

Health Benefits Limited Statement of Intent

2011/12 – 2013/14

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1 Introduction

This Statement of Intent (SOI) 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 1 July 2011 to 30 June 2012 and, in general terms for the subsequent two years.

1.1 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. 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

June 2011

Lester Levy

Deputy Chair

2 Purpose of Health Benefits Limited

2.1 Purpose

Health Benefits Limited has been set up to help District Health Boards (DHBs) save money by reducing administrative, support and procurement costs for DHBs.

HBL is mandated to operate in a commercial manner and will identify for the sector the best way of delivering shared administrative and support services. HBL will also facilitate and lead initiatives to make savings and efficiencies, and manage the related implementation programme.

The benefits arising from these initiatives will include:

- Cost reductions;
- Cost avoidance;
- Operational efficiencies achieved in administrative and support services or non-administrative areas; and
- Sharing of good practice in administrative and support services.

2.2 Nature of Activities and Scope

The nature of HBL's activities is to facilitate and lead initiatives that save money by reducing administrative, support and procurement costs for DHBs.

The Company is already delivering savings, primarily from procurement projects. It is also developing plans to deliver savings across the DHBs' finance, procurement and supply chain functions; human resources processes and systems, information services, and management of services and facilities.

3 About Health Benefits Limited

3.1 Background and Achievements to Date

HBL was established in July 2010 with a new constitution and Board of Directors. Shares in the Company are held equally by the Minister of Health and Minister of Finance.

HBL established its headquarters in Auckland and has a small Wellington presence.

For its first year of operations, a primary measure of savings related to \$30 million in savings which DHBs identified from “Target 30” programmes. These are collective procurement programmes. DHBs have estimated the overall benefits from these programmes are likely to achieve \$49 million for the full financial year.

HBL has worked on establishing the robust baseline of DHB cost and service levels against which it will be able to measure success and which will assist with identifying future cost savings opportunities. This is a fundamental requirement of HBL’s on-going success and therefore has been a focus of the company’s attention.

We acknowledge the assistance of DHBs in compiling data for this baseline. We have undertaken that this information will be kept confidential. Held securely and will be used strictly for the purpose of HBL’s mandated work.

The baseline work will inform the business case and execution work that is scheduled for 2011/12 and beyond, and our early opportunity work is already utilising learning’s from this work. A baseline and benchmarking report will be published for the beginning of the 2011/12 financial year. This will be shared with shareholding ministers and other stakeholders by June 30, 2011.

During its initial year of operation HBL identified and initiated additional procurement saving opportunities where savings will accrue in the 2010/11 and 2011/12 financial years.

One of the initiatives has been in the area of shared banking and treasury functions. An RFP was issued in December 2010 and a preferred supplier selected in May. This proposal will lead to the realisation of savings of several million dollars per year.

HBL has also worked closely with DHBs to identify ways of improving revenue collection from patients ineligible for free healthcare, by reviewing practices to build a best practice guide. The project will also evaluate ways of speeding up the information flow between Immigration New Zealand and DHBs to increase the chance of revenue collection, working with the Ministry of Health, and National Health IT Board. The guide was presented at Ministry of Health workshops in May.

HBL has also completed some of the options analysis work for its work programme. For example, in the area of Finance, Procurement and Supply Chain it has developed the options analysis for systems implementation, processes, and transition to a new shared services environment.

This has included recommendation of a single system to support finance, procurement and supply chain shared services and a number of process initiatives to reduce the transition time required.

Besides these early opportunities, HBL has also been working closely with DHBs and the Ministry of Economic Development to realise savings from “All of Government” programmes.

So far there are four programmes being implemented: office consumables, passenger vehicles, laptop/desktop computers and single/multi-function print devices. HBL is working with DHBs to ensure they take full advantage of these programmes.

HBL has been very active in building relationships with key stakeholders, including the Ministry of Health, DHBs (Chairs, Chief Executive Officers (CEO's), Chief Financial Officers (CFO's), Chief Information Officers (CIO's), and Procurement & Supply Chain leaders), suppliers and vendors, other new health agencies, the Ministry of Economic Development and health/union groups. Engagement has been through workshops, meetings and newsletters, and empirical feedback from DHBs has been positive, particularly around the transparency and openness of communications.

During its first year HBL also initiated productive discussions with PHARMAC about enacting the Minister of Health's announcement that PHARMAC would become responsible for managing the prioritisation, assessment, standardisation and procurement of all medical devices being used in New Zealand. PHARMAC is working closely with HBL in developing a catalogue of these devices which will contribute to HBL initiatives in procurement.

