



Office of Hon Tony Ryall

Minister of Health
Minister of State Services

16 JAN 2010

Mr Richard Waddel
Chair
PHARMAC
PO Box 10-254
WELLINGTON

Dear Mr Waddel

Letter of Expectations 2010/11

I am writing to convey my expectations as the Pharmaceutical Management Agency (PHARMAC) begins its planning for the development of the 2010/11 Statement of Intent. This letter complements the enduring letter of expectations the Minister of Finance and the Minister of State Services sent you on 22 December 2008.

The driving goal of the new Government is to grow the New Zealand economy in order to deliver greater prosperity, security and opportunities to all New Zealanders.

Budget 2010 and the fiscal outlook

As a result of the economic recession, the Government is facing fiscal deficits for a number of years to come. To help get its finances in order and government debt back to prudent levels, the Government is committed to an operating allowance for Budget 2010 of \$1.1 billion. This is substantially less than in recent years and is to remain at about this level for the foreseeable future.

The process for allocating this operating allowance differs considerably from previous years. Instead of Vote Ministers making bids against the operating allowance, the available portion of the operating allowance is being allocated to a small number of specific Votes early in the process and each Vote Minister is expected to meet their priorities and pressures by reprioritising within the total funding available to the Vote. In general, I do not expect to receive any requests for additional funding from any Crown entity. The Government does intend to increase the community pharmaceutical budget. We also propose some changes to your scope as per the Ministerial Review Group report and recent cabinet decisions.

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 *Expectations for Pay and Employment Conditions in the State Sector* [your Letter of Expectations for 2009/10 refers]. Please re-read these.
- continue to review how your entity's services can be delivered better and more cost effectively, including looking at opportunities to use technology or shared services agreements to lower costs and improve services, and implement changes to deliver on your findings.

Performance

I expect your entity to have an understandable strategy, which is direct about what can be achieved, is stated in simple language and can be reported against. I also expect you to lead the board in evaluating the board's performance and report back to me on any skills gaps or other issues.

Priorities for PHARMAC

When we first met post-election I expressed the incoming Government's view that your organisation was overly sensitive to criticism. PHARMAC's relationship with key parts of the sector was unhelpful in improving health outcomes. Some improvement in this area has been made but I expect more evidence of culture change in the next year.

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 continuing to work with me and key stakeholders around improving 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
- handling communications proactively and improving the way you engage with the public and key stakeholders, in order to build public confidence
- acting on any accepted recommendations of the High Cost Medicines Panel

- working with the Ministry of Health and others to give effect to any relevant Cabinet decisions which relate to expanding PHARMAC's role in the sector. Cabinet has made some in-principle decisions that you will be advised of.

I expect you to maintain the 'no surprises' policy and to inform me well in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative.

In undertaking your governance role, I also expect your entity to work constructively with my monitoring department, the Ministry of Health.

Building on the ongoing process of improvement begun in 2009/10, 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 2010/11. Parliament and the public need to be assured that New Zealand's health sector investment is being managed effectively and efficiently.

I also continue to encourage you to provide meaningful performance information in your Statement of Intent. Through these measures, Parliament and the public can be assured that PHARMAC is contributing to improving health outcomes.

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

Yours sincerely



Hon Tony Ryall
Minister of Health

cc Mr Matthew Brougham, Chief Executive, PHARMAC