

Southern Cross Health Trust 2017 Annual Report



Contents

02	Chairman and Chief Executive Officer's report
04	Operational reviews
06	Statement of Corporate Governance
08	Board of Trustees
10	Financial statements



Chairman and Chief Executive Officer's report

Greg Gent (left) and Terry Moore

The Southern Cross Health Trust is a Charitable Trust, with a vision to make quality healthcare more affordable and accessible for a greater number of New Zealanders. We achieve this by investing in health-related activities that align with our charitable vision, including the provision of medical facilities and services, the employment of nursing and other staff, and the provision of training opportunities. The Trust also engages in commercial activities that provide funds to invest back into these charitable initiatives.

THE TRUST'S ROLE

The Southern Cross Health Trust is focused on achieving the best possible health outcomes for New Zealanders. Backed by our size and experience, the Trust and its two subsidiaries – Southern Cross Hospitals Limited and Southern Cross Benefits Limited (trading as Southern Cross Travel Insurance and Southern Cross Pet Insurance) - are uniquely positioned. Any surplus made from our commercial activities is reinvested for the benefit of all New Zealanders – such as partnering with other charitable organisations, making improvements to facilities, investing in technology and training, and ensuring patients receive world-class health care.

The Southern Cross Health Trust was established 40 years ago with a clear purpose to give more New Zealanders access to timely, affordable and quality elective healthcare. Today that role is more important than ever as our growing and ageing population and the

impact of chronic conditions creates increasing demand for healthcare.

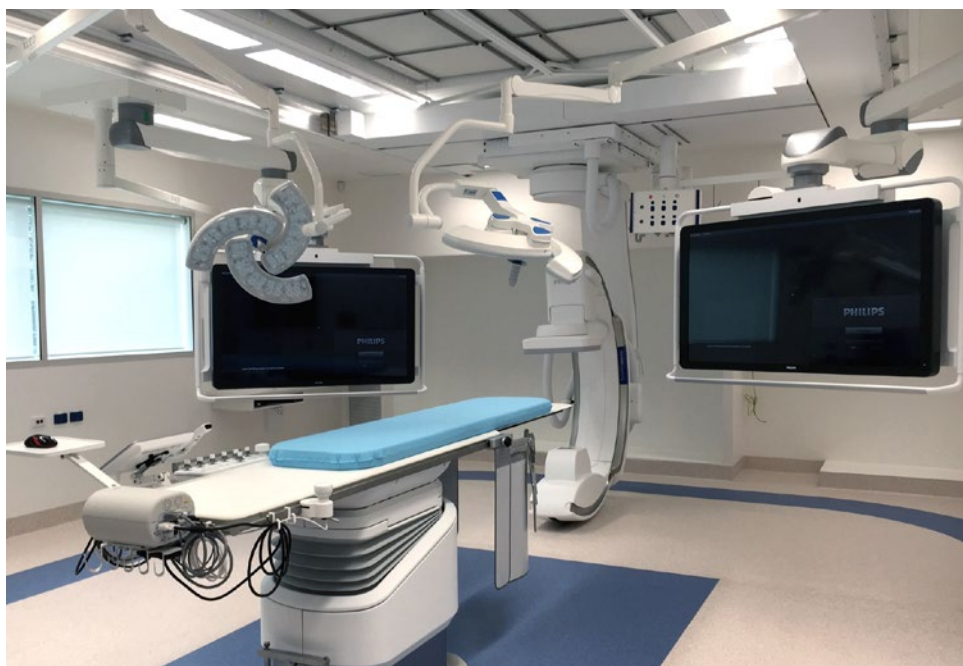
The Trust makes a large and important contribution to healthcare in New Zealand through its 19 facilities - ten wholly owned and another nine joint ventures. Southern Cross Hospitals is New Zealand's largest network of private medical facilities, providing services to over 78,000 patients in the last financial year. Our ongoing reinvestment in our facilities means Southern Cross Hospitals continues to enhance elective surgery options for New Zealanders.

In May 2017 we welcomed Chris White as Chief Executive Officer of Southern Cross Benefits. Chris joined the business from Spicers Portfolio Management, where he was Managing Director. Chris brings considerable experience in business leadership, strategy and governance to the role. He is a strong advocate for the needs of the customer and brings a focus on developing people and culture.

CHARITABLE ACTIVITIES

The Southern Cross Health Trust is proud of the charitable initiatives it supports, in line with its vision and purpose.

In the 2017 financial year, Southern Cross Hospitals offered its facilities, medical supplies and theatre staff for 88 charitable elective surgeries. The majority underwent ophthalmology or orthopaedic procedures. Where patients have a condition that cannot be operated on within an



Hamilton's new cath lab

appropriate time frame within the public service and are not able to fund the surgery themselves, surgeons may apply to use our facilities for no charge, often providing their own services at no cost as well. We know these surgeries can be life-changing and because of this we will proudly continue to offer our facilities and staff for this programme.

Dentistry for adults is not subsidised in the public health system. The reality for many New Zealanders is that they cannot afford to see a dentist, meaning they live in constant pain from untreated decay or disease.



