

Pharmaceutical Management Agency

Statement of Intent

2014/15–2017/18



Introduction

Medicines and medical devices are a core component of most interactions people have with health services. As such, PHARMAC is uniquely placed to support the health and disability system to achieve the best health outcomes for New Zealanders.

PHARMAC is committed to making high-quality funding decisions so that anywhere in the country people have equal access to funded pharmaceuticals and the health system is assured that the funding provided delivers value for money. While other health agencies work to address people's access to primary care, PHARMAC works to improve the accessibility of medicines and medical devices for people using health services. Our activity supports and complements the work of others in the health sector and contributes to integrated efforts to improve health outcomes. Our ongoing successful management of the Combined Pharmaceutical Budget (covering community medicines and some medical devices, vaccines and pharmaceutical cancer treatments) contributes to the two overarching health system outcomes for New Zealand:

- New Zealanders live longer, healthier, more independent lives; and
- The health system is cost effective and supports a productive economy.

The Hospital Medicines List (HML) was introduced in July 2013 and is being successfully implemented in District Health Board (DHB) hospitals. After new investments, we estimate that in our first year our work in hospital medicines will generate annual savings for DHBs of more than \$2.97 million based on a three-year average. Importantly, it is also achieving greater consistency in access to hospital medicines across New Zealand. A key factor in the HML's success has been our focus on developing strong relationships with DHB hospital clinical staff. As the HML matures, it will be important for PHARMAC to build on these foundations and increase health sector understanding of our role and the benefits for the system from this role.

We continue to develop the systems and processes needed to support our work towards an expanded role to manage hospital medical devices. In the interim, some medical device procurement has begun and national contracts for a selection of devices are becoming available; these devices are listed in the Pharmaceutical Schedule. DHBs are responding positively to the contracts negotiated so far, with confirmed minimum savings of \$4.8 million (5 year NPV). Over the next few years, PHARMAC will focus on working effectively with DHB clinicians and allied staff, planners and funders, and other health sector entities as we implement hospital medical device management to ensure DHBs achieve best health outcomes and value for money. In particular, we will continue to work with Health Benefits Limited and the National Health Committee to consolidate a shared understanding of, and respect for, the roles we play supporting the wider health system.

PHARMAC's expanded role in vaccines, hospital medicines and hospital medical devices is occurring against a backdrop of wider health system change. Addressing the challenges of an ageing population and long-term conditions requires concerted effort across the health sector. Changing service delivery models through Care Closer to Home and service integration will require PHARMAC to strengthen existing relationships with health sector stakeholders and establish new ones. We welcome working in partnership with other stakeholders and contributing to projects to ensure all efforts are aligned to improve health outcomes. It is important that we are able to continue to fulfil our statutory responsibilities in this shifting landscape.

Our legislative function includes promoting the responsible use of pharmaceuticals. Where we can support government priorities such as the Health Targets and Better Public Services, we will continue to do so. We worked closely with the Ministry of Health-led Rheumatic Fever Prevention Programme (RFPP) to enable timely access to antibiotics for children with Group A Streptococcal sore throats. We continue to work with the RFPP to develop ways to improve adherence to antibiotic treatment. Our Māori Responsiveness Strategy, Te Whaioranga, is being embedded in our activity – it is 'the way we work'. This supports our efforts to achieve the best possible outcomes from the use of medicines and medical devices by ensuring we focus on Māori and all people that use health services. We are enhancing our capacity to deliver high-quality responsible use and implementation

programmes. This presents an opportunity to identify new ways to work with the health sector to achieve government health priorities.

PHARMAC's internal operating environment is being strengthened to ensure we are well equipped to deliver our expanded roles and to continually improve our core business. Over the next four years our five strategies for future success will guide us in our activity as a leader within the health system and enable us to identify whether we are delivering the results we seek.

None of our work can be achieved without close engagement with those also working to achieve the best health outcomes: health service users, their whānau, support groups, industry, pharmacists, prescribers, clinical societies and professional associations, DHBs and others with vital roles to play in the health sector. We continue to consult broadly on a range of proposals and we are indebted to all those making contributions to our thinking.



Stuart McLauchlan
Chair
30 June 2014



David Kerr
Board Member
30 June 2014

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Mission

The Pharmaceutical Management Agency (PHARMAC) mission reflects our legislative objective:

to secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided.

'Pharmaceuticals' are medicines, therapeutic medical devices, related products, or related things.

PHARMAC – our role and contribution to health outcomes

PHARMAC is the New Zealand government agency that makes decisions, on behalf of District Health Boards (DHBs), on which pharmaceuticals to publicly fund in New Zealand. PHARMAC makes choices about how to spend taxpayers' money on vaccines, and community and cancer medicines through the Combined Pharmaceutical Budget (CPB) and the Discretionary Pharmaceutical Fund. The Minister of Health decides the value of the CPB each year. PHARMAC manages the budget through our decision making, but the CPB money remains with DHBs. PHARMAC also makes decisions about the medicines funded in DHB hospitals and is working towards budget management of hospital medicines and medical devices in the longer term.

PHARMAC's decisions affect most New Zealanders because almost everyone will be prescribed a medicine or receive a service involving a medical device at some stage. PHARMAC decisions therefore attract high degrees of public and clinical scrutiny. It is important that we continue to engage and consider stakeholder views in our decision-making processes.

PHARMAC's decisions are informed by robust processes involving consultation, advisory groups, assessment and analysis. PHARMAC also takes into account the impact its decisions will have across the health sector, including such factors as potential reductions in hospital admissions or reductions in the demand for hospital services as a result of pharmaceutical funding.

High-quality decision making is essential and PHARMAC's processes have been frequently tested both in the Courts, via judicial review, and by the Ombudsman, via investigations of complaints. PHARMAC uses the outcomes of these reviews and investigations and its own self-review as an opportunity to continually improve its processes.

Our functions

PHARMAC's key functions are set out in the New Zealand Public Health and Disability Act 2000 (NZPHD Act). These include:

- Managing and maintaining a Pharmaceutical Schedule¹
To achieve this, PHARMAC decides which products to list and oversees the supply chain for these. PHARMAC also arranges distribution of certain high-cost medicines and manages national contracts for some medicines and related products used in public hospitals.
- Providing for subsidies in exceptional circumstances when a pharmaceutical isn't listed in the Schedule
To achieve this, PHARMAC operates the Named Patient Pharmaceutical Assessment (NPPA) policy, which enables doctors to apply for subsidy in certain circumstances for individual patients.
- Promoting the responsible use of pharmaceuticals
To achieve this, PHARMAC runs population health programmes, supports the health sector with resources when our decisions result in change (eg, brand changes) and provides education and professional development tools for health professionals.
- Engaging in research as appropriate
PHARMAC engages in research and policy work and provides support to others in the health sector.

¹ The Pharmaceutical Schedule (the Schedule) lists the vaccines, cancer treatments and community medicines funded through the CPB. Section H of the Schedule includes the Hospital Medicines List (HML), listing the medicines available to use in DHB hospitals, as well as the medical devices for which PHARMAC has negotiated national contracts.

A significant expansion of PHARMAC’s function occurred in 2010, when the Government decided we should play a greater role managing medicines used in DHB hospitals and assume responsibility for managing medical devices. This is complex and long-term work and will be a strategic priority for PHARMAC over the coming three years.

In addition to the NZPHD Act, PHARMAC’s activity is guided by the Crown Entities Act 2004, and current Government expectations, as outlined in Ministers’ Letters of Expectations. These expectations are reflected in this Statement of Intent and the accompanying Statement of Performance Expectations 2014-15.

As a government agency, PHARMAC has a commitment to upholding the principles of the Treaty of Waitangi. PHARMAC’s Māori Responsiveness Strategy, Te Whaioranga, provides a framework for ensuring that PHARMAC responds to the particular needs of Māori in relation to pharmaceuticals.

