

NEW ZEALAND BLOOD SERVICE

Minutes – NZBS Board Teleconference

Minutes of the NZBS Board

<u>Teleconference held at:</u>	New Zealand Blood Service 71 Great South Road Epsom, Auckland
<u>In attendance by phone:</u>	Mr David Chamberlain (Chair) Dr Jackie Blue (Deputy Chair) Dr Bart Baker Dr Paula Martin Ms Cathryn Lancaster Mr Ray Lind Ms Fiona Pimm
<u>Apologies:</u>	None for this agenda
<u>Management:</u>	Ms Sam Cliffe (CEO) Mr John Harrison (Director Finance)
<u>Board Secretariat:</u>	Vanessa Siddins (Board Secretary)
<u>Date:</u>	1 August 2019

The Board teleconference commenced at 9.30am.

J Blue advised that she would need to leave the call at 10.30am

Chairman's report

The Chair noted that F Pimm had advised him she needed to be on a call with a Minister at 9.30am and would try and dial in once that had finished. Note that F Pimm joined from 9.45am to 10.30am

Chief Executive's update

S Cliffe advised this was an informal CEO report, but there was a lot happening in the business with constantly competing demands on our resources. A fuller account of matters would be provided when the Board met at the end of August.

The CEO confirmed the staff issue that was discussed in the May Board meeting had now been resolved. S Cliffe gave her thanks to D Chamberlain for his support on this matter. There was a sense of renewed optimism about the future in the areas where the impacts had been felt. We have a strong acting leader in that position and have a sense of confidence that we are now on the right track.

There was a 90% response rate to the staff engagement survey which was the highest on record and was heartening that staff were engaged enough to do the survey. There will be a full report on this at the end of August Board meeting. The last survey engagement score was 71% but this time it has dropped to 67% with hot spots in the areas expected. There is a clear action plan to roll out to management, team leaders and staff with a CEO roadshow planned up and down the country in September 2019. We will also undertake a pulse survey in 6-9 months' time.

Hon Peeni Henare is an Associate Health Minister and we had been advised that the responsibility for NZBS had transferred to the Associate Minister. There had been initial indications that he was keen to meet with S Cliffe and the Board Chair to better understand our business. A Briefing to Incoming Minister (BIM) has been prepared which was sent to D Chamberlain to approve this morning. Once the BIM has been signed off, a copy will be filed in the Board Resource centre within Diligent.

There has been quite a bit of activity with regards to Organ Donation. The Ministry has now appointed a 0.5 FTE project manager, although their remit is quite broad. S Cliffe meet with her twice this week, firstly with ADHB on Monday and secondly in a one to one yesterday in Wellington. The appointee presents as solid, understood our situation and was keen not to drive the process, but to facilitate the project structure which gave S Cliffe a level of comfort.

We are currently in the midst of serious transition planning for ODNZ moving to NZBS. There appears to be some further positivity with ADHB appearing to be addressing barriers. Our CMO, Dr Sarah Morley is having good conversations with one of the more amenable ODNZ specialists. She had also been talking to Dr Nick Cross and Dr Ian Dittmer. We are looking for a date in the near future where S Cliffe and Karen Didovich our new HR Director can meet with ODNZ to talk through next steps. Stephen Street, the current ODNZ Clinical Director has declined to have any conversations with us.

As the National Agency we will lead the process of the transfer and we will bring in a project manager to assist in unbundling the service. A project role which the Ministry are funding will sit here with NZBS. There will be little if any amendments to the current draft legislation as the Select Committee were not of a mind to change the legislation and they felt that the current wording was enabling. If we are able to get clinical/patient/agency agreement on what the National Agency will look like, we'd be in a good place. This will all be covered further in the Board education session on 28 August 2019. We will likely have Nick Cross attending and maybe Ian Dittmer and someone from ODNZ if possible.

The Holidays Act remediation framework that was agreed in the DHB working group indicated a larger increase in payments than was anticipated due to the inability to offset overpayments against underpayments for individuals. The Memorandum of Understanding (MoU) doesn't tie us into making payments, but provides MBIE and the unions the ability to ascertain and validate processes and the data produced.

NZBS has a reasonable sense of its likely liability although detailed checking as to accuracy is still required. There will be a fuller report at the 29 August Board meeting. D Chamberlain queried if the DHBs have to recognise the liability in their accounts at 30 June 2019? J Harrison confirmed in all likelihood they would or at least disclose as a contingent liability. He confirmed NZBS had recognised the Datapay calculated liability following the agreed MOU framework as there had to be remediation going back to 2010.

Ongoing development of 71GSR, Stage 1 - National Office is complete, with Stage 1a - café and atrium roof are under construction. Stage 2 - Donor Services had been tendered and getting underway, Stage 2A Civil works in progress and Stage 3 - ground floor at final design was close to being locked down. We are holding within an enlarged cost envelope including the \$1.5m allowed for within the 2019/20 Capital plan.