HBL also worked closely with the four northern DHBs in the development of shared services for the northern region, under the healthAlliance banner. HBL has supported this initiative because it sees this development as an opportunity to more rapidly achieve savings within the northern region and provide learnings for application in other regions.

Alignment of HBL's Business Plan with DHB plans is vital and HBL has communicated this plan in draft form to DHBs, so they can use it to inform their planning processes. HBL has also engaged with DHBs to outline its six workstreams comprising Finance, Supply Chain, Information Services, Human Resources, Facilities/Service Management and Collective Procurement. This has included working with DHBs to build the baseline and benchmarking data.

3.2 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 an accountability framework that includes reporting against a Statement of Intent, Statement of Service Performance and an Annual Report.

The size and scale of HBL 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. HBL may need to evolve to a different model in order to achieve more efficient or lower cost administrative support services.

3.3 Role in the Health Sector

The role of HBL is to challenge existing practice, setting the stage for change and providing the initial leadership to deliver value.

Consequently, HBL has a role in:

- Working with DHB and health sector leaders to set the strategic direction for administration and support services and any associated impact on asset management and non-clinical workforce planning; and
- Optimising the efficiency and effectiveness of transactions and the delivery of these services.

In the longer term, HBL should be able to add further value by using transactional data to assist DHBs with improved information for decision making.

3.4 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 sector. 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 sector 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, workforce planning, and enhanced support to resource allocation and risk mitigation decisions.

HBL will lead initiatives designed to generate significant savings and efficiencies within the first five years of operations. These savings efficiencies will assist the Government and DHBs in efforts to counter growing cost pressures and ensure New Zealand has a sustainable health system.

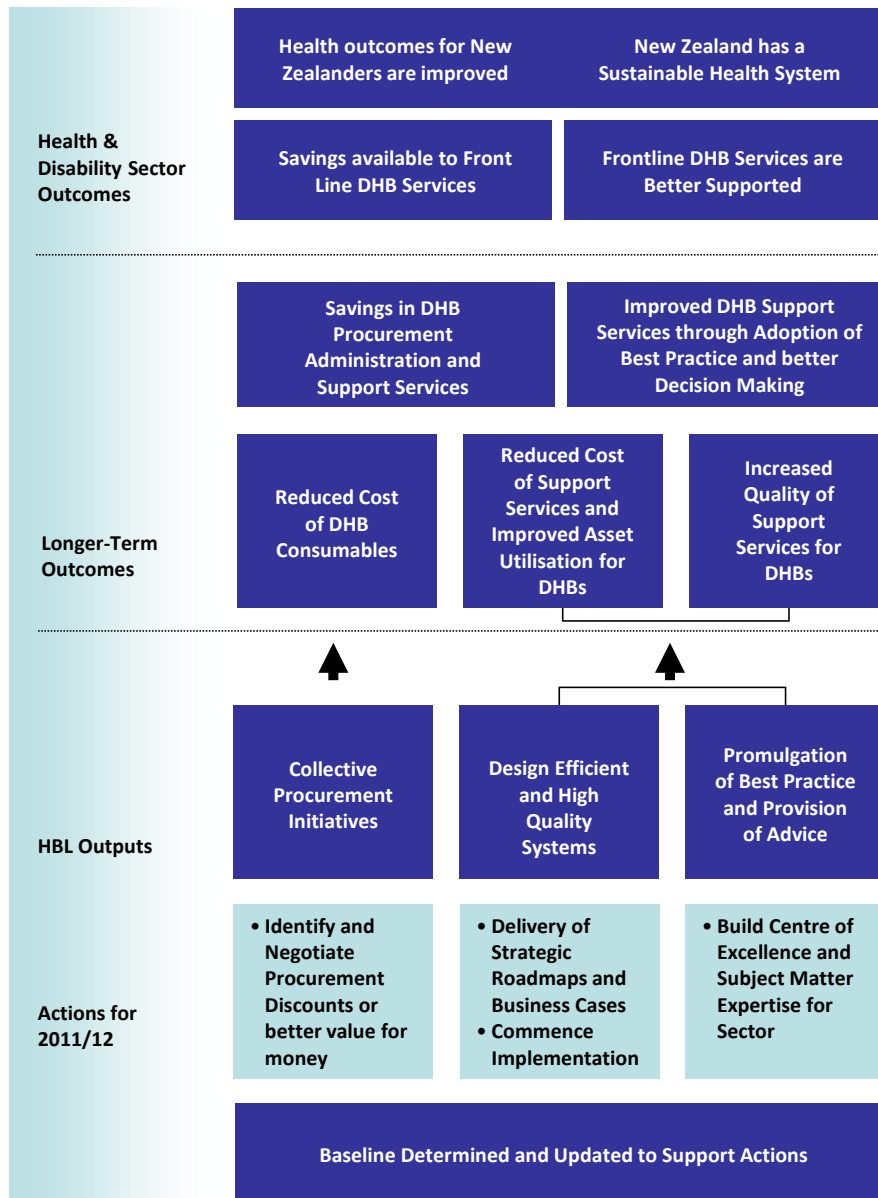
Health and Disability Sector Outcomes

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 leading initiatives that deliver savings and best practice advice. Decisions on 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 sector.

