Tā te Hinengaro Tōkeke Whakatau
FairWay Resolution Limited

Statement of Performance Expectations
1 July 2014 – 30 June 2015

FairWay
Lead·Resolve·Agree

Fairway Resolution Limited (FairWay) is a Crown-owned company and is subject to the Crown Entities Act 2004. This Statement of Performance Expectations (SPE) is prepared in accordance with section 149 of the Crown Entities Act 2004. FairWay is incorporated under the Companies Act 1993. FairWay is a specialist conflict management company providing services and systems to help people and organisations manage, resolve, learn from, and prevent conflicts.

The purpose of the SPE is to: enable the responsible Minister to participate in the process of setting annual performance expectations; enable the House of Representatives to be informed of those expectations; and provide a base against which actual performance can be assessed.

This SPE outlines for Parliament, Ministers and interested stakeholders FairWay's operating objectives and outcomes for the next financial year commencing 1 July 2014.

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# Board foreword

In preparing this SPE, we have been cognisant of the challenges ahead for our organisation as we adopt a new business model and diversification strategy. A well-managed transition towards a commercially robust company is still a critical goal for FairWay and consistent with the outcomes that the Government wants us to achieve.

In November 2013, the company changed its name to FairWay Resolution Limited and launched its fresh new brand to reposition the company as a professional services firm. This is a strong signal to the market that FairWay is stepping up its approach to delivering conflict management advice and services that help people move on with their lives.

FairWay has worked closely with the Accident Compensation Corporation (ACC) to initiate early resolution services (facilitation and conciliation) with its customers. The impact of this initiative has been a significant reduction in the number of applications for reviews over the past 18 months than in previous periods.

While this has affected our revenue we have begun to see the efforts of our focus on diversifying and growing our business. Our appointment by the Ministry of Justice as a nationwide supplier of Family Dispute Resolution (FDR) services is a good example of this success.

To deliver the Family Dispute Resolution service to New Zealand families, we have worked closely with the Ministry of Justice to design and build effective and customer-focussed information technology systems and business processes for effective dispute resolution. This has included investment in flexible infrastructure that we can leverage to quickly build new services for clients in the future.

Conflict has a negative influence on productivity and relationships in New Zealand. Whether the conflict is between organisations and their customers, between colleagues, or within families, the direct and indirect cost of conflict is high. Our priorities reflect our determination to make a difference to the experiences of New Zealanders and improve their trust in the sectors and organisations we work with.

We are fortunate to have a professional, expert and committed workforce, led by a talented CEO and senior leadership team. We strive continually to position the company for the future by building our capability and focussing our culture towards excellent client service.

The Board of Directors (the Board) of FairWay is accountable to the Shareholding Ministers (the Minister of Finance and the Minister for ACC) as set out in the Crown Entities Act 2004. The SPE fulfils our statutory requirements under the Crown Entities Act 2004. This SPE sets out the short-term picture of the results FairWay is pursuing, how we intend to achieve and measure our progress towards those results.

Peter Blades
Chairman

Anita Chan
Director

# Background

FairWay Resolution Limited is an independent, Crown-owned company providing specialist complaint management and dispute resolution services. FairWay employs 90 staff and contracts with over 190 specialist reviewers and mediators throughout the country so that we can offer our clients a nationwide service.

FairWay handles over 10,000 disputes each year — of all kinds and all levels of complexity, including medical, insurance, financial services, telecommunications and real estate. Our dispute resolution experience underpins our conflict management expertise in all part of the conflict management cycle — prevention, management, resolution and analysis of conflict.

FairWay offers a comprehensive range of conflict management services. Our key client remains the Accident Compensation Corporation, and we are focussed on delivering early resolution services to assist ACC and its customers in reaching agreement well before the formal review process is required. We continue to invest in our review capability to ensure we provide an independent and fair process for all ACC customers.

In the past few years our commercial success has required a diversification of both our client base and revenue. Therefore, we have added services to a range of industry sectors, including the telecommunication dispute resolution service (TDR), financial service sector dispute resolution service (FDRS), real estate sector and most recently the Family Court.

Furthermore, FairWay sees opportunity to expand the range of services we provide to new sectors and markets. In particular, we are focussed on developing relationships with key partners and clients in the private and commercial sectors. The value that FairWay can add to these sectors is in reducing the cost of doing business by helping our clients to better understand conflicts, help them build capacity to manage and prevent them, and where necessary, assist in resolving them in an independent and fair manner.

FairWay's business planning will become more robust, based on increasing understanding of client requirements, and improved business management, allowing us to more accurately forecast and deliver better results to all stakeholders.

