

Forecast Financial Statements

Ministry of Health

Statement of Forecast Comprehensive Income for the year ending 30 June 2011

| | Note | 2008/09 | 2009/10 | | 2010/11 |
|-----------------------------------|------|------------------|-----------------------------|-------------------------------|--------------------|
| | | Actual \$'000 | In 2009 Budget \$'000 | Estimated Actual \$'000 | Budgeted \$'000 |
| Income | | | | | |
| Crown | 3 | 201,504 | 200,968 | 204,598 | 198,948 |
| Department(s) | | 2,602 | 1,897 | 1,503 | 1,897 |
| Other revenue | 1 | 17,149 | 14,384 | 15,202 | 15,418 |
| Gains | | - | - | - | - |
| Interest | | - | - | - | - |
| Total Income | | 221,255 | 217,249 | 221,303 | 216,263 |
| Expenses | | | | | |
| Personnel | | 126,265 | 124,716 | 126,265 | 121,265 |
| Operating | 2 | 73,404 | 75,175 | 69,290 | 74,424 |
| Depreciation and amortisation | | 9,673 | 14,033 | 11,393 | 18,219 |
| Capital charge | | 1,498 | 3,325 | 2,355 | 2,355 |
| Finance costs | | - | - | - | - |
| Other | 9 | - | - | - | - |
| Total Expenses | | 210,849 | 217,249 | 209,303 | 216,263 |
| Net Surplus/(Deficit) | 4 | 10,406 | - | 12,000 | - |
| Other comprehensive income | | (1,080) | - | - | - |
| Total Comprehensive Income | | 9,326 | - | 12,000 | - |

Statement of Forecast Changes in Taxpayers' Funds for the year ending 30 June 2011

| | Note | 2008/09 | 2009/10 | | 2010/11 |
|--|------|-----------------|----------------------------|------------------------------|-------------------|
| | | Actual \$000 | In 2009 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Balance at 1 July | | | | | |
| General funds | | 18,623 | 32,390 | 31,131 | 31,131 |
| Revaluation reserve | | 1,350 | 1,350 | 270 | 270 |
| Other reserves | | - | - | - | - |
| Taxpayers' Funds Opening Balance | | 19,973 | 33,740 | 31,401 | 31,401 |
| Changes in Taxpayers' Funds | | | | | |
| Comprehensive income for the period | | 9,326 | - | 12,000 | - |
| Repayment of surplus | | (10,406) | - | (12,000) | - |
| Capital contribution | | 12,508 | 10,594 | - | 11,853 |
| Capital withdrawal | | - | - | - | - |
| Other | | - | - | - | - |
| Total Changes in Taxpayers' Funds | | 11,428 | 10,594 | - | 11,853 |
| Balance at 30 June | | | | | |
| General funds | | 31,131 | 42,984 | 31,131 | 42,984 |
| Revaluation reserve | | 270 | 1,350 | 270 | 270 |
| Other reserves | | - | - | - | - |
| Taxpayers' Funds Closing Balance | | 31,401 | 44,334 | 31,401 | 43,254 |