PHARMAC’s contribution to Government and sector goals

PHARMAC contributes to the Government’s goal of a growing, sustainable economy through being part of the New Zealand health and disability system. We contribute to the health system outcomes:

- New Zealanders live longer, healthier, more independent lives; and
- The health system is cost effective and supports a productive economy.

Our contribution is primarily through the outcomes defined in *Medicines New Zealand* – the Government’s strategy for the medicines system (including medical devices):

- Quality, safety and efficacy;
- Access; and
- Optimal use.

Our work creates impacts (or intermediate outcomes) that contribute to the *Medicines New Zealand* outcomes. We have defined these impacts as:

- Access impacts – positively influencing people’s ability to obtain medicines;
- Usage impacts – influencing people’s use of medicines to ensure they aren’t under-, over- or misused; and
- Economic and system impacts – helping the health system work more effectively, and improving value for money.

Output classes

These impacts are made possible through the services we provide – our outputs, which are identified below and described in more detail in PHARMAC’s Statement of Performance Expectations 2014-15.

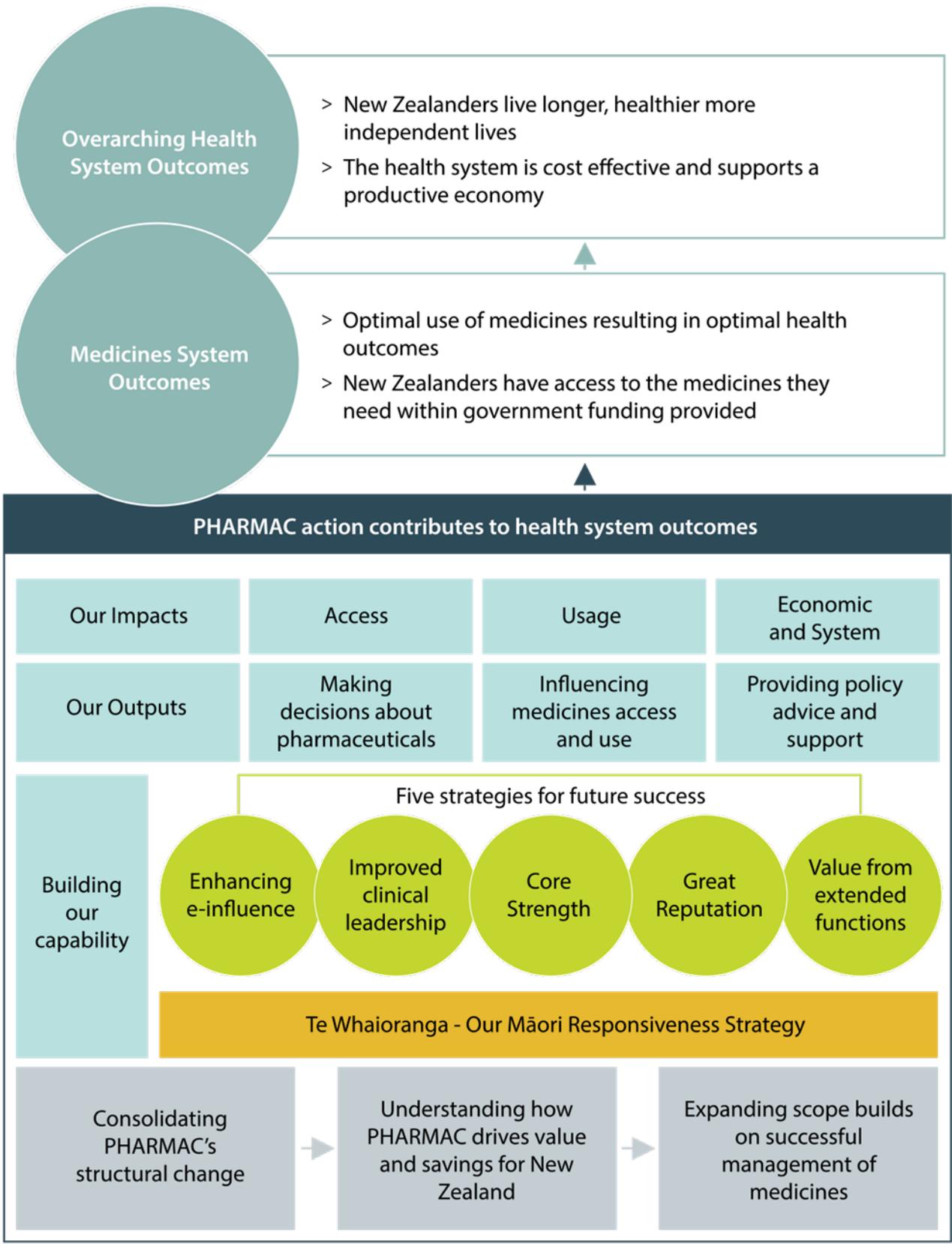
Output class	Description	Outputs
1. Making decisions about pharmaceuticals ²	Work that leads to new medicines being funded and money being saved on older medicines.	1.1. Combined Pharmaceuticals ³ 1.2. Other Pharmaceuticals ⁴ 1.3. Special access panels 1.4. Named Patient Pharmaceutical Assessment
2. Influencing medicines access and use	Promoting access to and the optimal use of medicines and ensuring decisions are understood.	2.1. Explaining decisions/sharing information 2.2. Population health programmes 2.3. Supply management
3. Providing policy advice and support	Assisting the cohesiveness of the broader health sector.	3.1. Advice and support services to the health sector 3.2. Policy advice 3.3. Contracts and fund management

² ‘Pharmaceuticals’ are medicines, vaccines, medical devices, related products, or related things.

³ Includes vaccines, hospital pharmaceutical cancer treatments and some blood products.

⁴ Includes hospital medicines and hospital medical devices listed in Section H of the Pharmaceutical Schedule.

Strategic outcomes framework⁵



⁵ Pages 7-13 of this Statement of Intent describe how the strategic outcomes framework applies to PHARMAC's work.

Government expectations

PHARMAC's Statement of Intent is guided by the Government's Enduring Letter of Expectations, which was issued in July 2012, and the Minister of Health's Letter of Expectations to PHARMAC dated January 2014. Crown entities are expected to continue a focus on financial sustainability and demonstrate a strong understanding of what we do and how it relates to the rest of the health sector. We must manage ourselves responsibly, reflecting public concerns over government agencies' expenditure, setting realistic pay and working conditions, and providing value for money. In particular, agencies should maintain careful financial management, while lifting productivity and providing high-quality services. PHARMAC must also maintain a 'no surprises' approach to communication between ourselves, the Ministry and the Minister.