# Ministers' priorities

FairWay will focus on the priorities set out in the Ministers' 2014 annual Letter of Expectations, namely:

1. Contributing to government priorities
2. Delivering profitable and efficient dispute resolution services
3. Delivering better services and better value
4. Broadening the customer base.

These priorities are explained further below with information on how they will be measured by FairWay in the year ahead.

## 1 Outcome: Contributing to government priorities

The Government's four priorities are: building a more productive and competitive economy, managing the Government's finances, delivering better public services within tight financial constraints, and rebuilding Christchurch.

A further consideration for FairWay is how it can contribute to the Government's Business Growth Agenda to support New Zealand businesses to grow in order to create jobs and improve New Zealanders' standard of living, by encouraging businesses to be more productive and competitive.

| Performance measures | Performance target |
| --- | --- |
| Managing the government's finances | To develop a sound dividend policy with a target that the policy be completed by 30 November 2014. |
| Rebuilding Christchurch | FairWay will develop services to support the construction sector in dispute resolution, early resolution and conflict coaching to help the sector operate effectively by 31 December 2014. |

# 2 Outcome: Delivering profitable and efficient dispute resolution services

The focus for FairWay in 2014 will be on continued financial growth as it transitions towards a "professional services" business model.

It will look to achieve this in a number of new and innovative ways but underlying this will be delivering its core services to ACC and the Ministry of Justice as efficiently as possible.

| Performance measures | Performance target |
|---|---|
| Revenue growth year on year<br>(current year revenue/prior year revenue) | Meet or exceed 29.4% |
| Liquidity ratio<br>(current assets – WIP)/current liabilities) | Meet or exceed 2.1% |
| Return on revenue pre tax<br>(operating surplus before tax/revenue) | Meet or exceed 6.1% |
| Net surplus after tax growth year-on-year<br>(current net surplus/prior year net surplus) | Meet or exceed 4.4% |
| Return on shareholders' equity<br>(net surplus after tax/ shareholders equity) | Meet or exceed 16.8% |
| Maintain a satisfactory level of staff turnover. Turnover was 9.2% in 2013 | Turnover 2014/15 is less than 10% |
| Provide a recognised level of work safety management practices | Zero Harm |

# 3 Outcome: Delivering better services and better value

At the core of our business must remain a constant focus on our clients. By delivering an excellent high quality service that meets or exceeds our client expectations, we will deliver better and more sustainable value.

FairWay will continue to focus on ensuring that the client experience is based on quality, timeliness, flexibility, and being responsive to their needs.

| Performance measures | Performance target |
|---|---|
| Implement the recommendations of the Privacy Policy Review | Zero substantive privacy breaches involving multi-parties |
| Implementation of a time recording system throughout the company | System operational and embedded in company by 30 September 2014 |
| Implementation of a project delivery system within the company | System operational and embedded in company by 30 September 2014 |
| Customer relationship management system in place across the company | System operational from 30 September 2014 |
| A full professional development program will be in place across the company | Program in place by 31 December 2014 |
| Transitioned Telecommunication Dispute Resolution and Financial Dispute Resolution Scheme to the new case management system | Schemes transitioned by 31 December 2014 |

# 4 Outcome: Broadening customer base

The future success of FairWay as a business will depend on raising its public profile and successfully growing and diversifying the business.

FairWay will also be looking to develop depth in assisting clients with conflict prevention and/or early resolution as part of our full “end to end” conflict management service.

| Performance measures | Performance target |
|---|---|
| New client base | At least ten new clients contracted and added to the portfolio during the year |
| Provision of new conflict management services | Provision of innovative early resolution services by 31 December 2014. |
| Customer satisfaction research for Accident Compensation Corporation, Telecommunication Dispute Resolution, and Financial Dispute Resolution Scheme measured against KPI’s conducted | Customer satisfaction surveys show there are a higher proportion of ‘promoters’ than ‘detractors’ as measured by Net Promoter Score.<br>Surveys of end user satisfaction reported six monthly. |
| Revenue growth from private sector<br>(private sector revenue/total revenue) | 1% |

# Summary financial statements

## Forecast summary statement of comprehensive income

For the year ended 30 June 2015

| | 2013 Actual ($000) | 2014 Estimated ($000) | 2015 Forecast ($000) |
|---|---|---|---|
| **Total income** | **15,243** | **14,488** | **18,752** |
| **Expenditure** | | | |
| Employee salaries and costs | 7,399 | (8,577) | (10,822) |
| Other expenditure | 7,006 | (4,929) | (6,784) |
| **Total expenditure** | 14,405 | (13,506) | **(17,606)** |
| **Operating surplus before tax** | **838** | **982** | 1,146 |
| Income tax expense | (255) | (324) | (321) |
| **Net surplus and total comprehensive income attributable to owners** | **583** | **658** | **825** |

