

Statement of Intent  
2010/11

# Health Benefits Limited



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## **1. Introduction**

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This Statement of Intent has been prepared by the Board of Health Benefits Limited (HBL or the Company) in accordance with Part 4 of the Crown Entities Act 2004.

It specifies the Company's objectives, intentions and performance measures for the period 30 July 2010 to 30 June 2011 and, in general terms for the subsequent two years.

### ***Statement of Responsibility***

HBL is responsible for the prospective financial statements and statement of forecast service performance contained in this document, including the appropriateness of the assumptions underlying them. In particular, the Company notes that operating funding is only guaranteed for 2010/11. HBL is committed to work with relevant stakeholders to develop a sustainable business and funding model by 30 November 2010. This funding issue needs to be resolved before the Company can make operational or financial commitments which extend beyond 30 June 2011. HBL is also responsible for internal control systems, which provide reasonable assurance as to the integrity and reliability of financial reporting.

Ted van Arkel  
Chair

Lester Levy  
Deputy Chair

September 2010

## *Glossary of Terms*

COMU	The Crown Ownership Monitoring Unit
DAPs	DHB District Annual Plans
DHB	District Health Board
EOI	Expressions of Interest
FMIS	Financial Management Information Systems
GST	Goods and Services Tax
HBL	Health Benefits Limited
RFP	Request for Proposals
Sector	The 20 District Health Boards covering New Zealand
Shareholding Ministers	The Minister of Finance and the Minister of Health
SLA	Service Level Agreements
SOI	Statement of Intent
Target 30	Savings (mainly from procurement) totalling \$30 million for which DHBs are accountable and which are already included in DHBs 2010/11 District Annual Plans

## **2. Vision and purpose of Health Benefits Limited**

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### ***Purpose***

HBL is tasked with contributing to a total \$700 million savings expectation over a five year period after establishment. This is a significant challenge and HBL recognises that the most critical determinant of its success will be the extent to which its enthusiasm for shared services is mirrored by all stakeholders. A significant proportion of the savings obtained is expected to be retained by DHBs for reinvestment in front line services, and who have already made in-roads into this savings target through procurement initiatives implemented in 2009/10 and planned for 2010/11.

Success requires the careful alignment of shareholding Ministers, HBL and DHB goals, accountabilities, planning approaches and incentives that motivate the desired behaviours from governance to management and through to implementation.

Meeting this challenge will require a substantial level of investment, the nature and details of which are still to be agreed. All parties are committed to finalising the longer term business and funding model by 30 November, 2010.

HBL has a unique opportunity to assist the health sector to make a quantum shift in the way management, administrative and procurement support services are provided to DHBs and deliver on its task. A new approach is urgently needed to meet the expectations of the Government, the health sector and the public.

### ***Vision***

HBL's vision is to build a network of shared services for New Zealand's health sector that delivers transformational improvement in non clinical support services for DHBs.

A high performing health and disability support system needs high quality administration, support and procurement services. HBL will support the more efficient and effective provision of these services through shared service arrangements.

HBL recognises the importance of DHBs as its customers. It will consult and seek endorsement of plans but will not be delayed where commercial considerations in support of the national interest outweigh individual DHB preference. Where necessary, HBL will request the Minister of Health to utilise his powers to direct.

### ***Nature of Activities and Scope***

The nature of activities of HBL is to facilitate and lead national initiatives that result in savings and efficiencies for DHBs. HBL will optimise the leverage opportunity available to 20 DHBs working as one on non clinical support initiatives.

At this point the non clinical support services that have been identified as offering the greatest opportunities include:

- Procurement and Supply Chain
- Financial and Enterprise Resource Planning Systems
- Information Technology, Information Systems and Information services.

In the first year the scope of activities is expected to include:

- Reviewing and, where appropriate, working with DHBs in providing advice, resource or endorsement of initiatives
- Developing cases for transformational change
- Managing and completing projects that deliver savings to DHBs
- Human resources and payroll
- Facilities Management.

### **3. About Health Benefits Limited**

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#### ***Background***

*“The Government is committed to a strong and enduring public health service ...but the health service will need – more than ever – to ensure a strong and ongoing focus on value for money with resources moving from administration and low priority spending into more important front line services.” - Hon Tony Ryall<sup>1</sup>*

In order to meet its objectives for improving health system performance, the government has considered a suite of options under the banner *Improving the Health System*. One of these options was the establishment of shared administration and support functions and a national approach to procurement and supply chain management for the nation’s 20 DHBs to reduce costs and contain future cost growth.

Shared and national approaches to the delivery of back office functions can lead to significant savings through economies of scale, standardisation and reduced duplication across the sector, as well as improved information enabling better decisions and more accurate measurement of performance.

Any new approach must be flexible enough to support effective frontline delivery mechanisms. For example, regional services delivery and regional commissioning.