Key expectations, and relevant outputs for each, are outlined below:

Expectation	Comment
<p>Continuous improvement.</p>	<p>PHARMAC has initiated a rolling review of our Operating Policies and Procedures to make sure they continue to reflect current policy settings and remain fit for purpose into the future.</p> <p>We are currently mapping key business processes to ensure consistency and clarity in our operational activity.</p> <p><i>All output classes</i> </p>
<p>Maintain a thorough understanding of [its] business and cost drivers, look for service improvements, and take opportunities to work with other entities to maximise system-wide efficiency and effectiveness.</p>	<p>PHARMAC has developed five Strategies for Future Success. One of these – 'Core Strength' – seeks to maintain focus on those elements that have enabled PHARMAC to achieve best health outcomes and effective budget management over time, while we establish and bed-in our extended functions.</p> <p><i>All output classes</i> </p>
<p>Priorities for the health sector in 2014/15 continue those of 2013/14, including the Health Targets. Additional areas of focus include Rheumatic Fever and Faster Cancer Treatment. Bringing care closer to home through greater service integration across the sector and health of older people continue to be key priorities as we strive to ensure effective, efficient and patient-centred services. PHARMAC should regularly assess its impact on other parts of the sector as well as its fellow Crown entities in these areas.</p>	<p>PHARMAC's commitment to Government health priorities is embedded in our decision-making processes, currently reflected in our nine decision criteria.</p> <p>PHARMAC will continue to work closely with the Rheumatic Fever Prevention Programme to support timely access to antibiotics for children with Group A Streptococcal sore throats and to support initiatives aimed at improving adherence to antibiotics.</p> <p>PHARMAC will identify opportunities to work with the other parts of the sector in areas of mutual interest, to ensure alignment and avoid duplication. In particular, PHARMAC is working with DHBs and the Ministry, to build knowledge in areas of mutual interest. Maintaining strong relationships will be key to the success of this group.</p> <p><i>All output classes</i> </p>
<p>Assist DHBs and other health Crown entities to achieve their goals and the wider goals of Government, including</p>	<p>Our work in hospital medicines, hospital medical devices and vaccines includes new partnerships and working relationships with other health Crown</p>

Expectation	Comment
<p>the health-related Better Public Services goals, Health Targets and cross-government work programmes (eg, the Children’s Action Plan).</p>	<p>entities and the Ministry of Health, which we will continue to build and strengthen. We are also identifying opportunities to work with other health sector agencies to support health sector and cross-government priorities (eg, further developing the He Rongoā Pai He Oranga Whānau resource to make it more applicable to wider sector programmes).</p> <p><i>Output class 3</i> </p>
<p>Continuing to work closely with the Ministry of Health, Health Benefits Limited (HBL), the National Health Committee (NHC) and clinicians to plan the development and implementation of medical devices work.</p>	<p>We have agreed a Memorandum of Understanding (MOU) with the National Health Committee and are progressing an MOU with HBL.</p> <p>We have established quarterly meetings with the NHC officials and continue to input into the HBL-led Finance Procurement and Supply Chain (FPSC) programme, including ensuring the delivery of the key enablers for PHARMAC’s devices implementation work.</p> <p>Our medical device establishment programme involves extensive engagement with clinicians, allied health, and DHB managers and phased consultation to ensure we are able to receive and consider sector feedback appropriately.</p> <p><i>Output: 3.1</i> </p>
<p>Continuing to manage brand switches and high-profile funding decisions carefully.</p>	<p>We will continue to provide resources and evidence-based information to support brand changes and high-profile funding decisions. We have established key roles in our new corporate structure to ensure implementation of our funding decisions, including brand changes, is managed well.</p> <p><i>Output: 2.1</i> </p>
<p>Continuing to communicate and engage proactively with the public and key stakeholders, including clinicians, to increase confidence.</p>	<p>PHARMAC recognises the importance of engaging with clinicians and other stakeholders. Our routine engagement includes face-to-face meetings with clinical and consumer groups, attendance at conferences, and business relationships with pharmaceutical suppliers (see pages 12-13).</p> <p>We are actively engaging with a range of stakeholders in our ongoing review of our Operating Policies and Procedures and as we progress the development of our expanded role managing hospital medical devices.</p> <p><i>Output: 2.1</i> </p>
<p>Continuing to make efforts to lower the administrative burden on clinicians.</p>	<p>We will continue to review the number of medicines requiring Special Authority approval, with a view to reducing these over the coming four years. Fewer medicines requiring Special Authority will lower the</p>

Expectation	Comment
	<p>administrative burden for clinicians through a reduction in the number of application forms needing to be completed. We will also continue to link Schedule listings more closely with the Named Patient Pharmaceutical Assessment (NPPA) policy so that, where appropriate, pharmaceuticals are funded through the Schedule. Over time this should reduce the need for clinicians to make repeated NPPA applications for medicines, lowering the administrative burden and enabling clinicians to make more effective use of their time.</p> <p><i>Outputs: 1.1, 1.2, 1.3, 1.4, 3.1</i> </p>
<p>Bearing in mind the effect of total change management demands on the sector, when PHARMAC plans the implementation of individual changes in the sector.</p>	<p>PHARMAC and DHBs, along with the Ministry of Health, are establishing a strategic group to discuss issues of mutual interest. This group will provide a mechanism for identifying where individual planned changes intersect and overlap. Strong relationships with DHBs are essential for implementing change successfully.</p> <p>PHARMAC regularly engages with DHBs formally at various levels (eg, Chief Executives, General Managers Planning and Funding, Chief Operating Officers). Participation in these meetings fosters greater understanding of respective work programmes and current sector constraints, allowing better planning of activity.</p> <p>Our relationship with HBL in the context of the FPSC programme and our participation in the Health Sector Forum enable PHARMAC and other agencies to make linkages with our individual plans and consider these in the context of wider activity.</p> <p><i>Output: 3.1</i> </p>

Strategic direction⁶

The health system is dynamic and challenging. Achieving the best health outcomes while at the same time ensuring value for money from the health dollar is essential for New Zealand. PHARMAC is uniquely placed to support the health system to deliver this through our decision making on pharmaceuticals. Providing DHBs with certainty on the level of Vote Health spend needed for appropriate access to pharmaceuticals will allow them to plan and manage overall resources more effectively. Increasingly, as technology advances, there are ongoing demands on health resources, requiring funding choices to be made. PHARMAC has been tasked with assuming responsibility for managing medicines and medical devices used in public hospitals and this has the potential to drive significant gain for the health system through consistent decision making across the country.

⁶ Refer to our strategic outcomes framework on page 4 of this Statement of Intent.

Over the next four years we will focus on consolidating our expanded role and delivering value for DHBs so that the potential benefits to the New Zealand health system and economy can be realised. The outcomes framework on page 4 provides a high-level view of how our activity contributes to these outcomes.

Our five strategies for future success will enhance our ability to achieve the health system outcomes we seek to deliver or contribute to. These strategies, along with Te Whaioranga, our Māori Responsiveness Strategy, will underpin PHARMAC's activity. These strategies are outlined on pages 9-11.

Key focus areas within these strategies will be:

- continuing to develop and enhance our management of hospital medicines, including developing our budget management approach;
- completing our work programme to establish medical device management;
- increasing medical device interim procurement savings ahead of full management; and
- ensuring our business-as-usual activity continues to deliver high-quality decisions that are well implemented.

Our strategic direction will be guided by:

- consolidating PHARMAC's structural change;
- understanding how PHARMAC drives value and savings for New Zealand; and
- ensuring our expanded scope builds on our successful management of medicines.

Consolidating PHARMAC's structural change

In 2013/14 PHARMAC introduced a new corporate structure to ensure the organisation remains fit for purpose as our responsibilities grow. In particular, we are increasing our capability to enable successful implementation of key decisions so that the health sector is supported to manage change well. As our operating environment evolves, a focus on improving business processes and developing our staff capability will be paramount. Further discussion on our capability can be found on pages 20-21.

Understanding how PHARMAC drives value and savings for New Zealand

Challenging economic conditions

There is an increased public focus on, and Government expectation of (see pages 5-7), getting value for money and spending government funding carefully. This applies both to our pharmaceutical budget management, and to what we spend to keep PHARMAC operating.

High public expectations of access to medicines

There are always more demands for medicines to be publicly funded than resources available to pay for them, so choices need to be made. The internet has also made finding information about new medicines easier, sometimes before products are even for sale in New Zealand. This heightens expectations for the medicines system to move faster. This pressure needs to be balanced against the fact that fast decisions are not always good ones and not all new medicines live up to the claims made in their marketing. We carefully examine claims made about new medicines. We always want to ensure our decisions are fully informed and well implemented.