Forecast Statement of Financial Position as at 30 June 2011

| | | 2008/09 | 2009/10 | | 2010/11 |
|---|------|-----------------|----------------------------|------------------------------|-------------------|
| | Note | Actual \$000 | In 2009 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | | 9,522 | 16,158 | 14,424 | 19,231 |
| Debtors and other receivables | | 18,350 | 3,605 | 8,930 | 3,930 |
| Prepayments | | 1,284 | 1,201 | 2,040 | 2,040 |
| Inventories | | - | - | - | - |
| Other current assets | | - | - | - | - |
| Total Current Assets | | 29,156 | 20,964 | 25,394 | 25,201 |
| Non-current Assets | | | | | |
| Property, plant and equipment | 5 | 22,117 | 31,849 | 21,104 | 15,529 |
| Intangible assets | 6 | 23,412 | 48,008 | 30,238 | 35,859 |
| Other non-current assets | | - | - | - | - |
| Total Non-current Assets | | 45,529 | 79,857 | 51,342 | 51,388 |
| Total Assets | | 74,685 | 100,821 | 76,736 | 76,589 |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Creditors and other payables | | 17,781 | 41,418 | 17,264 | 17,264 |
| Repayment of surplus | | 10,409 | - | 12,000 | - |
| Employee entitlements | | 9,251 | 7,837 | 10,846 | 10,846 |
| Other current liabilities | | 4,411 | 5,676 | 3,786 | 3,786 |
| Total Current Liabilities | | 41,852 | 54,931 | 43,896 | 31,896 |
| Non-current Liabilities | | | | | |
| Provisions | | - | - | - | - |
| Employee entitlements | | 1,432 | 1,556 | 1,439 | 1,439 |
| Other non-current liabilities | | - | - | - | - |
| Total Non-current Liabilities | | 1,432 | 1,556 | 1,439 | 1,439 |
| Total Liabilities | | 43,284 | 56,487 | 45,335 | 33,335 |
| Taxpayers' Funds | | | | | |
| General funds | | 31,131 | 42,984 | 31,131 | 42,984 |
| Revaluation reserve | | 270 | 1,350 | 270 | 270 |
| Other reserves | | - | - | - | - |
| Total Taxpayers' Funds | | 31,401 | 44,334 | 31,401 | 43,254 |
| Total Liabilities and Taxpayers' Funds | | 74,685 | 100,821 | 76,736 | 76,589 |

Statement of Forecast Cash Flows for the year ending 30 June 2011

| | | 2008/09 | 2009/10 | | 2010/11 |
|---|------|-----------------|----------------------------|------------------------------|-------------------|
| | Note | Actual \$000 | In 2009 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Cash Flows from Operating Activities | | | | | |
| Receipts from: | | | | | |
| Crown | | 199,813 | 205,968 | 213,719 | 203,948 |
| Department(s) | | 2,628 | 1,897 | 1,503 | 1,897 |
| Other | | 14,990 | 14,384 | 15,202 | 15,418 |
| Interest | | - | - | - | - |
| Payments to: | | | | | |
| Suppliers | | (67,581) | (63,689) | (70,076) | (75,210) |
| Employees | | (133,338) | (124,202) | (125,479) | (120,479) |
| Capital charge | | (1,498) | (3,325) | (2,355) | (2,355) |
| Goods and services tax (net) | | (1,177) | - | - | - |
| Other operating activities | | - | - | - | - |
| Net Cash from Operating Activities | | 13,837 | 31,033 | 32,514 | 23,219 |
| Cash Flow from Investing Activities | | | | | |
| Receipts from: | | | | | |
| Sale of property, plant and equipment | | 22 | 100 | 59 | 45 |
| Sale of intangible assets | | - | - | - | - |
| Sale of other non-current assets | | - | - | - | - |
| Purchase of: | | | | | |
| Property, plant and equipment | | (4,516) | (10,410) | (3,720) | (3,310) |
| Intangible assets | | (14,434) | (25,000) | (13,545) | (15,000) |
| Other non-current assets | | - | - | - | - |
| Net Cash from Investing Activities | | (18,928) | (35,310) | (17,206) | (18,265) |
| Cash Flow from Financing Activities | | | | | |
| Capital contribution | | 12,508 | 10,594 | - | 11,853 |
| Other financing cash inflows | | - | - | - | - |
| Repayment of surplus | | (7,432) | (6,300) | (10,406) | (12,000) |
| Capital withdrawal | | - | - | - | - |
| Other financing cash outflows | | - | - | - | - |
| Net Cash from Financing Activities | | 5,076 | 4,294 | (10,406) | (147) |
| Net Increase/(Decrease) in Cash | | (15) | 17 | 4,902 | 4,807 |
| Cash at the beginning of the year | | 9,537 | 16,141 | 9,522 | 14,424 |
| Cash at the end of the year | | 9,522 | 16,158 | 14,424 | 19,231 |

Statement of Significant Assumptions

These forecast financial statements have been compiled on the basis of existing government policies and Ministerial expectations at the time the statements were finalised.

The main assumptions are as follows:

- The Ministry's activities will remain substantially the same as for the previous year.
- Operating costs are based on historical experience. The general historical pattern is expected to continue.
- Estimated year end information for 2009/10 is used as the opening position for the 2010/11 forecasts.

These assumptions are adopted as at 21 April 2010.

Factors that could lead to material differences between the forecast financial statements and the 2008/09 actual financial statements include:

- Changes to the baseline budget through new initiatives, or technical adjustments.

