New Zealand Blood Service

Annual Statement of Performance Expectations

1 July 2016 – 30 June 2017

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1 INTRODUCTION

Purpose

This Annual Statement of Performance Expectations has been prepared in accordance with the Crown Entities Amendment Act 2013 and should be read in conjunction with the July 2014 – June 2018 NZBS Statement of Intent (SOI).

It sets out how the New Zealand Blood Service (NZBS) will organise itself and prudently deploy resources (in line with both the July 2012 Enduring Letter of Expectations from the Ministers of Health and State Services and the 14 December 2015 Letter of Expectation from the Minister of Health) to ensure transparency, collaboration and value for money in the support of New Zealand's healthcare sector. It identifies for Parliament and the New Zealand public what NZBS intends to achieve and how performance will be assessed, in order to deliver on the organisation's strategic goals[1] and its single enduring Output Class and Outcome:

Health needs of people in New Zealand are supported by the availability of safe and appropriate blood and tissue products and related services.

Government Expectations for the 2016/17 Financial Year

This Statement of Performance Expectations has been prepared taking into account the Minister's 14 December 2015 Letter of Expectations for the 2016/17 financial year, requiring NZBS to take a whole of sector view and;

- Continue to manage fluctuating demand so as to keep any price increases to a minimum, while continuing to ensure the safe supply of blood and blood products as and when needed; and
- Continue to partner DHBs to promote the wise use of blood and blood products, thus reducing wastage and costs to the sector.

NZBS will also adhere to the Minister's more general expectations of:

- Ongoing fiscal discipline and prudent financial management;
- Contributing as part of the team approach across the health and disability system, to continue to improve service delivery, building on progress that has already been made to achieve better results for New Zealanders;
- Continuing the commitment to ongoing continuous performance improvement, including publishing non-sensitive performance information on the NZBS website to demonstrate openness, transparency and accountability; and
- Working constructively with the Ministry of Health.

NZBS Strategy

The NZBS strategy is explained in detail in the Statement of Intent. What NZBS plans to achieve in the 2016/17 year as detailed in Part I of this document is linked to the following seven strategic goals:

[1] See Section 4 of SOI

	Strategic Goal
1.	NZBS builds on core capabilities to provide a range of products and services which are appropriate to New Zealand health needs and priorities.
2.	NZBS achieves the highest possible Safety and Quality standards in all that it does.
3.	NZBS manages a sustainable donor population capable of supporting on-going product demand in New Zealand.
4.	NZBS relationships with other health sector entities are mutually supportive and productive.
5.	NZBS has a sustainable, competent and engaged workforce.
6.	NZBS uses international best practices and internal Research & Development capabilities to improve and develop products and services for the New Zealand health and disability sector.
7.	NZBS is a financially sustainable organisation operating effectively and efficiently.

Business Improvement Activities

In addition to maintaining a safe and secure supply of blood, blood products and related services at all times, NZBS's main areas of focus for the 2016/17 year are related to the following business improvement activities:

Ensuring appropriate blood product utilisation

NZBS works in partnership with prescribing clinicians in the District Health Boards (DHBs), in the private sector and with Hospital Transfusion Committees to ensure clinically appropriate utilisation of blood and blood products. This activity is led by the NZBS clinical team.

The previous two years have seen an unprecedented increase in the demand growth for immunoglobulin products. As a result of this rapid growth, NZBS has introduced the importation of a second line commercial product to ensure ongoing surety and safety of supply. NZBS will monitor closely the utilisation of immunoglobulin and adjust collection capacity where appropriate. The clinical team will continue to liaise with DHBs to ensure NZBS remains responsive to changing patterns of demand for all product lines.

To ensure the resiliency and safety of supply is sustainable NZBS will work to restore the source plasma stock buffer, adversely impacted by an unforeseen product event in November 2013, that is held in reserve in the event of a plasma manufacturing or product adverse event. We expect to restore this buffer to a size sufficient to mitigate against such unforeseen events over the course of the 2016/17 financial year.

NZBS will fully implement the move from a 5 to a 7 day shelf life for platelets and in so doing reduce both production requirements and product expiry cost, to the benefit of the health sector.

Collections and Facilities

NZBS leases all of its buildings and regularly reviews its overall facility infrastructure in response to changes in forecast collection and manufacturing requirements. The major changes planned are to ensure that New Zealand maintains at least two hub sites capable of processing the blood product supply for the entire country whilst providing the most cost effective method of supply chain management and service delivery.

NZBS will deploy process improvement programmes across our major sites, utilising LEAN methodologies, to ensure that we can minimise the capital outlay needed to extend and refurbish those sites. Staff will be supported to lead the redesign of their working environments with particular focus on the Auckland hub site which has been signalled for extension and/or refurbishment for several years.

Due to the continued bottoming out of demand for red blood cells and the increasing cost of facility operations, we will consider the potential rationalisation of red blood cell only collection sites. We will ensure that donors continue to have the ability to donate locally by enhancing mobile collections.

To accommodate the introduction of Human Progenitor Cell processing for Capital and Coast DHB during 2017, NZBS will determine a clear position on the capability and capacity requirements of the Wellington site. Any changes to configuration would be implemented in the 2016/17 financial year.

Process Improvement activities

Safety is the cornerstone of everything that NZBS does, therefore quality and ongoing process improvement is embedded in the way that we work.

During 2016/17 NZBS will accelerate process improvements through our '*Process Excellence'* project, aimed at implementing Lean systems and processes across NZBS operations. This is a multi-year project based on a programme of work which will engage and develop staff from the front-line in delivering meaningful improvements, building on NZBS's culture of safety and excellence. In addition to direct process improvements, savings targets associated with these projects have been incorporated within the financial projections.

We will implement the recommendations of a completed supply chain review to ensure we have strong and integrated practices across collections, manufacturing and logistics. In conjunction with this, we will develop productivity and performance measures to be utilised across the whole organisation.

2017 will see the implementation of an information system (eTraceline) supporting New Zealand's 36 blood banks with efficient and safe ordering and supply of products. This system fully integrates with the existing NZBS blood management systems so providing complete "vein to vein" monitoring of the blood supply as well as positioning the sector for the uptake of emerging technologies such as 'smart fridges'.

Financial Plan

As a demand responsive service within the public health and disability sector, NZBS has a constant focus on improving its performance, increasing efficiencies and containing costs wherever possible. Infrastructure investment has been a focus over the last few years which while much needed also introduced additional cost to the business, not all of which could / can be immediately offset by savings initiatives.

NZBS is required to balance the Minister's and DHBs' expectation of minimising any price increase with the Crown Entities Act obligation to maintain financial viability. Achieving that balance is a constant challenge particularly in a period of largely minimal demand growth coupled with the impact of necessary short and medium term infrastructure investment necessary to ensure NZBS maintains its operational capabilities as an essential service provider into the future.

Price Setting

As an operating principle NZBS is committed to keeping any annual price increases to a minimum in accordance with the Minister's Letter of Expectation albeit that expectation balanced against the requirement for the entity to behave in a financially responsible manner at all times.

Over the 4 year planning period NZBS is forecasting price increases below the compound Consumer Price Index (CPI) movement which NZBS uses as its benchmark for price setting behaviour.

The forecast price settings as compared to the benchmark CPI index performance together with the compound impact over the planning period are detailed below.

Heading	Actual 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19	Forecast 2019/20
NZBS Weighted Price Increase % pre any Price Rebates	1.96%	0.51%	1.97%	1.98%	1.82%	1.45%
NZBS Weighted Price Increase % net of any Price Rebate	(1.45)%**	0.51%	1.97%	1.98%	1.82%	1.45%
Consumers Price Index (CPI) % Movement	0.42%	(0.08%)	1.58%	2.14%	1.85%	1.63%
Compound % Comparison of NZBS Price Increases vs CPI Index – base of June 2007 (x.xx%) = lower NZBS Pricing to CPI	(9.65%)	(9.01%)	(8.73%)	(9.10%)	(9.30%)	(9.66%)

** 2014/15 post rebate price was negative due to rebate paid exceeding the original price increase settings.

Over the 2016/17 to 2019/20 4 year planning period NZBS is forecasting a compound price movement of 8.0% compared with a forecast compound CPI movement of 8.7%.

The long run NZBS price setting behaviour over the period 1 July 2007 to 30 June 2020, shows a lower compound price increase (net of price rebates to the DHBs) of 16.6% when compared to the compound CPI movement over the same period of 26.3%.

As a benchmark indicator the comparison validates the long run price setting behaviour of NZBS as being consistently below that of the CPI movement.

DHB Prices for 2016/17

In 2016/17 NZBS is applying an overall weighted sector price increase of 1.97% for its blood products and services.

This level of increase has been influenced by the cost of imported skin which in turn is impacted by the relative strength or weakness of the New Zealand dollar (NZD) as against the United States dollar (USD). For 2016/17 as for 2015/16 the NZD is forecast to further weaken against the USD and this expectation reflects directly in the imported skin price setting.

The overall price increase for DHBs, excluding skin product pricing, is a weighted 1.76% increase with the major category price settings as follows;

- Fresh Products - a 1.41% weighted increase across red cells, platelets and plasma products,
- Other Blood Products including Fractionated Products - a 1.98% weighted increase; and
- Services - a 2.08% weighted increase over all service categories.

Price Rebates

NZBS has a mechanism in place to provide a price rebate to the DHBs in the event there is a level of surplus which is not required by NZBS to meet and discharge its own financial obligations and responsibilities.

NZBS may generate additional revenue or make savings, as against budget setting, by such events as:

- increases in demand for products and services;
- improved fractionation yields;
- exchange rate gains; and/or
- internal cost efficiencies.

While a price rebate of $3.55m was paid to the DHBs in the 2014/15 financial year off elevated immunoglobulin growth volumes, there is no planned price rebate for the 2015/16 financial year. The 4 year financial projections show no planned price rebates.

Earnings Performance Outlook

NZBS is forecasting small operating deficits for the first 2 years of the planning period effectively absorbing cost on behalf of the sector. In addition NZBS reports non-operating items that arise from international accounting standards compliance obligations. There are two reporting compliance items classified by NZBS as non-operating items namely;

- Accrued Rent Payable which is a charge arising from the compliance requirement to amortise the Christchurch Blood Centre lease over the term of the initial lease. In the first half of the lease term the amortised charge is higher than the actual lease payment. This difference is treated as a non-operating charge to earnings with a matching liability accrual within the Statement of Financial Position.
- Unrealised Exchange gains / (losses) that arise from the requirement to mark forward exchange contracts held by NZBS to market at a month end or balance date.

Both these items are non-cash in nature but impact the final reported earnings surplus or (deficit). A cumulative operating surplus of $941k is forecast over the four year planning period.