Changing industry activity and trends

Internationally, pharmaceutical companies have gone through a period of mergers and acquisitions to maintain critical mass and access to high-revenue products. Some companies are also expanding their reach into the generic medicines markets, as so-called 'blockbuster medicines' (large market, high-revenue products) come off patent. In addition, the price of new pharmaceuticals continues to be high, particularly the new-generation biologics and medicines for small patient populations. PHARMAC regularly horizon scans to ensure our understanding of the international pharmaceutical market remains current. This is an essential activity for PHARMAC to deliver high-quality funding decisions for New Zealand.

Ensuring the overall system works well

PHARMAC forms one part of the medicines system, which includes good quality medicines being produced and supplied by pharmaceutical companies; robust safety and efficacy assessments by Medsafe; optimal prescribing decisions by clinicians and dispensing services by pharmacists; and appropriate use by patients. The medicines system is also heavily dependent on health IT systems, including those managed by DHBs, the Ministry of Health and the private sector. We contribute actively to the successful development of a wide range of IT-related initiatives. We need to work effectively with, and think about the implications of our work for, other parts of the medicines system.

Ensuring our expanded scope builds on our successful management of medicines

Bedding-in expanded functions

During 2010 PHARMAC's role expanded to encompass managing all hospital medicines and, eventually, hospital medical devices. Since 1 July 2012 PHARMAC has also had responsibility for management of vaccines, including assessment and prioritisation of future vaccines. PHARMAC has received funding for these additional roles and there is a challenge to continue business-as-usual activities while also expanding into wider roles.

Two of PHARMAC's strategies for success will contribute directly to delivering this strategic priority. These are 'core strength' and 'value from extended functions'. See pages 10-11 for further detail.

Te Whaioranga – PHARMAC's Māori Responsiveness Strategy

In 2012 PHARMAC refreshed Te Whaioranga, our Māori Responsiveness Strategy. This strategy provides the foundation for PHARMAC to build our capability to engage effectively with Māori. Our new corporate structure is enhanced by Whakarata Māori, who will lead and support staff in working with Māori.

Through Te Whaioranga PHARMAC seeks to:

- relate to iwi and Māori health and community bodies to ensure our work is informed by and supports the efforts of each other;
- contribute to Māori health aspirations and a commitment to reduce Māori health disparities;
- enable Māori to have accessible information about the best use of pharmaceuticals;
- enable Māori to have opportunities to access and use pharmaceuticals; and
- enhance and support capability in te ao Māori throughout PHARMAC.

Our five strategies for future success

As we continue to develop, PHARMAC has strategic priorities to ensure our continued focus on achieving our objectives.

Improved Clinical Leadership

Our ability to gather the right information from the right people, make good decisions and obtain buy-in substantially depends on our performance in the area of clinical leadership. Part of our work in improving how we interact with stakeholders is about making sure we have the right networks and advice across each activity. Communicating and implementing our decisions is clearly essential.

Our extended functions in the area of secondary care (hospital medicines and hospital medical devices) require us to ensure we are appropriately resourced in this area.

We will work to:

- develop relationships and networks with secondary care clinicians;
- maintain existing clinical relationships and networks; and

- understand and contribute to policy development around prescribing and clinical services initiatives.

Developing these areas will ensure that:

- PHARMAC is able to predict issues, and seek advice and contributions from secondary care on areas of relevance to them;
- clinician perspectives are well understood and integrated within decision-making and implementation processes; and
- PHARMAC's perspective is sought on policy initiatives relating to the supply of medicines as part of clinical services.

Enhancing E-Influence

Better use of technology presents opportunities for PHARMAC to obtain (and create) knowledge, implement activities more smoothly, and communicate more broadly. Opportunities exist to maximise benefits through connection with sector IT initiatives including data systems, and developing and delivering our own solutions.

A key enabler for success is connectedness in IT and information management strategy within the organisation and between PHARMAC and the wider sector.

We will work to:

- support and influence sector IT initiatives including data systems;
- develop and maintain effective networks with private software vendors, health IT, and DHB systems providers;
- participate in steering groups and working groups for New Zealand Medicines Terminology, New Zealand Universal List of Medicines, e-prescribing and other related initiatives;
- develop and maintain PHARMAC's Information Systems Strategic Plan and Information Management Strategy; and
- ensure human resources strategy is aligned with seeking, retaining and developing staff with information management skills (see pages 21-22).

Developing these areas will ensure that:

- health sector IT developments work seamlessly with pharmaceutical-related systems;
- PHARMAC's perspective is sought on health IT-related policy and process;
- integration of data related to PHARMAC's extended roles in medical devices and hospital medicines is seamless;
- PHARMAC's internal systems and processes are robust and able to respond to changes in sector health IT parameters; and
- staff and stakeholders have timely access high-quality information in usable formats..

Core Strength

PHARMAC creates value for the health system through effective management of medicines. We must ensure we continue to deliver best health outcomes along with effective budget management when evaluating opportunities for change and improvement. Gains can be made through developing improved ways of measuring our performance, and communicating this to interested parties in relevant ways.

Enhancing our capability and responsibilities as a good employer is also important to achieving this strategy. In order to deliver on our strategies in a manner consistent with our organisational values, PHARMAC often requires people with relatively rare skill sets and particular attitudes and personal attributes.

We will work to:

- continue to make PHARMAC a good employer and an attractive place to work;

- embed the PHARMAC values and develop core competencies within the performance planning framework;
- assure PHARMAC's health and safety systems provide a secure working environment for all staff; and
- closely monitor the protection and security of PHARMAC's data, particularly the private personal information entrusted to us.

Developing these areas will ensure that:

- PHARMAC is able to integrate extended functions into the organisation without loss of culture or values (which are important factors in the success of our current approach);
- new staff are a good fit, and understand PHARMAC's values and core competency. Existing staff buy into the new identity statements and demonstrate the behaviours outlined in the revised Framework for Success;
- the quality of PHARMAC analysis and decisions continues to lead to better health outcomes than the alternative; and
- 'The PHARMAC model' continues to be referenced in external reviews as best practice within the sector.

Value from Extended Functions

Evaluation of the external environment and PHARMAC's capabilities indicates that we can add value in a number of new areas. Greater management of hospital medicines, managing funding for vaccines and assessing future vaccines, and reorganising (with other entities) the management of hospital medical devices are areas with which we have been tasked.

In line with Government expectations, PHARMAC will give a high level of attention to these areas, in particular with hospital medical devices.

In order to enable the required action (and protect core activity from distraction), we have built a small medical devices establishment team with the requisite capabilities, including medical, programme management and analytical capabilities.

We will work to:

- obtain value from new activities; and
- ensure a robust process for management is developed between responsible agencies.

Developing these areas will ensure that:

- the quality of PHARMAC analysis and decisions mirrors that seen for medicines;
- real sector value can be observed and is reported to stakeholders; and
- in the longer term, improved management of technology adoption occurs.

Great reputation

A great reputation is essential to PHARMAC's future success. Gaining the potential benefits from our extended functions, as well as maintaining our business-as-usual activity, requires strong sector relationships. The Minister of Health has set a clear expectation that PHARMAC will develop and maintain strong engagement with consumers and clinicians. As we start to bed-in our role managing hospital medicines and establish our role with hospital medical devices, we require a much higher level of engagement with, and responsiveness to, our stakeholders. Particularly with regard to hospital medical devices, PHARMAC will be engaging with a much broader group of stakeholders within DHBs than we have previously.

PHARMAC's drive to achieve the targets set for us, and our ongoing effective management of subsidies for medicines, sets the foundation for our reputation. A focus on further maintaining and building on our reputation for the future means continuing to do the things we do well for the benefit of DHBs and taxpayers, and delivering high-quality services that are valued by New Zealanders.

