

MEMO

To: Board Members
From: Eric Sinclair, GM Finance & Performance
Date: 22 February 2017
Subject: Financial Report for January 2017

Status

This report contains:

- For decision
- Update
- Regular report
- For information

Overview

The financial result to the end of January 2017 is a surplus of \$1,437k which is favourable to the initial plan by \$203k but adverse to the agreed budget with the MOH by \$228k. The month of January contributed to the overall result with a surplus of \$516k – favourable by \$37k but adverse against the agreed budget by \$71k.

January 2017 \$Ms			
Actual	Budget	Budget Variance	Last Year Actual
37.93	38.11	(0.17)	37.16
13.58	13.74	0.16	12.93
5.70	5.61	(0.09)	5.44
12.80	12.93	0.12	12.26
3.50	3.40	(0.10)	4.03
35.59	35.68	0.09	34.67
2.34	2.42	(0.08)	2.49
1.83	1.94	0.12	1.76
0.52	0.48	0.04	0.73

Revenue

Expenditure

Workforce Costs

Other Operating Costs

External Provider Payments excluding IDFs

Inter District Flows

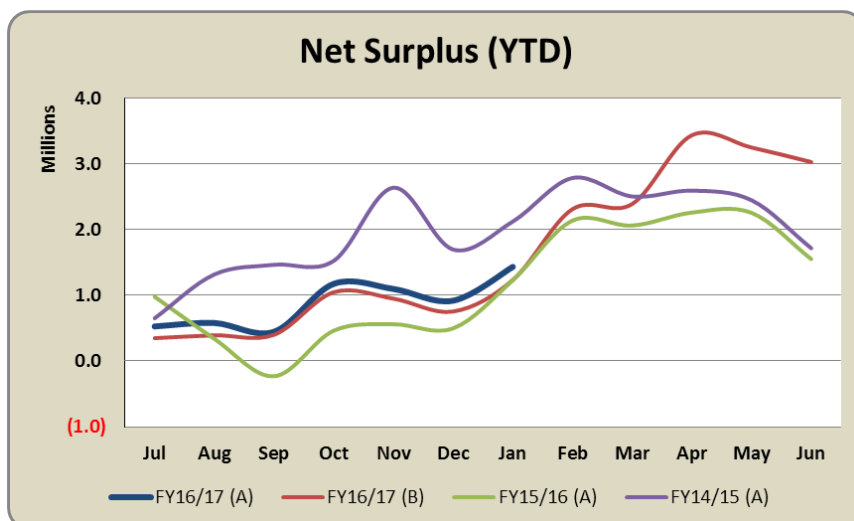
Total Expenditure before IDCC

Surplus/(Deficit) before IDCC

Capital Related Costs

Surplus/(Deficit) after IDCC

Year to Date \$Ms				Full Year \$Ms	
Actual	Budget	Budget Variance	Last Year Actual	Budget	Last Yr
272.45	273.33	(0.88)	266.72	470.53	461.57
99.45	99.90	0.45	96.36	174.47	170.86
42.85	41.48	(1.38)	42.41	71.66	72.64
90.61	91.18	0.58	87.82	154.81	149.93
25.53	26.22	0.69	26.20	43.23	45.04
258.44	258.77	0.33	252.79	444.17	438.47
14.02	14.56	(0.55)	13.94	26.36	23.10
12.58	13.33	0.75	12.72	23.33	21.55
1.44	1.23	0.20	1.21	3.03	1.55



Key messages for the month

- The result continues the trend through the year to date with the actual result tracking at slightly better than planned levels
- The results include a favourable variance within the Mental Health service of \$576k and an adverse variance of \$203k within DSS
- The reported result incorporates an estimated \$265k of costs related to the earthquake before the costs associated with the additional funding provided by the Government. This includes \$100k accrued for the repairs to the lift shaft in Nelson Hospital
- There are no significant variances within the month with most variances tracking as previously reported
- A forecast has been completed following the January result which projects a surplus of \$3.2M for the full year. I am still working through a number of the underlying assumptions within this forecast and remain confident that this result can be achieved
- The cash position remains strong with a balance of \$51M on hand which is \$2.4M better than planned. The net cash movement in the month was \$6.6M
- The conversion of the DHB core debt to equity occurs on 15 February. Interest costs will reduce to nil from this date and the MOH have adjusted DHB revenues down for the amount of interest that would otherwise have been paid. There is no impact on the capital charge costs until the 2017/18 year
- Capital expenditure approved during the year totals \$2.9M against the plan of \$10.9M but I expect this will increase over the next 3 months as usually happens.