The establishment of HBL is a critical development to progress the wider work programme for transformational change in the health sector.

#### ***Description of the Entity***

HBL is a Crown company that is listed as a Schedule Four company under the Public Finance Act 1989. As a Crown company subject to the Companies Act 1993, HBL has the ability to operate in a commercial manner within a public sector environment. It has close Crown input, an accountability frame work that includes reporting against a Statement of Intent, Statement of Service Performance and an Annual Report.

While it is currently intended that HBL will remain a small and specialised unit, the size, scale and specifics of the work undertaken will vary from time to time and is likely to require additional specialist resources on a project-by-project basis, including from within DHBs and the wider health sector.

#### ***HBL’s role in the health system***

The formation of HBL is not about reducing management, administrative and procurement support for the health sector. It is about challenging existing practice, setting the stage and an agenda for transformational change and providing leadership to deliver value.

Consequently, HBL has a role in both:

- working with DHB and health sector leaders to set the strategic direction of administration and support services and any associated impact on asset management and non-clinical workforce planning; and

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<sup>1</sup> Ryall, T. Hon (15 October, 2009) *The Government’s Health Agenda*, Speech to Dean’s winter Lecture Series, <http://www.beehive.govt.nz/speech/tony+ryall+speech+-+government039s+health+agenda>

- optimising the efficiency and effectiveness of transactions and the delivery of these services.

### ***Contribution to government outcomes***

Figure 1 illustrates how HBL activities and outputs link to the outcomes it aims to achieve for the Health and Disability system. In particular, HBL's work will contribute to New Zealanders receiving better and more cost effective health and disability services.

### **Longer-term HBL Outcomes**

HBL will contribute to the Government's outcomes for the health and disability system as described in the framework set out in Figure 1 below.

Leadership, advice and information analysis activities will also lead to better coordination of service provision, asset planning, non-clinical workforce planning, and enhanced support to resource allocation and risk mitigation decisions.

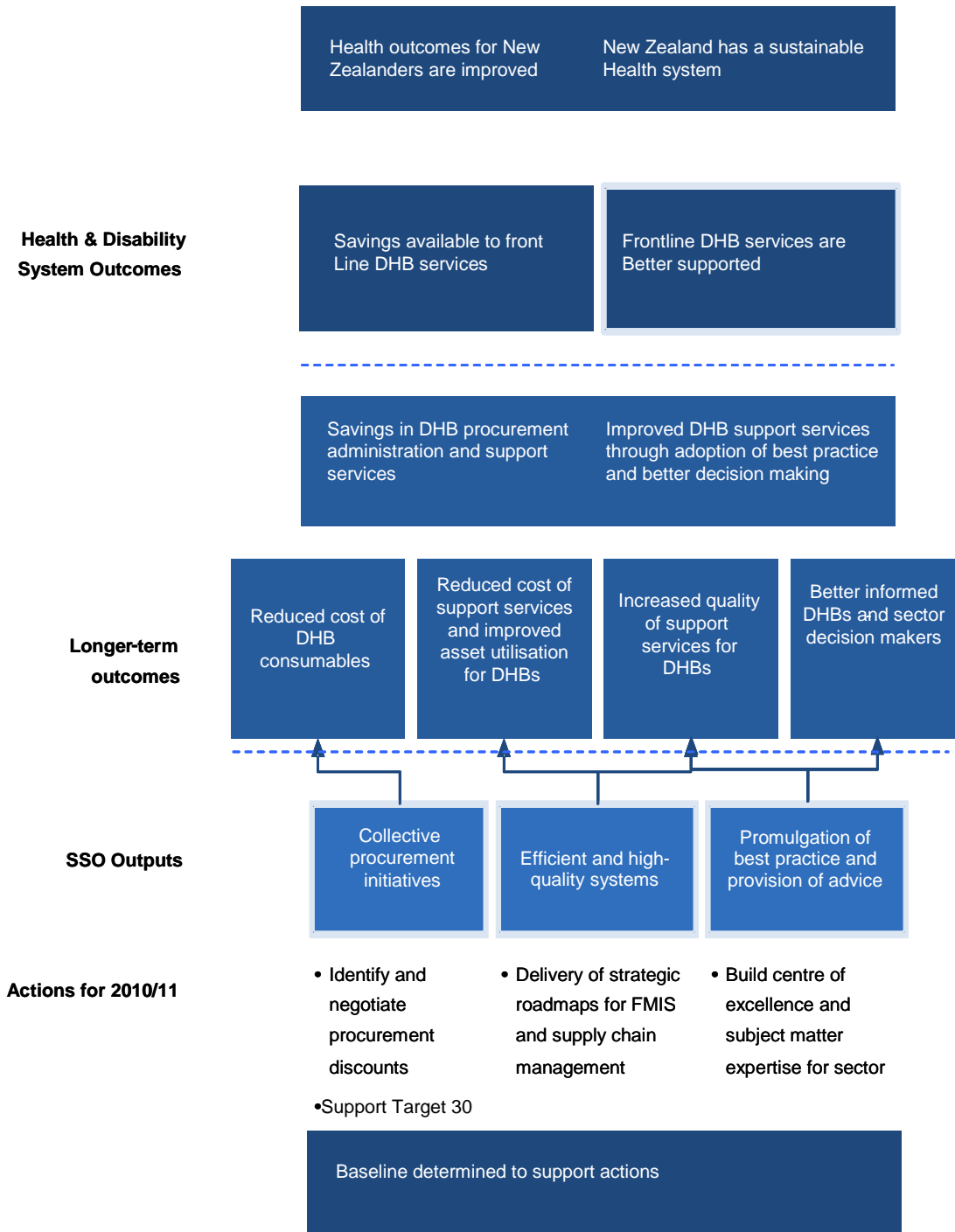
### **Health and Disability System Outcomes**