Revive-a-Smile: Assil Russell (left) and colleagues

Revive-a-Smile is the brainchild of dentist Dr Assil Russell, who devotes her summers to providing free dental treatment to those who would not otherwise be able to afford it. This was the first year the Trust sponsored the initiative. Our support made it possible for Dr Russell to travel to the Far North and Waikato and provide 400 consultations to people in need of crucial dental care.

In addition, the Smile New Zealand initiative partners us with the New Zealand Dental Association (NZDA) to enable free dental care to low-income adults by dentists and dental surgeries across the country. This was our third year supporting this initiative. In the 2017 financial year the programme made possible free dental treatment for 650 low income New Zealanders across the country.

The 2017 financial year was the second of our three-year funding agreement with Sweet Louise, a charity that supports people with terminal breast cancer. Sweet Louise provides professional and peer support for its members and their families, referrals to outside organisations, and \$500 worth of vouchers annually that can be redeemed for treatment, therapies and services that help improve quality of life.

In the last financial year we also sponsored Dove Hospice's cancer survivorship programme in Auckland. Led by wellness coach and awareness mentor Anneke Hogan, the six week programme gives cancer survivors support and resources to deal with fear and anxiety, set goals and move forward after cancer.

FINANCIAL REVIEW

The Trust concluded a solid year of operation. Southern Cross Travel Insurance's improvement in surplus was due to lower cost of claims compared to the previous year. Southern Cross Hospitals' improved surplus is attributable to a better financial performance and a one-off insurance payment received for damaged equipment.

We would like to thank the Hospitals and Benefits teams for their work over the past year to achieve these excellent results.

Greg Gent
Chairman

Terry Moore
Chief Executive Officer



Operational review Southern Cross Hospitals Limited

Terry Moore, Chief Executive Officer

Southern Cross Hospitals is a wholly-owned subsidiary of the Southern Cross Health Trust. The company provides care to New Zealanders in two significant ways. Firstly, it directly cares for thousands of New Zealanders every year in its Hospitals. Secondly, any surplus from this business is fed back to the Trust which uses some of it to fund its charitable activities. This includes support for organisations caring for people with cancer, terminal illness and those needing dental treatment.

Southern Cross Hospitals cared for 78,000 New Zealanders in its ten wholly-owned hospitals and nine joint venture facilities in the last financial year. These included private health insurance-funded, ACC, DHB and self-paying patients.

Nearly 1,000 surgeons and anaesthetists are credentialed to provide services in our facilities.

To continue our commitment to patient safety and care we conduct a survey every year which, in 2017, once again showed we rate among the best in Australasia. Results showed that we retained the same level of satisfaction as last year, with 97% of respondents satisfied overall with their stay and 94% saying they were extremely likely to recommend our hospitals.

Southern Cross Hospitals' core purpose is to provide choice to patients for their healthcare needs at prices that are as affordable as possible, while ensuring the business remains financially sustainable. Independent research conducted every two years confirms our prices are, on average, well below those of local competitors.

We know that people are an essential element of quality healthcare and we remain committed to being a great place to work. We continue to invest in the skills and wellbeing of those people who deliver this high level of care and we thank our staff across the business for their commitment.

Our financial performance in a highly competitive market has been very satisfactory. Our return on assets is sustainable and continues to enable major re-investment back into the business, through new technology and the development of our people. And, of course, it allows us to return funds to the Trust for the support of charitable initiatives.

It is important to us that we maintain safe, modern hospitals that keep pace with current medical technology. In the 2017 financial year we continued our commitment in this area with some significant innovations:

- Expansion and improvements at our North Harbour hospital on Auckland's North Shore has created new theatre, pre-admission and recovery facilities. The work continues with an extension of the specialist centre.
- Also at our North Harbour facility, we introduced New Zealand's first trans-oral robotic surgery unit. These leading-edge technologies are making surgery less traumatic for patients; minimising the need for more invasive open surgery.
- The Trust also acquired a 50% share in TBI Health, a network of rehabilitation services across New Zealand that will bring greater continuity of care to our patients as they recover from surgery.
- In Manuka Street Hospital, Nelson, the multi-million dollar upgrade we began during the previous financial year is nearly at the half way point and will provide a new dedicated patient and visitor lounge, a purpose-built consultation room for specialists to assess patients before their surgery, an extension to the ward and a new reception area.
- In Rotorua we added a new chemotherapy delivery service, reducing the need for locals to travel to Tauranga or Hamilton for their treatments.
- A new cardiology suite was built for our Hamilton hospital, including the leading Philips Azurion image-guided treatment system.
- Finally, a new website was developed to provide easy access for patients and providers to quality information around our performance and results on areas such as blood clot risk.

We are leaders in the delivery of affordable private healthcare, with a national network of facilities, a not-for-profit philosophy and reinvestment of surpluses in the development of our facilities workforce, technology and patient safety programmes. We continue our drive for practical cost improvements that don't compromise the quality and safety for which our hospitals are renowned.



