

NEW ZEALAND BLOOD SERVICE

Minutes – NZBS Board Teleconference

Minutes of the NZBS Board

Teleconference held at: New Zealand Blood Service
71 Great South Road, Epsom, Auckland

In attendance by phone: Mr David Chamberlain (Chairman)
Dr Jackie Blue (Deputy Chair)
Dr Bart Baker
Ms Fiona Pimm
Ms Cathryn Lancaster
Dr Paula Martin
Mr Ray Lind

Apologies: None

Management: Ms Sam Cliffe (CEO)
Mr John Harrison (Director Finance)

Board Secretariat: Vanessa Siddins (Board Secretary)

Date: 30 January 2020

The teleconference commenced at 9.30am with no conflicts of interest acknowledged for any items on the agenda.

ITEM 1.0 APOLOGIES

There were no apologies for this meeting.

ITEM 2.0 CEO REPORT

S Cliffe noted that the year had started strongly, Christmas, New Year and January were strong on collections and demand remains challenging. The senior team is cognisant of the competing challenges over the coming year.

The Exec team are entering into the year at full strength. Doug Gallagher, the new Director Donor Services is settling in really well from a people perspective and has taken control of plasma metrics which will be a regular item on the Board agenda. S Cliffe advised that she was happy to take feedback outside the meeting on anything else that the Board would like to see the Exec team tracking in relation to plasma.

At the meeting with Minister Henare back in October 2019, he had suggested we provide a scene setting document to promote the critical nature of NZBS now and for the next 20 years, to future proof our service. The outline within the CEO report has a lot more detail in it. After feedback from the Board, this will come back to the February Board meeting.

IgO is the electronic approval system for management of access to immunoglobulin. Peter Flanagan, Sarah Morley and the clinical team are having ongoing conversations around usage. The graphs within the report are being used to educate clinical teams.

The work around transferring the heart valves bank is progressing well. However, in order to provide this service, our organisation requires the correct funding and a Memorandum of Understanding from Auckland DHB.

There was a Working Group meeting on 17 January with Luke Williams and Stephen McKernan from Ernst and Young (EY) on the potential approach for setting up the National Agency for Organ Donation. Thanks to P Martin for putting a frame work together and to those members of the Working Group who attended that meeting. The notes from that meeting were circulated to the Board by email on 21 January 2020.

D Chamberlain thanked S Cliffe for the report. There was further discussion on the paper for Cabinet and if it should include a request for a capital injection? S Cliffe is interested to get feedback over the next week or two on this.

P Martin queried the paper for the Minister/Cabinet, she reiterated that it was a fantastic opportunity to produce this paper, however she felt we need more discussion on strategy, tactics and timing. The budget paper in the Board pack assumes we get first tranche of money in February 2021. P Martin will put further comments in writing.

F Pimm queried if we had a response from the Ministry about the capital charge and do we mention this within the strategic paper? S Cliffe advised that we have had no response yet on this noting Minister Clarke was reviewing Capital Charges for the whole Health sector.

Discussion followed on the Coronavirus and S Cliffe advised the Board that there was currently no test available in New Zealand. We already have a deferral for China and most of South East Asia of 28 days. We can update this if necessary, although WHO is currently recommending 21 days. Sarah Morley, has linked in to IPAC Europe, and we are linked into APBN and the WHO team. We feel our current deferral is sufficient and do not have to rely on self-deferral, our collection staff will be given reminders of the need to use the travel app. We are contemplating adding other Asian countries to four weeks deferral on the travel app. S Cliffe noted that we have a number of staff in China, some who have been in Hubei Province. We are working with the Ministry pandemic planners for a return to work plan. From our perspective we have good protocols in place and good experience from SARS and H1N1.

The Chair received and noted the Chief Executive's report.

ITEM 3.0 DIRECTOR FINANCE'S REPORT for the 6 MONTHS TO 31 DECEMBER 2019

J Harrison took the report as read and noted that overall NZBS was travelling well in terms of the six month performance in large part a consequence of the strong growth. As of this morning the revenue forecast for January was at \$11.2m which is a good level for January and slightly ahead of budget. We are expecting some reduction in the lg growth curve from 17% to around 14-15%. The recent strengthening of the New Zealand dollar triggered a number of buy orders lifting the AUD forward cover position to near 18 months cover of the CSL Toll Fractionation agreement.

J Blue queried if we passed on costs for skin used in the Whakaari/White Island disaster? J Harrison confirmed NZBS takes a fixed 12% margin on all skin issues with the pricing set on a batch by batch basis to mitigate the USD currency risk. This was an agreement reached with the burns unit at Middlemore hospital some five years ago.