Detailed financial statements and full commentary is included in the Appendix attached to this report.

Eric Sinclair
GM Finance and Performance

RECOMMENDATION:

THAT THE BOARD RECEIVES THE FINANCIAL REPORT.

Appendix A – Detailed Financial Statements & Commentary

Statement of Financial Performance

January 2017 \$000s				Year to Date \$000s				Full Year \$000s	
Actual	Budget	Budget Variance	Last Year Actual	Actual	Budget	Budget Variance	Last Year Actual	Budget	Last Yr
Revenue									
33,841	33,750	91	33,057	243,722	243,163	559	238,007	418,824	410,698
1,943	1,940	4	1,853	12,723	13,367	(644)	12,669	22,902	21,679
1,282	1,364	(82)	1,352	9,063	9,098	(35)	8,750	15,474	15,762
867	1,053	(186)	898	6,944	7,705	(761)	7,297	13,326	13,432
37,934	38,107	(173)	37,159	272,452	273,333	(881)	266,723	470,526	461,572
Total Revenue									
Expenditure									
13,359	13,639	280	12,610	97,221	99,124	1,903	93,993	173,130	167,362
226	105	(121)	324	2,230	772	(1,457)	2,365	1,338	3,499
13,584	13,744	159	12,934	99,450	99,896	446	96,358	174,468	170,862
887	830	(57)	817	6,424	5,966	(458)	6,189	10,166	10,711
2,565	2,633	68	2,504	20,123	19,579	(543)	20,019	33,972	35,199
2,248	2,147	(101)	2,116	16,306	15,930	(376)	16,197	27,520	26,725
12,805	12,927	122	12,262	90,605	91,182	576	87,824	154,813	149,934
3,502	3,402	(99)	4,033	25,529	26,216	687	26,198	43,227	45,039
35,591	35,684	92	34,666	258,437	258,769	333	252,786	444,166	438,469
2,342	2,423	(81)	2,493	14,015	14,564	(549)	13,937	26,360	23,102
Surplus/(Deficit) before IDCC									
252	249	(3)	256	1,684	1,742	58	1,780	2,986	3,005
996	1,034	38	852	6,874	6,958	84	6,401	12,407	10,744
579	661	83	652	4,020	4,630	610	4,542	7,937	7,801
1,827	1,944	118	1,759	12,578	13,330	751	12,723	23,330	21,549
516	479	37	733	1,437	1,234	203	1,214	3,030	1,553
Surplus/(Deficit) after IDCC									
0	108	(108)	0	0	431	(431)	0	970	0
516	587	(71)	733	1,437	1,665	(228)	1,214	4,000	1,553
Surplus/(Deficit) after MOH Efficiency Target									
(542)	(793)	251	(1,468)	548	(1,731)	2,279	(3,699)	2,219	(3,411)
26	(9)	35	72	8	(79)	87	283	(191)	1,086
1,031	1,281	(249)	2,129	881	3,044	(2,163)	4,630	1,001	3,878
0	108	(108)	0	0	431	(431)	0	970	0
516	587	(71)	733	1,437	1,665	(228)	1,214	4,000	1,553
Surplus/(Deficit)									

Variance Commentary

Revenue

Total operating revenue is \$881k unfavourable to budget for the year to date which is comprised of the following variances:

- MOH devolved funding (\$559k favourable YTD) which represents unbudgeted funding received for the increased “In Between Travel” (IBT) costs for Home Based Providers (\$734k favourable YTD). This is offset by an equivalent amount within external provider payments. A revenue adjustment of a \$573k decrease to reflect the decrease in the Capital Charge rate from 8% to 7% from the beginning of the financial year, has also

been recognised. This is offset by an equivalent decrease in the Capital Charge expense. Revenue for the increase in Capital charge based on the June 2015 revaluation has increased funding by \$291k.