Savings generated through HBL initiatives will be available to be re-prioritised towards front line service provision. This will help DHBs to manage cost pressures and deliver more and better services within an increasingly constrained fiscal environment.

HBL is accountable for the delivery of savings and best practice advice. Decisions over how savings from shared services initiatives are applied ultimately rest with DHBs and other stakeholders.

HBL will work closely with DHBs, Ministers and clinicians to ensure that the Company is maximising its contribution to the outcomes and priorities of the wider health and disability system.

**Figure 1: HBL Outcomes Framework**



## Work-plan for 2010/11

In considering the work-plan for its first year of operation, HBL has been mindful:

- that it will take time to build the team, systems and capability to deliver;
- of the need to build credibility for itself within the sector; and
- the constraints under which the Company will operate during its first year.

Accordingly, HBL's proposed work-plan for 2010/11 has been structured as follows:

1. **Building the team, systems and capability to deliver** – see Section 6.
2. **Creating a clear roadmap for achieving transformational change and developed business cases** – which will cover all key aspects of DHB management, administrative and procurement support services and will assist DHBs in their short and long-term planning. Roadmaps will also be developed into detailed business cases in due course in accordance with HBL decision making processes.
3. **Driving enabling initiatives** – which will allow HBL to define its starting position, develop a clear and holistic view of the opportunities available, enable better decision making, and advise its future strategy.
4. **Creating a centre of excellence for the sector** - which will identify, capture and promulgate best practice throughout the sector.
5. **Delivering on early opportunities** – moving forward with initiatives that are well developed and can deliver early benefits, including assisting DHBs to meet their accountabilities for savings totalling \$30 million (mainly from procurement) already included in their 2010/11 District Annual Plans (Target 30).

A key enabling initiative for HBL is the collection of information about DHB's administration support and procurement services. This information is required to form a baseline against which the success of the Company and other cost saving initiatives can be measured, and to inform the initiative prioritisation process.

## Medical Devices

The national procurement of medical devices is included in the portfolio of solutions HBL will investigate for shared services activity.

The Ministry of Health has been directed to consult with HBL and PHARMAC and report back to the Cabinet Social Policy Committee (SOC) by July 2012 with a detailed plan setting out a carefully sequenced path for PHARMAC assuming the prioritisation, assessment, standardisation and procurement of medical devices. The Business Plan and Statement of Intent of HBL are based on the assumption that the planning of this path will commence in the early part of the 2010/2011 year.

## Stakeholders

The Company will work closely with DHBs to help facilitate the processes required to deliver gains and savings through shared service initiatives. Engagement and communication activities will be targeted at different levels across the sector and be designed and delivered in a way that meets the specific needs of stakeholders (i.e., differentiating between the needs of Ministers, government agencies, DHB Chairs and CEOs, DHB senior managers, DHB staff and different suppliers).

The following table sets out the types of issues that HBL will engage with stakeholders over and the potential mechanisms and processes that could be used.

		Area			
Stakeholder	Mechanism	Strategy	Work programme	Regional planning	Initiatives
Ministers	SOI, Letter of expectation, Ministerial direction	✓	✓		✓
Government agencies	Ongoing engagement	✓	✓		
DHB Governance	CEO's and Chairs forum, DAPs	✓	✓	✓	✓
DHB Operational Managers	Initiative advisory groups as appropriate			✓	✓
Clinicians	Initiative advisory groups as appropriate			✓	✓
Suppliers	EOI and RFP processes. SLAs and KPIs to deliver continuous improvement				✓

## 4. Measures of Success

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### *Longer-term performance measures*

The performance of HBL will be judged over time by the generation of sustainable savings in District Health Boards, enabling resources to be re-prioritised from DHB administration, support and procurement functions to front line services.