This is considered consistent with the Minister's on-going expectation of ending the financial year at a breakeven position noting this has been further clarified as:

> "*The requirement to end the financial year at a break-even position does not necessarily mean NZBS should not plan for a deficit or surplus. Rather, it reflects the Board's collective duty to ensure that NZBS operates in a financially responsible manner*."
>
> (letter from Minister to NZBS Chairman dated 30 April 2012)

The earnings performance outlook is detailed below.

Earnings Performance Outlook	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19	Forecast 2019/20
EBITDA ($000s)	7,275	5,905	6,565	7,907	9,683
EBIT ($000s)	3,974	2,491	2,542	3,198	4,538
Operating surplus / (deficit) ($000s)	459	(494)	(465)	275	1,625
Non-Operating items ($000s)	1,404	546	601	560	560
Reported Surplus (deficit) ($000s)	(945)	(1,040)	(1,066)	(285)	1,065

Demonstrating Financial Sustainability

NZBS considers its financial sustainability is best demonstrated by the following specific measures namely;

- *EBITDA* representing the underlying **E**arnings performance **B**efore **I**nterest (finance and capital charges), **T**axation (noting NZBS is income tax exempt), **D**epreciation and **A**mortisation (contingent rental liability) charges as well as any foreign exchange gains or (losses) - realised or unrealised.
- *Cash generated from operating activities* noting NZBS is required to meet all its capital investment requirements from its operating earnings.
- *Working cash available* without recourse to external sources in order to assist in meeting planned capital expenditure when that cannot be fully funded from operating cash flows, noting that such cash flows are in turn influenced by price settings.

The following table sets out these key financial sustainability metrics over the planning period.

Heading	Actual 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19	Forecast 2019/20
EBITDA ($000s)	14,882	7,275	5,905	6,565	7,907	9,683
% EBITDA to Revenue	13.35%	6.43%	5.01%	5.34%	6.16%	7.24%
Cash Generated from Operating Activities * ($000s)	5,803	(5,618)	7,207	4,078	6,726	4,995
that provides for						
Capital Expenditure Programme ($000s)	3,329	5,173	6,451	3,804	3,494	4,126
% of capital expenditure funded from operating activities	100%	0%	100%	100%	100%	100%
Working Cash available at year end ($000s)	10,594	1,398	1,436	1,969	4,106	5,520
Additional accessible liquidity within existing arrangements ** ($000s)	7,000	6,000	6,000	6,000	7,000	7,000
Equity ratio %	91.13%	89.50%	89.85%	90.27%	90.95%	89.82%
Term Borrowings including finance leases ($000s)	4,069	4,796	4,500	4,177	3,827	4,481

* In 2015/16 NZBS is forecasting a significant negative cash flow from operating activities due to the payment of a price rebate to DHBs for the 2014/15 financial year combined with an increase in inventory associated with the introduction of a second line immunoglobulin product. Accordingly NZBS is utilising its cash reserves to fund the capital requirements as illustrated by the drop in working cash available as reported above.

** The accessible liquidity calculations referred in the above table excludes the Adverse Fractionation Event reserve of $3.0m.

The elevated capital expenditure in the 2015/16 and 2016/17 financial years reflects the eTraceline project ($7.5m) which is an extension of the blood management system designed to support the blood banking functions across the DHB network.

NZBS considers the current approach represents an acceptable balance between the various competing stakeholder expectations and maintaining a sound on-going business footing.

NZBS confirms compliance at all times, over the forecast period with its banking covenant obligations.

Note: The Financial Plan has made no allowance for the financial impact of any loss caused by blood component contamination or major manufacturing problems where the outcome is the responsibility of NZBS. In the 2014/15 financial year NZBS established an Adverse Fractionation Events reserve of $3.0m to ensure a measure of financial mitigation exists should an adverse manufacturing event occur.

While component contamination has never occurred these risks remain ever present and if triggered would represent a significant adverse financial event for NZBS.

NZBS considers the establishment of the reserve combined with the maintaining of a sound financial position to be such that should such an adverse event occur, it could be reasonably expected to be managed within NZBS financial resources. Recourse to the process outlined in 2005 by the Ministry of Health would only occur when NZBS financial resources proved to be inadequate[2].

Statement of Performance Expectations Structure

This Statement of Performance Expectations is structured in two parts:

- Part I provides a concise tabulated explanation of how performance is to be assessed for the period 1 July 2016 to 30 June 2017 and in more general terms for the subsequent three years and consists of:
    - the Forecast Statement of Externally Focused Service Performance which NZBS will report on in its Annual Report for 2016/17; and
    - Forecast Statement of Internally Focused Service Performance (Capability and Input Measures) relating to internal NZBS activities;
- Part II presents:
    - Forecast Financial Statements for the 4 years to 30 June 2020;
    - Supporting assumptions; and
    - Statement of Accounting Policies.

David Chamberlain	David Wright	Sam Cliffe
Chairman	**Deputy Chairman**	**Chief Executive**

7 April 2016

[2] See Assumption 19 on page 21

PART I

2 FORECAST STATEMENT OF SERVICE PERFORMANCE ACTIVITIES - 1 JULY 2016 TO 30 JUNE 2017

NZBS has one overall Output Class, comprising three interrelated outputs related to:

- Donors (and patients)
- Products and Services
- Demand Management

each of which collectively contributes to the achievement of the outcome below:

New Zealand Blood Service Outcome

Health needs of people in New Zealand are supported by the availability of safe and appropriate blood and tissue products and related services

OUTPUT	Value 2016/17 $(excl GST)
Provision of a safe and effective blood service for all New Zealanders through supply and delivery of: • Fresh Blood Components • Fractionated Blood Products • Other products and related services	Revenue $119.05m Expenses $120.09m

IMPACT STATEMENT
District Health Boards receive a safe and secure supply of blood, blood products and related services at the right place, at the right time to meet demand at ALL times.

The following table details the external service output performance measures for 2016/17 that will be reported against in the NZBS Annual Report. These output performance measures are linked to NZBS's enduring outcome and the following two externally focused strategic goals:

Strategic Goal 1:

NZBS builds on core capabilities to provide a range of products and services which are appropriate to New Zealand health needs and priorities; and

Strategic Goal 4:

NZBS relationships with other health sector entities are mutually supportive and productive.

The outputs outlined below will apply for the 2016/17 year and as forecast for the subsequent three years.

2.1 FORECAST STATEMENT OF EXTERNALLY FOCUSED SERVICE PERFORMANCE

Performance measures relate to achievement of NZBS's two externally focused strategic goals and will be reported in the NZBS Annual Report.

WHAT is intended to be achieved	HOW performance will be assessed each year								
Performance Measures	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
1. External output measures related to Key Products and Services which contribute to achievement of NZBS Enduring Outcome and Strategic Goal 1.	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Target**	**Target**	**Target**	**Target**
Product and Service availability 1.1 Key products and services are available at all times (24 x 7). Measure is instances when this is not achieved and which could potentially have a negative consequence for patients.	**ACHIEVED** 0	**ACHIEVED** 0	**NOT ACHIEVED** 1[3]	**ACHIEVED** 0	0	0	0	0	0
2. External output measures related to Demand Management and the relationship with DHBs which contribute to achievement of Strategic Goal 4.	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Target**	**Target**	**Target**	**Target**
2.1 Planning and Communication with District Health Boards (DHBs) NZBS will demonstrate a productive and supportive relationship with the DHBs, including proactively engaging with them through the Lead DHB CEO to agree pricing for the next financial year, ensuring that this information is provided in sufficient time to inform preparation of DHB Annual Plans.	**ACHIEVED** Based on Feedback received from Lead DHB CEO	**ACHIEVED** Feedback received from the Lead DHB CEO stated; *"it would be my assertion that NZBS has met its Planning and Communications with DHBs' Objective."*	**ACHIEVED** Feedback received from the Lead DHB CEO stated; *"NZBS has fully met the requirements of its Planning and Communications with DHBs' performance measure"*	**ACHIEVED** Feedback received from the Lead DHB CEO stated; *"NZBS has fully met the requirements of its Planning and Communications with DHBs' performance measure"*	NZBS to receive favourable feedback from the Lead DHB CEO on the timely and relevant provision of information, including any issue resolution over the course of the 2015/16 financial year.	NZBS to receive favourable feedback from the Lead DHB CEO on the timely and relevant provision of information, including any issue resolution over the course of the 2016/17 financial year.	NZBS to receive favourable feedback from the Lead DHB CEO on the timely and relevant provision of information, including any issue resolution over the course of the 2017/18 financial year.	NZBS to receive favourable feedback from the Lead DHB CEO on the timely and relevant provision of information, including any issue resolution over the course of the 2018/19 financial year.	NZBS to receive favourable feedback from the Lead DHB CEO on the timely and relevant provision of information, including any issue resolution over the course of the 2019/20 financial year.

[3] There was 1 occasion in October 2012 when platelets of the right group were not supplied when requested and so were not available when required for a patient. The patient's clinical condition required that he be transferred to Auckland City Hospital for urgent neurosurgery and platelets were transfused in Auckland. The patient's clinician advised that the unavailability of platelets did not contribute to the clinical decision to transfer the patient nor did it cause any harm to the patient. Following surgery the patient made a good recovery and was transferred back to his DHB of domicile for on-going management.