- MOH non-devolved funding (\$644k unfavourable YTD) which is largely caused (\$654k YTD) by the slower development of two new houses for Disability Support Services (DSS) that were expected to be operational by the start of the new financial year and are now expected to be opened 10 Feb 2017 and March 2017.
- Other government & DHBs are \$35k unfavourable for the YTD which is due to \$96k unbudgeted ACC funding for a falls prevention programme offset by unfavourable ACC revenue because of lower NAR revenue and lower Surgical Revenue.
- Other Income (\$761 unfavourable YTD). Interest revenue is \$218k adverse to plan which reflects the lower interest rates within the financial services sector on the monies held with the other DHBs by NZ Health Partnerships on our behalf. Meals on wheels are \$139k unfavourable due to the approach in the national food services contract where the revenue is netted off against the costs and is reflected in an equivalent favourable variance within the Non-Clinical Supplies cost line. With the postponement of the DSS house build a further \$60k of related revenue has been deferred.

Operating Expenditure

Total operating expenditure (before interest, depreciation and capital charge) is \$333k favourable to budget for the year to date which is comprised of the following material variances:

- Workforce costs are \$446k favourable for the YTD. The main variances are:
 - Medical personnel contributes \$1,361k to the favourable YTD variance which is driven by a number of vacancies across a range of specialities. This is offset by higher outsourced costs for medical locums to cover these gaps with an adverse variance of (\$1,371k).
 - The Allied Health employed workforce costs are \$808k favourable which is driven by a number of vacancies across a range of services totalling 31 FTEs. Of this DSS is 15 FTEs, relating to the delay in the two houses noted earlier in this report, which partially offset the adverse revenue variance.
- Outsourced Service costs are \$458k unfavourable to the plan for the YTD. This is primarily in the Radiology Service area (\$164k unfavourable YTD) driven by Radiology reporting and MRI sessions. Ophthalmology has also contributed \$130k YTD to the unfavourable variance largely through the engagement of optometrists to assist in meeting the backlog of follow up and reviews.
- Clinical Supplies costs are \$543k unfavourable to the plan for the YTD. This is primarily driven by the drug spend (\$336k adverse to plan) within the hospital in two drug groupings: immuno-suppressant and eyes. This over spend is partially offset through the higher Pharmac rebates for hospital pharmaceuticals, however, with the

confidentiality required within Pharmac operations we are not able to reliably state that the level of the rebate will fully offset the higher costs and can only estimate the rebate level. Patient Appliances are \$167k unfavourable YTD, increased customer demand driven purchases in Orthotics have contributed \$139k to the variance. The budget was set low and purchasing is completed through Specialists. Treatment disposables including dressings, continence supplies and patient consumables for District Nursing have contributed \$69k YTD to the adverse variance.

- Non-Clinical Supplies Costs are \$376k unfavourable to the plan YTD. This variance is spread across a number of lines but is expected to come back on track over the remainder of the year. The most significant variances are energy (i.e. electricity and coal) which is \$196k adverse, software charges \$100k unfavourable and staff travel \$80k unfavourable YTD.
- External Provider Payments are \$1,263k favourable to plan YTD. This is driven by:
 - Home Based Support costs are \$1,061k unfavourable YTD, this is associated with the unbudgeted “In Between Travel” (IBT) (\$1,170k unfavourable YTD) which is offset by additional revenue (\$734k YTD) and reduction in personnel costs (\$245k YTD) as noted above.
 - Expenditure in Residential Care Hospitals continues below budget (\$1,543 favourable YTD) with 349 clients in care compared to a budget of 393. The number of Chronic Conditions Clients in hospital level care has also decreased from 6 a year ago to an average of 3 YTD.
 - Inter District Flow costs are \$670k favourable to Plan

Capital associated costs (i.e. interest, depreciation and capital charge) are favourable to plan by \$751k for the YTD. This is driven by a \$610k favourable variance in Capital Charge with the reduction in the capital charge rate as noted earlier in this report. Depreciation costs which are \$84k favourable are driven by a difference in the timing, estimated at the point the budget was struck, of a number of capital expenditure items being acquired. It is expected that the depreciation costs will remain favourable for the remainder of the year but with the variance to budget closing as the various items on the capital programme are purchased. Interest Expense is \$58k favourable driven by lower interest rates.