Statement of Entity-Specific Accounting Policies

Department - Specific Accounting Policies

The Ministry of Health has applied the accounting policies set out in Statement of Accounting Policies Standard included in this document, except as stated below.

Reporting Entity

These are the prospective financial statements of Ministry of Health, prepared in accordance with section 38 of the Public Finance Act 1989.

Ministry of Health is a Government Department as defined by section 2 of the Public Finance Act 1989. For the purposes of financial reporting Ministry of Health is a public benefit entity.

Statement of Entity Specific Accounting Policies

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. Typically, the estimated useful lives of different classes of property, plant and equipment.

| | Useful life | Depreciation rate |
|------------------------|-------------|-------------------|
| Buildings | 40 years | 2.5% |
| Motor vehicles | 5 years | 20% |
| Furniture and fittings | 5-10 years | 10-20% |
| Machinery | 5 years | 20% |
| Leasehold improvements | 5-10 years | 10-20% |
| IT equipment | 3-5 years | 20-33.3% |
| Scientific equipment | 5-10 years | 10-20% |

Intangible assets

Intangible assets with finite lives are subsequently recorded at cost less any amortization and impairment losses. Amortisation is charged to the Statement of Financial Performance on a straightline basis over the useful life of the asset. Typically, the estimated useful lives of these assets are as follows:

| | Useful life | Amortisation rate |
|---------------------------------|-------------|-------------------|
| Software - internally generated | 3-5 years | 20-33.3% |
| Software - other | 3-5 years | 20-33.3% |

Cost allocation

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner with any one specific output.

Direct costs are charged directly to outputs while indirect costs are charged to outputs based on the level of activity associated with relevant cost drivers.

Depreciation is charged to Business Units on the basis of asset utilisation with the balance being charged as indirect costs. Direct personnel costs are allocated to the output expenses with the balance being charged as indirect costs.

Statement of Entity-Specific Accounting Policies

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Reporting Entity

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Authorisation Statement

These forecast financial statements for the year ended 30 June 2011 comply with FRS-42 Prospective Financial Statements.

Specific Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these statements. These statements have been prepared on a going-concern basis. The measurement base applied is historical cost modified by the revaluation of certain assets and liabilities as identified in this statement of accounting policies.

The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars, which is the entity's functional currency. All financial information presented has been rounded to the nearest thousand.

Judgements and Estimations

The preparation of forecast financial statements in conformity with FRS-42 requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical

experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and these variations may be material.

Leases

Operating Leases

Where substantially all of the risks and rewards of ownership are retained by the lessor, leases are classified as operating leases.

Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

Finance Leases

Leases which effectively transfer to the department substantially all the risks and rewards incidental to ownership of the leased items are classified as finance leases. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and the corresponding lease liabilities are recognised in the statement of financial position. The leased assets are depreciated over the period the department is expected to benefit from their use. The interest expense component of finance lease payments is recognised in the statement of financial performance.

Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

Property, Plant and Equipment

Property, plant and equipment, other than land and buildings, is stated at cost less accumulated depreciation and impairment losses. Land and buildings are stated at fair value as determined by an independent registered valuer. Fair value is determined using market-based evidence. Land and buildings are revalued with sufficient regularity to ensure that carrying value is not materially different from fair value at the end of the reporting period. Additions between revaluations are recorded at cost. Any capitalisation thresholds applied are set out in the statement of entity-specific accounting policies.

Depreciation

Depreciation is provided on a straight-line basis so as to allocate the cost [or valuation] of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life.

The estimated useful lives are set out in the statement of entity-specific accounting policies.

Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter.

Items under construction are not depreciated. The total cost of a capital project is transferred to the appropriate asset class on its completion and then depreciated.

Intangible Assets

Intangible assets with finite useful lives (such as computer software) are recorded at cost less accumulated amortisation and impairment losses.

Any capitalisation thresholds applied are set out in the statement of entity-specific accounting policies.

Amortisation is charged to the statement of financial performance on a straight-line basis over the estimated useful life of the asset.

The estimated useful lives are set out in the statement of entity-specific accounting policies.

Intangible assets with indefinite useful lives are not amortised, but are tested at least annually for impairment.