Performance Measures	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
2.2 NZBS Reports for DHBs	**Actual**	**Actual**	**Actual**	**Actual**	**Target**	**Target**	**Target**	**Target**	**Target**
Monthly demand management reports outlining purchase volumes by key product line are provided to DHBs to assist them to manage local usage and costs.	**ACHIEVED** Monthly reports detailing product use and expiry information provided to all DHBs throughout 2011/12.	**ACHIEVED** Monthly reports detailing product use and expiry information provided to all DHBs throughout 2012/13.	**ACHIEVED** Monthly reports detailing product use and expiry information provided to all DHBs throughout 2013/14.	**ACHIEVED** Monthly reports detailing product use and expiry information provided to all DHBs throughout 2014/15.	Reports are provided to each DHB by the 12th working day of the following month.	Reports are provided to each DHB by the 12th working day of the following month.	Reports are provided to each DHB by the 12th working day of the following month.	Reports are provided to each DHB by the 12th working day of the following month.	Reports are provided to each DHB by the 12th working day of the following month.
2.3 Clinical Oversight Programme	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Target**	**Target**	**Target**	**Target**
All Blood Banks located in main DHB hospitals (other than the 6 DHBs where NZBS is responsible for Blood Bank provision) will receive at least 1 NZBS Clinical Oversight visit (and audit report) per year in order to enable them to meet the requirements of ISO15189 for IANZ Accreditation.	**ACHIEVED** 100% achievement of a minimum one clinical visit and report per year to all non NZBS managed blood banks in main DHB hospitals	**NOT ACHIEVED** 96% achievement of a minimum one clinical visit and report per year to all non NZBS managed blood banks in main DHB hospitals	**ACHIEVED** 100% achievement of a minimum one clinical visit and report per year to all non NZBS managed blood banks in main DHB hospitals	**ACHIEVED** 100% achievement of a minimum one clinical visit and report per year to all non NZBS managed blood banks in main DHB hospitals	100%	100%	100%	100%	100%
2.4 Haemovigilance[4] - Patient safety (measured in calendar years)	**Actual for 2010 calendar year**	**Actual for 2011 calendar year**	**Actual for 2012 calendar year**	**Actual for 2013 calendar year**	**Actual for 2014 calendar year**	**Target for 2015 calendar year**	**Target for 2016 calendar year**	**Target for 2017 calendar year**	**Target for 2018 calendar year**
2.4.1 To promote risk awareness and best practice in transfusion, NZBS will publish an annual Haemovigilance Report for each calendar year and will share this information with all DHBs to assist them to reduce the incidence of adverse transfusion related events.	**ACHIEVED** 2010 Annual Haemovigilance Report published and distributed to DHBs in November 2010 and posted on the NZBS web-site.	**ACHIEVED** 2011 Annual Haemovigilance Report published and distributed to DHBs in November 2011 and posted on the NZBS web-site.	**ACHIEVED** 2012 Annual Haemovigilance Report published and distributed to all DHBs in December 2012 and posted on the NZBS web-site.	**ACHIEVED** 2013 Annual Haemovigilance Report published and distributed to all DHBs in December 2013 and posted on the NZBS web-site.	**ACHIEVED** 2014 Annual Haemovigilance Report published and distributed to all DHBs in December 2014 and posted on the NZBS web-site	2015 Annual Haemovigilance Report published and distributed to all DHBs in the December Quarter of 2015.	2016 Annual Haemovigilance Report published and provided to all DHBs in the December quarter of 2016.	2017 Annual Haemovigilance Report published and provided to all DHBs by Quarter 2 of 2017.	2018 Annual Haemovigilance Report published and provided to all DHBs by Quarter 2 of 2018.
2.4.2 Number of transfusion related adverse events occurring as a result of an NZBS "system failure" reported to the National Haemovigilance Programme, with a severity score greater than 1 and imputability score classified as likely/probable or certain.[5]	**ACHIEVED** 0	**ACHIEVED** 0	**ACHIEVED** 0	**ACHIEVED** 0	**ACHIEVED** 0	0	0	0	0

[4] As part of the National Haemovigilance programme DHBs report adverse or unexpected transfusion related events or reactions in blood product recipients to NZBS. Internationally recognised Haemovigilance classification systems are used to determine severity and imputability (definitions included in glossary). More information on the NZBS Haemovigilance Programme can be found on the NZBS website at: http://www.nzblood.co.nz/Clinical-information/Haemovigilance-programme

[5] This measure reports adverse events that have occurred as a result of NZBS "*system failures*" and therefore excludes adverse events resulting from a physiological reaction to the transfusion of a biological product.

2.2 FORECAST STATEMENT OF INTERNALLY FOCUSED SERVICE PERFORMANCE (CAPABILITY & INPUT MEASURES)

The following measures relate to achievement of NZBS's five internally focused strategic goals. They could be considered "proxy output measures" in the context of NZBS activities and are key contributors to NZBS's success in achieving its enduring outcome and the external output measures identified in Section 4 of the SOI. They will therefore also be reported in the NZBS Annual Report.

WHAT is intended to be achieved	HOW Performance will be assessed each year								
Performance Measures continued	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
3. Internal measures related to Products and Service Quality which contribute to achievement of Strategic Goal 2	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Target**	**Target**	**Target**	**Target**
3.1 Donation Testing Each donation will be tested prior to use in accordance with the NZBS Manufacturing Standards (as approved by Medsafe). • No product is released for issue to a patient until it has passed all safety tests and associated records are maintained.	**ACHIEVED** 100% tested	**ACHIEVED** 100% tested	**ACHIEVED** 100% tested	**ACHIEVED** 100% tested	100% tested	100% tested	100% tested	100% tested	100% tested
3.2 Regulatory Compliance - Medsafe NZBS will ensure it maintains Medsafe licences for its 6 main sites 100% of the time, to provide an assurance of GMP compliance.	**ACHIEVED** 100% GMP Licensing Compliance	**ACHIEVED** 100% GMP Licensing Compliance	**ACHIEVED** 100% GMP Licensing Compliance	**ACHIEVED** 100% GMP Licensing Compliance	100% GMP Licensing Compliance	100% GMP Licensing Compliance	100% GMP Licensing Compliance	100% GMP Licensing Compliance	100% GMP Licensing Compliance
3.3 Regulatory Compliance – IANZ (International Accreditation New Zealand) NZBS will ensure it maintains IANZ accreditation 100% of the time at all of its diagnostic laboratories.	**ACHIEVED** 100% IANZ accredited	**ACHIEVED** 100% IANZ accredited	**ACHIEVED** 100% IANZ accredited	**ACHIEVED** 100% IANZ accredited	100% IANZ accredited	100% IANZ accredited	100% IANZ accredited	100% IANZ accredited	100% IANZ accredited
3.4 Regulatory Compliance – ASHI (American Society of Histocompatibility and Immunogenetics) NZBS will maintain ASHI accreditation 100% of the time at the national Tissue Typing laboratory.	**ACHIEVED** 100% ASHI accredited Biennial on-site audit conducted	**ACHIEVED** 100% ASHI accredited	**ACHIEVED** 100% ASHI accredited Biennial on-site audit conducted	**ACHIEVED** 100% ASHI accredited	100% ASHI accredited Biennial on-site audit to be conducted	100% ASHI accredited	100% ASHI accredited Biennial on-site audit to be conducted	100% ASHI accredited	100% ASHI accredited Biennial on-site audit to be conducted

Performance Measures continued	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
4. Internal measures related to Donors which contribute to achievement of Strategic Goal 3	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Target**	**Target**	**Target**	**Target**
4.1 Donor Population NZBS maintains a donor population capable of meeting the on-going demand for blood and blood products. • Active whole blood & apheresis donor panel.	126,041	121,167	112,744	109,158	110,400	106,400	106,400	107,300	108,300
NOTE: The Donor population, split between Whole Blood, Plasmapheresis and Plateletpheresis donor panels, is continuously managed and aligned to the forecast demand profile to assist in minimising product expiry.									
.2 Donor Satisfaction Measure of Overall Satisfaction with the Quality of Service • Aspirational target of greater than 90% of donors surveyed state that they are either “Satisfied” or “Very Satisfied” with the overall quality of service.	NOT ACHIEVED 88.6%	NOT ACHIEVED 88.3%	NOT ACHIEVED 88.4%	NOT ACHIEVED 87.9%	Set at >90% rating score	Set at >90% rating score	Set at >90% rating score	Set at >90% rating score	Set at >90% rating score
NOTE: NZBS has used the Common Measurement Tool questionnaire up to the 2015/16 reporting year. From the 2016/17 reporting year NZBS will be using a new questionnaire better suited to blood donation and its related activities.									
4.3 Targeted donor recruitment strategies									
4.3.1 Increase percentage of Māori donors on the active donor panel from the level achieved in the prior year.	6.6%	6.7%	7.7%[6]	9.3%	Better than prior year	Better than prior year	Better than prior year	Better than prior year	Better than prior year
4.3.2 Increase the percentage of youth donors between the ages of 19 – 25 years on the active donor panel from the level achieved the prior year.[7]	18.2%	18.4%	18.8%	18.8%	Better than prior year	Better than prior year	Better than prior year	Better than prior year	Better than prior year
4.4 Raw Material (Collections) Inputs – based on Demand Forecasts	**Actual Supply**	**Actual Supply**	**Actual Supply**	**Actual Supply**	**Forecast Supply**	**Forecast Supply**	**Forecast Supply**	**Forecast Supply**	**Forecast Supply**
4.4.1 Total Whole Blood donations.	144,820	133,255	120,858	120,099	119,700	114,900	114,550	114,670	115,100
4.4.2 Total Plateletpheresis donations.	6,521	6,066	3,942	3,436	3,100	2,950	2,970	3,020	3,020
4.4.3 Total Plasmapheresis donations.	30,481	30,206	32,514	41,438	50,461	52,000	52,515	56,500	60,000
4.4.4 Total donations.	181,822	169,527	157,314	164,973	173,261	169,850	170,035	174,190	178,120

[6] Increase in number of Maori donors as a result of focused recruitment efforts and aligning ethnicity selection to NZ Census definitions
[7] Attraction of youth donors assists in future proofing the service – encouraging new donors to replace those who are retiring.

Performance Measures continued	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
5. Internal measures related to People which contribute to achievement of Strategic Goal 5	**Actual**	**Actual**	**Actual**	**Actual**	**Target**	**Target**	**Target**	**Target**	**Target**
5.1 Annual Employee turnover.	9.7%	12.4%	10.4%	8.1%	10.0%	12.0%	12.0%	12.0%	12.0%
5.2 Employee Engagement Index Score from biennial Staff Engagement Survey using the JRA and Associates Survey Tool.	No survey	No survey	68.5%**	No Survey	No survey	> 70%	No survey	> 75%	No survey
** **NOTE**: NZBS focus over the 2012/13 and 2013/14 years was on money saving initiatives to address the then decline in revenue relating to reduced clinical prescribing of blood product. The impact of this cost focus combined with the closure of 2 whole blood collection centres during this period is considered the major contributory factor to the decline in the Employee Engagement Index Score.									
6. Internal measure related to Development which contributes to achievement of Strategic Goal 6					**Target**				
6.1 Auckland Facility Project Successful completion of key project milestones in accordance with Board approved project plan.	A new measure in 2015/16				**PROJECT DEFERRED -** The Board have agreed to the deferral of this project until 2019 when NZBS will occupy the whole site, enabling improved flexibility for refurbishment works				
7. Internal measures related to Financial Sustainability which contribute to achievement of Strategic Goal 7	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast ***	**Forecast ***	**Forecast ***	**Forecast ***	**Forecast ***
7.2 Financial Management Assure cost efficiency and value for money management through maintenance of financial sustainability in an environment which is demand driven (i.e. changes in product demand – mix and volume by the DHBs, impacts on the NZBS financial result).	Surplus Reported Actual - $3.4m surplus No Rebate Paid	Deficit Reported Actual – $2.1m deficit No Rebate paid	Surplus Reported Actual – $864k surplus Rebate paid to DHBs - $2.0m	Surplus Reported Actual – $864k surplus Rebate paid to DHBs - $3.55m.	Forecast Deficit Forecast deficit of $945k. No Rebate Planned	Achievement of budget Forecast deficit of $1.0m. No Rebate Planned	Achievement of budget Forecast deficit of $1.0m. No Rebate Planned	Achievement of budget Forecast deficit of $285k. No Rebate Planned	Achievement of budget Forecast surplus of $1.0m. No Rebate Planned

***NOTE:** The reported forecast earnings performance is adversely impacted by a non-operating charge averaging $617k per annum over the forecast period. This non-cash charge relates to the Christchurch Blood Centre lease and is an accounting standards compliance requirement. Assessment of NZBS operational performance requires this charge to be deducted from the reported forecast earnings figures.