Our current borrowing capacity (MOCL at \$14.0m) would cover relocating and fitting out the Waikato site and Christchurch Blood Bank. Waikato DHB have given us 12 months' notice on our lease and we have pushed back on that timing suggesting in a formal letter 30 June 2022 under a best endeavours understanding.

Waikato DHB personnel have since visited the site and agree it is a more complex location to relocate than they had thought. S Cliffe had engaged with Waikato staff and given them the news of Waikato DHB notice. We have initiated an operations and service review and given staff the opportunity to be involved in the review and throughput analysis which will be completed within the next week or two. The feeling is that we may close the processing lab in Waikato as in three years' time we will have a larger capacity facility in Auckland.

NZBS would definitely need a logistics hub due to servicing the regional Blood Banks. The cost for the relocation and fit out would in the \$3-4m which is currently unplanned. The Christchurch relocation advisory has come earlier than expected, although it's great to get the space, NZBS will be responsible for the fit out and looking at up to \$1m based on past blood bank fit-outs.

One other high cost item is the business case in October for ISBT128 (current capital marker \$4.0m) which is going to be an interesting consideration stacking up against all the things we need to do to maintain operational stability.

We need to be considered about how we approach Ministers, having tried to stay away from talking too much about challenges in the BIM. We don't have capital to fund all of the items on the list nor do we have the resources to support them as most of our staff are front line.

The 28 August Board education session will include; financial arrangements, how the rhythm of business interfaces with plasma collection and what we are doing in the space of organ donation.

Setting the Year-End Scene – an overview of the process

S Cliffe noted the comprehensive set of papers presented and stated it was important for the Board to have an understanding of how the final numbers were achieved and what was involved in ensuring audit accountability. We are very comfortable where we've ended up considering the challenges and the amount of activity this year. Volume and price increases have helped with this solid financial result and while we would prefer the reported result in the black it should be noted operational earnings were strong.

J Harrison advised that the purpose of this paper was to give the Board an initial explanation of the financial results and importantly to provide clarity around the process to be followed prior to the approval formalities and financial statement sign off at the 29 August 2019 Board meeting. The CFIS Letter of Representation required for the Crown accounts is to be filed with the Ministry of Health on 12 August 2019.

The material presented does not require any decisions, rather provides an outline of the process we take to sign off financial statements and detailed accounts at the end of August, that in turn will be tabled in Parliament. The papers aim to inform on what has driven results and provide information on the notes the accounts that are published as part of the Annual report. They also give us an overview of what makes up the performance of the organisation. J Harrison considered the results were satisfactory all things considered.

In terms of the month of July 2019, we have started strongly with the level of demand continuing into the new financial year. The 2018/19 financial year saw a 5.34% volume growth which was big when compared historically and the growth element had provided the latitude to undertake activities and absorb adjustments such as the Holidays Act remediation liability increase.

Growth was seen in all main categories including the historically declining red cells. In the next year or so it is inevitable IVIg will become the main product line overtaking red cells. The annual update on forward liability included long service leave, retirement and sickness leave with the biggest increase coming from the Holidays Act remediation with a \$1.3m equating around \$281 per affected FTE. That level of liability came as a surprise at year end recognising the cause for the increase being the inability to offset overpayments which the unions had fought for and won in the tripartite negotiations.

Unrealised exchange variance was influenced by the spot rate at 30 June which landed at .9565.

Product expiry was higher than we'd like and not one of our better annual performances. S Cliffe noted that we knew the reason for this and were not excusing it, but know how to fix matters going forward.

J Blue queried if these are true costs or paper costs? J Harrison advised that our costs were true costs, the real cost at the end of day if we didn't sell the product. S Cliffe added we also need to think of the personal cost to the donor of donating, so the last thing we want to do is throw that gift away. J Harrison noted that this year the challenge for Donor Services would be getting above 72,000 plasma collections and then growing above that going forward.

J Harrison noted NZBS achieved a good level of productivity in the 2018/19 year with production recoveries per collect at \$255.65 which compared favourably to last year's \$237.40 per collect.

D Chamberlain queried the high budget in Southern for plasma collections and noted that Auckland and Waikato seem to have done better. He asked if there was any reason why Dunedin didn't meet the target? J Harrison suggested that it's more useful to look at this in the context of what they achieved last year. S Cliffe advised that she is not concerned about Dunedin as they do both fixed site as well as run mobiles 2-3 times a week. The pressure of the mobiles had been negatively affecting their ability to collect plasma. They also had the retirement of three registered nurses. We are considering not having mobiles out of Dunedin in future and it may be more cost effective do all mobiles out of Christchurch. The Dunedin site has a lot of potential for plasma collection growth and we are currently limiting their ability to collect plasma by sending teams out three times a week.

S Cliffe noted there was a massive amount of work to do and it was time to change how we do mobile collects and make changes to plasma collection capacity. This matter will be discussed further at the 29 August Board meeting.

