Employment Conditions in the State Sector

Government's Expectations for Pay and Employment Conditions in the State Sector

1 Introduction

This document sets out Government policy and expectations for all pay and employment conditions in the State sector. These expectations apply to all State sector agencies (excluding State Owned Enterprises). For the purposes of these expectations "pay and employment conditions" include all processes for adjusting remuneration and conditions, and collective bargaining.

These Expectations replace the Government Bargaining Parameters issued in September 2008, and will be revised from time to time. They may be supplemented by additional specific expectations.

These Expectations are written within the context of a seriously deteriorating economic and fiscal environment. This is a time in which the State sector must play its part by improving productivity and the delivery of services to the public. We expect pay and employment conditions to be developed to achieve this.

2 Government policy

The Government requires State sector agencies to:

- run efficiently and without waste, being focused, effective, and productive
- deliver high quality, trusted, relevant and accessible services to citizens.

Government's overarching policy for employment and workplace relations is that:

- all parties are treated fairly and with respect
- workplace relations are based on good faith, natural justice, human rights, good employer practice and requirements, and relevant legislation
- there is flexibility and opportunity for all
- bargaining is efficient, effective and focussed.

3 Principles

Pay and employment conditions for State sector agencies including collective bargaining strategies and settlements, must:

- ~~contribute to the achievement of the strategic business outcomes of the agency, the overall~~ improvement of front-line services, cost effectiveness and efficiencies
- foster continuous improvement and productivity enhancement, recognising and rewarding individual and collective contributions
- be fiscally sustainable within baselines, responsible, and demonstrate value for money
- be managed to avoid flow-on implications across the State sector;
- be fair to employees and to taxpayers:
 - Fairness to taxpayers means the value of all conditions, including remuneration, is taken into account, will not be extravagant and will not lead the wider labour market.
 - Fairness to employees (in this context) means that retention of employment is a key consideration and that all conditions, including remuneration, should be fair to the individual.

4 Implementation

The Government anticipates the State Services Commissioner will determine that these Expectations will form part of the conditions of delegation of responsibility for the negotiation of collective agreements to Public Service chief executives, under s.70 of the State Sector Act. Where consultation with the State Services Commissioner or the Director-General of Health is required, these Expectations will form the basis of advice to those agencies.

Responsible Ministers will require boards of Crown entities to have regard to these Expectations when establishing their pay and employment conditions as defined in the Introduction above.

4.1 Remuneration and conditions

- All agencies must provide their Minister, monitoring department and the State Services Commission (SSC) each year (by 30 June) with aggregated information on remuneration, remuneration movement over the year, and future remuneration plans.
- Pay adjustments must not lead private sector movements and trends and must take into account the total cost and value of employment conditions.
- Outcomes of Remuneration Forums, where they exist, should reflect these Expectations. Public Service Departments that run Remuneration Forums must consult SSC before committing to an outcome.
- All agencies must have regard to these expectations when setting employment relations policies.
- Public Service Departments should consult SSC before implementing conditions that will result in increased costs of employment.
- All agencies should try to target any recruitment and retention issues that arise without fuelling wage inflation and must have regard to potential flow on implications.
- The Government expects efficient, effective and focussed bargaining, therefore does not generally favour backdating terms of settlement, or parts of them.
- Where appropriate, approval of an agency's responsible Minister, the Minister of State Services and Minister of Finance is required where the agency wishes to pursue a course of action which could be seen to be at odds with these Expectations. Other agencies must inform their responsible Minister in those circumstances.

4.2 Bargaining Strategies

- The SSC has, and recommends, a guide to preparing a good bargaining strategy. In brief, a bargaining strategy should:
 - incorporate the elements of these Expectations;
 - cover effective risk identification, mitigation and management;
 - include full costings and approvals;
 - clearly address the principles contained in these Expectations.
- Public Service Departments must have a collective bargaining strategy approved by the State Services Commissioner, and must not commence bargaining without SSC approval.
- Other agencies required to consult either the State Services Commissioner, or a monitoring department, must have a bargaining strategy as the basis of that consultation.