PART II

3 FINANCIAL PLAN

3.1 OVERVIEW OF FINANCIAL PLAN

The 2016/17 Financial Plan has been based on the 2015/16 base year forecast, incorporating actual results and indicated demand trends evident as at 31 January 2016.

The NZBS planning environment remains "challenging" with a demand forward outlook consistent with transfusion practices being constantly assessed and refined. Demand for primary fresh products has a mix of either declining or generally flat demand and this trend (which is being seen globally) is reflected over the four year planning period.

Using the benchmark of "*Product / tests issued per 1000 head of population*" NZBS is forecasting the following trends over the planning period for its blood products and services.

(a) Fresh Products – 6.4% decline in issues per 1000 head of population

A decrease in usage per head of population is a continuing trend. In 2011/12 fresh products per 1000 head of population stood at 36.7 fresh product units (RBCs, platelets and clinical plasma for transfusion) issued. By 2014/15 the usage had dropped to 31.3 units issued per 1000 head of population, a 14.7% decline.

Ongoing fresh product decline is forecast over the planning period dropping to 29.3 units issued per 1000 head of population by 2019/20. This represents a 6.4% decrease in issues per 1000 head of population over the planning period.

(b) Immunoglobulin Product – 31.7% increase in grams issued per 1000 head of population

Unlike fresh blood product, Immunoglobulin product (comprising Intragam P, Evogam and Privigen product) has continued to see a year to year increase in demand. The average growth over the last 2 financial years was at an elevated 9.1% per annum. The average annual growth over the last 4 years has been 5.8%.

For the purposes of this planning forecast NZBS has assumed a mid-point 7% annual growth rate for its immunoglobulin product.

Immunoglobulin usage in 2011/12 totalled 64.7 grams per 1000 head of population. By 2014/15 this had increased to 72.9 grams per 1000 head of population, a 12.7% increase over that 3 year period. As a comparison Australian immunoglobulin usage in 2013/14 totalled 172 grams per 1000 head of population.

This current plan forecasts by 2019/20 that immunoglobulin usage will have grown to 96 grams per 1000 head of population growth. This represents a forecast 31.7% per 1000 head of population increase over the planning period.

(c) Services – 12.7% decline in test volumes per 1000 head of population

Testing services and related activities are also forecast to decline over the planning period on per 1000 head of population basis. In 2011/12 overall test units per 1000 head of population stood at 127.7 test units. By 2014/15 the test unit rate had dropped to 124.8 and by 2019/20 this is forecast to have declined further to 109.0 test units per 1000 head of population.

This represents a forecast decline in testing services in general over the planning period of 12.7% on a per 1000 head of population basis and is consistent with testing practices changing within the DHBs.

This quite mixed demand profile requires NZBS (like all members of the health community) to work actively to improve operational efficiencies and reduce operational cost in order to maintain a cost effective operation. Over this planning period there will be an ongoing focus on delivering operational efficiencies in order to mitigate ongoing input cost pressures to ensure price increases to the sector are ideally contained below the benchmark Consumer Price Index (CPI) movements. The Minister of Health's clearly stated expectation of NZBS is to keep price increases to DHBs to a minimum.

NZBS has set itself a minimum operational cost savings target of $500k per annum in savings and considers its active adoption of LEAN methodologies over the planning period a key catalyst to securing those operational savings.

Over this planning period the programme of infrastructure renewal is continued although the level of forecast capital spend will slow once the major eTraceline blood bank management system is completed in the June quarter of 2016/17.

The capital programme over the 4 years is forecast at $17.9m and compares with a depreciation charge over that same time of $17.3m. Major elements within the capital programme are noted as;

- the extension of the national blood management system (eProgesa) with the addition of eTraceline, a stand-alone system designed to support the blood banking function as well as offering improvements in functionality and safety features. This project was approved by the NZBS Board in May 2015 with an approved budget of $7.5m of which $4.1m is planned expenditure in the 2016/17 financial year.

  The project has a go-live date of April 2017 and once operational will also establish a common patient database across all Blood Banks, rather than the current regional patient databases. This will give easier access to clinical details of all blood transfusion recipients. eTraceline's implementation will also enable the future introduction of integrated "smart" blood fridges in hospitals.

- a new Self-Administered Health History (SAHH) module within the eProgesa national blood management system. This module will allow donors to enter their own responses to the medical questions which must be answered for each donation. Donors will be able to complete their self-assessment using a PC in the donor rooms and possibly over the internet prior to arrival to donate. Such flexibility is aimed at improving the donor experience as well providing operational efficiency gains to NZBS. A capital sum of $560k has been provided.

- an upgrade of the Auckland City Hospital Blood Bank is planned for 2017/18 with NZBS working in conjunction with the landlord, the Auckland District Health Board. A capital sum of $650k has been provided to cover NZBS fit-out responsibilities.

- the redevelopment of the Auckland hub site has been deferred to after November 2018 post NZBS taking 100% occupancy of the site. This deferral will allow LEAN methodologies to be applied in the interim and in addition to delivering expected operational efficiencies will also validate the need or not for an increased footprint.

  With NZBS having control of the total site, greater flexibility for temporary relocation will be better afforded during the refurbishment period. A capital sum of $3.0m has been provided.

An emerging trend within the management of the capital programme is the willingness of suppliers to offer a leasing alternative to outright purchase thus reducing up-front capital outflows.

For NZBS the leasing option is increasingly favoured as it better aligns with the '*pay as you go*' business model wherein upfront capital funding is not required.

The leasing option also provides improved flexibility to effect technology driven upgrades with minimum disruption. It is likely that in most instances such leasing arrangements will be classified as finance leases as opposed to operating leases. Under finance lease accounting treatment the leased equipment is treated as an asset with a matching liability that is depreciated / repaid over the term of the lease.

The Minister and sector's expectation remains one of fiscal restraint. NZBS is required to balance that expectation against;

- The requirement to fund ongoing capital needs primarily from operational cash flows and,
- the setting of price increases at the minimum required to maintain overall NZBS financial viability.

In that context this plan sees the projected capital spend of $17.9m being 96.7% covered via depreciation charges. In terms of price increases the price increases forecast over the 4 year planning period are a compound increase of 8.0% compared with a forecast compound CPI % movement of 8.7% over the same period.

NZBS has a policy mechanism in place to effectively return price increases to the DHBs via a price rebate mechanism, should the actual demand levels and operational performance exceed the forecast financial out-turn. Under this mechanism NZBS paid a $3.55m price rebate to the DHBs for the 2014/15 financial year, however no price rebates are forecast over the planning period.

Throughout the planning period NZBS maintains a conservative financial gearing ratio in a range of 89.5% to 91.0% equity component and will operate at all times within its banking covenant obligations.

Ongoing financial sustainability is appropriately maintained over the 4 year planning period with a forecast average annual EBITDA of $7.5m and an average year-end working available cash position of $3.3m.

This financial forecast has been prepared as required by the Crown Entities Amendment Act 2013 for disclosure in this Statement of Performance Expectations (SPE) and may not be appropriate for any other purpose. If NZBS becomes aware that there are changes to the assumptions detailed below, which may materially impact the stated financial position, this SPE and the SOI (if necessary) will be amended accordingly under section 148 of the Crown Entities Act 2004.

The NZBS Board has agreed the financial forecast at the date of signing of this Statement of Performance Expectations.

3.2 KEY ASSUMPTIONS

The following assumptions (and risk assessments[8] where appropriate) are key elements underpinning the financial forecasts for 2016/17 through to 2019/20:

<table>
<tr><th>Assumption</th><th>Comment / Risk</th></tr>
<tr><td>
1. Price Setting – In accordance with the Minister's expectation to keep price increases to a minimum while maintaining financial viability and based on the assumed demand mix, the weighted price movements over the 4 year forecast period are set at:

1.97% in 2016/17
1.98% in 2017/18
1.82% in 2018/19
1.45% in 2019/20

</td><td>
It is acknowledged that should unbudgeted costs create unforeseen financial risks over the period then NZBS may require a price increase greater than indicated in the three outer years.

Risk Assessment: <u>MEDIUM</u> – Cost increases could exceed indicated price increases causing deterioration in the NZBS financial position, resulting in a requirement for price increases greater than currently indicated in the 3 outer years.
</td></tr>
<tr><td>
2. Revenue Forecasts – revenue growth over the forecast period has been forecast as:

4.11% in 2016/17
4.39% in 2017/18
4.39% in 2018/19
4.12% in 2019/20

</td><td>
Revenue growth is a combination of price and demand (volume) movements. The specific demand assumptions for the key revenue categories are detailed in Assumption 3.

Risk Assessment: <u>MEDIUM</u> - With price settings set under annual contractual terms, the major risk to revenue growth stems from the uncertainty of demand for any given product or service. The demand assumptions taken within these Forecasts reflect recent trend indications as well as allowance for any known forward demand impact factors.
</td></tr>
<tr><td>
3. Demand (Volume) Assumptions – Demand (sales) growth over the forecast period has been assessed on a weighted product by product basis. The outcome of those assessments is detailed below at product category level.

(a) Summary of Product and Services Demand Growth
<table>
<tr><th>Product</th><th>2016/17</th><th>2017/18</th><th>2018/19</th><th>2019/20</th></tr>
<tr><td>Fresh</td><td>(0.03%)</td><td>0.28%</td><td>0.50%</td><td>0.56%</td></tr>
<tr><td>Fractionated</td><td>4.61%</td><td>5.29%</td><td>5.36%</td><td>5.40%</td></tr>
<tr><td>Total Blood Products</td><td>2.45%</td><td>2.75%</td><td>2.96%</td><td>3.08%</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Services</td><td>0.68%</td><td>0.82%</td><td>0.69%</td><td>0.71%</td></tr>
<tr><td>Total Products & Services</td><td>2.14%</td><td>2.41%</td><td>2.57%</td><td>2.67%</td></tr>
</table>

(b) Key Fresh Blood Product Issues
<table>
<tr><th>Product</th><th>2016/17</th><th>2017/18</th><th>2018/19</th><th>2019/20</th></tr>
<tr><td>RBCs (units)</td><td>105,045</td><td>104,996</td><td>105,045</td><td>105,344</td></tr>
<tr><td>Platelets (Adult doses)</td><td>14,298</td><td>14,452</td><td>14,653</td><td>14,802</td></tr>
<tr><td>Plasma (units)</td><td>15,899</td><td>16,050</td><td>16,201</td><td>16,437</td></tr>
<tr><td>Cryoprecipitate (units)</td><td>5,300</td><td>5,350</td><td>5,400</td><td>5,450</td></tr>
</table>
</td><td>
Sales volumes are totally dependent on health sector demand. Demand volatility is an ever present reality for NZBS, although the health and disability sector demographics would indicate that demand growth can reasonably be assumed with the expectation of an increasing New Zealand population.