Subject to funding being available for periods after 2010/11, HBL has the following longer term outcomes (or business objectives) over the next 3 – 5 years:

1. Growth in year-on-year savings to the sector that flow from initiatives developed and implemented by HBL.
2. More effective provision of administration and support services.
3. A better level of support to sector decision makers.

Over the 2010/11 year, HBL will work on developing a robust system and methodology for measuring progress against these objectives, both at a system level and for HBL's individual contribution to system-wide outcomes. As business cases are developed and approved, HBL will also develop quantified savings targets which will be used as medium-term performance measures in future accountability documents.

### *Near-term performance measures*

More detailed performance indicators for the 2010/11 year are contained in section 8: Forecast Statement of Service Performance.

### *Output Class Descriptions*

Services and outputs will be provided by the HBL through three output classes. These are:

- Output Class 1: Collective procurement initiatives
- Output Class 2: Efficient and high-quality systems
- Output Class 3: Promulgation of best practice and provision of advice

#### **Output Class 1: Collective procurement initiatives**

There are substantial savings opportunities for DHBs from a national approach to procurement. In recognition of this, DHBs have already identified \$30 million of ongoing savings to be realised in 2010/11 (Target 30). The Company will identify and develop additional savings opportunities over the 2010/11 year.

This output involves identifying procurement opportunities and developing business cases for consideration by stakeholders; engaging with suppliers and negotiating procurement arrangements that offer better value for money on behalf of the sector; establishing service standards, monitoring supplier performance; and resolving any performance issues on behalf of DHBs.

The Company will also assist DHBs to meet their accountabilities for planned actions and delivering savings under Target 30. The form that this assistance will take will be agreed with DHBs early in 2010/11 but will not alter the overall accountabilities of DHBs to deliver the savings targets included in their District Annual Plans for 2010/11.

This output will be provided with \$1.9m of funding during 2010/11.

### **Output Class 2: Efficient and high-quality systems**

To improve the current, fragmented delivery of administrative and support services a national approach to the development and implementation of support systems is needed.

The scale of investment involved in DHB systems means that projects will span multiple years. During 2010/11 HBL will develop a number of strategic roadmaps that will give certainty to the sector about the direction and timing of investment required in areas such as Financial Management Information Systems (FMIS), strategic supply chain management and best practice human resource and shared payroll services (including rostering). The intention is to develop these into full business cases over the next two to three years as priorities are discussed and agreed with the sector.

This output will be provided with \$2.0m of funding during 2010/11.

### **Output Class 3: Promulgation of best practice and provision of advice**

A core function of the Company is to provide leadership and advice to the sector and the Government on the implementation and coordination of shared services and other performance improvement initiatives. HBL will also work with the sector to identify and promulgate best practice in process design to improve the performance and efficiency of management, administrative and procurement support services.

This output includes the identification and promulgation of best practice, both from within the New Zealand health sector, and internationally from within private and public health sectors and commercial organisations generally.

This output will be provided with \$1.8m of funding during 2010/11.

HBL recognises the importance of utilising robust change management methodologies to achieve the transformational changes envisaged in this SoI.

## **5. Governance and Accountability**

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### ***Corporate***

As a Crown company that is listed as a Schedule Four company under the Public Finance Act 1989, HBL is accountable to its shareholding Ministers, currently the Minister of Health (the Responsible Minister) and the Minister of Finance.

The Company has a Board of Directors, appointed by Shareholding Ministers, following agreement by Cabinet.

HBL forecasts and reports on performance to the Minister of Health and Minister of Finance through the Crown Ownership Monitoring Unit and the National Health Board Business Unit. HBL's Board performs the roles and responsibilities of a Crown Board as defined in the Crown Entities Act 2004.

The Board, each director and each shareholding Minister have the rights, powers, duties and obligations as set out in the Companies Act 1993, except to the extent that they are negated or modified, in accordance with the Act, by HBL's constitution.

The functions and purpose of the Company are set out in this Statement of Intent which has been developed on the basis of the Company's inaugural business plan. These mechanisms are further augmented by a Letter of Expectations from Shareholding Ministers.

The Company's performance is monitored by the Treasury through the Crown Ownership Monitoring Unit (COMU) and the Ministry of Health on behalf of both agencies respective shareholding Ministers.

### ***Decision Rights***

#### **Acquisitions and disposals**

It is possible that the Board will seek to acquire or form a subsidiary to enact initiatives intended to deliver savings and gains for DHBs. For 2010/11 the Company has no powers to form subsidiaries or acquire subsidiaries. This power will need to be considered when and if a business case is developed that requires the formation of a subsidiary to deliver upon an initiative that delivers gains for the health sector.

#### **Significant operational expenditure during 2010/11**

A core function of HBL, particularly during its first year of operation, is to identify and develop business cases for significant change projects.