3.5 Figure 1: HBL Outcomes Framework



3.6 Work Plan for 2011/12 – 2013/14

HBL will be working with the health sector and others to achieve \$40 million of benefits in 2011/12. HBL's work plan for 2011/12 and beyond comprises six key programmes of work:

- Finance;
- Supply Chain and Procurement;
- Information Services;
- Human Resources;
- Facilities and Service Management; and
- Collective Procurement.

Supply Chain and Procurement

This programme focuses on the creation of shared services in collective procurement and supply chain, and will cover the implementation of a consistent product catalogue across the DHBs, development of national processes based on best practice, a national contract catalogue, and creation of a centre of excellence for procurement and supply chain management.

Finance

The Finance programme focuses on creation of shared services in select areas of Finance, and the simplification of Financial Management Information Systems (FMIS) used nationally. It will include the selection and roll-out of one or two preferred FMIS with supporting national processes and a common chart of accounts. This work will leverage capabilities and learnings from shared service organisations in the sector to optimise progress towards the desired end-state. Finance processes in scope include accounts receivable, accounts payable, financial accounting, management accounting, treasury and taxation. The Finance programme will likely include workstreams, where there are transactional efficiencies, or where a centre of excellence would improve delivery.

Information Services

HBL's scope within Information Services encompasses all non-clinical technology, and infrastructure for the sector, as well as applications and business intelligence for the business support functions within DHBs. To develop its work programme for 2011/12, HBL will be partnering closely with the National Health IT Board (NHITB). The NHITB is responsible for overall information services governance in the sector and for all clinical applications and related business intelligence. IT/IS procurement falls within this programme of work.

Human Resources

The Human Resources (HR) workstream focuses on the processes and systems supporting effective management, recruitment and tracking of employees and contractors. This includes demand forecasting, payroll, rostering, recruitment, human resource and occupational safety and health (OSH) information systems and processes.

Service Management

The Service Management programme focuses on cost reduction through promulgation of best practice and delivery and management of key services. This is expected to cover food preparation and kitchens as well as linen and laundry delivery.

Facilities Management

The Facilities Management programme will cover property management, planning and design, including rental optimisation and car parking.

Collective Procurement

The Collective Procurement workstream focuses on leveraging national buying power to reduce costs of goods and services procured by DHBs. This work commenced in 2010/11 and will be on-going in 2011/12 and beyond.

A key focus for 2011/12 is ensuring that All of Government contracts and national contracts have consistent uptake and support across the DHBs. Experience from overseas demonstrates that savings from collective procurement continue to be demonstrated at second and third rounds of negotiation within categories.

Given the significant savings targets for 2011/12 there will be a focus on collective procurement for all types of goods and services used by DHBs. There will be emphasis on categories of goods and services or suppliers that are most likely to quickly deliver the savings needed.

