

NEW ZEALAND BLOOD SERVICE

Minutes – NZBS Board Teleconference

Minutes of the NZBS Board

Teleconference held at: New Zealand Blood Service
11 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: Ms Vanessa Siddins (Board Secretary)

Date: 31 January 2019

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 welcomed the Board to the meeting and wished them Happy New Year.

The New Year started well with an uneventful Christmas and annual leave period. The planned closures went to plan as a consequence of the robust and comprehensive planning process. The need to still be cautious meant we did collect/process slightly more product than needed with consequent impact on expiry levels. This successful closure test bodes well for any further planned closures and was a good insight into the rationalisation of laboratories. We currently have four laboratories which we know is not necessarily the optimal model.

Whangarei

Whangarei Blood Bank had a smooth Christmas and New Year period. P Flanagan carried out a clinical visit on 18 December and subsequently NZBS provided a fair amount of support including four staff over the Christmas and New Year break. Some of the more complex laboratory work was sent to Auckland Blood Bank to take pressure off the Whangarei laboratory. We are maintaining purview of their staff rosters. The question remained as to whether they had enough fully competent staff to maintain a safe roster. S Cliffe has kept Ministry CMO, Andy Simpson fully informed. We remain concerned and will continue to support them and monitor closely.

CMO recruitment

After an international search which spanned most of last year, we are extremely pleased that Sarah Morley has accepted the role of Chief Medical Officer. Realistically it will be May or early June before Sarah can take up her post. Peter Flanagan is fully informed and knows that there is now an end date to his dual role currently. A second appointment was

secured from this search with Gavin Cho accepting a TMS role. He is very experienced and New Zealand trained. We didn't technically have a vacancy but needed to take this opportunity while we could as it is always extremely difficult to recruit into this specialist role. This information remains confidential at this time.

Strategic initiatives for the year will be discussed at the February Board meeting. It's important to see how everything fits together to make sure our organisation is sustainable for the future. We have had a good solid financial start to the year with everyone back on board and management feeling positive heading into 2019.

P Martin requested an update on progress with the planned change for deceased organ donation. S Cliffe responded that there was nothing new to report as she had not heard anything since the communication from the Ministry at the beginning of December 2018.

S Cliffe had received a visit from Alex Beedell the new key account manager at the Ministry. Alex left with a list of items to follow up including the teleconference with the Ministry and ADHB on organ donation that had been mentioned to be scheduled in January. J Blue queried if we had formally asked for the Cabinet paper? S Cliffe confirmed that this had been actioned, but nothing had been forthcoming as yet.

D Chamberlain noted that he continues to work with the State Services Commission (SSC) to finalise the CEO salary and is hoping it will be resolved this week.

The Select Committee questionnaire will be circulated to Board members prior to submission to the Health Select Committee. **ACTION 1.1**

D Chamberlain noted a letter from the SSC advising of new information sharing model of standards for the State Services. They are seeking assurance that these new standards are integrated into policies and processes for information gathering by 19 April 2018. S Cliffe noted NZBS was currently working with its IS and Quality teams to determine how sensitive information was held. In addition, the SSC had also sought assurance around secondary employment policies of which NZBS already had a robust policy. Note that a copy of the letter will be included within the correspondence items of the February Board papers.

D Chamberlain noted that the new Board members had not been updated on the NZBS website. R Lind, J Blue and P Martin were reminded to send their bios to V Siddins. **ACTION 1.2.** It was advised that photos would be taken at the March Board meeting for new Board members.

D Chamberlain advised that he would be meeting with Alex Beedell from the Ministry on Friday, 1 February to discuss the Board composition as in June this year the tenure for four of our Board members come to end.

ITEM 3.0 DIRECTOR FINANCE'S REPORT for the 6 MONTHS TO 31 DECEMBER 2018

J Harrison took the report as read and noted that overall NZBS was travelling well from a financial stand point. Solid levels of revenue were reported in the first half of the year with January also looking extremely strong at a forecast \$11.3m which would be \$700k above budget. Industrial action by resident doctors had not impacted revenue adversely. Demand trends were holding at good levels excluding red cells and immunoglobulin usage levels continued to maintain its indicated growth path greater than 6%.