Financial Performance by Division

The following provides a summarised view of the financial results for each of the three dimensions we are required to report to the MOH.

January 2017 \$000s				Year to Date \$000s				Full Year \$000s	
Actual	Budget	Budget Variance	Last Year Actual	Actual	Budget	Budget Variance	Last Year Actual	Budget	Last Yr
Revenue									
34,684	34,498	187	34,014	249,082	248,393	690	242,912	427,790	419,631
354	354	(1)	427	2,502	2,504	(1)	3,007	4,281	5,147
21,820	22,216	(397)	21,905	153,268	155,163	(1,895)	153,393	265,986	264,862
(18,924)	(18,961)	37	(19,187)	(132,401)	(132,726)	325	(132,588)	(227,530)	(228,068)
37,934	38,107	(173)	37,159	272,452	273,333	(881)	266,723	470,526	461,572
Expenditure									
35,226	35,290	65	35,482	248,534	250,123	1,589	246,611	425,571	423,042
327	363	36	354	2,494	2,583	88	2,724	4,471	4,061
20,788	20,936	147	19,776	152,387	152,119	(268)	148,763	264,985	260,984
(18,924)	(18,961)	(37)	(19,187)	(132,401)	(132,726)	(325)	(132,588)	(227,530)	(228,068)
37,418	37,628	210	36,425	271,015	272,099	1,084	265,509	467,496	460,019
Net Contribution									
(542)	(793)	251	(1,468)	548	(1,731)	2,279	(3,699)	2,219	(3,411)
26	(9)	35	72	8	(79)	87	283	(191)	1,086
1,031	1,281	(249)	2,129	881	3,044	(2,163)	4,630	1,001	3,878
0	108	(108)	0	0	108	(108)	0	970	0
516	587	(71)	733	1,437	1,342	95	1,214	4,000	1,553
Net Surplus/(Deficit)									

Statement of Financial Position

\$000s	June 2016 Actual	Jan Actual	Jan Budget	Variance	Annual Budget
Current Assets					
Bank - National Sweep	24,774	32,041	29,605	2,436	30,457
Deposits - Self-Invested	18,950	18,950	18,950	-	18,950
Debtors & Prepayments	14,740	13,902	14,123	(221)	14,123
Stock	2,723	2,700	2,723	(23)	2,723
Assets Held for Sale	487	191	487	(296)	487
Current Assets	61,675	67,784	65,888	1,896	66,740
Current Liabilities					
Creditors	31,445	37,574	33,883	(3,691)	31,247
Employee Entitlements	33,350	31,371	33,350	1,979	33,350
Term Debt - Current Portion	6,000	21,348	21,000	(348)	15,000
Current Liabilities	70,795	90,293	88,233	(2,060)	79,597
Working Capital	(9,120)	(22,509)	(22,345)	(164)	(12,857)
Non Current Assets					
Property Plant and Equipment	171,303	170,973	170,032	941	168,638
Other Non Current Assets	3,847	3,862	4,462	(600)	4,462
Non Current Assets	175,151	174,835	174,494	341	173,100
Non Current Liabilities					
Employee Entitlements	10,405	10,405	10,405	-	10,405
Term Debt	56,968	41,829	41,828	(1)	47,728
Non Current Liabilities	67,373	52,234	52,233	(1)	58,133
Net Assets	98,657	100,092	99,916	176	102,110
Equity					
Crown Equity	28,062	28,062	28,062	-	27,514
Revaluation Reserve	53,213	53,213	53,214	(1)	53,214
Retained Earnings:					
General	16,580	17,273	18,116	(843)	20,963
DSS	(87)	(152)	299	(451)	427
Mental Health	889	1,696	225	1,471	(8)
Total Retained Earnings	17,382	18,817	18,640	177	21,382
Total Crown Equity	98,657	100,092	99,916	176	102,110

Accounts Receivable

The ageing of accounts receivable is shown in the table below. These show the amounts invoiced within the “debtors and prepayments” category in the financial position. The difference is made up of amounts prepaid and accruals.