4 Stakeholder Engagement

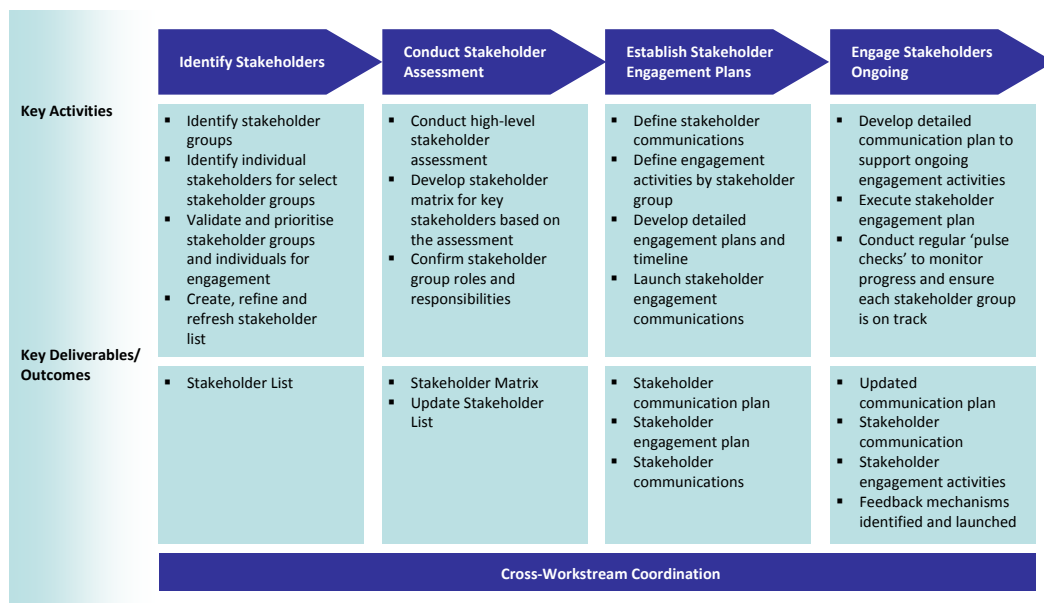
4.1 Introduction

It is clear that HBL’s stakeholders, particularly DHBs, need to be fully aware of HBL and its purpose if they are to support the successful adoption of its programmes and initiatives. If stakeholders do not know what to expect and when, why it is important, and what is in it for them, then implementation of HBL’s business plan is likely to be slowed. Therefore the company places significant emphasis on communicating its work and engaging stakeholders in its programmes.

HBL’s approach is to understand and involve stakeholders and their concerns in the company’s plans, decision-making processes and activities. Experience shows this will smooth implementation.

4.2 Engagement Framework

The engagement approach is targeted so that the specific needs of stakeholders are met. Each programme of HBL’s work will require a communications and engagement approach working through that is illustrated as follows:



HBL undertakes regular and consistent communications with key stakeholders through a variety of media, including workshops, emails, face-to-face meetings, newsletters and website exchanges.

4.3 DHBs

DHBs have a multiplicity of roles, accountabilities and responsibilities that make them a key stakeholder for HBL. The Company also understands the important role of clinicians in ensuring the design of shared services recognises clinical requirements. HBL's decision making framework recognises the long term and annual planning cycles of the health sector and particularly DHBs. In this regard, the Company's annual and long-term planning both informs, and is informed by, planning of relevant health sector agencies and DHBs. Currently clinical advice is sought on a specific project basis.

4.4 Ministers

The ownership interests of Ministers are represented on the Board through appointed Directors. Ministers receive advice as appropriate through their agents. They also set direction through an annual letter of expectation and their input into accountability documents such as the Statement of Intent.

4.5 Government Stakeholders

Other key stakeholders include health agencies, including the Ministry of Health and its National Health Board Business Unit; and central agencies, namely Treasury and the Crown Ownership Monitoring Unit. These stakeholders have an interest in the performance of HBL and may have a formal role monitoring HBL or providing oversight and ownership advice to the Government.

4.6 Suppliers

Suppliers are critical to the success of shared services initiatives. HBL engages with suppliers early on in the development of specific initiatives through a range of informal and formal mechanisms, such as vendor briefings, and Expression of Interest (EOI) and Request for Information (RFI) processes.

4.7 The Wider Health Sector

While HBL's role is primarily concerned with DHBs, opportunities to extend services and involve other providers e.g., Primary Health Organisations and Non-Government Organisations in individual initiatives will be kept under review where this is aligned with HBL objectives and purpose.

4.8 Relationship Management as a Core Operational Activity

As part of its core operational activities the following tasks are to be undertaken in terms of relationship management:

- Managing relationships and agreeing accountabilities with health sector entities regarding design and delivery of strategic and operational services; and
- Managing relationships with and between DHBs through a range of mechanisms, such as commercial contracts for specific services, with specific references to accountabilities; service standards; funding commitments and measurement criteria.

5 Measures of Success

5.1 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.

HBL has the following longer term outcomes (or business objectives) over the next 3-5 years:

- Significant savings and efficiencies for the sector that flow from initiatives developed and implemented by HBL; and
- More effective provision of administration and support services.

By 30 June 2011 HBL will publish a baseline of administrative and support costs and this will be the foundation for a robust system and methodology for measuring progress against these objectives, both at a sector level and for HBL led initiatives. As business cases are developed and approved, HBL will also develop quantified savings targets which will be used as medium-term performance measures.