Discussion followed on production recovery differences between whole blood and plasma. J Harrison explained that there was more value created from a whole blood collection than from a plasmapheresis collection with the second half of the year forecasting an increase in plasmapheresis collections.

ITEM 4.0 2020/21 INITIAL BUDGET WITH 3 YEAR FORECAST TO 30 JUNE 2024

S Cliffe and J Harrison noted that this had been the most challenging budget they had worked on since they joined the organisation incorporating the plasma strategy, site infrastructure changes and a capital injection requirement. This budget is looking forward, not just to next year but a longer 4- 5 year horizon. The budget also needs to align with the messaging to the Minister and Cabinet. The capital injection reflects a huge amount of work, however J Harrison is comfortable with where the budget is subject to the refresh planned in February.

S Cliffe thanked J Harrison and the Finance team for their mammoth effort over the Christmas period. It was a great deal of work to get it to the Board in a timely fashion.

J Harrison noted that it was difficult to get the budget into a shape that made sense in the financial setting. He worked hard to incorporate the plasma strategy, the ISBT 128 implementation project, the site infrastructure requirements and also taking into account the various vacate premises notices from landlords. The budget has worked to ensure all these strategic objectives can be fitted into the existing frameworks and financials guidelines currently with a 45% debt cap. Based on calculations for two potential additional plasma only sites to ensure the addition of future capacity is sufficient to meet a

12% growth Ig curve. The equity injection is a key element underpinning this budget and is currently assumed at \$15.0m phased over four years. It has been assumed the initial injection would be received in February 2021 to meet the cost of the Waikato relocation with a target move target no later than June 2021.

A 1% levy for ISBT 128 has not been applied and can be delivered within budget. The difference when the levy was discussed last October was the then forecasting of modest growth for Ig and no demand growth for fresh product. The MOCL funding reduction commitment will likely need to be extended to June 2023 from June 2021. This shift would be consistent with the redevelopment completion timeline and also provide an element of flexibility over a very high capital investment period. It would also afford a little flexibility dependent on when the initial equity injection occurred.

J Harrison welcomed feedback from the Board on (1) the DHB forecast weighted price increase of 5.58% for the 2020/21 financial year (2) seeking an extension of the MOCL term from June 2021 to June 2023 and (3) whether a 1% levy the ISBT 128 project should be instigated.

R Lind noted that he was impressed by the clarity of writing and had no problems with what was proposed by the draft 2020/21 Budget.

F Pimm observed that this budget was a complex balancing act and commended the team on what they had produced. She queried page 30, with regards to increased volume driving cost efficiencies? Why did the cost per kilo go up a lot? J Harrison explained that this was weighted plasma being a mix of by-product of whole blood collections and fully costed plasmapheresis collections. Over the last few years, whole blood collections have dropped which meant an increase in plasmapheresis (AHF) collections. Over time, the increased AHF collections brings in higher costs into the overall source plasma cost mix. Factoring in the percentage of AHF source plasma, we are seeing a dramatic increase in costs associated with source plasma. Plasma fractionation is a fixed price arrangement and cost is governed by how much we get out of each pool.

F Pimm raised the projected 12% increase in Ig demand and asked if we had identified trigger points if the growth slowed from its projected trend, could we slow our capacity build out? S Cliffe responded that the plasma strategy was based on that premise, at any point we can scale staff up and down, which is easy with staff turnover in the large sites. The investment in bricks and mortar is more difficult, for example if growth slowed dramatically half way through a major investment program. There is going to be growth, as there has been over last 20 years. The unknown is, do we build another site in Auckland, for example a plasma only centre on the North Shore? That will be a stop/go point on the best information we have at the time. We feel comfortable that the investment planned for the next three year period is right. F Pimm noted that she is looking for points when we have to invest, and those when we don't, ie investment in another centre in Auckland. S Cliffe responded that this is based on what we know now, if things changed then our thinking may well change. The formal decision points are at Board level.

B Baker felt the settings were liberal on the IgO app and he was interested in how the use of this app progresses. S Cliffe commented Dr Sarah Morley felt the same on the current settings. She also believes the Australians were liberal issuers. Dr Morley was keen to work with clinicians to manage issues down. We have never had this level of detailed reporting before and going forward the app provide useful information we can measure along with our plasma metrics. It will help us moderate and mitigate the Ig demand growth.