The Company will seek shareholding Ministers' approval for its Business Plan and related financial budget. The plan and budget includes details of the proposed expenditure of HBL for the 2010/11 year. In the event that the Board wishes to divert from the agreed plan, they will seek shareholding Ministers' approval where the variances from planned expenditure exceed \$500,000.

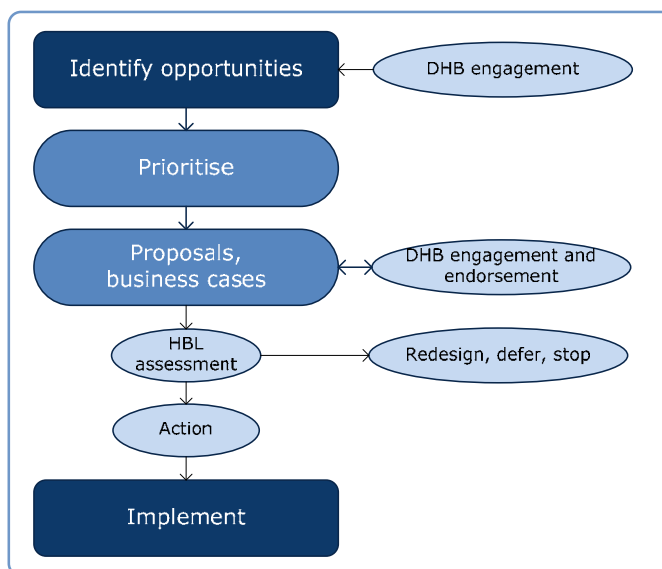
The need for, and level of, these thresholds will be reviewed during the development of the HBL's Statement of Intent for 2011/12. Over the long-term, a balance needs to be struck between allowing the HBL Board and management freedom to pursue and progress opportunities and protecting Shareholding Ministers' interests.

### Ministerial power to direct

HBL recognises that its best chance of implementing successful shared services initiatives is to deliver services that are valued by DHBs. HBL will strive to take into account the needs and interests of individual DHBs through the process of developing initiatives and projects. DHBs will be asked to endorse the various initiatives put forward by the Company and its annual business plan. Ideally there will be 100 percent endorsement.

A consensus view is unlikely to emerge in all cases and HBL reserves the right to ask the Minister of Health to consider using the Ministerial power to direct DHBs under Section 33A of the New Zealand Public Health and Disability Act when necessary.

The following diagram illustrates the decision-making process that will be used to confirm the priority opportunities and decide on the implementation of specific initiatives. Where a significant proportion of DHBs do not endorse a particular plan of action or particular initiative, the Company will undertake to enhance the proposition, without sacrificing best commercial practice and re-engage with affected DHBs.



### Reporting

The following information will be made available by HBL to relevant audiences:

#### Statement of Intent

A draft Statement of Intent will be prepared and provided to the Shareholding Ministers for comment no later than 31 days before Budget day. The final SOI will be presented Shareholding Ministers in accordance with published timetables.

#### Annual Report

An Annual Report and audited set of financial statements will be prepared according to the processes required by sections 150 and 156 of the Crown Entities Act. Final copies of the Annual Report will be provided to shareholding Ministers within 15 working days of receiving the Company's audit report from the Auditor General.

**Monthly Financial Reports**

HBL will report to the Board each month on its financial performance in the performing of its functions, which will be shared with the Ministry of Health and other stakeholders as required.

**Information for Ministers**

HBL will provide the Ministry of Health with information (in agreed form) that will enable the relevant Minister to:

- respond to Parliamentary questions;
- process routine Ministerial correspondence; and
- process Select Committee inquiries.

A report of progress against the Forecast Statement of Service Performance will be provided to Shareholding Ministers on a quarterly basis commencing with the quarter ending 30 September 2010.

## 6. Organisation

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### *Capability*

HBL will be a lean and focussed organisation and will evolve incrementally over time as business needs change and the Chief Executive Officer and Board agree on improved approaches to the provision of core services.

A mix of workforce procurement methods will be used, from permanent in-sourcing to contracting out.

HBL will need operational capability and resource in the following areas:

- **Management:** To set direction, review opportunities, set priorities, drive the business, lead transformational change and engage with the sector and other stakeholders.
- **Contract Management:** To drive service provider performance and respond rapidly to performance issues raised by customers.
- **In-house Delivery:** To manage the delivery of in-sourced support services, which will be budgeted for and added to the structure on an 'as-required' basis.
- **Procurement Management:** To identify and scale opportunities and priorities; drive process improvements; achieve early efficiencies and to determine the best sourcing options.
- **Programme Management:** Strong programme management expertise to scope and manage programmes of work, leverage opportunities across work-streams and ensure all projects deliver on the qualitative and quantitative benefits.