HBL has been tasked with contributing to a \$700 million savings expectation over a five year period after establishment. That will be the main measure of HBL's success. That level of savings is cumulative and the benefits are being planned to be delivered based on the following illustrative table:

Accumulating the Benefits over 5 years:

	2010/11	2011/12	2012/13	2013/14	2014/15
	\$m	\$m	\$m	\$m	\$m
Year 1 Initiatives	40	20	20	20	20
Year 2 Initiatives		40	50	60	60
Year 3 Initiatives			50	60	60
Year 4 Initiatives				70	70
Year 5 Initiatives					60
Initiative Totals	40	60	120	210	270
	Overall Total				700

The purpose of this table is to indicate how the target of \$700m will be achieved. It assumes that once savings and efficiencies are achieved they are maintained over the five year period, where they are not one-off in nature.

5.2 Medium Term Performance Measures

During 2011/12 HBL will also need to develop initiatives and business cases that when implemented will deliver the required benefits in 2012/13 and beyond. The medium term (2011/12-2013/14) measures will include delivering on the financial benefits as detailed in the above table. By November 2011 HBL will be able to share with DHBs those business cases that will be finalised

in the early part of 2011/12, along with the estimated benefits they will deliver in 2012/13 and beyond.

The key dimension HBL will consider in designing programmes/projects is to reduce the total the total cost of supplying business services to DHBs. At the same time HBL will ensure its actions have the impact of maintaining business value to the clinical side of the business, maintain customer service levels and maintaining controls to reduce risks for DHBs. The medium-term focus is on cost reduction overall, although programmes will be able to add insights and value over time.

5.3 Near Term Performance Measures

More detailed performance indicators for the 2011/12 year are contained in Section 8: Forecast Statement of Service Performance. HBL plans to deliver \$40 million of benefits in 2011/12 through savings and efficiency initiatives. The work programmes that will deliver these benefits are described in section 3.6.

5.4 Output Class Descriptions

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

- Output Class 1: Collective Procurement;
- Output Class 2: Design of Efficient and Quality Business Systems; and
- Output Class 3: Promulgation of best practice and provision of advice

Output Class 1: Collective Procurement

There are substantial savings opportunities for DHBs from a national approach to procurement. In recognition of this, DHBs are delivering on-going savings in 2010/11. Collective Procurement activities are expected to deliver a significant portion of the \$40 million of savings planned for 2011/12.

This output involves identifying procurement opportunities and developing business cases for; 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.

Collective Procurement activity may include procurement of services currently provided internally by DHBs.

This output will be provided with \$3.33m of funding during 2011/12.

Output Class 2: Design 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. By the end of 2010/11 HBL will have developed 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 years as priorities are discussed and agreed with the sector.

This output will be provided with \$2.42m of funding during 2011/12.

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.

HBL recognises the importance of utilising robust change management methodologies to achieve the transformational changes envisaged in this Statement of Intent. HBL will provide advice to DHBs regarding good change management practice as appropriate and in relation to particular project implementations.

This output will be provided with \$0.3m of funding during 2011/12.

6 Governance and Accountability

6.1 Corporate

As a Crown company HBL is accountable to its shareholding Ministers, 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.

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 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.

6.2 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. Currently 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.

There is currently a proposal for HBL to acquire an interest in healthAlliance NZ Limited. Shareholder approval will be required for HBL to acquire shares. Any accounting impact resulting from HBL acquiring shares will be disclosed in the financial statements of HBL.

Significant Operational Expenditure during 2011/12

A core function of HBL 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 2011/12 year.

6.3 Major Transactions

The company will from time to time enter into transactions or commitments which constitute, or might constitute a "major transaction" for the purposes of section 129 of the Companies Act 1993. It is not practical or desirable for the Shareholding Ministers to pass a special resolution each time the Company proposes to enter into a transaction which is, or might be, a major

transaction. For the 2010/11 year the Shareholding Ministers approved a resolution that authorised, for the purposes of the Companies Act, the Company’s entry from time to time any transactions or commitments which constitute, or might constitute, a major transaction, provided certain specified criteria were met.

