



Office of Hon Tony Ryall

Minister of Health
Minister of State Services

21 MAR 2012

Mr Stuart McLauchlan
Chair
PHARMAC
PO Box 10-254
WELLINGTON

Dear Mr McLauchlan

Letter of Expectations 2012/13

I write to convey my expectations for the Pharmaceutical Management Agency (PHARMAC) for 2012/13, to assist with the development of your upcoming Statement of Intent.

Fiscal environment

The Government has signalled new operating allowances of no more than \$800 million in 2012/13 and 2013/14. As in recent years, and as New Zealanders rightly expect, any additional funding received by Vote Health will be principally channelled towards providing more front-line services.

The need for prudent financial management by Crown entities therefore remains critical. Boards are obliged to ensure that their entities operate in a financially responsible manner. As indicated in the Enduring Letter of Expectations¹, Ministers also expect boards to keep their organisation's expenditure under review, to identify particular expenditure or programmes that are not effective or providing good value for money, and to act on those findings.

Specific priorities for PHARMAC for 2012/13

Along with the general expectations set out above, I have several expectations which relate directly to PHARMAC. In delivering on your statutory objectives and functions, I expect that you will respond to the following specific expectations and areas of focus.

- The new Named Patient Pharmaceutical Assessment (NPPA), which was scheduled to begin on 1 March 2012, needs to improve access to high cost, highly specialised medicines. You will need to ensure a smooth transition between NPPA and the current Exceptional Circumstances scheme, including providing appropriate information on the changes to clinicians, patients and

¹ <http://www.ssc.govt.nz/sites/all/files/Enduring-Letter-of-Expectations-Dec08.PDF>

patient stakeholder groups. Please keep me and the Associate Minister of Health fully up to date as this new scheme progresses.

- PHARMAC needs to continue to work closely with the Ministry, Health Benefits Limited (HBL), the National Health Committee (NHC) and clinicians, to plan the development of medical devices work. This work needs to advance more quickly in 2012, and I expect PHARMAC to play a leading role in achieving this.
- I also expect to see the hospital pharmaceuticals work progressed quickly and you need to keep me and the Associate Minister of Health apprised as this work develops. PHARMAC should also continue to collaborate with the Ministry on any future vaccines work.
- There is a continuing need to manage brand switches and high profile funding decisions carefully. There have been recent instances where this has not occurred, and particular care needs to be taken to ensure clinicians and patients are well informed about any new pharmaceuticals or brand switches.
- Communications and engagement with the public and key stakeholders, including clinicians, should be handled proactively to increase confidence. PHARMAC has steadily made progress in this area and I expect this to continue to improve. It would be useful for board members to continue attending key events and to meet with stakeholders as appropriate.
- Please continue to make efforts to lower the administrative burden on clinicians.
- I expect PHARMAC to play an active role as a member of the Health Sector Forum, as well as maintaining a clear overview of the interdependencies and intra-dependencies between its and other entities' major projects.

I expect to receive a copy of PHARMAC's audit letter for 2010/11 shortly. In it, the Office of the Auditor-General is likely to recommend improvements to elements of your operating environment. I expect you to give these recommendations all due priority as you look to improve your organisation's performance over the coming year.

As a sector, I am pleased with the progress that has been made over the past three years. As always, there is more that we can achieve. I look forward to continuing to work with you and PHARMAC over the coming year to achieve our goals.

Yours sincerely



Hon Tony Ryall
Minister of Health

cc Hon Peter Dunne, Associate Minister of Health
Mr Steffan Crausaz, Acting Chief Executive, PHARMAC

APPENDIX: Additional expectations for all health Crown entities

In their 2012/13 Statements of Intent, Crown entities will need to demonstrate their commitment to:

- **clear priorities:** focusing on the things that matter to New Zealanders (ie, customer-focused services)
- **high quality services:** ensuring that services are modern, responsive, business like, and provide good value for money
- **reducing waste:** ensuring that government administration is as efficient, streamlined, and well organised as it can be.

Entities' commitment to the above is likely to be evidenced through:

- setting tight, realistic budgets and managing carefully within those budgets, and by having financial sustainability as a critical part of the entity's strategy
- demonstrating a strong understanding of the entity's business (eg, price, quantity and standards of services, and cost drivers and how the board will manage them)
- an awareness of increased public scrutiny of agencies' expenditure, particularly around international travel, conference expenditure, entertainment and hospitality, and staff expenses
- having realistic pay and employment conditions, in line with the Government's refreshed Expectations for Pay and Employment Conditions in the State Sector, dated May 2010²
- continuing to review how services can be delivered better and more cost effectively. Services need to be effective, represent good value for money and be delivered in a timely manner.

The key role of the board is to develop a strong strategic direction for the organisation, and to embody this in the Statement of Intent. The whole board must be actively involved in this process. As always, the Statement of Intent must clearly state what will be achieved, with meaningful performance measures alongside this, and be capable of being reported against. It must also appropriately reflect and give effect to the expectations set out in the covering letter and this appendix.

The board must also assure itself that it has the appropriate executive and/or clinical leadership in place needed to deliver the Government's objectives. The performance of Chief Executives must be monitored against these expectations and reflected in the Chief Executive's annual performance agreement.

A demonstrated commitment to good practice governance principles is also required. These include the Chair leading the board in evaluating its own performance (as well as assessing the performance of individual members), and to report back to the Minister and the Ministry on any identified skill gaps or other issues which may arise through this process.

² <http://www.ssc.govt.nz/sites/all/files/2010-Govt-Expectations-June2010.PDF>

It is also important to maintain robust processes around the declaration of interests and the management of any conflicts which may arise. Maintaining integrity and trust in our public services is essential, and effective processes for declaring and managing interests and conflicts contribute significantly to this.

Crown entities are also expected to maintain the 'no surprises' policy, which continues to be a vital part of ensuring ongoing Ministerial trust and confidence. To this end, 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, is required. Crown entities are also expected to work constructively with the Ministry of Health in this respect, and to keep the Ministry apprised of any potentially contentious events or issues. Open and effective communication between the board, the Ministry and the Minister (and Associate Ministers, as appropriate) is essential to ensuring productive working relationships, while maintaining clear lines of accountability.