Where there is an active market for an intangible asset, the asset is recorded at a revalued amount, being fair value less any subsequent accumulated amortisation and accumulated impairment losses.

Cash and Cash Equivalents

Cash includes cash on hand and funds on deposit with banks with a maturity of 3 months or less from date of acquisition.

Debtors and Other Receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less impairment charges. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired.

Inventories

Inventories held for sale or use in the production of goods and services on a commercial basis are recorded at the lower of cost and net realisable value. The cost of purchased inventory is determined using the weighted average cost method.

Inventories held for distribution for public benefit purposes are recorded at cost (calculated using the weighted average cost method) adjusted when applicable for any loss of service potential. Where inventories are acquired at no cost, or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Employee Entitlements

Pension Liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the statement of financial performance as they fall due.

Other Employee Entitlements

Employee entitlements to salaries and wages, annual leave, sick leave, long service leave, retiring leave and other similar benefits are recognised in the statement of financial performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. Long-term employee entitlements are reported at the present value of the estimated future cash outflows.

Termination Benefits

Termination benefits are recognised in the statement of financial performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid. Other termination benefits are reported at the present value of the estimated future cash outflows.

Onerous Contracts

Where the benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation under the contract, a provision is recognised. The provision is stated at the present value of the future net cash outflows expected to be incurred in respect of the contract.

Foreign Currency

Foreign currency transactions are reported at the New Zealand dollar exchange rate at the date of the transaction.

Statement of Cash Flows

The following are definitions of the terms used in the statement of cash flows:

- cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with a maturity of no more than three months from date of acquisition
- investing activities are those activities relating to the acquisition and disposal of non-current assets
- financing activities comprise capital injections by, or repayment of capital to, the Crown, and
- operating activities include all transactions and other events that are not investing or financing activities.

Taxation

Departments and Offices of Parliament are exempt from income tax as public authorities. Accordingly no charge for income tax has been provided for.

Goods and Services Tax

These forecast financial statements are GST exclusive, except for receivables and payables in the statement of financial position, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST owing to or from the Inland Revenue Department at balance date is included as part of receivables or payables (as appropriate) in the statement of financial position.

Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Contingent Liabilities and Contingent Assets

Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Changes in Accounting Policies

Any changes in accounting policies since the date of the last audited financial statements prepared under New Zealand generally accepted accounting practice are described in the statement of entity-specific accounting policies. The last audited financial statements (30 June 2009) were prepared in accordance with NZ IFRS (New Zealand Equivalents to International Financial Reporting Standards) as appropriate for public benefit entities.

Notes to the Financial Statements

Note 1 - Revenue - Other

| | 2008/09 | 2009/10 | | 2010/11 |
|--|-----------------|----------------------------|------------------------------|-------------------|
| | Actual \$000 | In 2009 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Medicines registration | 9,033 | 8,386 | 8,386 | 8,530 |
| Service Fees | 3,763 | 2,924 | 3,334 | 3,291 |
| Annual licence and registration fees | 1,186 | 1,175 | 1,585 | 1,700 |
| State Sector Retirement Saving Scheme recovery | 2,204 | 1,897 | 1,897 | 1,897 |
| Other departmental revenue | 397 | | | |
| Other | 566 | | | |
| Total | 17,149 | 14,382 | 15,202 | 15,418 |

Note 2 - Operating Expenses

| | 2008/09 | 2009/10 | | 2010/11 |
|---------------------|-----------------|----------------------------|------------------------------|-------------------|
| | Actual \$000 | In 2009 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Consulting expenses | 9,172 | 9,690 | 8,378 | 7,500 |
| Overseas Travel | 1,149 | 1,163 | 775 | 650 |
| Domestic travel | 7,010 | 6,064 | 5,503 | 4,953 |
| Other | 56,074 | 58,258 | 54,634 | 61,321 |
| Total | 73,404 | 75,175 | 69,290 | 74,424 |

Note 3 - Debtors and Other Receivables

| | 2008/09 | 2009/10 | | 2010/11 |
|-----------------|-----------------|----------------------------|------------------------------|-------------------|
| | Actual \$000 | In 2009 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Debtor - Crown | 15,878 | 2,757 | 6,757 | 1,757 |
| Debtors - Other | 2,502 | 848 | 2,173 | 2,173 |
| Total | 18,380 | 3,605 | 8,930 | 3,930 |