### *Structure*

The HBL Board consists of directors, appointed by shareholding Ministers, following agreement by Cabinet. The key governance functions and responsibilities of the Board are to:

- Set strategic direction and intent.
- Appoint the Chief Executive.
- Report on Company performance to shareholding Ministers and their agents.
- Maintain the medium-term capability of the Company as well as its financial viability.
- Ensure the Company is engaged and interacts with key stakeholders including central agencies, shareholding Ministers and DHBs.
- Assess and approve proposals and business cases developed by the management team of the Company to deliver savings and gains for the sector.
- Deliver upon the key performance measures and obligations set out in accountability documents including this SOI.

The Board appoints the Chief Executive Officer who is responsible for leading the day-to-day operations of the Company supported by a senior management team. The senior management team reports to the Chief Executive Officer. Together they will have competencies in the areas including:

- Shared services
- Finance
- Procurement and supply chain
- Engagement
- Communications

### ***Good employer***

To ensure that the Company meets its Good Employer obligations prescribed in the Crown Entities Act Part 3 Section 118, HBL will provide opportunities to:

- enhance the abilities of individual employees;
- recognise the aims, aspirations and employment requirements of women, and the cultural differences or ethnic or minority groups; and
- recognise the employment requirements of persons with disabilities.

The Company will look to develop an organisational and team culture that recognises the diversity of New Zealand society and brings a perspective appropriate to a company dedicated to contributing to improved health outcomes for all New Zealanders.

## **7. Business and Statutory Policies**

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### ***Operating Responsibilities***

The Company will:

- develop and maintain an appropriate business model that is sustainable, cost-effective and meets the ongoing shared service needs of its stakeholders;
- maintain effective relationships with stakeholders that are mutually supportive and productive;
- provide high quality shared services effectively and efficiently;
- develop a sustainable, competent and engaged workforce;
- develop and maintain effective systems to establish a baseline of performance and cost data for the measurement of gains to the sector;
- develop and implement processes and systems to assess and prioritise the development of business cases; and
- develop and maintain appropriate monitoring tools and performance issue resolution processes for initiatives as they are implemented.

### ***Statutory Requirements***

#### **Specific requirements**

Certain provisions in the Crown Entities Act apply automatically by virtue of HBL being listed in Schedule 4 of the Public Finance Act.

The Crown Entities Act has rules and restrictions relating to acquisition of securities, borrowing, guarantees, indemnities and derivative transactions. Health Benefits Limited has been granted one exemption which is the right to have a banking overdraft facility of \$200,000.

In addition:

- The Company will act as a 'good employer' where 'good employer' has the same meaning as in Section 118 of the Crown Entities Act 2004
- The Company must have regard to any whole of government direction that would apply to the Company if it were a Crown company under the Crown Entities Act 2004.

#### **Other statutory requirements**

Under the Public Audit Act 2001, the Controller and Auditor-General is to be the auditor of the Company.

The Company is subject to the Official Information Act 1982 and the Ombudsmen Act 1975.

### ***Operational processes***

HBL is required to operate within the functions, powers and constraints outlined above. Within this framework, the Company has considerable discretion in how it goes about its day to day operations. Comprehensive operational policies and procedures are to be developed concerning the manner in which HBL conducts its operational processes.

### ***Dividend Policy***

S165 of the Crown Entities Act does not apply to HBL and can only be applied through legislation. This means that Ministers do not currently have the power to require HBL to return surpluses to the Crown, nor can they require it to pay a dividend.

The Company's dividend policy is to retain any surplus for reinvestment in initiatives that are consistent with the purpose of Health Benefits Limited and likely to generate savings or efficiencies for DHBs or the wider Health Sector. The Directors reserve the right to amend the dividend policy at any time but would only do this with the agreement of Shareholding Ministers.

### ***Treaty of Waitangi***

HBL recognises the special relationship between Māori iwi and the Crown under the Treaty of Waitangi and is committed to the recognition of the Government's requirements in regard to the Treaty of Waitangi.

The Company will endeavour to apply the relationship-enhancing Treaty principles of participation, protection and partnership in all its engagements with Māori organisations and staff.

## 8. Forecast Statement of Service Performance

This section provides forecast statements of service performance for outputs produced within the Company's output classes during 2010/11. Performance against these measures is reported through HBL's Annual Report.

As this is its first year of operation, the Company will focus its efforts on building a baseline picture of its performance in many domains. Future SOIs will reference this baseline when setting performance targets.