AR Summary Aged Debtors as at 31 January 2017					
Name	Total	0-30 Days	31-60 Days	61-90 Days	Over 90 Days
Total ACC	605,912.86	470,146.12	17,893.57	15,867.02	102,006.15
Ministry of Health	2,446,950.21	2,142,515.26	275,797.57	6,525.45	22,111.93
Overseas Patients	377,597.09	105,590.29	1,097.98	26,599.89	244,308.93
DHB	160,561.49	120,488.63	2,500.30	-	37,572.56
Other Debtors	866,918.99	472,051.05	25,682.04	204,347.94	216,202.04
Total	4,457,940.64	3,310,791.35	271,607.38	253,340.30	622,201.61
%	100.00%	66.14%	8.32%	5.83%	19.71%

Commentary on the key points relating to the aged accounts receivable amounts:

- Overseas patients \$244k greater than 90 days includes \$147k with collection agencies. A debt for \$80k for an overseas patient who is unlikely to be able to pay their account, (this has been allowed for in the financial accounts as a doubtful debt), and also several large debts from overseas patients that are being paid off on a weekly basis.

Core Debt Portfolio

Lendor	Facility Limit (\$000s)	Maturity Date	Total Amount (\$000s)	Current (\$000s)	Non-Current (\$000s)	Interest Rate	Fixed/Floating
Core Debt							
NZDMO	55,500						
		15/Oct/16	4,000	4,000		2.070%	Fixed
		15/Oct/16	2,000	2,000		2.070%	Fixed
		15/Dec/17	15,000	15,000		6.535%	Fixed
		15/Dec/18	6,000		6,000	4.130%	Fixed
		15/Mar/19	4,000		4,000	5.610%	Fixed
		15/Apr/20	4,800		4,800	4.570%	Fixed
		15/Apr/20	3,200		3,200	4.570%	Fixed
		15/Apr/20	2,500		2,500	4.570%	Fixed
		15/May/21	6,000		6,000	4.400%	Fixed
		15/Apr/23	8,000		8,000	3.340%	Fixed
Total Core	55,500		55,500	21,000	34,500		
Finance Leases							
All Leasing		Various	108	108	0	Various	Fixed
Golden Bay Community Health Trust		16/Aug/48	7,569	240	7,329	4.750%	Fixed
Total Finance Leases			7,677	348	7,329		
Total Debt			63,177	21,348	41,829		

Statement of Cash Flows

Jan				Year to Date			Full Year
Actual	Budget	Variance		Actual	Budget	Variance	AP
			Operating Cash Flow				
			Receipts				
38,076	37,108	968	Government & Crown Agency Received	273,067	266,001	7,066	457,847
154	188	(34)	Interest Received	1,094	1,313	(219)	2,250
638	1,035	(397)	Other Revenue Received	5,721	7,289	(1,568)	12,673
38,868	38,331	537	Total Receipts	279,882	274,603	5,279	472,770
			Payments				
13,548	13,643	95	Personnel	99,202	99,194	(8)	173,223
18,067	23,560	5,493	Payments to Suppliers and Providers	161,637	158,665	(2,972)	271,919
-	-	-	Capital Charge	3,441	3,900	459	7,937
41	249	208	Interest Paid	347	1,742	1,395	2,986
31,656	37,452	5,796	Total Payments	264,627	263,501	(1,126)	456,065
7,212	879	6,333	Net Cash Inflow/(Outflow) from Operating Activities	15,255	11,102	4,153	16,705
			Cash Flow from Investing Activities				
			Receipts				
-	-	-	Sale of Fixed Assets	296	150	146	150
-	-	-	Total Receipts	296	150	146	150
			Payments				
269	821	552	Capital Expenditure	6,600	5,746	(854)	9,850
-	-	-	Increase in Investments	-	-	-	-
269	821	552	Total Payments	6,600	5,746	(854)	9,850
(269)	(821)	552	Net Cash Inflow/(Outflow) from Investing Activities	(6,304)	(5,596)	(708)	(9,700)
(252)	(20)	(232)	Net Cash Inflow/(Outflow) from Financing Activities	(1,684)	(676)	(1,008)	(1,323)
6,691	38	6,653	Net Increase/(Decrease) in Cash Held	7,267	4,830	2,437	5,682
25,350	29,567	(4,217)	Plus Opening Balance	24,774	24,775	(1)	24,775
32,041	29,605	2,436	Closing Balance	32,041	29,605	2,436	30,457