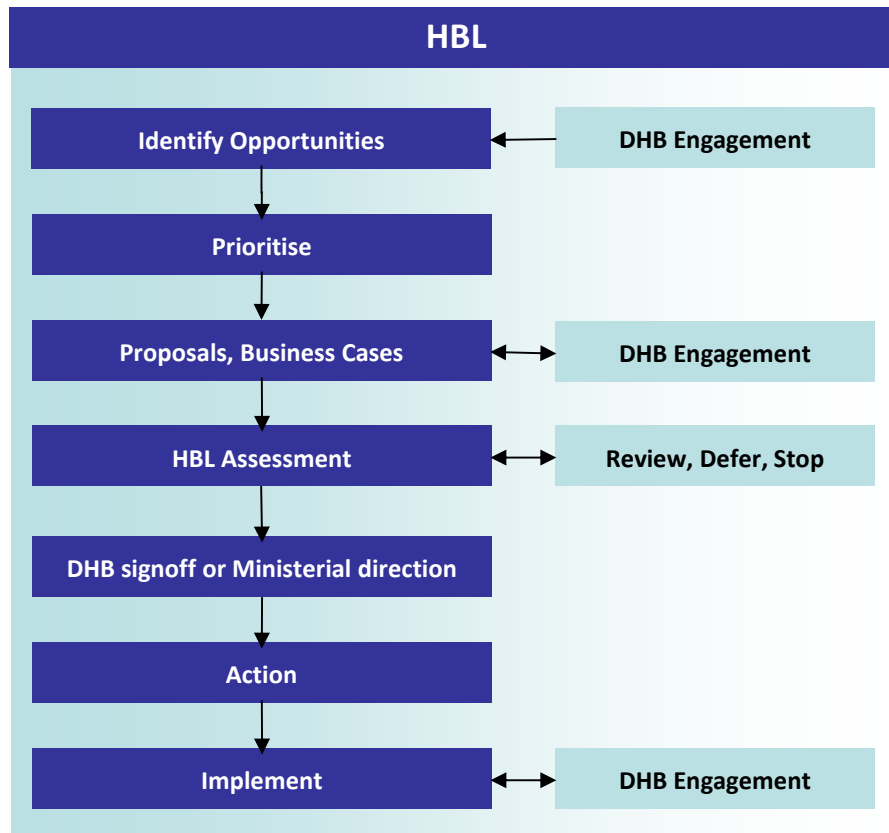
HBL will request a similar resolution for 2011/12 be approved by shareholders.

6.4 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 identify the needs and interests of individual DHBs during the process of developing initiatives and projects. HBL will make recommendation to DHBs on various initiatives.

A unanimous 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.



6.5 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 Statement of Intent will be presented to Shareholding Ministers on or before 31 May, each year.

Annual Report

An Annual Report and audited set of financial statements will be prepared according to the processes required by 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 Reporting

HBL will report to the Board each month on its performance compared with its Business Plan and Statement of Intent.

Quarterly Reporting

HBL will prepare a quarterly report for agencies representing HBL's shareholding Ministers, being the Crown Ownership Monitoring Unit ("COMU") and the Ministry of Health. This will record progress against the key goals and objectives outlined in HBL's Statement of Intent and business plans.

Information for Ministers

HBL operates on a "no surprises" basis and keeps key stakeholders well informed.

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

- Respond to Parliamentary questions;
- Process routine Ministerial correspondence; and
- Process Select Committee inquiries.

A report of progress against the Statement of Intent and Business Plan will be provided to Shareholding Ministers on a quarterly basis.

7 Organisation

7.1 Capability

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

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

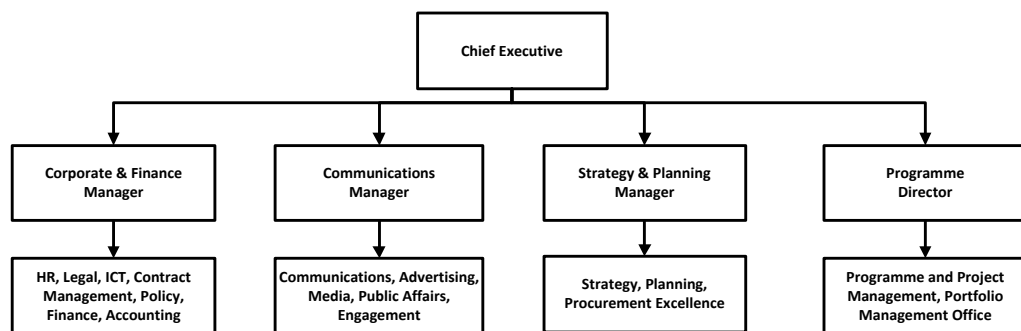
HBL will need operational capability and resource in the following areas:

- **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 assess size of opportunities and priorities; drive process improvements; achieve early efficiencies and to determine the best sourcing options; and
- **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.

7.2 Structure

The HBL Board of Directors appoints the Chief Executive of the Company, who is responsible for leading the day-to-day operations of the company, supported by a senior management team.

The high level organisation of HBL comprises:



7.3 Good Employer

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

- Enhance the abilities of individual employees;
- Recognise the aims, aspirations and employment requirements of women, and the cultural differences of ethnic or minority groups; and
- Recognise the employment requirements of people with disabilities.

The Company has 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.

8 Business and Statutory Policies

8.1 Operating Responsibilities

The Company:

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

8.2 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 2003; and
- 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.

8.3 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 have been developed concerning the manner in which HBL conducts its operational processes.