At the end of December 2018 the immunoglobulin moving annual total was 6.7% above the previous year. In regard to Redevelopment activities \$950k had been drawn down under the existing Multi Option Credit Facility (MOCF).. The latest forecast for the full year off the 6 month position showed a deterioration with a forecast deficit of \$3.36m mainly due to expected adverse fractionation adjustments in the second half of the financial year. This adverse position is driven by the production plan lifting fractionation volumes by 5T primarily to bring IVIg stock back to safe holding levels. The additional 5T of fractionation isn't optimal utilisation of plasma as it is solely to fractionate IVIg product. The movement in the NZD/AUD spot rate is also having an adverse impact with the 31 December 2018 forward contract portfolio adverse to the spot rate. The latest full year forecast for the NZD will continue to weaken and be nearer 91 cents at 30 June 2019. If it's higher than that it will have a further adverse impact on the reported full year result.

The 2018/19 Statement of Performance Expectation (SPE) had not yet been tabled by the Minister. The current year's performance metrics remain unapproved until the SPE is a tabled document. Alex Beedell from the Ministry is trying to establish when the SPE will be tabled.

The redevelopment of 71 GSR is on track with Stage 1 - National Office on target for the new National Office to be operational on Monday, 11 March 2019. Stage 1a – cafeteria and atrium roof is also underway with construction activity planned to start early March 2019.

NZBS had been advised informally that Treasury had provided the Ministry verbally of their clearance for the request to a lift the borrowing limit. J Harrison confirmed the Ministry had raised a question of what the numbers would look like if it were an equity injection from the Crown rather than a borrowing strategy. J Harrison had responded to the Ministry that an equity injection would be positive for most financial indicators. We are not sure if this was for serious consideration or part of a box ticking exercise.

C Lancaster queried what the drivers were for such a strong January performance? J Harrison responded that demand was generally up across the board with S Cliffe noting that we don't really know and clinically it's not easily understood. January historically has lower sales as there is no elective surgery occurring within DHBs. Platelet demand in particular had been very strong as had cryoprecipitate usage. B Baker remarked that he was slightly surprised that the junior Doctors strike didn't have any effect on the numbers. Accidents can definitely increase the demand for red cells and platelets over the Christmas/New Year period. IVlg doesn't tend to change as it's for chronic use which tends to be the same month to month. S Cliffe noted we don't enjoy the same margins from IVlg due to increased marginal costs of collection with no benefits this year from fractionation activities unlike past years.

J Blue queried the line on reported earnings post DHB rebate. J Harrison responded that no rebate was planned this year to the DHBs. It was noted that this line was confusing and should be taken out.

D Chamberlain raised the topic of foreign exchange noting that there were currently losses and the impact explains the movement from the budget versus the forecast. The closing spot rate is currently forecast at 0.9143 but if the spot rate stays at 0.95 or higher at balance date then unrealised exchange losses will seriously impact the result and had we assessed the likely cost? J Harrison responded that it would probably, at minimum be \$600k+. The one positive side was if a negative unrealised exchange positive was reported it would likely be positive for the 2019/20 financial year. In isolation it could push to the deficit toward the -\$3m mark. J Harrison pointed out that the trends three months ago had expected the NZD to weaken not strengthen. While there were a lot of global issues at play concerns about the Australian economy would appear to be the main driver for the shift in position.

J Blue asked if there is insurance for forward buying of exchange. J Harrison yes there was but it's expensive with payment required upfront. D Chamberlain noted that all we can do is try and smooth the rate for the next 18 months to help with budgeting. J Harrison noted that we have to accept that sometimes we are on the right side and sometimes on the wrong side of the spot position but the current Treasury policy settings are about working to mitigate exchange fluctuations as much as possible.

D Chamberlain queried the year-end inventory revaluation asking if a devaluation means we were more efficient this year. J Harrison responded not necessarily as the year end valuation process was about realigning from standard costs derived from budget settings some 18 month prior with what the actual costs have actually been over the course of the financial year with a lot of variables contributing to those final costs.

ITEM 4.0 2018/19 INITIAL BUDGET WITH 3 YEAR FORECAST TO 30 JUNE 2022

S Cliffe noted that NZBS price increases have historically been a contentious issue with DHBs. While NZBS is looking to drive cost efficiencies, it's difficult to totally absorb all cost increases while at the same time trying to invest in infrastructure renewal to ensure a sustainable future for the service. Management consider the presented budget numbers to be robust and well thought through. While a 3.85% DHB increase might not have been what we wanted to see, an increase of this order had been signalled in the 2018/19 SPE (3.91%) so it shouldn't come as a total surprise to the DHBs. It was also noted that the demand patterns and foreign currency movements both of which can materially impact NZBS financial performance and were totally outside of NZBS control.