Outcomes – health system

PHARMAC is one of many government agencies that influence the health of New Zealanders. Our roles in pharmaceutical assessment, funding, procurement for DHBs and promoting the responsible use of medicines are able to influence the two overarching health system outcomes both directly and indirectly.

- New Zealanders live longer, healthier, more independent lives; and
- The health system is cost effective and supports a productive economy.

PHARMAC cannot contribute to these outcomes effectively without establishing positive working relationships across the health sector. PHARMAC has some strong existing relationships but remains aware that as our role grows we also need to establish new relationships. Our hospital medicines activity has led to stronger relationships with secondary care, which we will continue to nurture as this role matures. The establishment work for PHARMAC to assume responsibility for management of hospital medical devices involves significant engagement with DHB hospital staff, including clinical staff. This engagement is essential as we move from transitional procurement initiatives to medical device management over the next three to four years.

Key relationships for PHARMAC include

District Health Boards (DHBs)

DHBs hold the funding for most publicly funded health services, including the CPB and hospital medicines and hospital medical devices. DHBs also provide funding for some of the population health programmes PHARMAC manages.

PHARMAC's role managing the CPB as well as expenditure in hospital medicines requires us to have robust relationships, including with clinicians, planners and funders, and senior management staff. Our Memorandum of Understanding with the DHBs provides a sound basis for working together over time.

Ministry of Health

The Ministry of Health acts on behalf of the Minister to monitor PHARMAC's performance. PHARMAC also works closely with various business units within the Ministry, both on ad hoc issues and where there are medicines-related issues, for example, input into medicines strategy reviews, new prescriber policy, the national immunisation programme, emergency preparedness and antibiotic stewardship.

Medsafe

Medsafe, part of the Ministry of Health, is New Zealand's medicines and medical device regulator. Medsafe decides which pharmaceuticals are safe and effective for New Zealanders to use, and also manages post-marketing surveillance. PHARMAC works closely with Medsafe and usually only considers a medicine for subsidy after Medsafe has approved it.

Health Benefits Limited (HBL)

HBL is a Crown-owned company established to reduce costs and deliver savings in administrative, support and procurement services for the health sector. We work closely with HBL's Finance Procurement and Supply Chain programme due to key linkages with medical devices.

Health Quality and Safety Commission (HQSC)

HQSC is a Crown entity that works with clinicians, consumers and providers of health services to improve the quality and safety of health and disability services. We participate in HQSC-led sector initiatives relating to medicines quality and safety.

National Health Committee (NHC)

The NHC is a Ministerial advisory committee that advises the Minister on the types and relative priorities of health services that should be publicly funded. The advice to the Minister is formulated

following consultation. We have established regular meetings with the NHC to build shared understanding of our respective roles and activities.

PHARMAC participates in the Health Sector Forum, which was established by the Ministry of Health to bring together health Crown entities (including the three listed above) to increase shared understanding of health system priorities and provide leadership to the sector in key areas.

We must also work effectively with a range of people and organisations, including health service users and consumers; health professionals; pharmaceutical companies; other government agencies; the Minister of Health and Associate Ministers; and Members of Parliament. In addition, PHARMAC works closely with a wide range of Māori stakeholders. Many stakeholders have representative groups (eg, the New Zealand Medical Association, the Pharmaceutical Society of New Zealand, the Medical Technology Association of New Zealand and Medicines New Zealand) with whom we also work.

Stakeholder engagement	Measure	Rationale
PHARMAC works effectively with stakeholders.	During 2014/15 pilot a stakeholder engagement survey to establish baseline performance for future year comparison.	Understanding where our relationships are strong (and why) as well as where there is room for improvement will help PHARMAC to maximise our contribution to health system outcomes.

Intermediate outcomes – *Medicines New Zealand* strategy

As a medicine funder and decision-maker, PHARMAC also plays a role within a subset of the health system, the New Zealand medicines system. Our effectiveness depends significantly on the work of others. We need pharmaceutical companies to supply effective products, and Medsafe to approve medicines for use, and we rely on optimal prescribing decisions, dispensing services and consumer use to get the best health outcomes from medicines.

Medicines New Zealand is the Government’s strategy for the medicines system (which includes medical devices). It defines three main outcomes for the medicine system, and we contribute to the first two through our outputs:

- Access – New Zealanders have access to the medicines they need, including equity of access to medicines;
- Optimal use – medicines are used to their best effect; and
- Quality medicines that are safe and effective.

Our Statement of Performance Expectations 2014-15 outlines our contribution to these outcomes. Medsafe is largely responsible for the *Medicines New Zealand* quality outcome.

Impacts – the influence PHARMAC has

PHARMAC’s work directly affects the lives of New Zealanders, many of whom rely on medicines to go about their daily lives. We also support the health sector to be well informed about evidence-based medicines and assist DHBs to achieve better health outcomes through adding value to other procurement initiatives.

Pharmaceuticals make up a significant portion of public spending through Vote Health. PHARMAC’s activity to manage this spend while at the same time achieving best health outcomes is important for ensuring the long-term sustainability of the health system. Since its inception, PHARMAC has managed to contain pharmaceutical expenditure to an average three percent, while growing the range of pharmaceuticals available and widening access to them.

PHARMAC’s original objective was to introduce price competition to a market where it had not previously existed. This meant New Zealand was able to get better value for medicines and achieve the best health outcomes from the public money spent on medicines. This objective remains central to PHARMAC’s work and is now being applied to managing expenditure growth in hospital medicines and hospital medical devices.

Access impacts

We want to improve people's ability to have equitable access to medicines.

How we influence access to medicines

PHARMAC's decisions to subsidise medicines mean they are available for all eligible people, regardless of a person's geographic location. Many medicines are expensive and would be priced outside people's reach without a subsidy. New technologies such as biologics (medicines that treat conditions such as auto-immune diseases and some forms of cancer) are particularly expensive. When PHARMAC fully funds a medicine, patients typically pay only the co-payment set by the Government. This reduces the cost barrier people experience accessing medicines.

PHARMAC isn't the only agency that impacts on access to medicines. Medsafe, DHB funders, prescribers and pharmacists all have an impact on access. PHARMAC's particular impact is on negotiating contracts that apply nationally and make medicines affordable. In addition, by managing funds, we manage risk and optimise cash flow within the system.

Our work managing contracts and keeping watch on the pharmaceutical supply chain also helps ensure medicines are available when people need them.

Sometimes when a medicine is funded it is subject to subsidy rules. While these rules may be seen as an administrative hurdle for clinicians, they help target medicines to people who most need them. This helps to ensure funded medicines are used cost-effectively.

PHARMAC will influence access to medicines by:

- continuing to run commercial processes to extract value from currently funded medicines; and
- investing in new medicines (and widening access to medicines) where PHARMAC considers this leads to improved health outcomes for New Zealanders.

Measuring our impact on access to medicines

We expect access to funded medicines to improve over time. PHARMAC manages funding to make savings and create 'headroom' for growth in funded prescription numbers. In this way, PHARMAC's savings and budget management work enables increased access to funded medicines.

Provided health system policy settings remain similar, PHARMAC expects an ongoing increase in the number of patients receiving funded medicines, and in the number of prescriptions per patient. PHARMAC influences this through ongoing savings activity freeing up funding for further investment, and growth in the pharmaceutical budget also enables more new medicines to be funded. External factors like population growth, and demographic changes such as an ageing population (an older population is associated with higher medicines use), will also influence prescription growth over time.

We will monitor prescription numbers for medicines used to treat priority health conditions. The medicines monitored may change over time, depending on emerging health priorities. Initially we will focus on some medicines used to manage type 2 diabetes mellitus and cardiovascular disease. These long-term conditions are current health priorities and we know that health outcomes can be improved through early detection and treatment. Monitoring these medicines will help to identify any differences in access to these medicines for different population groups. It may also identify opportunities for PHARMAC or the wider health sector to target resources more effectively.