## Forecast summary statement of changes in equity

For the year ended 30 June 2015

| | 2013 Actual ($000) | 2014 Estimated ($000) | 2015 Forecast ($000) |
|---|---|---|---|
| **Share capital** | | | |
| Balance as at 30 June | 400 | 400 | 400 |
| **Retained surpluses** | | | |
| Balance as at 1 July | 2,833 | 3,416 | 3,874 |
| Surplus for the year | 538 | 658 | 825 |
| Dividends paid | – | (200) | – |
| Balance as at 30 June | 3,416 | 3,874 | 4,699 |
| **Total equity attributable to owners** | **3,816** | **4,274** | **5,099** |

# Summary financial statements

## Forecast summary statement of financial position

For the year ended 30 June 2015

| | 2013 Actual ($000) | 2014 Estimated ($000) | 2015 Forecast ($000) |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 1,539 | 460 | 1,262 |
| Trade and other receivables | 1,352 | 2,205 | 2,531 |
| Work in progress | 1,450 | 1,231 | 1,231 |
| **Total current assets** | **4,341** | **3,896** | **5,024** |
| **Total non-current assets** | **1,541** | **3,163** | **2,809** |
| **Total assets** | **5,882** | **7,059** | **7,833** |
| **Total current liabilities** | **1,803** | **1,621** | **1,742** |
| **Total non-current liabilities** | **263** | **1,164** | **992** |
| **Total liabilities** | **2,066** | **2,785** | **2,734** |
| **Net assets** | **3,816** | **4,274** | **5,099** |
| **Equity** | | | |
| Share capital | 400 | 400 | 400 |
| Retained surpluses | 3,416 | 3,874 | 4,699 |
| **Total equity** | **3,816** | **4,274** | **5,099** |

## Forecast summary statement of cash flows

For the year ended 30 June 2015

| | 2013 Actual ($000) | 2014 Estimated ($000) | 2015 Forecast ($000) |
|---|---|---|---|
| Net cash inflow from operating activities | 995 | 515 | 1,372 |
| Net cash (outflow) from investing activities | (763) | (1,394) | (570) |
| Net cash (outflow) from financing activities | – | (200) | – |
| **Net (decrease) increase in cash and cash equivalents** | **232** | **(1,079)** | **602** |
| Cash and cash equivalents at beginning of year | 1,307 | 1,539 | 460 |
| **Cash and cash equivalents at end of the year** | **1,539** | **460** | **1,262** |

# Notes to the financial statements

These forecast financial statements have been prepared in accordance with generally accepted accounting practice for Tier 3 For Profit entities. Their purpose is to facilitate consideration by Parliament of the planned performance of FairWay. Use of this information for other purposes may not be appropriate.

The following (1) Summary of accounting policies, and (2) Critical accounting estimates and assumptions, are those that have been applied for the financial year ended 30 June 2015.

## 1. Summary of accounting policies

### a. Basis for preparation

FairWay Resolution Limited (the 'Company') is a limited liability company incorporated and domiciled in New Zealand. Effective 20 June 2011, the two shares held by the Accident Compensation Corporation (ACC) were transferred to the Minister for ACC, one share, and the Minister of Finance, one share, and on that date became a Crown Entity in terms of the Crown Entities Act 2004, and is wholly owned on behalf of the Crown by the two aforementioned Ministers.

The principal activity of the company is the provision of personal injury review and mediation services.

### b. Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised when earned and is reported in the financial period to which it relates. Interest income is recognised using the effective interest method.

### c. Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

### d. Trade and other receivables

Trade and other receivables are stated at net realisable value. Trade receivables are non-interest bearing and are generally on 0-30-day terms.

### e. Property, plant and equipment

Purchases of property, plant and equipment are initially recorded at cost. Depreciation is calculated to write off the cost over the expected useful lives of the assets.

Items of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may overstate fair value.

### f. Intangible assets

Costs that are directly associated with the development of software by the Company, are recognised as an intangible asset.

### g. Goods and Services Tax (GST)

The financial statements have been prepared on a GST exclusive basis with the exception of receivables and payables which are stated GST inclusive.

### h. Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

### i. Payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

### j. Income tax

Income tax for the period is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period.

### k. Operating leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the Statement of Comprehensive Income in equal instalments over the lease term when the leased items are in use.

## 2. Critical accounting estimates and assumptions

The following Accounting Estimates and/or assumptions that are critical to the accounts have been used in the preparation of these accounts.

### Work in progress

Work in progress at year end is calculated based on a stage of completion of ACC and Partnership programme reviews and mediation work.

### Impairment of intangible assets

The company determines whether software intangible assets are impaired on an annual basis.

This requires an estimation of the asset's recoverable amount based on its value in use. This requires management's estimates of future cash flows associated with the asset.

FairWay