As a manufacturer NZBS endeavours to maintain flexibility within its production settings in order to minimise product expiry and ensure inventory levels are kept aligned to the current individual product demand profiles, having regard to supply chain logistics, manufacturing requirements and product shelf life.

<u>Red Blood Cells (RBCs)</u>: RBCs are the primary fresh product. NZBS is working with the DHBs to actively manage down their utilisation of RBCs which has seen a 13.2% decline in use over the last 5 years. However the aging population and increased elective surgery may see an offsetting increase in RBC demand. If demand increases or decreases beyond that forecast, whole blood collections (refer Assumption 4) will be increased or decreased, with that change accommodated within the current donor population.
</td></tr>
</table>

[8] Risk Assessment is based on severity and likelihood.

Assumption	Comment / Risk
(c) Key Fractionated Blood Product Issues	

(c) Key Fractionated Blood Product Issues

Product	2015/16	2016/17	2017/18	2018/19
IntragamP (grams)	299,400	322,440	349,200	338,844
Evogam Subcut (grams)	44,885	46,790	46,665	11,688
Privigen (grams)	44,885	46,790	46,665	86,620

(d) Other Key Product Issues

Product	2016/17	2017/18	2018/19	2019/20
Femoral Heads	875	900	925	950

(e) Key Services

Product	2016/17	2017/18	2018/19	2019/20
Tissue Typing associated with transplant	5,955	6,398	6,626	6,755
Pre-transplant antibody screen	8,510	8,564	8,637	8,710
Blood grouping	143,000	142,500	142,000	141,500
Antibody screen	139,000	138,500	137,000	136,500
Therapeutic venesection	4,200	4,220	4,225	4,235

Comment / Risk

Immunoglobulin Product (IVIg) – Intragam P and Evogam are the primary manufactured fractionated products supported by the second line commercially sourced Privigen product. The 2014/15 year saw major growth at 12.2% which placed considerable pressure on NZBS to meet the source plasma requirements for manufacture. In 2015/16 the growth pattern has fallen back to a forecast 6.1%. Since 2008 IVIg has seen an average annual growth in the order of 5.2% per annum. Internationally growth continues in the use of this class of products in the 10% to 12% growth per annum.

Over this planning period an annual growth rate of 7.0% has been assumed. Should prescribing increase or decrease from the budgeted average annual growth assumption, then collection targets will be flexed to ensure demand is met and product expiry is minimised. (Note: IVIg product has a two year shelf-life which enables stock management to be flexed as required). Inventory levels for fractionated product will be managed at a minimum holding of between 3 to 4 month's supply in order to ensure surety of supply.

Risk Assessment: HIGH - Demand volatility, both upside and downside, is a risk inherent within the NZBS business model. Historically NZBS has seen some uneven demand growth for all products. This plan forecasts the reduction in fresh product volumes produced per 1,000 head of population from an actual 31.25 units in 2014/15 to a forecast 29.3 units in 2019/20 – a decline of 6.2% over that period. Should Immunoglobulin demand increase beyond NZBS's ability to collect the required levels of plasma for manufacture, then the second line Privigen product will supplement supply.

4. Collection volumes

- Based on forecast demand patterns the required collection volumes over the planning period are forecast to be:

Collection Method	2016/17	2017/18	2018/19	2019/20
Whole Blood	114,900	114,550	114,670	115,100
Plasmapheresis	52,000	52,515	56,500	60,000
Plateletpheresis	2,950	2,970	3,020	3,020
Total Collections	**169,850**	**170,035**	**174,190**	**178,120**

Within these collection volumes the assumed kgs of plasma sent to CSL Behring to be manufactured into fractionated products and returned to NZ is:

Product	2016/17	2017/18	2018/19	2019/20
Plasma for fractionation (kg)	63,519	63,733	66,637	69,270

With Whole Blood collections forecast to remain largely flat the increase in required source plasma is being secured via increased plasmapheresis collections. If demand exceeds this assumption then product may be supplemented via second line commercial product.

Comment / Risk

Blood collection volumes are based on forecast demand with collection levels flexed as required over the financial year in order to minimise product expiry.

The growth in plasmapheresis collections forecast over the period is required to meet the forecast source plasma demand for the manufacture of Fractionated Product (see Assumptions 3).

Risk Assessment: MEDIUM - collection volumes are very sensitive to product demand assumptions. Accordingly NZBS will flex its collection levels up or down to align with trending demand patterns.

This would be managed with an increase (or decrease) in donor recruitment activity and associated encouragement to existing donors to increase (or decrease) their donation frequency.

Assumption	Comment / Risk
5. Only Albumex products will have revenue associated with the sale of surplus production volumes. NOTE: there is no market for the sale of surplus Monofix or surplus Biostate.	NZBS has a developed stock management process to minimise product expiry and maximise product utilisation. **Risk Assessment: LOW** – clearly defined contract arrangements for surplus Albumin product sales are in place with the NZBS fractionated product manufacturer CSL Behring.
6. New Zealand is maintaining resilience of supply over the planning period for all major blood products including manufactured fractionated products of which Immunoglobulin Products, Intragam P and Evogam are the driver products. In 2015, as part of ensuring resiliency of supply, a second line immunoglobulin product supply agreement for the supply of Privigen was entered into with CSL Behring. This effectively introduced a hybrid supply arrangement for immunoglobulin product going forward. NZBS continues to assess its supply chain to ensure the mechanisms in place to ensure resilience of supply remain appropriate and cost effective in meeting New Zealand's demand needs for these fractionated products.	The principle of ensuring resilience of supply framed within the wider context of self sufficiency. NZBS is regularly reviewing its supply arrangements, based on financial, clinical and surety of supply criteria. **Risk Assessment: MEDIUM to HIGH** – NZBS on current demand forecasts collects sufficient blood (including plasma) and produces sufficient blood products to maintain self-sufficiency over the short term. However a higher than forecast demand for immunoglobulin could be expected to test the self-sufficiency principle without adjustments to existing NZBS infrastructure. Accordingly the ability to maintain self-sufficiency can be expected to remain under review over the planning period
7. Current fractionation yields are maintained over the period of the SOI.	Changes in the yield of fractionated product obtained by CSL Behring from a volume of plasma will impact either adversely (in the case of reduced yield) or favourably (in the case of improved yield) on the NZBS forecast financial position. **Risk Assessment: LOW** – based on the prior yield performance of the manufacturer CSL Behring.
8. Plasma Fractionation costs in 2016/17 and subsequent years will increase in accordance with any agreed increases as provided for in the confidential CSL Behring Manufacturing Agreement. The current Manufacturing Agreement operates until 30 June 2017.	The CSL Behring Manufacturing Agreement is priced in Australian dollars so an exposure to movements in the AUD:NZD cross rate exists. **Risk Assessment: LOW** – NZBS endeavours to mitigate this risk via Forward Exchange contracts purchased in accordance with the NZBS Treasury policy. Also refer to the foreign exchange assumption 18 below.
9. The stock turn ratios for the total inventory holding over the forecast period is set out below: **Stock Turns (all Products)** | **Turns per Annum** 2015/16 Year | 3.30 2016/17 Year | 3.80 2017/18 Year | 4.02 2018/19 Year | 4.41 2019/20 Year | 4.23	NZBS sets a minimum stock holding average of 3 months demand across its non-fresh product range to ensure surety of supply. This sets the minimum benchmark stock turn for all inventory held at an ideal 4 times turn, a benchmark figure NZBS sets in the context of efficient working capital management. **Risk Assessment: MEDIUM** – an unexpected drop in demand increases the risk of product expiry (fresh product) and higher short term inventory holding (fractionated product). The primary stock risk category is fractionated product (due to 3 - 4 month minimum stock holding) however the risk, as regards expiry, is mitigated in large part by this product category having a 2 to 3 year shelf life.

<table>
<tr><th colspan="2">Assumption</th><th>Comment / Risk</th></tr>
<tr><td>10.</td><td>FTE requirements have been revised with the new levels incorporated in the financial forecasts as per below:
<table>
<tr><th>Year</th><th>Forecast FTE Levels as at 30 June each Year</th></tr>
<tr><td>2015/16</td><td>529.11</td></tr>
<tr><td>2016/17</td><td>529.11</td></tr>
<tr><td>2017/18</td><td>526.11</td></tr>
<tr><td>2018/19</td><td>522.11</td></tr>
<tr><td>2019/20</td><td>520.11</td></tr>
</table></td><td>As an essential service provider NZBS must adapt quickly to changes in demand and/or safety and regulatory requirements. Staffing levels are therefore subject to increase or decrease in response to changing business requirements, particularly changes in demand for products.

For the out-years high level assumptions have been made based on forecast demand levels and efficiencies stemming from the adoption of LEAN methodologies over the planning period.

Risk Assessment: MEDIUM – turnover is relatively low. The main risk is the inability to source new/replacement appointments with the required skill mix. NZBS is competing with the health and disability sector at large for resources mitigated in part by participating in the same collective agreements as the DHBs.</td></tr>
<tr><td>11.</td><td>The majority of NZBS staff will continue to be employed on collective agreements (either Multi-Employer Collective Agreements (MECAs) or Single-Employer Collective Agreements).

Assumptions regarding employee cost increases have taken into account the Government's updated Expectations for Pay and Employment Conditions in the State Sector published in 2012 and direct consultation with the Ministry of Health.

Best estimates in respect of possible future settlements have been included in financial forecasts, projected over the planning period.</td><td>Staff costs make up on average 38.4% of NZBS's operational expenditures. Most collectives have built into them an annual increase together with merit step increases which have an impact on NZBS's overall annual cost increases.

Settlements in relation to Collective Agreement negotiations have a flow on effect to costs associated with staff working under Individual Employment Agreements.

Risk Assessment: MEDIUM - risk of settlement outside of budgeted parameters, depending on wider sector settlements. (Assumption 1 also refers.)</td></tr>
<tr><td>12.</td><td>Consumable costs (based on current contracts, or expected CPI increases) and employee costs (FTEs required) are based on meeting the projected collection volume targets for 2016/17 and subsequent years, as summarised in Assumption 4.</td><td>Forecast collection volumes are subject to change in response to alterations in demand patterns for products, variation in production yields and/or collection / processing methods. Further staffing and consumable reductions would be considered in the event that collection volume requirements decrease further than forecast for a sustained period of time.