Access impact	Measure	Rationale
New Zealanders have access to the medicines they need in the community.	The number of prescriptions dispensed for high cholesterol statin medications monitored by age, gender, ethnicity and deprivation.	Long-term conditions including cardiovascular disease (CVD) and diabetes mellitus are a leading cause of morbidity in New Zealand. These conditions also disproportionately affect Māori, Pacific and South Asian peoples. ⁷ Funded medicines are available to help prevent or control CVD and diabetes mellitus. Monitoring prescription numbers for these medicines will help to identify whether access is equitable.
	The number of prescriptions dispensed for low-dose aspirin monitored by ethnicity and deprivation.	
	The number of prescriptions dispensed for oral hypoglycaemic medication (sulphonylureas and biguanides) monitored by ethnicity and deprivation.	

PHARMAC's expanded role includes managing expenditure on the medicines used in DHB hospitals. As we do not yet have responsibility for full budget management in DHB hospitals, our main focus is to drive national consistency in access to hospital medicines and manage new investment in hospital medicines within the expenditure agreed with DHBs.

The introduction of a new Hospital Medicines List within the Schedule (Part II of Section H) in 2013 is standardising the medicines funded in DHB hospitals throughout the country, reducing historical variation. When new medicines are added to Section H, these will be available on a nationally consistent basis. Section H may also create greater efficiencies through using a central agency (PHARMAC).

PHARMAC is now focusing on supporting DHBs to use Section H effectively and developing an approach to begin budget management for hospital medicines.

Access impact	Measure	Rationale
A nationally consistent range of medicines is available for use in DHB hospital settings.	The number of medicines listed in Section H expands within the expenditure range agreed with DHBs.	Expanding the number of medicines available through DHB hospitals will increase access; however, it is important that new investment is managed sustainably.

During the next four years PHARMAC's main focus for medical devices will be increasing procurement activity from optional national contracts towards a national management approach. The first contracts have been negotiated for selected categories (eg, wound care products), with around 2500 items now available through national contracts and listed in Part II of Section H.

Access impact	Measure	Rationale
DHBs have access to a range of medical device contracts in selected categories.	DHB uptake of PHARMAC-negotiated medical device contracts.	Comprehensive DHB uptake of optional national contracts will ensure the potential benefits of these contracts are realised. Good uptake will give PHARMAC an indication of the acceptance of these contracts by DHBs.

⁷ <http://www.health.govt.nz/new-zealand-health-system/health-targets/about-health-targets/health-targets-more-heart-and-diabetes-checks>

Usage impacts

We want medicines to be prescribed, dispensed and used by patients as well as possible. If medicines are over-, under- or misused, then people miss out on the health benefits the medicine could provide them.

How we influence medicines use

We work to ensure health professionals are well informed about funded medicines and we provide professional development services for clinicians about evidence-based medicine. These services include providing high-quality, evidence-based prescriber educational material and running the PHARMAC Seminar Series for health professionals.

Pharmacists play an important role in helping people understand their medicines, and we provide information to support pharmacists to help people adjust to brand changes.

Complex funding decisions, particularly where they involve a change in brand, often require an implementation plan to achieve best health outcomes and to realise the potential benefits of the decision. PHARMAC tailors implementation plans to the particular decision being made. It may involve working with consumer groups, specialist clinicians and other health professionals to develop resources or determine appropriate ways to communicate the change.

Our population health programmes and campaigns often include messages promoting access to, and the optimal use of, medicines. Each of these programmes has targets and measures to gauge the programme's success, and we evaluate them to see whether those targets have been met.

We are one of many health agencies that seek to improve health literacy – *“the degree to which individuals have the capacity to obtain, process and understand basic health information and services in order to make informed and appropriate health decisions”*.⁸ This plays an important role in optimal medicines usage. The level of understanding an individual has about their health status and the role medicines might play in maintaining their health status, and the way information is provided to them by their healthcare professionals can substantially influence whether the potential benefit of a medicine is realised. Medicines adherence, people taking their medicine as prescribed and obtaining the full benefit, helps ensure medicine subsidies are effective and obtain the desired health outcomes. PHARMAC has contracted two providers to develop and pilot electronic adherence tools to assist patients to manage their medicines effectively. These pilots will help us identify the value of new technology in supporting medicines adherence.

Measuring our impact on medicines use

PHARMAC has some control over medicine use through defining access criteria for funded medicines, to help us secure the best health outcomes within available funding. The most widely used instrument is Special Authority, which requires clinicians to apply on the basis that their patient meets the access criteria for funding defined in the Pharmaceutical Schedule.

If we wanted to ensure all medicines were prescribed only to patients most likely to benefit, one option would be to restrict access to every medicine through use of a Special Authority. However, PHARMAC is aware that each Special Authority places an administrative burden on clinicians, which is a cost to the sector. We need to strike a careful balance between managing this burden and the benefit to be gained from targeting access in this way.

PHARMAC also considers how applying a Special Authority restriction can contribute towards targeting patients with the greatest health need and assist in optimal prescribing.

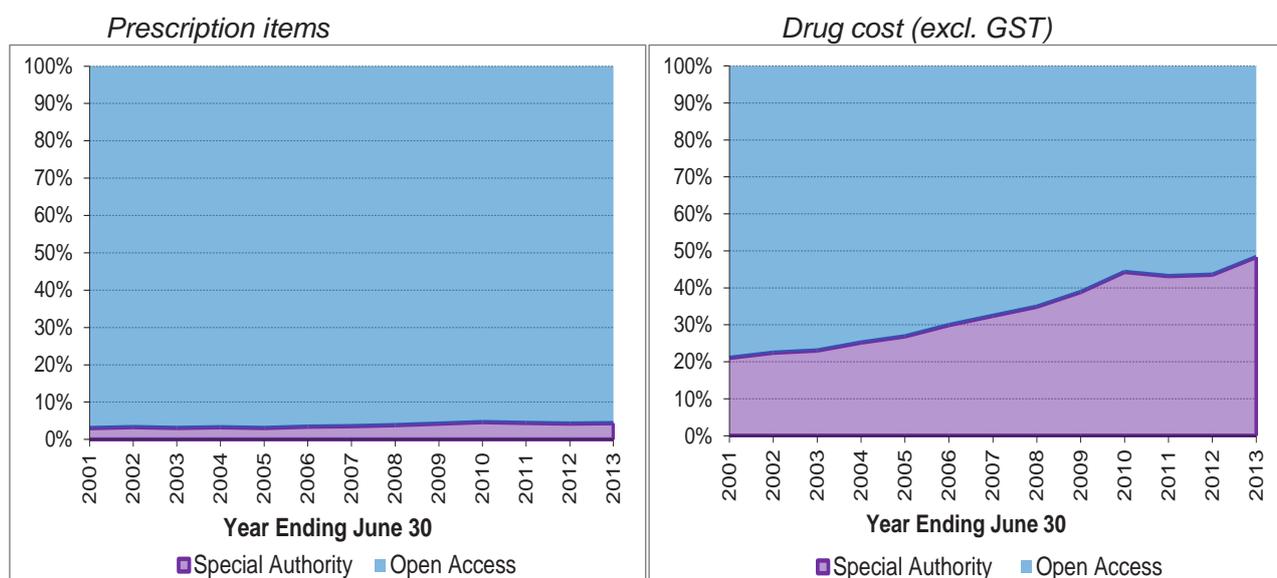
The graphs on page 17 show that while the proportion of Special Authority medicines compared with open access medicines has grown over time, it remains very small. However, the drug cost for these medicines has grown from around 20 percent of the CPB in 2001 to almost 50 percent in 2013. This illustrates why Special Authorities are an important tool for managing medicines use, and therefore

⁸ [http://www.moh.govt.nz/notebook/nbbooks.nsf/0/4559082D3B05C11FCC2576CE006835A1/\\$file/korero-marama.pdf](http://www.moh.govt.nz/notebook/nbbooks.nsf/0/4559082D3B05C11FCC2576CE006835A1/$file/korero-marama.pdf)

spending growth. This supports PHARMAC’s legislative objective, because over-prescribing expensive medicines would limit our ability to use the pharmaceutical budget cost-effectively, reducing the opportunity to invest in new medicines.

