

6 MANAGING FINANCIAL RESOURCES

6.1 Managing within Budget

This Plan shows a small surplus of \$11,000 for the 2005/06 financial year. The out years show surpluses of \$241,000 and \$296,000 for 2006/07 and 2007/08 respectively.

A key assumption contained within the forecast breakeven position for 2005/06 is the receipt of "early payment" status. The surplus cash generated from attaining this status will be used to repay debt, thereby generating a saving of \$420,000 in interest costs for the financial year. Should early payment status not be attained then the position would deteriorate by this amount.

The forecast financial information has been prepared on the basis of information received from the Ministry of Health. It incorporates assumptions the Board reasonably expects to occur, as at the date the financial information was prepared. A summary output class consolidated statement of financial performance is as follows:

Wairarapa District Health Board				
Forecast Statement of Financial Performance				
For the year ended 30 June 2006				
	2004/05 \$000's	2005/06 \$000's	2006/07 \$000's	2007/08 \$000's
Revenue				
Revenue	81,763	87,920	89,806	91,598
Total Revenue	81,763	87,920	89,806	91,598
Expenditure				
Provider Expenditure	(40,876)	(44,437)	(43,714)	(44,580)
Operating Expenditure	(39,236)	(39,689)	(41,032)	(41,858)
Depreciation	(1,131)	(1,697)	(2,317)	(2,317)
Interest	(626)	(1,119)	(1,276)	(1,276)
Capital Charge	(387)	(967)	(1,227)	(1,272)
Total Expenditure	(82,256)	(87,909)	(89,565)	(91,303)
Net Surplus/(Deficit)	(493)	11	241	296
Gain/(Loss) on Sale of Assets	-	-	-	-
Net Surplus/(Deficit)	(493)	11	241	296

This result represents a significant improvement over the past few years where without the commitment from Government to increase our funding and the Board to improve the health of our population would have resulted in ongoing annual deficits of approximately \$2 million.

The results forecast for the 3-year period are achieved as the new models of care and service delivery modes, associated with the Masterton Hospital Redevelopment project, are implemented, which commenced in the 2004/05 year and continue through the 2005/06 and 2006/07 years.

Notwithstanding the forecast breakeven position contained within this Plan, Wairarapa DHB faces significant financial challenges over the three year planning period. Tight controls and a strong focus on financial management will be required to achieve the financial results in all three years shown above. The key risks associated with the financial performance are noted in the risk section of this Plan.

Some of the key financial risks associated with the financial forecasts include:

- The impact of inter district flows (IDFs) has been discussed elsewhere in this Plan. Any increase in the net outflow for IDFs impacts on the funding available for services to be provided within the Wairarapa, therefore any change may change the forecast surplus assumptions.
- DSS expenditure exceeds the revenue devolved.
- Unavoidable wage and salary movements or other substantial cost escalation occurs above the levels assumed.

6.2 Planning & Budgeting Process

Wairarapa DHB's financial strategy places a very high focus on accurate budgeting and achieving the planned results. This is supported within the DHB through:

- Clear responsibilities and accountabilities;
- Timely reporting of financial and activity performance data;
- Detailed variance analysis; and
- Data systems that are being continually improved and refined.

Planning for the 2006/07 and 2007/08 years is uncertain. This is because the allocation of funding will not be confirmed for these two years until December 2005 and December 2006 respectively. In preparing the forecasts for the two years reliance is placed on indicative advice received from the Ministry of Health in December 2004 and February 2005.

6.3 Efficiency Gains

A range of efficiency gains were proposed within the Business Case for the Masterton Hospital Redevelopment. A number of these have been planned and implemented in the 2004/05 financial year with the full value of efficiencies planned for the 2006/07 year.

The following table shows the efficiencies planned over the 2004/05, 2005/06 and 2006/07 financial years. The amount of \$398k for the 2004/05 year has been planned and is currently forecast to deliver \$415k of efficiencies during the year, a \$17k improvement on the planned target.

<u>Efficiencies</u>	2004/05	2005/06	2006/07
	\$000	\$000	\$000
Efficiencies from Workforce and Service Initiatives:			
Staffing changes	229	1,181	1,899
Net Effect from Textile Outsourcing	90	90	90
Total Savings from Workforce and Service Changes	319	1,271	1,989
<u>Operational Savings</u>			
Net Revenue from Reconfiguration of Laboratory Services		174	347
Net Revenue from Reconfiguration of Radiology Services		79	198
Net revenue from IDFs and overflow work		318	1,060
Repairs & Maintenance Existing Facility	79	109	109
Heating, Cleaning & Orderlies based on New Building Location and m ²		35	174
Supplies		33	100
Efficiencies from primary secondary partnership		50	200
Total Operating Savings	79	798	2,188
Total Recurrent Cost Efficiency Gains	398	2,069	4,177

Management of Efficiencies

Responsibility and accountability for delivering on the efficiencies noted above has been assigned to the appropriate members of the senior management team. Detailed plans are being finalised to realise these efficiencies and these plans will be implemented through 2005/06. Monthly reporting on progress is made by the management team to the Board.