B Baker queried the timing of the first two tranches of the capital injection, would we use the MOCL on the understanding these would come later? J Harrison responded that he assumed that we should build this into our forecast now, indicating realistic timelines and spend patterns. He doesn't have any sense of how the capital injection request would be received and managed. If we don't get money until 2022, then leaving the MOCL at \$14m until at least 2022 would give us the liquidity to pay for the Waikato relocation pre any equity injection.

There was further discussion on needing to clarify the timing and process for any capital injection. S Cliffe advised that J Harrison can give our account manager at the Ministry a call and discuss how an equity request is best dealt with. P Martin commented that we need to be clear about future proofing the Service and consequences if we don't receive the funding. S Cliffe noted that this is an opportunity for the Government to invest in a critical part of the Health Sector for the next 20 years.

There was discussion around what would happen if we don't get the capital for this budget when we need it, or not at all. J Harrison advised that he had tested the budget without a capital injection and it is possible with a \$14m MOCL and

elevated price settings. However, it puts the organisation well outside its debt equity ratio and was deemed as not a prudent approach. Inevitably there would be some things currently planned that we could not do.

There was general consensus that we need to frame up the paper for the equity injection. S Cliffe noted that the Minister was very clear that we start with a paper that informs the Ministry what a great Service we provide before requesting an equity injection. Then we can be clear about alternatives and implications of not getting it.

P Martin queried if we should signal new functions in this paper? S Cliffe noted that we could signal that this is coming, however we would be looking for Ministerial approval for new functions in the area of organ donation.

C Lancaster endorsed what F Pimm raised regarding levers to scale up and back on collections. She also agreed with P Martin regarding the need to understand process around the capital injection and what happens if we don't get it and is nervous about the about length of time it will take. Would there be a Board resolution to increase the MOCL?

C Lancaster queried the increase of intangible assets on page 54? J Harrison explained that the increase was due to the replacement of the existing DRM system as it is a sunset piece of software and as such is classified as an intangible asset. S Cliffe added that this is a critical part of the business and NZBS are the only remaining client in the world using our current DRM system. It is also increasingly unsupported. There will be a business case on a new DRM system in the future.

D Chamberlain noted that the 5.5% DHB price increase for next year is high and should be pitched to the DHBs as driven by IVlg and the expected 12% growth. He expects that the IgO app will give us better information going forward. Assuming we do get the IVlg growth, are DHBs really going to be doubling their spend on IVlg in four or five years?

S Cliffe commented that if the capital injection is not forthcoming, the other option is stay at a lower level and increase reliance on commercial product. The Australians are reliant 50/50 on commercial product, although they have been raising concerns for about this for 20 years. Pointing out alternatives to Government about this will be really important.

D Chamberlain noted the Board's support for the direction of the budget and thanked J Harrison, his team and S Cliffe for all the work that had gone into it. It was also noted that extending the MOCL and request for a capital injection should be progressed ASAP.

S Cliffe noted the increase to DHBs is elevated this year and will meet soon with Rosemary Clements, our lead DHB CEO to discuss the NZBS operating environment and the drivers behind the proposed increase. S Cliffe will always offer to meet the DHB CEOs to explain the increase, if required.

General Business

C Lancaster raised the letter from the Director General of Health, Ashley Bloomfield regarding the transfer of ODNZ staff within the Health Transfers Act. S Cliffe advised that she had talked to our lawyers Buddle Findlay straight away and they felt that it certainly wasn't what was expected and they are questioning the validity of the interpretation of the Act.

Buddle Findlay are talking to Health Legal at the MoH and hopefully Auckland DHB lawyers as well. S Cliffe noted that we don't have a problem with the Act, and that there would be a lot of negotiation with Auckland DHB. NZBS would also be making it clear where any Holidays Act liability sat i.e. with ADHB. Ongoing employment disputes are not an issue, however we are keen to understand the general liability on collective bargaining. Staff would be transferred on existing conditions and when those staff leave, new employees would be employed on the same terms and conditions as our staff. This only applies to donor co-ordinators and administrators, the doctors are under ASMS as are the NZBS doctors.

J Blue queried when the 2018 Haemovigilance Annual Report would be available? J Harrison noted it should be published on the NZBS website by the end of February 2020.

ITEM 5.0 NEXT MEETING

The next Board meeting will be on 27 February 2020 at National Office, 71 Great South Road, Epsom, Auckland.

Close of Meeting: The meeting closed at 11.20am.

Certified as a true and correct record:

A handwritten signature in black ink, appearing to read 'D Chamberlain', with a horizontal line extending from the end of the signature.

David Chamberlain – Board Chairman