Note 4 - Reconciliation of Net Surplus to Net Cashflows from Operating Activities

| | 2008/09 | 2009/10 | | 2010/11 |
|---|-----------------|----------------------------|------------------------------|-------------------|
| | Actual \$000 | In 2009 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Net surplus/(deficit) | 10,409 | 16,158 | 9,905 | 19,231 |
| Add/(less) non-cash items: | | | | |
| Depreciation and amortisation expense | 9,674 | 11,402 | 11,481 | 8,840 |
| Add/(less) items classified as investing or financing activities: | | | | |
| (Gains)/losses on disposal of property, plant and equipment | 9 | - | - | - |
| Add/(less) movements in working capital items: | | | | |
| (Inc)/Dec in debtors and receivables | (780) | (5,323) | 5,422 | 5,148 |
| (Inc)/Dec in debtor Crown | (1,691) | 13,121 | (4,000) | 5,000 |
| (Inc)/Dec in prepayments | (81) | - | - | - |
| Inc/(Dec) in creditors and payables | (3,369) | 4,813 | 5,187 | (5,000) |
| Inc/(Dec) in provisions | (1,654) | - | - | - |
| Inc/(Dec) in employee entitlements | 1,322 | (9,138) | - | - |
| Net Movements in working capital items | (6,253) | 14,875 | 18,090 | 13,988 |
| Net Cash from operating activities | 13,839 | 31,033 | 27,995 | 23,219 |

Note 5 - Property, Plant and Equipment

| | Land \$000 | Buildings \$000 | Leasehold improvements \$000 | Furniture/office equipment \$000 | Other \$000 | Total \$000 |
|---|---------------|--------------------|------------------------------------|--|----------------|----------------|
| Cost or revaluation | | | | | | |
| Balance as at 1 July 2010 | 5,350 | 7,840 | - | 9,771 | 49,751 | 72,712 |
| Additions by purchase | - | 900 | - | 810 | 8,700 | 10,410 |
| Additions internally developed | - | - | - | - | - | - |
| Revaluation increase | - | - | - | - | - | - |
| Transfers between classes | - | - | - | - | - | - |
| Disposals | - | - | - | -30 | -70 | -100 |
| Balance as at 30 June 2011 | 5,350 | 8,740 | - | 10,551 | 58,381 | 83,022 |
| Accumulated depreciation and impairment losses | | | | | | |
| Balance as at 1 July 2010 | - | 4,273 | - | 5,674 | 36,247 | 46,194 |
| Depreciation expense | - | 578 | - | 931 | 3,470 | 4,979 |
| Eliminate on disposal | - | - | - | - | - | - |
| Eliminate on revaluation | - | - | - | - | - | - |
| Transfers between classes | - | - | - | - | - | - |
| Impairment losses | - | - | - | - | - | - |
| Balance as at 30 June 2011 | - | 4,851 | - | 6,605 | 39,717 | 51,173 |
| Carrying amount as at 30 June 2011 | 5,350 | 3,889 | - | 3,946 | 18,664 | 31,849 |

Note 6 - Intangible Assets

| | Acquired software \$000 | Internally generated software \$000 | Other \$000 | Total \$000 |
|---|----------------------------|---|----------------|----------------|
| Cost | | | | |
| Balance as at 1 July 2010 | 20,701 | 41,635 | 0 | 62,336 |
| Additions by purchase | 8,700 | 0 | 0 | 8,700 |
| Additions internally developed | 0 | 6,300 | 0 | 6,300 |
| Disposals | 0 | 0 | 0 | 0 |
| Balance as at 30 June 2011 | 29,401 | 47,935 | 0 | 77,336 |
| Accumulated amortisation and impairment losses | | | | |
| Balance as at 1 July 2010 | 8,397 | 23,701 | 0 | 32,098 |
| Amortisation expense | 5,440 | 3,939 | 0 | 9,379 |
| Disposals | 0 | 0 | 0 | 0 |
| Impairment losses | 0 | 0 | 0 | 0 |
| Balance as at 30 June 2011 | 13,837 | 27,640 | 0 | 41,477 |
| Carrying amount as at 30 June 2011 | 15,564 | 20,295 | 0 | 35,859 |