6.4 Assumptions

The key assumptions are:

- The DHB will receive "early payment" status and utilise the surplus cash generated from this status to repay debt.
- Income inflation will be set as per the funding envelope provided by the Ministry of Health.
- Inter District Flow (IDF) revenue and expenditure has been included in these financial statements at a net \$15.4 million. This is based on figures provided by the Ministry of Health.
- Inflation on supplies, outsourced services and non-Ministry of Health revenue has been set at 2% for each of the three years.
- Inflation on salaries has been set at various rates for specific employment groups.
- Inflation on Funder arm payments has been set at 5% for pharmaceuticals, 3.3% for mental health services and 3% on all other payments.
- Depreciation has been assumed at the rates shown in the latest annual report.
- The capital charge is based on 11% of equity.
- Interest on term debt is assumed at 7%.

6.5 Sensitivity Analysis

The following table shows the sensitivity of selected key items will have on the forecast financial performance for the 2004/05 year.

	Financial Impact (\$000s)
Change of 1% on Personnel costs	\$258
Change of 1% on IDF costs	\$154
Change of 1% on DSS costs	\$76
Change of 1% on Pharmaceutical demand driven costs	\$83
Change of 1% on term debt facility interest rate	\$200
Change of 1% on efficiencies gained	\$41

A significant amount of work was completed within the business case financial modelling on a sensitivity analysis where a number of key variables were analysed to ascertain their sensitivity. The results showed that although there was a slight change in the net present value calculation result and cash flows the results were still achievable.

6.6 Asset Valuation

DHBs adopted the Crown accounting policies during the 2002/03 year resulting in the requirement to revalue its property assets. Wairarapa DHB undertook this revaluation on 30 June 2003 resulting in an increase in the valuation of the assets by \$3.4 million.

On 30 June 2004 the DHB revalued the assets that would not required following completion of the new hospital resulting in a \$7.5 million write-down in the value of those assets. This eliminated the revaluation reserve. The decision to revalue these assets followed the approval of the Greenfield approach for the Masterton Hospital Redevelopment.

The DHB does not expect to have any material change in the value of its asset base following completion of the new hospital and therefore, has not budgeted for any change in value.

6.7 Business Cases

At the time of writing this Plan no business cases requiring notice to the Regional Capital Committee, National Capital Committee or the Ministry of Health are planned.

6.8 Capital Expenditure & Asset Disposals

Capital Expenditure

A focus in previous years has been on maintaining a cash balance sufficient to meet operational requirements. This has resulted in minimising capital investment and consequently an unsustainable growth in deferred maintenance. This process has often meant that plant and equipment can only be replaced when it can no longer be repaired and not when it is technologically obsolete.

Wairarapa DHB is developing a comprehensive asset management plan (AMP) in line with the timelines notified by the Ministry of Health (due October 2005). This will allow a greater degree of certainty in planning for asset and infrastructure maintenance and replacement.

The Ministry of Health has issued the "Capital Investment Guidelines" document. This document specifies the prioritisation process, and the related expenditure limits, for capital investment within the health sector. This process includes the guidelines for referral to the regional capital committee and the national capital committee. This Plan assumes that the DHB will not require any approvals from the national capital committee other than that already given for the Masterton Hospital Redevelopment.

Wairarapa DHB plans its capital investment in a strategic manner ensuring all capital investment is contributing to the Board's strategic goals and objectives. As part of the annual planning and budgeting process Wairarapa DHB has determined its capital investment priorities as shown in the following table.

	2004/05 Forecast \$000	2005/06 Forecast \$000	2006/07 Forecast \$000
Site Development	18,314	90	0
Operating Capital Expenditure			
Land, buildings and plant	0	60	60
Clinical equipment	720	850	850
Other equipment	80	50	50
Information technology & systems	0	0	0
Motor vehicles	130	0	0
Total operating capital expenditure	930	960	960
Total Capital Expenditure	19,244	1,050	960

Asset Disposals

At the time of writing this Plan the Board has not declared any assets surplus to requirements. However the Business Case for the redevelopment of the hospital noted that a number of the current facilities would not be required once the new hospital has been completed. The Business Case assumed the sale of these properties to the Residual Health Management Unit at their carrying value and the proceeds arising from the sale would be used to amortise debt drawn to fund the hospital development. This assumptions used in this Plan are consistent with the Business Case.

6.9 Debt and Equity

WDHB has a term loan facility of \$6 million with the Crown Financing Agency which matures in April 2005. The Plan assumes this amount will be repaid in July 2005 with surplus cash gained from receiving "early payment" status from the Ministry of Health.