We anticipate ongoing gradual increases in spending on Special Authority medicines. We will monitor the proportion of Special Authority prescriptions compared with open access prescriptions and the cost of these as a percentage of the CPB over time. However, we expect that as the cost of any particular Special Authority medicine declines we will, where appropriate, remove Special Authority restrictions.

Proportion of prescription items and drug cost for Special Authority medicines compared with open access medicines over time



Usage impact	Measure	Rationale
Funded medicines are targeted to those most likely to benefit.	The proportion of Special Authority medicines to open access medicines is monitored over time.	Special Authority approvals enable PHARMAC to provide funded access to certain medicines sooner for those patients most likely to benefit (particularly where the medicine is higher cost), while at the same time managing spending growth sustainably.
	The cost of Special Authority medicines as a percentage of the CPB is monitored over time.	

When medicines are prescribed inappropriately (eg, for those less likely to benefit or where potential harms exist), it is unlikely that the medicine will achieve best health outcomes for New Zealanders. Where PHARMAC identifies potential prescribing issues, we sometimes initiate programmes to assess the issue and identify options for addressing any practice gaps found. For example, we are currently undertaking a pilot to assess the extent of inappropriate prescribing of antipsychotics for behavioural and psychological symptoms of dementia in residential care facilities. The health of older people, including dementia care, is a priority for the health system, which makes PHARMAC’s pilot programme timely. PHARMAC will monitor trends in antipsychotic prescriptions dispensed to people over 65 over time.

Usage impact	Measure	Rationale
Funded medicines are used responsibly.	The trend in prescription numbers for antipsychotics dispensed to over 65s is monitored over time.	The health of older people is a Government and health system priority. Antipsychotic medications can be prescribed inappropriately to older people with dementia

		<p>experiencing behavioural symptoms. These medicines can have unacceptable adverse effects in this patient group. Monitoring the trend will give PHARMAC and the wider health system insight into the extent of inappropriate use of these medicines to inform any options for addressing practice gaps.</p>
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Economic and system impacts

Helping the health system work more cohesively, providing certainty for government on the costs of pharmaceuticals and assisting DHBs to obtain better value for money.

Measuring economic and system impacts

PHARMAC’s economic and system impacts support the Government’s overall fiscal management through tight budgetary control. This is particularly important at a time of fiscal restraint and tight budgets.

Each year PHARMAC is faced with a list of pharmaceuticals seeking funding, and prioritises how best to spend the available funding in order to achieve the best health outcomes within the funding provided. Prioritisation is necessary because the demand for funding is always greater than the amount of available funding. We do this by using our nine decision criteria (we began to review our criteria in 2013/14 and we anticipate introducing a new decision-making approach in 2014/15).

We estimate health gain in terms of Quality-Adjusted Life Years (QALYs – see box opposite). We can measure our decision-making effectiveness by calculating the average value of the funding options we had available (our prioritisation list), and comparing that figure with the average value of the funding decisions actually made. Value can be expressed in terms of the number of QALYs gained per net million dollars spent by the health sector. We will aim to out-perform the average value of the funding options available, and in so doing illustrate our performance in selecting the best-value funding options available to use during the year.

Measuring our impact – the QALY

PHARMAC measures the impact of its decisions using QALYs (quality-adjusted life years). This is an international standard measure that takes into account the impact a pharmaceutical or other medical intervention has on quality and quantity of life.

For example, a person who regularly takes their asthma preventer inhaler as directed not only reduces the albeit small chance of premature death on average, they also may be more able to go about daily tasks such as walking the children to school, doing the housework or even being able to return to work. Such factors are all taken into account in the QALY measure.

Measuring our contribution to economic and system impacts

In 2014/15 PHARMAC’s operating budget will increase, and the Combined Pharmaceutical Budget (CPB) will accommodate a minimum of \$10 million spent on new medicines and widened access to medicines. PHARMAC’s management activity, including investing in new medicines and making savings on existing products, is expected to lead to growth of six to seven percent in the volume of medicines funded and the number of new medicines will also grow. So through PHARMAC’s activity, more New Zealanders will receive funded medicines and the range will grow.

Our work has meant that, between 2003 and 2013, we have saved DHBs a cumulative total of \$3.83 billion and we estimate a further \$1.19 billion in 2013/14. At the same time, the number of new medicines and patients receiving them has increased. This estimate is based on pharmaceutical prices in 2003 mapped to current prescribing activity, and compares actual spending with what would have happened had PHARMAC taken no action. Without PHARMAC, this funding would have had to come from other areas of health spending. PHARMAC’s work gives DHBs funding choices they wouldn’t otherwise have.

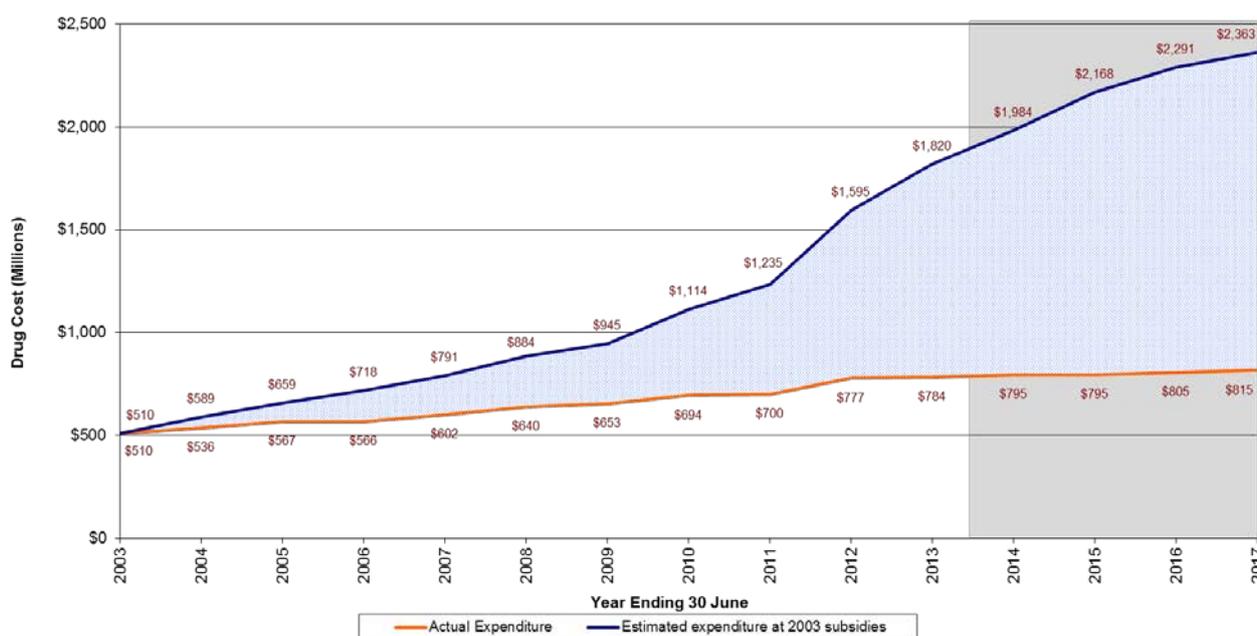
PHARMAC's activity will include:

- seeking clinical advice on potential new pharmaceutical investments;
- reviewing (where appropriate) access to currently funded medicines and removing access barriers where possible;
- working with pharmaceutical suppliers to reach cost-effective and mutually acceptable agreements for new pharmaceuticals;
- continuing to run commercial processes to extract value from currently funded medicines; and
- investing in new medicines (and widening access to medicines) where PHARMAC considers this leads to improved health outcomes for New Zealanders.