8.4 Dividend Policy

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.

8.5 Treaty of Waitangi

HBL recognises the special relationship between Maori 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 Maori organisations and staff.

HBL has adopted the Maori name *Te Ara Maia* as an interpretation of its purpose. This name translates as *the pathway to efficiency*.

9 Forecast Statement of Service Performance

This section provides forecast statements of service performance for the Company's output classes for 2011/12. Performance against these measures is reported through Health Benefits Limited's Annual Report.

The Company continues to build a baseline picture of its performance in many domains. Future Statement of Intent's will reference this baseline when setting performance targets.

9.1 Output Class 1: Collective Procurement Initiatives

	Performance Measure	Metric/Target
Quality	Delivery of Business Case for future initiatives	Business Case complete and supported to commence execution of Finance Procurement and Supply Chain Programme by 30 September 2011
	Common Service standards are developed to support the procurement process	All Collective Procurement initiatives include service specifications describing the standard of service required by DHBs/HBL
	Develop common catalogue for DHBs of preferred items and suppliers is published	Publish catalogue by end December 2011 and increase number of items included over the year
	Use of a common catalogue	DHB catalogue spend increases month on month from January 2012
Quantity/ Timeliness	Collective procurement initiatives are implemented	At least 10 Initiatives are implemented during 2011/12 that deliver savings benefits of \$28.5 million specified in the HBL Business Plan
	Initiatives are subject to a post implementation performance review	Post implementation performance reviews are completed for all significant new initiatives within 3 months of implementation

9.2 Output Class 2: Design Efficient and High Quality Systems

	Performance Measure	Metric/Target
Quality	Delivery of business cases for transformation	Three key business cases prepared are endorsed by the sector and/or approved by shareholding Ministers (including through the Minister of Health's power to direct)
Quantity/ Timeliness		
	Initiatives are implemented	<ul style="list-style-type: none"> ▪ Initiatives are implemented during 2011/12 that deliver savings benefits of \$11.5 million specified in the HBL Business Plan
	Business cases are completed for delivering efficiency benefits	<ul style="list-style-type: none"> ▪ Business Case complete and supported to commence execution of key projects for Information Services Programme by 30 Dec 2011 ▪ Business Case complete and supported to commence execution of key projects for Facilities and Services Programme by 30 Dec 2011 ▪ Business Case complete and supported to commence execution of key projects for Human Resources Programme by 30 June 2012
	Approved projects are delivered effectively and on time	<ul style="list-style-type: none"> ▪ Projects meet project completion dates, adjusted for approved variations

9.3 Output Class 3: Promulgation of Best Practice and Provision of Advice

	Performance Measure	Metric/Target
Quality	Report on progress in achieving savings and efficiencies compared to baseline to highlight further opportunities for DHBs	Monthly reporting against baseline and benchmarking report on procurement, administration and support costs.
	Best practice processes	Common contracting templates issued with guidance for use by 30 June 2012
Quantity/ Timeliness	Report on DHB savings and benefits to be captured in a timely and accurate manner	<ul style="list-style-type: none"> ▪ Plan for measuring benefits included in every business case prepared ▪ Report to DHBs on a monthly basis within a month of month end

10 Financial Statements

10.1 Prospective Statement of Financial Performance

	2010/11 Forecasted \$m	2011/12 Budgeted \$m	2012/13 Projected \$m	2013/14 Projected \$m
Operational Funding				
Revenue Funding	5.70	5.00	4.00	3.00
Other	0.05	1.05	2.15	3.25
Total Operational Funding	5.75	6.05	6.15	6.25
Operational Expenditure				
Organisation Expenditure				
Employee Costs	0.95	2.02	2.10	2.18
Outsourced Services	1.17	0.21	0.20	0.21
Supplies	1.28	1.31	1.29	1.40
Initiative Initiation Expenditure				
Employee Costs	0.30	1.91	1.98	2.06
Outsourced Services	0.52	0.26	0.24	0.24
Supplies	1.53	0.35	0.34	0.16
Total Operational Expenditure	5.74	6.05	6.15	6.25
Net Surplus	0.10	0.00	0.00	0.00

Funding	2011/12 Total (\$m)
Centrally Assured – organised by Ministry of Health	5.0
DHBs – Negotiated by HBL	1.0
	6.0

Note HBL's work programme may require additional project funding in the future, but the timing, nature and extent of such funding is currently not able to be determined with any degree of precision. Hence HBL's prospective statement of financial performance currently includes funding for organisational and initiative initiation expenditure only.

As Business cases are approved additional revenue and capital or operational expenditure may be received/incurred and will be treated as approved variations from budget.