J Harrison advised that NZBS' first priority was to maintain our own financial viability and recommending a weighted price increase of 3.85% to DHBs ensured that viability was maintained. This figure excludes imported skin as it is directly influenced by the USD cross rate and is solely purchased solely for the National Burns unit..

J Harrison highlighted that ISBT128 implementation project had been incorporated into the 2019/20 Capital plan with commencement in the 2020/21 financial year. An earlier start date for ISBT 128 would be ideal but as a sector initiative had to fit within the NZBS capital affordability framework.

J Harrison noted earnings performance projections have a significant dependency on volume assumptions whether for products or services. Within the current budget timeline the level of plasmapheresis collections has been capped based on hitting the current collection capacity for such collections. At this point no further investment to expand the collection network has been planned. This will result in the inevitable rise in second line Privigen usage rising noting a strategy paper on this matter is planned for presentation to the Board later in this current year.

The forecast outlook over the 4 years to 30 June 2023 was based on very modest growth assumptions year to year resulting in a cumulative deficit of -\$1.18m over the 4 year period. It was noted labour was an increasingly big component of the budget and the forecasts incorporated the NZNO MECA settlements together with all the other primary awards namely the PSA and the Medlab workers. Individual Employment Agreements (IEAs) have reflected a 2.3% annual increase over the 4 year forecast period. This was the upper level advised by the Ministry for IEAs

C Lancaster queried if we'd had any more guidance around the holiday pay issue? J Harrison responded NZBS was adequately provisioned for this matter and was part of the DHB working group that was close to an agreement with MBIE and the affected unions that if secured would enable the issue to be moved towards the actual settlement.

J Harrison drew attention to the debt:equity ratios as outlined on page 20 as well as the indicated breach of banking covenants in the outer forecast years.. It's clear on current forecast numbers NZBS is probably going to breach the 37.5% debt cap currently set within the Financial Guidelines policy.

This flags the need to review the debt cap within the Financial Guidelines policy when it is reviewed in March this year as well as monitor the banking covenant ratios to ensure appropriate discussion takes place with Westpac if a potential breach remains highlighted within financial forecasts. The Chair requested these two items be noted as an action for future reference. **ACTION 1.3**

Capital expenditure was considered at an adequate level for non-redevelopment capital items although FY20 and FY21 financial years would need to be carefully managed being the period at the height of the redevelopment activities.

Until there is a higher certainty on overall redevelopment costs, particularly stage 3 ground floor NZBS must ensure capacity exists to cope with unfavourable cost shifts. Page 21 outlines planned major purchases including ancillary expenditures for fitting out the new donor centre, various aspects of eProgesa development and TCS implementation post ISBT128 along with the usual run of operational equipment.

The first irradiator replacement (15 years old) is signalled in 2022/23 at \$900k. This planned replacement signals the start of a rolling programme for the three other irradiators working across the network. It was noted some of the technical equipment would be purchased using finance leasing wherever that made good sense.

A big impact of the cost of plasma was highlighted with fully costed plasmapheresis sourced plasma now at 56.5% of the total source plasma collection mix. It was also highlighted how important the two primary product lines are (red cells and IVIg product) that collectively total 56% of the forecast gross revenue. Accordingly the pricing for these 2 product lines needed to be carefully considered.

Within the pricing considerations the importance of understanding the variety of 'soft services' delivered by NZBS should not be overlooked when discussing pricing related matters with the DHBs. S. Cliffe advised she was planning to visit the Lead DHB CEO Rosemary Clements once the final pricing position had been set.

J Harrison confirmed that based on initial feedback the budget would be refreshed incorporating updated demand indications off the 7 month financial results.

D Chamberlain then summarised the budget discussions highlighting the important points to note were:

- the 3.85% price increase indication was in line with the 2018/19 Statement of Performance Expectation. This level of increase is important to note as historically NZBS has worked to keep the increase as low as possible and closely aligned to the CPI. The key details of the price breakdown are on page 23 of the Board papers.
- A key point around IVIg is on page 22 with the loss of Monifix volumes in total which not only impacted revenue, but critically represented volume loss from each pool going forward.