Economic and system impact	Measure	Rationale
DHBs get best value for money.	The average value of funding decisions within the CPB continues to be greater than the average value of all opportunities. For example in 2012/13 funded proposals provided a weighted average of 27 QALYs per \$1m net costs to the health sector, compared with an average of 19 QALYs/\$1m from all proposals considered.	To ensure our decisions are delivering "best health outcomes within the funding provided". Comparing the average QALYs/\$1m from the decisions made with the possible QALYs/\$1m from all proposals considered helps tell us whether the value we achieve for the system is delivering best health outcomes.

The graph below shows PHARMAC's impact on drug expenditure in the CPB. PHARMAC's influence has been in negotiating lower prices for existing pharmaceuticals, while maintaining and widening access for New Zealand patients. Cost management of pharmaceuticals has been achieved through competition, which has led to price reductions, rather than by restricting access to medicines or limiting patient choice. Through this work, PHARMAC has managed funding at a lower level of growth than would otherwise have occurred.

Impact of PHARMAC on drug expenditure over time (actual and predicted 2003-2017)



The shaded area between the graph's lines indicates the total amount saved since 2003. This is the difference between estimated spending without savings, and actual spending.

The value of the CPB includes nicotine replacement therapy from 2010/11, pharmaceutical cancer treatments from 2011/12, vaccines from 2012/13 and haemophilia treatments from 2013/14. The

inclusion of these additional items makes predictions of future expenditure trends less certain. Expenditure beyond 2014 is estimated and actual figures are subject to change. Predictions of future expenditure do not take into account the possibility of further spending being included or of additional savings being made.

Potential savings to DHBs from medical devices activity

In 2011/12 DHBs were spending around \$880 million on medical devices, with cost growth estimated at around seven percent per year. Cabinet expects PHARMAC will deliver savings to DHBs from the full management of medical devices. This includes assessment, prioritisation, standardisation and procurement of all hospital medical devices within a fixed budget. PHARMAC is moving towards achieving this in a carefully sequenced way. In the meantime, Cabinet agreed PHARMAC should begin procurement of some medical device categories immediately, as a first step to full management within the Pharmaceutical Schedule. This procurement started to deliver net savings to DHBs from 2013/14 and will continue over time as we move toward full management.

From 2017/18 PHARMAC intends to take on responsibility for full budget management of hospital medical devices, although this is dependent on a full roll-out of the Financial Management Information System (FMIS) across 20 DHBs. The FMIS system will support compliance with Section H of the Pharmaceutical Schedule, which will list the PHARMAC-negotiated medical device contracts DHBs can now take advantage of. Some of the anticipated benefits may be reinvested in new devices/health services. A major portion of the procurement savings within HBL's Financial Procurement and Supply Chain Programme (FPSC) relates to medical devices.

While PHARMAC's procurement work will contribute to the FPSC anticipated level of medical devices procurement savings, the savings of PHARMAC's broader medical devices management may exceed the cumulative benefits identified in the FPSC. This estimate is based on PHARMAC's experience in managing pharmaceuticals, rather than any robust data set. We expect to modify these estimates as required as we gain more data and experience.

Our capability

Our success depends on adequate capability in a number of areas. PHARMAC's unique skill lies in our ability to synthesise and create unique knowledge to help us achieve our legislative objective. Our people are our most important asset as they are integral to our ability to deliver on our functions, so our ability to attract and retain skilled staff, be a good employer and enhance our attractiveness as a place to work is critically important to enable us to continue to meet our legislative objective.

Enhancing PHARMAC as a good employer

With general fiscal restraint, there is an even greater need to ensure other factors affecting employee engagement and satisfaction are well managed. While the current economic climate may encourage job retention, balanced against this is the high-performing nature of our staff and the environment at PHARMAC which facilitates development of sought-after skills (and therefore increased employment prospects). We need to develop and retain key capability in areas where particular skills are in short supply. PHARMAC's expanded role in hospital medicines and hospital medical devices will also require recruiting more employees with the appropriate specialised skills. With skills in economic assessment and commercial procurement in the medical field already in short supply in New Zealand, this makes it even more critical that PHARMAC attracts and retains good staff.

We will continue to focus on key areas relevant to being a good employer, including:

- *leadership, accountability and culture* – we believe we have the necessary leadership capability, and treat our accountability requirements (as per workplace legislation) with high priority. We aim to enhance this capability through skills development and succession planning. Drawing on internal and external feedback, we continue to build an organisational culture fit for current and future challenges. In particular we are committed to equal employment opportunities and will continue to ensure our culture supports diversity in the workplace. PHARMAC reviewed and republished its Vision, Mission and Values in 2011/12;

- *recruitment, selection and induction* – our recruitment process remains an important focus to fill vacancies quickly with appropriately skilled staff. Recruitment activity has increased over the past two years and we are likely to see further growth over the next three years as our hospital medical device function becomes fully established. Our induction programme for new recruits covers all key aspects of our business, to quickly build new employees' understanding of our work and expectations;
- *employee development, promotion and exit* – our performance review process includes a focus on personal and career development. Exit interviews are conducted for most leavers to learn how we can further improve as an employer;
- *flexibility and work design* – we offer flexible working conditions, including part-time work and remote working, provided business needs can be met. There is significant uptake of these options by employees;
- *remuneration, recognition and conditions* – remuneration is performance based, using a 'total remuneration' policy with reference to external market benchmarks and remuneration expectations of the state sector;
- *harassment and bullying prevention* – the PHARMAC value of 'due respect' informs all that we do. We have high expectations about how our staff treat each other and we have policies in place which make it clear that harassment, bullying and other such behaviour are not tolerated; and
- *safe and healthy environment* – the health and safety of our working environment is monitored, including workstation audits, and emergency preparedness (including business continuity planning).

Other important areas of capability focus

Capability in all areas needs to be monitored and, where necessary, improved. We have strengthened our focus on business improvement with dedicated internal processes related to identifying and addressing improvements. We consider the following capability areas are priorities to enable us to meet current and future challenges:

- *governance* – PHARMAC has a strong focus on effective governance, including use of a clear decision-making process (the decision criteria were reviewed in 2013/14);
- *communications and stakeholder engagement* – we are working on understanding our stakeholder views better, and improving how we explain our own. We continue to explore opportunities for greater community engagement (eg, community forums for key consultation activity) and periodically hold the PHARMAC Forum, a face-to-face conference for leaders in the health sector;
- *advisory committees* – we take advice from clinical and consumer advisory committees. The advice from our clinical committees is an important input to our decisions, and an important way to benefit from expert clinical views. The advice from our Consumer Advisory Committee ensures our consultation and communications activities are appropriate and relevant;
- *Māori responsiveness* – PHARMAC is committed to upholding the principles of the Treaty of Waitangi. Our Māori Responsiveness Strategy, Te Whaioranga, provides a framework for ensuring that PHARMAC is aware of, and responsive to, the needs of Māori in relation to pharmaceuticals;
- *Pacific responsiveness* – PHARMAC has developed a Pacific Responsiveness Strategy to guide our internal and external engagement and operations affecting Pacific peoples;
- *risk management* – our operating environment generates many risks. If they are not identified early and managed appropriately, some of these risks could delay our decisions or increase expenditure, losing health outcomes that would otherwise be possible. We operate a risk management framework requiring regular screening of risks and reporting to the Board.

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