

# Office of Hon Tony Ryall

Minister of Health

Minister for State Owned Enterprises

**18 FEB 2013**

Mr Stuart McLauchlan  
Chair  
PHARMAC  
PO Box 10-254  
WELLINGTON

Dear Mr McLauchlan

## **Letter of Expectations 2013/14**

I write to convey my expectations for PHARMAC for 2013/14, to assist the Board with strategic planning and other decisions in the coming year.

### *Financial sustainability*

As we work towards returning to surplus by 2014/15, the need for prudent financial management by Crown entities remains critical. In addition to keeping to their budgets, boards must also focus on lifting their entity's productivity while continuing to provide high-quality services.

As indicated in the revised Enduring Letter of Expectations<sup>1</sup>, Ministers expect all boards to maintain a thorough understanding of their entity's business and cost drivers, look for service improvements, and take opportunities to work with other entities to maximise system-wide efficiency and effectiveness. Your Statement of Intent must reflect these expectations.

A demonstrated commitment by boards to good practice governance principles is also required. As part of this, and as indicated in the revised Enduring Letter of Expectations, boards are expected to complete an annual self-assessment that formally assesses the performance of individual members, the Chair and the board as a whole, against meaningful, good practice standards of board performance.

### *Working together*

Priorities for the health sector in 2013/14 continue those of 2012/13. These are summarised in the Operating Intentions section of the Ministry of Health's 2012/13 Statement of Intent (pp15-16). In 2013/14, additional areas of focus include Rheumatic Fever, Diagnostics, and the Mental Health and Addiction Service Development Plan. Bringing care closer to home through greater service integration across the sector and the health of older people continue to be key priorities, as we strive to ensure effective, efficient and patient-centred services.

Many Crown entities play important or supportive roles with respect to District Health Boards (DHBs) and these priority areas. I expect you to consider how your own organisation can assist DHBs, and your fellow health Crown entities, to achieve their goals and the wider goals of the Government. These include the health-related Better

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<sup>1</sup> [http://www.ssc.govt.nz/sites/all/files/enduring-letter-of-expectations-jul12\\_0.pdf](http://www.ssc.govt.nz/sites/all/files/enduring-letter-of-expectations-jul12_0.pdf)

Public Services goals<sup>2</sup>, Health Targets, and important cross-government work programmes (eg, the Children's Action Plan).

*Specific priorities for PHARMAC*

Along with the general expectations set out above, I have some expectations which relate directly to PHARMAC. Your Statement of Intent must also reflect these expectations.

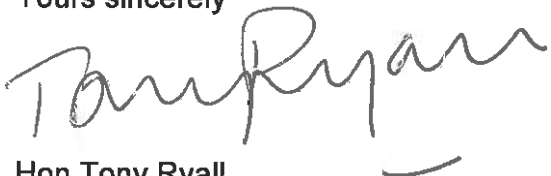
- PHARMAC has made good progress in the past year with respect to managing hospital pharmaceuticals, vaccines procurement and medical devices. The diabetes meter process will have shown you how difficult change can be in this space, and reinforced the need for strong engagement with patients and clinicians on medical devices. I expect levels engagement to be high with these groups.
- The 2013/14 year will be a significant one for Health Benefits Limited's Finance, Procurement and Supply Chain programme, and I am pleased with your involvement in the programme to date. Given the importance of the success of this programme to bending the cost curve in the sector, and to enabling your future medical device procurement functions, I ask that you give this initiative a high level of attention. I would also like to see a strengthening of your relationship with the National Health Committee, as it begins to move out of its establishment phase.
- As I mentioned in my letter to you covering your 2012/13 Output Agreement, for some years I have asked PHARMAC to look at new ways of improving adherence, including innovative approaches. I expect to see evidence of this in the next year.
- My expectations also continue around PHARMAC's successful management of brand switches and high-profile funding decisions; proactive engagement with the public, clinicians and other key stakeholders; lowering the administrative burden on clinicians; and playing an active role in the Health Sector Forum.

I have recently received a copy of PHARMAC's audit letter for 2011/12. In it, the Auditor-General has recommended 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.

Additional expectations relevant to all health Crown entities are attached to this letter.

As a sector, I am pleased with the progress that has been made over the past four years. As always, there is more that we can do to improve the health of New Zealanders. I look forward to working with you over the coming year as we work to achieve our goals.

Yours sincerely



Hon Tony Ryall  
**Minister of Health**

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

Encl

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<sup>2</sup> <http://www.ssc.govt.nz/bps-results-for-nzers>

## **APPENDIX: Additional expectations for all health Crown entities**

Crown entities will need to continue 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 these will be managed), and how it relates to the rest of the health sector
- 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 Expectations for Pay and Employment Conditions in the State Sector, dated May 2012<sup>3</sup>
- 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.

One of the key roles of a Crown entity board is to develop a strong strategic direction for the organisation (particularly for the three years captured in a Statement of Intent but also beyond this where appropriate), and to embody this in the Statement of Intent. As always, your Statement of Intent must clearly state what will be achieved, including meaningful performance measures, 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.

To achieve their goals, boards must focus on their role as the key monitor of entity performance over both the short and long term. Ministers must be provided with high quality information and analysis on entity performance against plan, implications for future performance, and risks and opportunities facing the entity. Entities are also expected to operate transparently by disclosing non-sensitive entity performance information throughout the year via their websites, following discussion with the Minister.

Boards must also assure themselves that they have the appropriate executive and/or clinical leadership in place needed to deliver the Government's objectives. Chief executive performance must also be monitored against the Government's expectations.

It is vital that boards demonstrate commitment to good practice governance principles, including maintaining robust processes around the declaration of interests and the

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<sup>3</sup> <http://www.ssc.govt.nz/sites/all/files/government-expectations-may2012.PDF>

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. As outlined, boards should also complete an annual self-assessment formally assessing the performance of individual members, the Chair and the board as a whole. This self-assessment must be against meaningful, good practice standards of board performance.

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. The 'no surprises' policy continues to be a vital part of ensuring ongoing Ministerial trust and confidence. This means that early warning of any material or significant events, transactions, stakeholder engagements, and other issues that could be considered contentious or attract wide public interest – whether positive or negative – is required. Entities should also be aware of the possible implications of their decisions and actions for wider government policy issues.

Entities are also expected to work constructively with the Ministry of Health on matters relating to the 'no surprises' policy and in general, and to keep the Ministry apprised of any potentially contentious events or issues in a timely manner.