- The importance of establishing the future plasma strategy represented a crucial piece of work and D Chamberlain looks forward to seeing the strategy document in due course.
- The final point to highlight was the ISBT128 implementation which was a sector initiative being funded by NZBS at a capital cost of \$4m.

Overall D Chamberlain was happy with the 3.85% increase proposed and asked for Board member's to speak out if there were any differences of opinion. Feedback and comments were invited from Board members:

R Lind commented that he thought the increase was completely justified and was impressed with the quality of analysis that underlies the presented numbers. He queried if there would be any money in the budget for change management with regards to the Deceased Organ Donation service? D Chamberlain responded that the service would come to NZBS with funding attached. S Cliffe added that staff and occupancy costs would be paid and suggested 240k would be needed for good clinical governance and a project manager or similar to oversee the integration process. If more finance support was needed to deliver the broader strategy for organ transplant then it would be subject to an additional budget bid.

J Blue noted the increase of 3.85% and queried if we can test the increase with a DHB? S Cliffe responded that she works closely with our lead CEO Rosemary Clements and she will meet with her in the coming weeks once we have the go ahead to provide the pricing indications and explain the rationale behind the price increase settings. Last year's 3.98% increase went through without any issues and because of the level of support we have from Ministers it had already been flagged.

We have good relationships at all levels within the health sector and our channels of communication are always open. J Blue concluded by noting that it was great set of reports and she was accepting of the proposed increase.

P Martin agreed with the other comments regarding explanations. She noted that the deceased organ donation service was a potential issue until we see the Cabinet paper we won't know what is needed. P Martin queried the tangible and substantial things NZBS does for the sector, e.g. supporting Whangarei Blood Bank and doesn't want these things to be hidden and believed these needed more visibility particularly with the DHBs. S Cliffe advised that we can draw these things out in the price setting narrative.

F Pimm noted that she is happy with the information and found what had been presented was comprehensive.

C Lancaster noted that like last year, the conversation with DHBs should be around value as we have a strong value proposition.

B Baker agreed and noted that although there was anxiety last year on how the increase would be received there was almost no reaction. It was also noted that last year last year the hospital staff salary increases were DHB funded but ours were not and thought it a modest price increase under the circumstances.

D Chamberlain queried if the price increase should it be higher? J Harrison didn't think it needed to be. S Cliffe added that some of the services we provide aren't listed here, eg stem cell collections. We are not convinced we have all the costing right as some of the procedures are quite expensive. There was quite a bit of work ongoing now around this and it needed to be thought through.

D Chamberlain commented that once we see the plasma strategy, a long term strategy can be set. IVIg will become more expensive to produce if demand increases. S Cliffe noted in regards to the plasma strategy, we are looking at self-sufficiency or a mix and we need to be clear what we want and what is desirable. Discussion on where the strategy is directing will be critical as we are currently absorbing some costs and this is something management needs to reflect on.

D Chamberlain confirmed, based on member feedback that the Board were comfortable with a 3.85% increase, so the budget refresh should continue on that understanding.

F Pimm commented on S Cliffe's last point with regards to what happens if we increase IVIg costs generally? S Cliffe advised that the bulk of costs would fall to DHBs using the IDF mechanism to recoup. B Baker noted that, costs come back to the patients' DHB domicile and it tends to even out over the sector. F Pimm queried if the equity of shared cost would affect smaller DHBs. S Cliffe advised that it eventually evens out and that patients with chronic conditions tend to migrate towards larger service delivery areas mainly the larger cities.

S Cliffe reiterated that management appreciate the support of the board and was also grateful she has the backing of the Lead DHB CEO Rosemary Clements. S Cliffe thanked the Board for their positive comments and concurred that the financial papers were excellent as usual.

D Chamberlain offered his thanks to management and the finance team for the papers and the work put into the whole budget process.

ITEM 5.0 NEXT MEETING

The next Board meeting will be on 28 February 2019 at National Office, 11 Great South Road, Epsom

Close of Meeting: The meeting closed at 11.00am.

Certified as a true and correct record:

A handwritten signature in black ink, appearing to read 'D Chamberlain', written in a cursive style.

David Chamberlain – Board Chairman