Likewise, if collection volume levels are required to increase significantly beyond those forecast, an increase in staffing and consumables may be required to collect and process additional volumes.

<u>Note</u>: Many NZBS consumables purchased from international markets are subject to foreign exchange fluctuations.

Risk Assessment: MEDIUM - that input price increases are higher than budgeted allowances. (Assumption 1 also refers.)</td></tr>
<tr><td>13.</td><td>Existing regulatory cost framework will be maintained with the only additional costs included in the budget being associated with initiatives to achieve compliance with the Public Records Act 2005.</td><td>The Government has elected to maintain the existing regulatory framework for New Zealand and deactivated the proposed establishment of ANZTPA. NZBS has reflected its regulatory compliance costs over the planning period based on existing cost structures.

Risk Assessment: LOW – the existing regulatory environment is well understood by NZBS and the deactivation of ANZTPA removes significant regulatory cost risk from the forecasts.</td></tr>
</table>

<table>
<tr><th>Assumption</th><th>Comment / Risk</th></tr>
<tr><td>

14. Foreign exchange rates over the forecast period have been assumed as:

<table>
<tr><th>Year</th><th>AUD$</th><th>Euro</th><th>US$</th></tr>
<tr><td>2016/17</td><td>0.905</td><td>0.577</td><td>0.615</td></tr>
<tr><td>2017/18</td><td>0.874</td><td>0.557</td><td>0.616</td></tr>
<tr><td>2018/19</td><td>0.900</td><td>0.572</td><td>0.578</td></tr>
<tr><td>2019/20</td><td>0.913</td><td>0.586</td><td>0.573</td></tr>
</table>

These rates have been based on the latest information available at the time of preparation of this document.

</td><td>

NZBS has exposure to foreign exchange fluctuations, primarily the Australian dollar through its plasma fractionation contract with CSL Behring.

Based on 2016/17 settings a 1 cent movement in the AUD exchange rate increases or reduces fractionation costs by approximately NZD$200k.

The financial forecasts assume a neutral position as regards the spot rate applying to inventory transactions over the forecast period i.e. no realised gains or losses result.

NZBS manages this operational risk via forward exchange contracts in accordance with the NZBS Treasury Management Policy.

Risk Assessment: MEDIUM – any ongoing volatility in global financial markets has the potential to impact New Zealand's economic settings in the medium term with the short term (12 month) risk mitigated via forward exchange contracts.

</td></tr>
<tr><td>

15. As a demand-driven service provider to the health and disability sector, NZBS will share with the DHBs any unbudgeted realised net financial gains that it may achieve due to optimal product mix demand, improving yields and cost efficiencies, in accordance with the NZBS Financial Guidelines policy.

</td><td>

NZBS has a Financial Guidelines policy that clearly sets out the Board's obligations (having regard to NZBS's longer term financial viability) to assess on an annual basis, whether any realised net financial gains will be shared with the DHBs as a price rebate.

</td></tr>
<tr><td>

16. The Capital Charge, paid to the Crown, is based on the forecast closing equity position and has been assumed at the current 8% per annum on closing equity over the forecast period.

</td><td>

This is a Government mandated charge over which NZBS has no direct control.

</td></tr>
<tr><td>

17. The quantum of capital expenditure will be tightly managed year on year over the planning period to ensure the capital plan in any given year will not be exceeded.

The current 4 year forecast indicates a capital spend of $17.87m compared with a depreciation charge of $17.29m.

</td><td>

Safety requirements and the capital intensive nature of the blood service operations often means a variable capital spend on a year-on-year basis.

NZBS allows for capital substitution to apply in any given year.

Risk Assessment: LOW - the capital expenditure plan is a carefully considered and managed document ensuring a low risk of being greater than budget.

</td></tr>
<tr><td>

18. Interest rates on the NZBS Funding Facility over the period of this SOI have been based off projected 90 day interest rates and are assumed to be:

<table>
<tr><th>Year</th><th>Interest Rate</th></tr>
<tr><td>2016/17</td><td>2.98%</td></tr>
<tr><td>2017/18</td><td>2.98%</td></tr>
<tr><td>2018/19</td><td>2.99%</td></tr>
<tr><td>2019/20</td><td>3.52%</td></tr>
</table>

</td><td>

The level of available funds has been set to ensure forecast funding needs can be accommodated without need for facility renegotiation. The term of the facility covers the majority of the forecast period.

The facility is operated in accordance with its banking covenants.

Risk Assessment: LOW - based on the forecast level of facility debt NZBS exposure to any interest rate movement is minimal in the context of the overall NZBS cost structure.

</td></tr>
<tr><td>

19. There will be no adverse material financial impact on the forecast financial position as a result of any plasma pool of product recall incident (e.g. loss of a pool of plasma through contamination or manufacturing problem requiring the recall and potential destruction of product).

</td><td>

NZBS would expect to manage such adverse financial impact via its Adverse Fractionation Event Policy where a $3.0m reserve has been established to mitigate initial financial impact of such an event prior to engaging in the process outlined in 2005 by the Ministry of Health as a last resort if the financial impact exceeded NZBS financial capacity.

</td></tr>
</table>

Assumption	Comment / Risk
	Risk Assessment: LOW – a plasma contamination has not occurred to date and is considered a low frequency high financial impact event. However a product recall event did occur in November 2013 with a $750k adverse financial impact outcome. The basis for managing such situations is now well established and is actively monitored by NZBS as to its financial capacity to deal with such events.

3.3 FORECAST FINANCIAL STATEMENTS

Forecast Statement of Comprehensive Revenue and Expense

	Budget FY 16	Forecast FY 16		Forecast FY 17		Forecast FY 18		Forecast FY 19		Forecast FY 20	
	$000	$000	%	$000	%	$000	%	$000	%	$000	%
Summary											
Total Revenue	112,299	114,412		119,050		124,502		130,112		135,655	
Total Expenditure	112,314	115,357		120,090		125,568		130,397		134,590	
Surplus / (Deficit) for the Year	**(15)**	**(945)**		**(1,040)**		**(1,066)**		**(285)**		**1,065**	
Further detailed as:											
Revenue											
Revenue from supplying Blood Products	90,513	93,160	81.43%	97,132	81.59%	101,633	81.63%	106,352	81.74%	111,069	81.88%
Revenue from supplying Services	20,157	19,866	17.36%	20,606	17.31%	21,276	17.09%	21,959	16.88%	22,537	16.61%
Revenue from Overseas Sales	1,033	863	0.75%	927	0.78%	1,187	0.95%	1,193	0.92%	1,204	0.89%
Interest Income	589	511	0.45%	378	0.32%	399	0.32%	466	0.36%	571	0.42%
Other Income	7	11	0.01%	7	0.01%	7	0.01%	140	0.11%	274	0.20%
DHB Price Rebate	-	-									
Total Revenue	**112,299**	**114,412**	100.00%	**119,050**	100.00%	**124,502**	100.00%	**130,112**	100.00%	**135,655**	100.00%
Expenditure											
Cost of Consumables & Changes in Inventory ***	39,276	41,343	36.14%	45,861	38.52%	50,058	40.21%	52,761	40.55%	53,996	39.80%
Employee Benefit Expense	41,836	41,776	36.51%	42,982	36.10%	43,657	35.07%	44,405	34.13%	46,386	34.19%
Depreciation	3,939	3,302	2.89%	3,413	2.87%	4,022	3.23%	4,709	3.62%	5,145	3.79%
Other Operating Expenses	27,129	27,257	23.82%	26,997	22.68%	26,967	21.66%	27,663	21.26%	28,141	20.74%
Finance Costs	255	275	0.24%	291	0.24%	263	0.21%	298	0.23%	362	0.27%
Operating Expenditure	112,435	113,953	99.60%	119,544	100.42%	124,967	100.37%	129,837	99.79%	134,030	98.80%
Operating Earnings	(136)	458	0.40%	(494)	(0.42%)	(465)	(0.37%)	275	0.21%	1,625	1.20%
Non Operating Expenditure											
Accrued Rent Payable	692	683	0.60%	683	0.57%	601	0.48%	560	0.43%	560	0.41%
Revaluation of Derivative Financial Instruments	(813)	721	0.63%	(137)	(0.12%)	-		-		-	
Total Non Operating Expenditure	**(121)**	**1,404**	1.23%	**546**	0.46%	**601**	0.48%	**560**	0.43%	**560**	0.41%
Surplus / (Deficit) for the Year	**(15)**	**(945)**	**(0.83%)**	**(1,040)**	**(0.87%)**	**(1,066)**	**(0.86%)**	**(285)**	**(0.22%)**	**1,065**	**0.79%**
Other Comprehensive Revenue and Expense	-	-		-		-		-		-	
Total Other Comprehensive Revenue and Expense	**-**	**-**		**-**		**-**		**-**		**-**	
Total Comprehensive Revenue and Expense for Year	**(15)**	**(945)**	**(0.83%)**	**(1,040)**	**(0.87%)**	**(1,066)**	**(0.86%)**	**(285)**	**(0.22%)**	**1,065**	**0.79%**

Forecast Statement of Changes in Equity

	Budget FY 16 $000	Forecast FY 16 $000	Forecast FY 17 $000	Forecast FY 18 $000	Forecast FY 19 $000	Forecast FY 20 $000
Opening balance	**38,548**	**41,817**	**40,872**	**39,832**	**38,766**	**38,481**
Total comprehensive Revenue and Expense for year	(15)	(945)	(1,040)	(1,066)	(285)	1,065
Movement in Adverse Fractionation Event Reserve						
Contribution from owners	-	-	-	-	-	-
Closing balance	**38,533**	**40,872**	**39,832**	**38,766**	**38,481**	**39,546**
Forecast changes in Equity over the forecast period						
(a) Crown Equity						
Opening Balance	15,717	15,717	**15,717**	**15,717**	**15,717**	**15,717**
Contribution from Owners	-	-	-	-	-	-
Closing balance	**15,717**	**15,717**	**15,717**	**15,717**	**15,717**	**15,717**
(b) Retained Earnings						
Opening Balance	22,831	23,101	22,155	21,115	20,049	19,764
Total Comprehenive Income for year	(15)	(945)	(1,040)	(1,066)	(285)	1,065
Transfer to Adverse Fractionation Event Reserve						
Closing balance	**22,816**	**22,155**	**21,115**	**20,049**	**19,764**	**20,829**
(c) Adverse Fractionation Event Reserve						
Opening Balance	**-**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**
Transfer from Adverse Fractionation Event Reserve		-	-	-	-	-
Closing balance	**-**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**
Closing Equity Balance	**38,533**	**40,872**	**39,832**	**38,766**	**38,481**	**39,546**

*** **Note re Changes in Inventory**

For ease of reporting, the 'Changes in Inventory' category is an aggregated reporting category comprising 'cost of goods sold, production recoveries and inventory valuation adjustments' consistent with the application of manufacturing standard costing methodologies and generally accepted inventory valuation principles.