<b>Output Class 1: Collective procurement initiatives</b>		
	<b>Performance Measure</b>	<b>Metric/Target</b>
<b>Quality</b>	<ul style="list-style-type: none"> <li>Feedback from service users on the quality of service delivered from procurement initiatives that have been implemented</li> </ul>	<ul style="list-style-type: none"> <li>A majority of users are satisfied with the services that are provided</li> </ul>
	<ul style="list-style-type: none"> <li>Services are provided to agreed standards</li> </ul>	<ul style="list-style-type: none"> <li>Services meet the standards defined in Service Level Agreements (SLAs) with providers</li> </ul>
<b>Quantity / timeliness</b>	<ul style="list-style-type: none"> <li>Gains in the current year from early opportunities from improved Treasury/cash management and Rehabilitation Equipment purchasing.</li> </ul>	<ul style="list-style-type: none"> <li>\$2.0 million</li> </ul>
	<ul style="list-style-type: none"> <li>Collective procurement initiatives are implemented</li> </ul>	<ul style="list-style-type: none"> <li>Two initiatives are underway by 30 June, 2011</li> </ul>
	<ul style="list-style-type: none"> <li>Initiatives are subject to a post-implementation performance review</li> </ul>	<ul style="list-style-type: none"> <li>Post-implementation performance reviews are completed for all new initiatives within 3 months of implementation</li> </ul>
	<ul style="list-style-type: none"> <li>Assistance plan to DHBs to meet their accountabilities to achieve savings from Target 30.</li> </ul>	<ul style="list-style-type: none"> <li>Delivery on the assistance plan, which will be agreed with DHBs early in 2010/11.</li> </ul>

<b>Output Class 2: Efficient and high-quality systems</b>		
	<b>Performance Measure</b>	<b>Metric/Target</b>
<b>Quality</b>	<ul style="list-style-type: none"> <li>• Delivery of successful roadmaps and business cases for transformation</li> </ul>	<ul style="list-style-type: none"> <li>• 100% of roadmaps and business cases prepared are endorsed by the sector and/or approved by shareholding Ministers (including through the Minister of Health's power to direct)</li> </ul>
<b>Quantity / timeliness</b>	<ul style="list-style-type: none"> <li>• Roadmaps for transformational change</li> </ul>	<ul style="list-style-type: none"> <li>• At least 2 roadmaps for key service areas are completed by 30 June, 2011</li> </ul>

<b>Output Class 3: Promulgation of best practice and provision of advice</b>		
	<b>Performance Measure</b>	<b>Metric/Target</b>
<b>Quality</b>	<ul style="list-style-type: none"> <li>• Establish and publish to stakeholders a baseline against which future performance can be measured</li> </ul>	<ul style="list-style-type: none"> <li>• Baseline of DHBs procurement, administration and support services completed by December 31, 2010</li> </ul>
	<ul style="list-style-type: none"> <li>• Feedback from DHBs and shareholding Ministers on the provision of leadership and advice to the sector</li> </ul>	<ul style="list-style-type: none"> <li>• A majority of users are satisfied with the leadership and advice produced</li> </ul>
	<ul style="list-style-type: none"> <li>• Gains in the current year from improved revenue collection from non residents</li> </ul>	<ul style="list-style-type: none"> <li>• \$1.5 million</li> </ul>
<b>Quantity / timeliness</b>	<ul style="list-style-type: none"> <li>• Initiative to improve revenue collection from non residents is implemented</li> </ul>	<ul style="list-style-type: none"> <li>• Initiative is underway by 30 June, 2011 and post implementation review completed within 3 months of implementation</li> </ul>
	<ul style="list-style-type: none"> <li>• Report on DHB savings</li> </ul>	<ul style="list-style-type: none"> <li>• Interim Report provided to DHBs and shareholding Ministers by June 30, 2011</li> </ul>

## 9. Financial Statements

Building a robust business model and securing a sustainable funding stream to finance both development and implementation of initiatives will be a priority for the Company in the early part of 2010/11. There will be a need for substantial investment if the transformational changes and significant savings envisaged by this plan are to be achieved. All parties are committed to finalising the business and funding model by 30 November 2010.

However, in order to enable HBL to commence operations and fully cover its costs, Cabinet have approved funding for the Company of up to \$6 million for 2010/11.

Note: Resolving the longer-term business and funding model in a timely manner is important in order to ensure the Company meets the audit and statutory criteria of a going concern.

### *Prospective Statement of Financial Performance*

<i>Element</i>	2010/11 PROJECTED \$m	2011/12 PROJECTED \$m	2012/13 PROJECTED \$m
Revenue funding	5.7		
<b>Total</b>	<b>5.7</b>	<b>#</b>	<b>#</b>
<b><i>Expenditure</i></b>			
Governance	0.4		
Sector engagement	0.3		
Management	1.2		
Executive support staff	0.1		
Admin, legal and travel	0.1		
Accommodation and technology	0.3		
Contractors	0.4		
<b>Total Organisational Expenditure</b>	<b>2.8</b>	<b>#</b>	<b>#</b>
<b>Building a roadmap for transformational change</b>	<b>1.5</b>		
<b>Driving enabling initiatives and delivering early benefits</b>			
Enabling initiatives	0.5		
Early opportunities	0.9		
<b>Enabling initiatives and early opportunities</b>	<b>1.4</b>	<b>#</b>	<b>#</b>
<b>Total Expenditure</b>	<b>5.7</b>	<b>#</b>	<b>#</b>
<b>Net Surplus</b>	<b>0.0</b>	<b>#</b>	<b>#</b>

Note: Due to the lack of certainty surrounding future funding and levels of activity after 2010/11, financial projections for any period after 2010/11 have not been prepared in this SOI. These will be presented in the Company's 2011/12 SOI when the business and funding model has been finalised and the activities for 2011/12 and out years can be predicted.