WDHB has received approval for an additional \$29.5 million, for the Masterton Hospital Redevelopment project, over the duration of the planning period covered by this Plan. This \$29.5 million is split into \$19.75 million of term loan from the Crown Financing Agency, \$0.25 million for a finance lease, \$7.6 million of equity injection and a \$1.9 million contribution by the DHB through free cash flows.

The balance of debt and equity will be drawn down in various stages and this draw down profile is likely to change from the assumptions used in the preparation of the forecast financial statements. This fluctuation occurs due to the requirement for capital as the MHR project progresses and cash is required to meet the project costs.

The term loan facility covenants for the additional debt draw down for the Masterton Hospital Redevelopment project have been agreed with the Crown Financing Agency.

The following table shows the covenant ratios agreed with the Crown Financing Agency. The high debt to debt plus equity ratio forecast for 2004/05 recognises that debt will be drawn before equity is drawn to fund the Masterton Hospital Redevelopment project.

Wairarapa District Health Board				
Covenant Ratios				
As at 30 June 2006				
	2004/05	2005/06	2006/07	2007/08
	\$000's	\$000's	\$000's	\$000's
Debt to Debt + Equity	89.2%	66.0%	65.2%	64.5%
<i>(Long term debt + Short term debt + Bank overdraft) / (Total Equity + (Long term debt + Short term debt + Bank overdraft))</i>				
Interest Times Coverage	2.02	2.53	3.00	3.05
<i>(Net Surplus + Interest Expense + Depreciation) / (Interest Expense)</i>				

6.10 Financial Statements

The forecast financial statements have been prepared on the basis of assumptions as to future events that the Board reasonably expects to occur, associated with actions the Board reasonably expects to take, as at the date the statements were prepared.

The forecast financial statements have been prepared in accordance with the accounting policies adopted by the Board. The accounting policies adopted are consistent with those in the prior year. A full statement of accounting policies is contained in the 2005/06 Statement of Intent.

The actual results achieved for the period covered by the forecast financial statements are likely to vary from the information presented, and the variations may be material. The forecast financial statements comply with section 41D of the Public Finance Act 1989, and the information may not be appropriate for any other purpose.

The underlying assumptions were adopted on 10 March 2005. The 2004/05 financial results are forecasts based on actuals up to 28 February 2005.

It is the Board's intention to update the forecast financial statements from the results included in this draft Plan. This change will occur because greater detail on the efficiency gains will be known prior to publication of the final plan.

DHB Fund				
Forecast Statement of Financial Performance				
For the year ended 30 June 2006				
	2004/05 \$000's	2005/06 \$000's	2006/07 \$000's	2007/08 \$000's
Revenue				
Revenue	75,946	83,012	84,672	86,366
Total Revenue	75,946	83,012	84,672	86,366
Expenditure				
Provider Expenditure	(76,782)	(83,017)	(84,677)	(86,371)
Total Expenditure	(76,782)	(83,017)	(84,677)	(86,371)
Net Surplus/(Deficit)	(836)	(5)	(5)	(5)

DHB Provider				
Forecast Statement of Financial Performance				
For the year ended 30 June 2006				
	2004/05 \$000's	2005/06 \$000's	2006/07 \$000's	2007/08 \$000's
Revenue				
Revenue	40,050	41,939	44,517	45,411
Total Revenue	40,050	41,939	44,517	45,411
Expenditure				
Operating Expenditure	(37,575)	(38,269)	(39,583)	(40,379)
Depreciation	(1,119)	(1,685)	(2,305)	(2,305)
Interest	(626)	(1,119)	(1,276)	(1,276)
Capital Charge	(387)	(967)	(1,227)	(1,272)
Internal Allocations	-	85	85	85
Total Expenditure	(39,707)	(41,955)	(44,306)	(45,146)
Net Surplus/(Deficit)	343	(16)	211	265
Gain/(Loss) on Sale of Assets	-	-	-	-
Net Surplus/(Deficit)	343	(16)	211	265

DHB Governance & Administration
Forecast Statement of Financial Performance
For the year ended 30 June 2006

	2004/05 \$000's	2005/06 \$000's	2006/07 \$000's	2007/08 \$000's
Revenue				
Revenue	1,673	1,549	1,580	1,612
Total Revenue	1,673	1,549	1,580	1,612
Expenditure				
Operating Expenditure	(1,661)	(1,420)	(1,448)	(1,477)
Depreciation	(12)	(12)	(12)	(12)
Internal Allocations	-	(85)	(85)	(85)
Total Expenditure	(1,673)	(1,517)	(1,545)	(1,574)
Net Surplus/(Deficit)	-	32	35	37