Forecast Statement of Financial Position

	Budget FY 16 $000	Forecast FY 16 $000	Forecast FY 17 $000	Forecast FY 18 $000	Forecast FY 19 $000	Forecast FY 20 $000
Equity						
Crown Equity	15,717	15,717	15,717	15,717	15,717	15,717
Retained Earnings/(Losses)	22,816	22,155	21,115	20,049	19,764	20,829
Adverse Fractionation Event Reserve	-	3,000	3,000	3,000	3,000	3,000
Total Equity	**38,533**	**40,872**	**39,832**	**38,766**	**38,481**	**39,546**
Equity %	61.9%	62.3%	59.1%	57.3%	55.7%	54.4%
Represented by:						
Assets						
Current Assets						
Cash and Cash Equivalents	2,507	1,402	1,441	1,974	4,111	5,525
Trade and Other Receivables	12,456	12,372	13,169	13,757	14,338	14,907
Inventories	24,616	29,976	27,263	27,005	25,919	28,134
Investments	8,000	6,000	7,000	7,000	8,000	8,000
Derivative Financial Instruments	194	-	-	-	-	-
Total Current Assets	47,774	49,751	48,873	49,736	52,368	56,566
Non Current Assets						
Property, Plant and Equipment	7,928	8,447	7,654	7,549	7,494	8,632
Intangible Assets	6,521	7,390	10,870	10,406	9,246	7,488
Total Non Current Assets	14,449	15,836	18,524	17,955	16,740	16,121
Total Assets	**62,222**	**65,587**	**67,397**	**67,692**	**69,108**	**72,686**
Liabilities						
Current Liabilities						
Trade and Other Payables	7,345	6,580	7,479	7,662	8,340	8,993
Provisions	3,535	3,256	4,258	4,432	4,595	4,693
Employee Entitlements	4,792	5,033	5,460	5,963	6,359	6,684
Derivative Financial Instruments	-	137	-	-	-	-
Borrowings	87	273	297	322	350	335
Total Current Liabilities	15,760	15,279	17,494	18,379	19,643	20,705
Non Current Liabilities						
Employee Benefit Liabilities	1,678	1,769	1,884	1,963	2,087	2,222
Provisions	1,116	1,733	1,865	1,983	2,086	2,190
Accrued Rent Payable	1,153	1,138	1,821	2,422	2,982	3,543
Borrowings	3,982	4,796	4,500	4,177	3,827	4,481
Total Non Current Liabilities	7,930	9,436	10,071	10,546	10,983	12,435
Total Liabilities	**23,689**	**24,715**	**27,565**	**28,925**	**30,626**	**33,140**
Net Assets	**38,533**	**40,872**	**39,832**	**38,766**	**38,481**	**39,546**

Forecast Statement of Cash Flows

	Budget FY 16 $000	Forecast FY 16 $000	Forecast FY 17 $000	Forecast FY 18 $000	Forecast FY 19 $000	Forecast FY 20 $000
Cash Flows from Operating Activities						
Cash was provided from:						
Receipts from Blood Products and Services Revenue	110,843	113,431	117,078	122,473	127,873	133,176
Interest Received	201	273	173	194	239	264
Receipts from Other Revenue	690	672	817	1,066	1,215	1,360
	111,734	114,375	118,068	123,733	129,327	134,800
Cash was disbursed to:						
Payments to Employees	42,097	41,910	42,407	43,053	43,860	45,862
Payments to Suppliers	64,201	71,180	64,779	73,292	75,416	80,496
Distributions to Primary Stakeholders	2,500	3,550	-	-	-	-
Interest Paid	215	215	234	210	251	313
Capital Charge Paid	3,083	3,363	3,228	3,144	3,090	3,121
Net GST Payable to IRD	50	(225)	214	(44)	(17)	12
	112,146	119,993	110,862	119,655	122,601	129,805
Net Cash Flow from Operating Activities	**(412)**	**(5,618)**	**7,207**	**4,078**	**6,726**	**4,995**
Cash Flows from Investing Activities						
Cash was provided from:						
Proceeds - Interest on Term Deposits > 3 Months	388	263	206	205	227	307
Proceeds from the sale of Property, Plant & Equipment	-	-	-	-	-	-
	388	263	206	205	227	307
Cash was disbursed to:						
Acquisition of Property, Plant & Equipment	(2,442)	(3,174)	(1,764)	(2,436)	(2,744)	(4,176)
Acquisition of Intangible Assets	(2,729)	(3,517)	(4,337)	(1,018)	(750)	(350)
Acquisition of Investments - Term Deposits	(12,000)	(4,000)	(6,000)	(6,000)	(9,000)	(6,000)
Receipts from Maturity of Investments	12,000	6,000	5,000	6,000	8,000	6,000
	(5,171)	(4,691)	(7,101)	(3,454)	(4,494)	(4,526)
Net Cash Flow from Investing Activities	**(4,783)**	**(4,428)**	**(6,895)**	**(3,249)**	**(4,267)**	**(4,219)**
Cash Flow from Financing Activities						
Cash was provided from:						
Proceeds from Term Facilities	-	-	-	-	-	-
Proceeds from Term Borrowings - Finance Leases	-	1,084	-	-	-	1,000
	-	1,084	-	-	-	1,000
Cash was disbursed to:						
Repayment of Term Facilities	-	-	-	-	-	-
Repayment of Term Borrowings - Finance Leases	(80)	(234)	(273)	(297)	(322)	(362)
	(80)	(234)	(273)	(297)	(322)	(362)
Net Cash Flow from Financing Activities	**(80)**	**850**	**(273)**	**(297)**	**(322)**	**638**
Net increase/(Decrease) in Cash and Cash Equivalents	**(5,275)**	**(9,196)**	**39**	**533**	**2,137**	**1,414**
Cash and Cash Equivalents at the beginning of the year	7,782	10,598	1,402	1,441	1,974	4,111
Cash and Cash Equivalents at the end of the year	**2,507**	**1,402**	**1,441**	**1,974**	**4,111**	**5,525**

Reconciliation of Surplus / (Deficit) with Net Cash Flow from Operating Activities

	Budget FY 16 $000	Forecast FY 16 $000	Forecast FY 17 $000	Forecast FY 18 $000	Forecast FY 19 $000	Forecast FY 20 $000
Total Comprehensive Revenue and Expense for Year	(15)	(945)	(1,040)	(1,066)	(285)	1,065
Add Back Non Cash Items:						
Depreciation - Property Plant and Equipment	3,095	2,570	2,556	2,541	2,799	3,037
Depreciation - Intangible Assets	844	732	857	1,481	1,910	2,108
Property, Plant & Equipment Write Off Provision	-	-	-	-	-	-
Changes in Premises Reinstatement Provision	55	134	133	118	103	104
Add / (Less) Items Classified as Investing Activity:						
Net (Gain) / Loss on Sale of Property, Plant & Equipment	-	-	-	-	-	-
Proceeds - Interest on Term Deposits > 3 Months	(388)	(263)	(206)	(205)	(227)	(307)
Movement in Working Capital:						
(Increase)/ Decrease in Trade and Sundry Receivables	(176)	227	(776)	(563)	(558)	(548)
(Increase) / Decrease in Prepayments	(137)	(88)	(20)	(25)	(23)	(21)
(Increase) / Decrease in Inventories	(1,665)	(5,609)	2,713	258	1,086	(2,215)
Increase / (Decrease) in Trade Creditors & Other Payables	473	(37)	470	(182)	(72)	202
Increase / (Decrease) in Other Payables	(481)	(922)	444	376	763	480
Increase / (Decrease) in General Accruals	(2,325)	(3,411)	987	164	150	69
Increase / (Decrease) in Employee Entitlements	430	591	543	581	520	460
Increase / (Decrease) in Accrued Rent Payable	692	683	683	601	560	560
Revaluation of Derivative Financial Instruments	(813)	721	(137)	-	-	-
Net Cash Inflow/(Outflow) from Operating Activities	**(412)**	**(5,618)**	**7,207**	**4,078**	**6,726**	**4,995**

3.4 STATEMENT OF ACCOUNTING POLICIES

1) Reporting Entity

The New Zealand Blood Service (NZBS) is an appointed entity pursuant to section 63 of the Human Tissue Act 2008, primarily responsible for the performance of functions in relation to blood and controlled human substances in New Zealand.

The entity (New Zealand Blood Service) is a Crown Entity in terms of the Crown Entities Act 2004, and a Statutory Entity under the New Zealand Public Health & Disability Act 2000. NZBS's ultimate parent is the New Zealand Crown.

NZBS is a public benefit entity and its primary objective is to support the New Zealand healthcare community through managing the collection, processing and supply of blood, controlled human substances and related services. Accordingly, NZBS has designated itself as a public benefit entity (PBE) for the purposes of applying the Public Benefit Entities Accounting Standards (PBE Standards), issued by the External Reporting Board (XRB).

2) Authorisation Statement

These forecast financial statements were authorised for issue on 7 April 2016 by the Chief Executive Officer of NZBS who is responsible for the forecast financial statements as presented. The preparation of these financial statements requires judgements, estimations and assumptions (refer section 3.2 for key assumption details) that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed reasonable under the circumstances.

Actual financial results achieved for the period covered are likely to vary from the information presented and the variations may be material.
It is not intended that the prospective financial statements will be updated subsequent to presentation.

3) Basis of Preparation

The financial statements of NZBS have been prepared in accordance with the requirements of the Crown Entities Act 2004 and the New Zealand Public Health & Disability Act 2000.

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP), in accordance with Tier 1 PBE Standards. They comply with PBE Standards, as appropriate for PBEs.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on a historical cost basis, with the exception of certain items identified in specific accounting policies.

The financial statements are presented in New Zealand dollars. The functional currency of NZBS is New Zealand dollars.

4) Significant Assumptions

These forecast financial statements are based on the financial results reported to 31 January 2016 and the inherent trends reflected in those results and have been prepared on the basis of key assumptions as detailed in Section 3.2 as to future events that NZBS can reasonably expect to occur, associated with actions it reasonably expects to take.

These forecasts have been compiled on the basis of the strategic plan (as detailed in the Statement of Intent) and Ministerial expectations at the date the information was prepared. Estimated year-end information for 2015/16 is used as the opening position for the 2016/17 forecasts.

The forecast financial statements have been prepared in compliance with *NZFRS 42 Prospective Financial Statements.*

5) Standards Adopted

The financial statements contained in the 2014/15 Annual Report, for the financial year ended 30 June 2015, was the first set of PBE Standards compliant financial statements issued by NZBS. The new PBE Standards are based on International Public Sector Accounting Standards (IPSAS), which are themselves based on International Financial Reporting Standards (IFRS).