### *Prospective Statement of Financial Position*

<i>Element</i>	Opening 30 July 2010 \$m	As at 30 June 2011 \$m	As at 30 June 2012 \$m	As at 30 June 2013 \$m
Cash	-	0.1		
Amounts due from Ministry of Health	2.3	-		
Fixed assets	-	0.3		
<b>Total Assets</b>	<b>2.3</b>	<b>0.4</b>		
Accounts payable/ Liabilities	2.0 <sup>*</sup>	0.1		
<b>Net Assets</b>	<b>0.3</b>	<b>0.3</b>		
Share capital	0.3	0.3		
Reserves	-	-		
<b>Total Equity</b>	<b>0.3</b>	<b>0.3</b>		

\* Unearned revenue

### *Prospective Statement of Cash Flows*

<i>Element</i>	2010/11 PROJECTED \$m	2011/12 PROJECTED \$m	2012/13 PROJECTED \$m
<b>Cash provided from:</b>			
<b>Crown funding</b>	<b>6.0</b>		
<b>Cash applied to:</b>			
Cash applied to business operations	2.7		
Road map to transformational change	1.5		
Enabling initiatives	0.5		
Early opportunities	0.9		
Total project implementation	1.4		
<b>Total cash applied to operations</b>	<b>5.6</b>		
<b>Investment in fixed assets</b>	<b>0.3</b>		
<b>Total cash applied</b>	<b>5.9</b>		
<b>Net Cash Flow</b>	<b>0.1</b>		

Notes to prospective statement of financial position

### Revenue funding by Output Class

<i>Element</i>	<i>2010/11 PROJECTED \$m</i>	<i>2011/12 PROJECTED \$m</i>	<i>2012/13 PROJECTED \$m</i>
1. Collective procurement initiatives	1.9		
2. Efficient and high quality systems	2.0		
3. Promulgation of Best Practice and provision of advice	1.8		
	<b>5.7</b>		

### Cost by Output Class

<i>Element</i>	<i>2010/11 PROJECTED \$m</i>	<i>2011/12 PROJECTED \$m</i>	<i>2012/13 PROJECTED \$m</i>
1. Collective procurement initiatives			
Employment	0.4		
Overheads	0.3		
Direct costs of initiatives	1.2		
	<b>1.9</b>		
2. Efficient and high quality systems			
Employment	0.4		
Overheads	0.2		
Direct costs of initiatives	1.4		
	<b>2.0</b>		
3. Promulgation of best practise and provision of advice			
Employment	0.9		
Overheads	0.6		
Direct costs of initiatives	0.3		
	<b>1.8</b>		
<b>Total Costs</b>	<b>5.7</b>		

## 10. Abridged Statement of Accounting Policies

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The financial statements are prepared in accordance with the Companies Act 1993, the Financial Reporting Act 1993 and Public Finance Act 1989.

The financial statements are prepared in compliance with the requirements of the Statements of Standard Accounting Practice and Financial Reporting Standards issued by the Institute of Chartered Accountants of New Zealand.

### Measurement system

The measurement system adopted is that of historical cost.

### Particular accounting policies

The following is a summary of the significant accounting policies adopted by the Company in the preparation of the financial statements.

### Property, Plant and Equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets, and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service. Depreciation is calculated using the straight line method and the following estimated useful lives:

	Estimated Life
Furniture and Fittings	10 years
Office Equipment	5 years
IT Hardware	3 years
IT Software	3 years

### Valuation of inventories

Inventories are valued at the lower of cost and net realisable value. Cost has been assigned to inventory items on hand at balance date using the first-in first-out basis.

### Accounts Receivable

Accounts receivable are carried at estimated realisable value after providing against debts where collection is doubtful.

### Investments

Investments are stated at cost.

### Goods and services tax

Financial information in these accounts is recorded exclusive of GST with the exception of receivables and payables, which include GST. GST payable or receivable at balance date is included in the appropriate category in the Statement of Financial Position.

### Revenue

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Interest income is accounted for as earned.

## **Leases**

Leases in which all the risks and rewards of ownership are retained by the lessee are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the finance balance outstanding.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.