Statement of rolling 12-month cash flows

Consolidated 12 Month Rolling Statement of Cash Flows \$000s	Feb 2017	Mar 2017	Apr 2017	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Operating Cash Flow												
Receipts												
Government & Crown Agency Received	36,790	40,547	37,113	40,505	36,891	38,848	38,848	38,848	38,848	38,848	38,848	38,848
Interest Received	188	188	188	188	188	188	188	188	188	188	188	188
Other Revenue Received	1,007	1,138	1,016	1,101	1,121	1,067	1,067	1,067	1,067	1,067	1,067	1,067
Total Receipts	37,985	41,873	38,317	41,794	38,200	40,103	40,103	40,103	40,103	40,103	40,103	40,103
Payments												
Personnel	13,606	14,176	13,496	16,652	16,098	15,284	15,284	15,284	15,284	15,284	15,284	15,284
Payments to Suppliers	6,924	5,040	7,157	13,707	740	5,903	5,903	5,903	5,903	5,903	5,903	5,903
Capital Charge	-	-	-	-	4,037	-	-	-	-	-	4,000	-
Interest Paid	249	249	249	249	249	249	249	249	249	249	249	249
Payments to Other DHBs and Providers	15,522	16,480	15,859	16,574	15,249	16,768	16,768	16,768	16,768	16,768	16,768	16,768
Total Payments	36,301	35,945	36,761	47,182	36,373	38,204	38,204	38,204	38,204	38,204	42,204	38,204
Net Cash Inflow/(Outflow) from Operating Activities	1,684	5,928	1,556	(5,388)	1,827	1,899	1,899	1,899	1,899	1,899	(2,101)	1,899
Cash Flow from Investing Activities												
Receipts												
Sale of Fixed Assets	-	-	-	-	-	-	150	-	-	-	-	-
Total Receipts	-	-	-	-	-	-	150	-	-	-	-	-
Payments												
Capital Expenditure	1,300	1,105	600	2,350	745	-	250	500	950	1,250	1,350	700
Total Payments	1,300	1,105	600	2,350	745	-	250	500	950	1,250	1,350	700
Net Cash Inflow/(Outflow) from Investing Activities	(1,300)	(1,105)	(600)	(2,350)	(745)	-	(100)	(500)	(950)	(1,250)	(1,350)	(700)
Net Cash Inflow/(Outflow) from Financing Activities	(269)	(269)	(269)	(269)	(816)	(251)	(251)	(251)	(251)	(251)	(251)	(251)
Net Increase/(Decrease) in Cash Held	115	4,554	687	(8,007)	266	1,648	1,548	1,148	698	398	(3,702)	948
Plus Opening Balance	32,041	32,156	36,710	37,397	29,390	29,656	31,304	32,852	34,000	34,698	35,096	31,394
Closing Balance	32,156	36,710	37,397	29,390	29,656	31,304	32,852	34,000	34,698	35,096	31,394	32,342

Capital Projects

A summary of the capital expenditure for the seven months is shown below.

Row Labels	Budget	Approved	Actual	Forecast	Variance Budget to Forecast
Baseline					
BUILDNG	2,873,000	586,578	99,335	2,343,578	529,422
EQUIP	3,265,886	413,739	192,758	3,207,179	58,707
IT	3,332,240	1,289,045	328,917	3,166,752	165,488
VEHICLES	400,000	397,670	0	397,670	2,330
Baseline Total	9,871,126	2,687,033	621,010	9,115,180	755,946
Contingency					
BUILDNG	0	58,384	55,269	45,000	(45,000)
Contingency	1,007,946	0	0	1,007,946	0
EQUIP	0	147,219	137,382	72,063	(72,063)
IT	0	53,000	46,414	53,000	(53,000)
VEHICLES	0	25,000	20,294	25,000	(25,000)
Contingency Total	1,007,946	283,603	259,358	1,203,009	(195,063)
Grand Total	10,879,072	2,970,636	880,368	10,318,189	560,883