Subsequently there have been no major changes to accounting policies.

6) Standards and Interpretation issued and not yet adopted

NZBS adopted the full PBE Standards for the first-time for the reporting period beginning on 1 July 2014. There were no new PBE Standards, amendments and interpretations issued but not yet effective that have been early adopted.

7) Significant Accounting Policies

Revenue

Revenue is measured at the fair value of consideration received or receivable. The specific accounting policies for significant revenue items are explained below.

Sales of Products

Revenue from the sales of products is recognised at the time the risk and effective ownership transfers to the customer.

Provision of Services

Revenue from the rendering of services is recognised as the services are provided.

Price Rebate to District Health Boards

NZBS also considers annually in accordance with the Financial Guidelines Policy, price rebates to District Health Boards which if elected by the Board to be paid are recognised at the point of decision and deducted from the amount of revenue received or receivable.

Interest Income

Interest income is recognised using the effective interest method.

Capital Charge

The capital charge is recognised as an expense in the financial year to which the charge relates.

Leases

Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, NZBS recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether NZBS will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

Trade and Other Receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that NZBS will not be able to collect all amounts due according to the original terms of receivables.

Inventories

Inventories are measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (i.e. donated goods) for no cost or for a nominal cost, the cost of the inventory is its fair value at the date of acquisition.

However, as NZBS is not legally permitted to purchase blood from the public, the accounting fair value of blood from donors is considered nil. Therefore the cost of inventories comprise all costs of collection, costs of conversion, and any other costs incurred in bringing the inventories to their present location and condition.

After initial recognition, inventory is measured at the lower of costs and net realisable value. The cost of inventory is determined using the FIFO or weighted average methods. The valuation includes allowance for slow moving items. Obsolete inventories are written off.

The write down from cost to net realisable value is recognised in the surplus or deficit except for fractionated derived products manufactured from New Zealand sourced plasma (refer below).

Inventories are recognised as an expense when deployed for utilisation or consumption in the ordinary course of NZBS's operation.

Fractionated derived products manufactured from a principal pool

Fractionated derived products are manufactured into finished blood products by a third party manufacturer on a "toll" manufacturing basis using NZBS provided sourced plasma. Fractionated derived products in the main are manufactured from either 7.8 or 10.4 tonne plasma pools and the NZBS rolling manufacturing plan generally allows for 6 production pools in a financial year. The driver product group within the manufacturing process is the immunoglobulin product represented by Intragam P and Evogam product.

The principal pool work in progress (WIP) is included at full standard cost as the final output that the manufacturer must produce is locked in via the agreed production plan for a pool and contract yields per the toll manufacturing agreement. This high level of certainty enables the WIP to be viewed in the same light as finished fractionation product for the purposes of inventory valuation.

Valuation of fractionated derived products from these plasma pools, both finished goods and WIP, is based on allocating the actual input cost of manufacturing a plasma pool (NZBS source plasma input plus third party toll fractionation manufacturing fee) to prorated finished/WIP product output using actual product plasma yield, reported by the manufacturer.
Post this product cost allocation if there are any products where cost exceeds the net realisable value then that cost excess is reallocated to the driver product group.

Financial Assets

NZBS classifies its financial assets within the scope of PBE IPSAS 29 Financial instruments: Recognition and Measurement into the following four categories: (1) financial assets at fair value through surplus or deficit, (2) loans and receivables, (3) held to maturity Investments or (4) available for sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the surplus or deficit.

Purchases and sales of investments are recognised on trade date, the date on which NZBS commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and NZBS has transferred substantially all the risks and rewards of ownership.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance date. The quoted market price used is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. NZBS uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The subsequent measurement of financial assets depends on their classification. The four categories of financial assets are:

Category (1) Financial assets at fair value through surplus or deficit

This category has two sub-categories: financial assets held for trading, and those designated at fair value through surplus or deficit at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance date.
After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the surplus or deficit.

Category (2) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition they are measured at amortised cost using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit. Loans and receivables are classified as “trade and other receivables” in the Statement of Financial Position.

Category (3) Held to maturity investments

Held to maturity investments are assets with fixed or determinable payments and fixed maturities that NZBS has the positive intention and ability to hold maturity. After initial recognition they are measured at amortised cost using the effective interest method, less impairment. Gains or losses when the asset is impaired or derecognised are recognised in surplus or deficit. Currently, NZBS does not hold any financial assets in this category.

Category (4) Available-for-sale financial assets

Non-derivative financial assets that are designated as available for sale or are not classified as category (1) financial assets at fair value through surplus or deficit, category (2) loans and receivables or category (3) held-to-maturity investments. This encompasses derivatives that are designated hedges. After initial recognition these investments are measured at their fair value.

If impairment evidence exists for derivatives that are designated hedges at fair value through other comprehensive revenue and expense, the cumulative loss recognised in other comprehensive revenue or expenses is reclassified from equity to the surplus or deficit.

Impairment of Financial Assets

At each balance date NZBS assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the surplus or deficit.

Financial Liabilities

NZBS classifies its financial liabilities within the scope of PBE IPSAS 29 *Financial instruments: Recognition and Measurement* as either financial liabilities at fair value through surplus or deficit or loans and borrowings at amortised cost. The classification of financial liabilities are determined on initial recognition.

All financial liabilities are recognised initially at fair value, and in the case of loans and borrowings, plus directly attributable transaction costs.
NZBS's financial liabilities include trade and other payables, loans and borrowings.

Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Transactions denominated in foreign currency are reported at the reporting date by applying the exchange rate on that date. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the surplus or deficit.

Accounting for derivative financial instruments and hedging activities

NZBS uses derivative financial instruments to manage exposure to foreign exchange risks arising from financing activities. In accordance with its Treasury Management Policy, NZBS does not hold or issue derivative financial instruments for trading purposes. NZBS has not adopted hedge accounting.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date. The resulting gain or loss is recognised in the surplus or deficit.

Property, Plant and Equipment

Property, plant and equipment consists of operational assets which include plant and equipment, computer hardware, motor vehicles, furniture and fittings / office equipment and leasehold improvements.

Property, plant and equipment is shown at cost less accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to NZBS and the cost of the item can be measured reliably.
Property, plant and equipment is initially recognised at cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Work in progress is recognised at cost less impairment and is not depreciated.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit.

Subsequent costs

The cost of replacing or improving part of an item of property, plant and equipment is recognised in the carrying amount of an item. The costs of day-to-day servicing of property, plant and equipment is recognised in the surplus or deficit as incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, at rates that will write off the cost of the assets to their estimated residual values over their useful lives.
The useful lives of major classes of assets have been estimated as follows:

Computer Equipment:	- 3 to 5 years
Furniture and Fittings:	- 5 to10 years
Motor Vehicles:	- 3 to 4 years
Plant and Equipment:	- 5 to10 years
Leasehold Improvements:	- Shorter of term of lease or useful life

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Intangible Assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives of major classes of intangible assets have been estimated as follows:

Computer Software - 3 years

Computer Software Blood Management System (eProgesa) - 10 years

Changes in the expected useful life or the expected pattern of consumption are treated as changes in accounting estimates.

Intangible assets with a finite useful life are assessed for impairment whenever there is an indication that the asset may be impaired.

Impairment of non-financial assets

NZBS does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Non-cash-generating assets

Property, plant, and equipment and intangible assets held at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is recognised in the surplus or deficit.

Creditors and other payables

Creditors and other payables are stated at cost.

Employee benefits

- **Short-term benefits**

  Employee benefits that NZBS expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

  NZBS recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that NZBS anticipates it will be used by staff to cover those future absences.

  NZBS recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

- **Long-term benefits**

  Long service leave and retirement leave

  Entitlements that are payable beyond 12 months, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

  - likely future entitlements accruing to staff, based on years of service years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information;

  and

  - the present value of the estimated future cash flows. The discount rate is based on the weighted average of Government interest rates for stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the surplus or deficit.

Defined benefit schemes

NZBS belongs to the Defined Benefit Plan Contributors Scheme (the scheme), which is managed by the Board of Trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme, the extent to which the surplus/deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme.

Provisions

NZBS recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle then obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless NZBS has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Adverse Fractionation Event Reserve and Matching Investment Funds

NZBS collects source plasma and contracts a third party to manufacture that source plasma, via a complex series of processes known as fractionation, to produce a range of derived fractionation products for use within the New Zealand health sector. The manufacturing contract clearly defines the party's respective risks and responsibilities inclusive of financial risk attribution should certain of those risks inherent in the manufacturing process actually occur. NZBS attributed financial risks have, based on historical performance, been classified as being of low frequency but with a potentially high financial impact if an event did occur.

Accordingly NZBS has elected to mitigate this manufacturing financial risk with the establishment of the Adverse Fractionation Event Policy that mandates the establishment of an Adverse Fractionation Event Reserve within the Equity section of the Statement of Financial Position that is complemented by a matching term deposit fund to ensure access to liquidity in the event of an adverse event occurring.

Under this policy NZBS is required to assess, on an annual basis, the upper level of potential financial risk, the current level of the reserve and whether further funds should be transferred to the reserve with matching liquidity also required to be then set aside.

Equity

Equity is the Crown's interest in NZBS.

The components of equity are:

- Crown *Equity* - Crown Equity is the net asset and liability position at the time NZBS was established plus any subsequent equity injections.
- *Accumulated Comprehensive Revenue and Expense* - is the accumulated surplus/deficit since NZBS establishment.
- *Adverse Fractionation Event Reserve* - is the transfer from accumulated comprehensive revenue and expense commencing financial year ending 30 June 2015. The reserve has been established to mitigate the financial manufacturing risk associated with the production of fractionated derived products.

Good and Service Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position. The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.
Commitments and contingencies are disclosed exclusive of GST.

Taxation

NZBS is a statutory corporation under the New Zealand Public Health & Disability Act 2000 and is exempt from income tax under Section CW38 of the Income Tax Act 2007.

Budget figures

The budget figures are those approved by the Board of NZBS at the beginning of the year as presented in the *Annual Statement of Performance Expectations*. The budget figures have been prepared in accordance with NZ GAAP and comply with NZ GAAP, using accounting policies that are consistent with those adopted by the Board for the preparation of the financial statements.

Critical accounting estimates and assumptions

In preparing these financial statements NZBS has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other known or expected factors, including expectations or future events that are believed to be reasonable under the circumstances. Where this is the case the basis of those assumptions are detailed in Section 3.2 of this document.

Critical judgements in applying the NZBS accounting policies

In preparing these financial statements NZBS management has made judgements in applying the NZBS accounting policies. These judgements have been applied consistently to all periods presented in these financial statements. There are no material judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities that need disclosing.

Changes in Accounting Policy

Following the adoption of the new PBE standards effective 1 July 2014, there has been no subsequent major changes in accounting policies.

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