



Office of Hon Tony Ryall

Minister of Health
Minister for State Owned Enterprises

14 JAN 2014

Mr Stuart McLauchlan
Chair
PHARMAC
PO Box 10-254
WELLINGTON

Dear Mr McLauchlan

Letter of Expectations 2014/15

I write to convey my expectations for the Pharmaceutical Management Agency (PHARMAC) for 2014/15, to assist you with strategic planning and other decisions in the coming year.

Getting things done

Results matter, and all programmes must be supported by robust processes to meet the intended outcomes. The Government expects all new and existing programmes to meet this standard. Crown entities need to be able to demonstrate what difference they are actually making for their stakeholders.

New investment

The Government will consider new investment, but only where Crown entities can show a contribution to the Government's programme under Better Public Services or the Business Growth Agenda (two of four Government priorities). Entities will need to demonstrate a sufficient understanding of their business to give Ministers informed choices about trade-offs.

Working together

No entity can expect to make a difference working alone. Entities should be clear how they are working with other agencies, both within the sector and wider, owning the sector results and putting the patient or client, not agency boundaries, first in service design.

Continuous improvement

Entities need to be constantly looking for ways to improve how they do their business and deliver value for taxpayers' investment in them. The Performance Improvement Framework (PIF) was designed with this expectation in mind. Entities should be using either the PIF formal or self-review methodology. If you are not, you will need to be able to demonstrate that you are using some other performance or continuous improvement process. 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.

Financial sustainability

As we work towards returning to surplus by 2014/15, sustained 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 Expectations¹, Ministers continue to 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. PHARMAC's Statement of Intent and Statement of Performance Expectations must reflect these expectations.

Priorities for the health sector in 2014/15 continue those of 2013/14, including the Health Targets.² Additional areas of focus include Rheumatic Fever and Faster Cancer Treatment. 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. PHARMAC should also regularly assess its impact on other parts of the sector, as well as its fellow Crown entities, in these areas.

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 Public Services goals³, Health Targets, and important cross-government work programmes (eg, the Children's Action Plan).

Specific priorities for PHARMAC

Your Statement of Intent and Statement of Performance Expectations must reflect these expectations. These are:

- continuing to work closely with the Ministry, Health Benefits Limited (HBL), the National Health Committee (NHC) and clinicians, to plan the development and implementation of medical devices work
- continuing to manage brand switches and high profile funding decisions carefully
- continuing to communicate and engage proactively with the public and key stakeholders, including clinicians, to increase confidence
- continuing to make efforts to lower the administrative burden on clinicians
- bearing in mind the effect of total change management demands on the sector, when PHARMAC plans the implementation of individual changes in the sector.

I expect to receive a copy of PHARMAC's audit letter for 2012/13 shortly. In it, 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.

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

¹ http://www.ssc.govt.nz/sites/all/files/enduring-letter-of-expectations-jul12_0.pdf

² These are summarised in the Operating Intentions section of the Ministry of Health's 2012/13 Statement of Intent (pp15-16).

³ <http://www.ssc.govt.nz/bps-results-for-nzers>

As Minister, I am pleased with the progress that has been made in the sector over the past five years. However, there is always more that we can do to improve the health of New Zealanders, and to deliver these improvements in a timely way. I look forward to working with you over the coming year as we work to achieve our goals.

Yours sincerely

A handwritten signature in black ink that reads "Tony Ryall". The signature is written in a cursive, flowing style.

Hon Tony Ryall
Minister of Health

cc Hon Todd McClay, Associate Minister of Health
Mr Steffan Crausaz, Chief Executive, PHARMAC

Encl

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 / patient 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 2012⁴
- 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 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

⁴ <http://www.ssc.govt.nz/sites/all/files/government-expectations-may2012.PDF>

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.