10.2 Prospective Statement of Financial Position

Element	As at 1 July 2010	Forecast As at 30 June 2011	2011/12 Budgeted	2012/13 Projected	2013/14 Projected
	\$m	\$m	\$m	\$m	\$m
Cash	-	0.15	0.92	0.92	0.92
Receivables	-	0.47	0.00	0.00	0.00
Fixed Assets	-	0.17	0.11	0.11	0.11
Total Assets	-	0.79	1.03	1.03	1.03
Accounts Payable/Unearned Income	-	0.49	0.73	0.73	0.73
Net Assets	-	0.30	0.30	0.30	0.30
Shared Capital	-	0.30	0.30	0.30	0.30
Reserves	-	0.00	-	-	-
Total Equity	0.00	0.30	0.30	0.30	0.30

10.3 Prospective Statement of Cash Flows

	2010/11 Forecasted	2011/12 Budgeted	2012/13 Projected	2013/14 Projected
	\$m	\$m	\$m	\$m
Cash Provided From				
Revenue Funding	5.70	5.00	4.00	3.00
Other	0.05	1.05	2.15	3.25
Equity	0.30			
Total Cash Provided From	6.05	6.05	6.15	6.25
Cash Applied to Business Operations				
Movement in Receivables	0.47	-0.47	0.00	0.00
Movement in Payables	-0.29	-0.24	0.00	0.00
Employee Costs	0.95	2.02	2.10	2.18
Outsourced Services	1.17	0.20	0.20	0.21
Infrastructure and Non-Clinical Supplies	1.09	1.25	1.23	1.34
Total Cash Applied to Business Operations	3.39	2.76	3.53	3.73
Initiative Initiation Expenditure				
Employee Costs	0.30	1.91	1.98	2.06
Outsourced Services	0.52	0.26	0.24	0.24
Infrastructure and Non-Clinical Supplies	1.53	0.35	0.34	0.16
Total Cash Applied to Initiative Initiation	2.35	2.51	2.56	2.46
Total Cash Applied to Operations	5.74	5.28	6.09	6.19
Investment in Fixed Assets	0.17	0.00	0.06	0.06
Net Cash Flow	0.14	0.77	0.00	0.00

10.4 Revenue Funding by Output Class

	2010/11 Forecasted \$m	2011/12 Budgeted \$m	2012/13 Projected \$m	2013/14 Projected \$m
Operational Funding Output by Output Class				
1 Collective Procurement Initiatives	1.15	3.33	3.38	3.44
2 Efficient High Quality Systems	4.21	2.42	2.46	2.50
3 Promulgation of Best Practice and Provision of Advice	0.38	0.30	0.31	0.31
Total Forecasted Operational Expenditure	5.74	6.05	6.15	6.25

10.5 Cost by Output Class

	2010/11 Forecasted \$m	2011/12 Budgeted \$m	2012/13 Projected \$m	2013/14 Projected \$m
Initiative Costs by Output Class				
1 Collective Procurement Initiatives				
Employee Costs	0.25	2.16	2.25	2.33
Outsourced Services	0.34	0.26	0.24	0.25
Infrastructure and Non-Clinical Supplies	0.56	0.91	0.89	0.86
Total Collective Procurement Initiatives	1.15	3.33	3.38	3.44
2 Efficient High-Quality Systems				
Employee Costs	0.91	1.57	1.63	1.70
Outsourced Services	1.24	0.18	0.18	0.18
Infrastructure and Non-Clinical Supplies	2.06	0.66	0.65	0.62
Total Efficient High-Quality Systems	4.21	2.42	2.46	2.50
3 Promulgation of Best Practice and Provision of Advice				
Employee Costs	0.08	0.20	0.20	0.21
Outsourced Services	0.11	0.02	0.02	0.02
Infrastructure and Non-Clinical Supplies	0.19	0.08	0.08	0.08
Total Promulgation of Best Practice and Provision of Advice	0.38	0.30	0.31	0.31
Total Costs	5.74	6.05	6.15	6.25

11 Abridged Statement of Accounting Policies

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 New Zealand Institute of Chartered Accountants.

11.1 Measurement System

The measurement system adopted is that of historical cost.

11.2 Particular Accounting Policies

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

11.3 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:

Property, Plant and Equipment	Estimated Life
Furniture and Fittings	10 Years
Office Equipment	5 Years
IT Hardware	3 Years
IT Software	3 Years

11.4 Accounts Receivable

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

11.5 Investments

Investments are stated at cost.

11.6 Goods and Services Tax (GST)

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.

11.7 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.

11.8 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.