J Harrison went on to note that manufacturing fractionation activity delivered a \$1.15m gain in 2018/19 across six poolings. In the revaluation at year end, one of the big influencers is the quantum of fractionation gain or loss which feeds the year end actual cost alignment. Production volume grew with pooling volumes increasing to 77 tonnes in 2018/19 which had adversely impacted the plasma holding at CSL. J Harrison noted the loss of factor VIII and IX from pooling had lowered plasma utilisation metrics. The 2018/19 year ended with a 129% plasma utilisation which was slightly better than last year but well below what had historically been achieved with the 2014/15 year holding the record at 305% utilisation.

J Harrison noted that CSL's Privigen price would be increasing \$9.00 from 1 September this year. Our price increase to DHBs was 5%. B Baker added that there is no question that demand of IVIg is growing globally which will impact supply chains and he suggested it's important we take this into account as regards our future plasma strategy.

J Harrison was happy with the statement of financial position noting cash management was an increasing operational focus constantly ensuring the maintaining of adequate liquidity levels. J Harrison noted the caveat provided to Ministers to revert to prior borrowing levels (\$8.2m) by 30 June 2021. J Harrison suggested extension of this caveat timeline would help with previously discussed potential capital funding issues

Inventories analysis was discussed and it was noted NZBS carries a reasonable volume of consumables.

Forward cover commentary was highlighted and J Harrison noted that at the moment the NZ dollar remained strong as against the Australian dollar.

The Redevelopment of 71 Great South Road had been analysed on page 17 showing the detail and noting there was nothing unexpected in what was being reported. The other big capital spend was the completion of the Auckland Blood Bank extension and fit-out. Page 18 detailed a modest year of equipment replacement also noting the completion of the HPC facility in Wellington. Capital commitments have gone up due to the redevelopment contracts entered into. Operating leases on page 19 showed an increase due to the increase in occupancy length for 71 GSR where the initial term has been extended from 10 to 20 years.

It was highlighted that on the Annual Statement of Performance the youth donor targets were not achieved but we did make the Maori donor targets this year.

J Harrison confirmed the basis of the accounts had been prepared under the convention of going concern noting that the forward outlook will be updated again prior to the 29 August Board meeting.

The Board reported via the Statutory Disclosure statement which noted the disclosure of a Board members (P Martin) undertaking work on the National Agency for Organ Donation project. This is the Board's report, so J Harrison will leave any changes to the Chair if he wished to make any.

J Harrison also noted that the Board had been provided with a draft management letter they would be required to provide to the Auditors before auditor will sign the audit opinion.

J Harrison raised the need for a Board decision prior to getting the CFIS letter to the Ministry by 12 August 2019. CFIS is a high level letter of representation relating to the Crown accounts noting the NZBS CFIS return was not audited as NZBS fell below the level of materiality within the Crown financial framework.

D Chamberlain queried if there had been any further questions from the auditors? J Harrison advised that the auditors were still completing additional testing and had been particularly rigorous this year, perhaps because it's Athol Graham's last year as our Audit Director. Most of the outstanding testing is of the manual timesheets with Athol also to review the organisation as a going concern aspect. The auditors have talked to Datapay to understand their algorithms used for the Holidays Act remediation liability calculation and there has been no indication of any issues.

It was agreed J Harrison would circulate by email on 10 August to the Board a final update as regards the status of the audit.

At 10.50am J Blue gave her apologies to leave the meeting. She thanked J Harrison for the good papers.

D Chamberlain advised that these papers make the Board aware of what they will be asked to sign off at the 29 August Board meeting. He then invited questions from the Board.

C Lancaster thanked J Harrison for getting the papers done so quickly. D Chamberlain agreed and noted it was a comprehensive pack. J Harrison acknowledged it was a team effort and the Finance team had again performed creditably under tight timelines with a high degree of accuracy also achieved.

P Martin queried the CFIS letter and noted she was confused about timing? J Harrison explained that it was in step with the Crown accounts timetable managed by Treasury and he had already submitted NZBS figures to the Crown Financial accounts reporting system via the Ministry of Health. NZBS has never yet had to change the figures submitted in early August. J Harrison also noted the CFIS letter also goes to the auditors. It doesn't bind us but is an indication to the Crown of NZBS results and other relevant matters particularly as regards liabilities. J Harrison noted the same protocol applied to the DHBs. J Harrison was confident it would align what the Board signed off come 29 August 2019.

D Chamberlain noted it was great pack and that over next few weeks if the Board had any questions on how the financial statements were put together, they were welcome to email J Harrison. He congratulated J Harrison on a fantastic job getting the papers together at such an early time in the financial year. He also thanked S Cliffe and noted it had been a trying financial year. S Cliffe noted that the organisation had worked extremely hard over the last year. R Lind concurred that he agreed totally with D Chamberlain's comments.

D Chamberlain declared if there was no other business we could draw the meeting to a close and anticipate the email on 10 August 2019 from J Harrison.

The Board thanked the Finance team and S Cliffe for a job well done.

Close of Meeting: The meeting closed at 11.00am.

Certified as a true and correct record:

A handwritten signature in black ink, consisting of a stylized 'D' followed by a cursive 'd' and a horizontal line extending to the right.

David Chamberlain – Board Chairman