Wairarapa District Health Board
Forecast Statement of Financial Performance
For the year ended 30 June 2006

	2004/05 \$000's	2005/06 \$000's	2006/07 \$000's	2007/08 \$000's
Revenue				
Revenue	81,763	87,920	89,806	91,598
Total Revenue	81,763	87,920	89,806	91,598
Expenditure				
Provider Expenditure	(40,876)	(44,437)	(43,714)	(44,580)
Operating Expenditure	(39,236)	(39,689)	(41,032)	(41,858)
Depreciation	(1,131)	(1,697)	(2,317)	(2,317)
Interest	(626)	(1,119)	(1,276)	(1,276)
Capital Charge	(387)	(967)	(1,227)	(1,272)
Total Expenditure	(82,256)	(87,909)	(89,565)	(91,303)
Net Surplus/(Deficit)	(493)	11	241	296
Gain/(Loss) on Sale of Assets	-	-	-	-
Net Surplus/(Deficit)	(493)	11	241	296

Wairarapa District Health Board
Forecast Statement of Movements in Equity
For the year ended 30 June 2006

	2004/05 \$000's	2005/06 \$000's	2006/07 \$000's	2007/08 \$000's
Opening Equity	2,361	1,868	9,389	9,719
Equity Injection	-	7,510	90	-
Change in Revaluation Reserve	-	-	-	-
Net Surplus/(Deficit) for the Period	(493)	11	241	296
Closing Equity	1,868	9,389	9,719	10,015

Wairarapa District Health Board
Forecast Statement of Financial Position
As at 30 June 2006

	2004/05 \$000's	2005/06 \$000's	2006/07 \$000's	2007/08 \$000's
Public Equity				
Equity	8,177	15,687	15,777	15,777
Revaluation Reserve	-	-	-	-
Retained Earnings	(6,309)	(6,298)	(6,058)	(5,761)
Total Equity	1,868	9,389	9,719	10,016
<i>Represented by:</i>				
Current Assets				
Bank in Funds	-	-	-	1,321
Receivables	7,386	462	773	788
Other Current Assets	775	775	775	775
Total Current Assets	8,161	1,237	1,548	2,884
Current Liabilities				
Bank Overdraft	(1,146)	(1,244)	(425)	-
Payables & Provisions	(10,034)	(8,472)	(8,005)	(8,112)
Short Term Borrowings	(238)	-	-	-
Total Current Liabilities	(11,418)	(9,716)	(8,430)	(8,112)
Net Working Capital	(3,257)	(8,479)	(6,882)	(5,228)
Non Current Assets				
Property, Plant & Equipment	20,577	36,349	35,082	33,725
Other Investments	103	103	103	103
Trust Funds	120	120	120	120
Total Non Current Assets	20,800	36,572	35,305	33,948
Non Current Liabilities				
Borrowings	(15,196)	(18,225)	(18,225)	(18,225)
Provisions	(359)	(359)	(359)	(359)
Trust Funds	(120)	(120)	(120)	(120)
Total Non Current Liabilities	(15,675)	(18,704)	(18,704)	(18,704)
Net Assets	1,868	9,389	9,719	10,016

Wairarapa District Health Board
Forecast Statement of Cash Flows
For the year ended 30 June 2006

	2004/05 \$000's	2005/06 \$000's	2006/07 \$000's	2007/08 \$000's
Operating Cash Flows				
Cash Receipts	81,123	87,556	85,985	87,705
Payments to Providers	(40,760)	(36,713)	(39,768)	(40,431)
Payments to Employees & Suppliers	(38,329)	(41,815)	(41,935)	(42,020)
Interest Paid	(416)	(1,206)	(1,276)	(1,276)
Capital Charge Paid	(871)	(752)	(1,227)	(1,272)
Net Operating Cash Flows	747	7,070	1,779	2,706
Investing Cash Flows				
Cash Received from Sale of Fixed Assets	-	1,775	-	-
Cash Paid for Purchase of Fixed Assets	(11,704)	(19,244)	(1,050)	(960)
Net Investing Cash Flows	(11,704)	(17,469)	(1,050)	(960)
Financing Cash Flows				
Additional Loans Drawn	9,196	10,804	-	-
Additional Equity Drawn	-	7,510	90	-
Loans Repaid	(343)	(8,013)	-	-
Restricted Funds Movement	120	-	-	-
Net Financing Cash Flows	8,973	10,301	90	-
Net Cash Flows	(1,984)	(98)	819	1,746
Opening Cash Balance	838	(1,146)	(1,244)	(425)
Closing Cash Balance	(1,146)	(1,244)	(425)	1,321
<i>Represented by:</i>				
Bank in Funds	-	-	-	1,321
Bank Overdraft	(1,146)	(1,244)	(425)	-
Total Cash on Hand	(1,146)	(1,244)	(425)	1,321