Operational review Southern Cross Benefits Limited

Chris White, Chief Executive Officer

Southern Cross Benefits Limited (SCBL) is a wholly-owned subsidiary of the Southern Cross Health Trust. Its purpose is to generate a strong, sustainable stream of funding to aid the Trust in fulfilling its charitable purpose and objectives.

SCBL sells Southern Cross Travel Insurance (SCTI) in both New Zealand and Australia and underwrites Southern Cross Pet Insurance in New Zealand.

Both our Travel Insurance and Pet Insurance businesses delivered solid performances in the year ended 30 June 2017.

Southern Cross Travel Insurance

Southern Cross Travel Insurance’s businesses in both NZ and Australia achieved a higher than budget profit in the last financial year. In that period Southern Cross Travel Insurance sold more than 300,000 policies and paid more than 40,000 claims. This resulted in \$3 million in dividends going back to the Trust.

The team worked hard to continue improving customer experience via new technology and we are proud to continue our award-winning performance, with four awards:

- Outstanding Value Travel Insurance CANSTAR NZ awards in three categories:
 - International,

- South Pacific Cruise and
- Trans-Tasman categories.
- Outstanding Value International Travel Insurance from CANSTAR Australia



Southern Cross Pet Insurance

Southern Cross Pet Insurance has now been in operation for five years and has experienced strong growth. Contributing to this success has been our SPCA partnership and our sponsorship of the reality TV show *Vet Tales*. The most popular plans were our Silver and Bronze ribbon policies and we saw a definite increase in the number of cats insured.

Our net growth in pets insured over the year was 29%, significantly better than budget. With this net growth, the total number of pets insured passed the 20,000 milestone, reaching more than 21,000 by year end.

My thanks to Pet Insurance General Manager, Anthony McPhail, and his team for this outcome.



Statement of corporate governance

The Southern Cross Health Trust is a Charitable Trust registered as a charitable entity under the Charities Act 2005. Its purpose is to assist in the provision of medical facilities, services and research to supplement those provided by the Government. The Trust also undertakes ancillary activities to provide funding streams to assist it to achieve its charitable objects.

The Trust adheres to principles designed to further its charitable objects and to ensure good corporate governance of its affairs.

BOARD ROLE AND CHARTER

The Trust is governed by a Board of Trustees in accordance with the Trust Deed establishing the Southern Cross Health Trust, and the Board Charter. Subsidiary Boards operate in accordance with the Trust Board Charter or (in the case of Southern Cross Benefits Limited) their own Board Charter. The Trust and its subsidiaries exist to further the Trust's charitable purposes in accordance with the Trust Deed.

The Board Charter describes the purpose and objects of the Trust and its subsidiaries, the Board's role and governance processes, and the Board's relationship with management. The role of the Trust Board is to manage the Trust fund to fulfil the charitable purpose and objects for which the Trust was established. The Board directs and supervises the management of the Trust and its businesses, including:

- Ensuring the Trust and subsidiaries meet their statutory obligations under the Charities Act 2005
- Ensuring the purpose and objects of the Trust are understood and that strategies, business plans and budgets are in place to achieve them
- Establishing policies for strengthening the performance of the Trust, including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products and development of its business capital
- Monitoring the performance of management
- Appointing the Chief Executive Officer
- Deciding on whichever steps are necessary to protect the financial position of the Trust and subsidiaries

- Ensuring the Trust's financial statements are true and fair and otherwise conform with law
- Ensuring that the Trust and subsidiaries adopt and adhere to all Southern Cross Healthcare Group policies and strategies as they relate to the Trust and subsidiaries
- Ensuring the Board and management adhere to high standards of ethics and corporate behaviour
- Establishing the Trust's overall risk appetite and ensuring appropriate risk management and regulatory compliance policies and procedures are in place.

The Board endorses the principles set out in the Code of Practice for Directors as adopted and approved by the Institute of Directors in New Zealand Inc. The Board has also adopted its own Code of Conduct to provide guidance to the Board, management and employees on how it expects them to conduct themselves when undertaking business on behalf of the Trust and its subsidiaries.

The Trustees in office as at 30 June 2017 are:

Gregory Gent (Chairman)
Catherine Drayton
Elizabeth (Liz) Hickey
Dr Philip Leightley
Dr Martin Misur
Dr Arthur Morris
Keith Taylor

Trustees may also be appointed to serve as Directors of Trust subsidiaries. No remuneration is paid to Directors of Trust subsidiaries.

All Board members disclose any actual or potential conflicts of interest. Should a conflict of interest arise during the course of Board business the affected Board member is expected to excuse him or herself from the discussion and does not vote on those matters.

The Board meets formally on a regular scheduled basis and holds additional meetings as required. At each formal meeting the agenda will include a report from the CEO and management covering operational and financial performance of the Trust and subsidiaries, capital expenditure proposals, and strategic issues and opportunities. At intervals of not greater than one year the Board will review the strategies and business plans of the business, approve budgets and financial statements, and undertake other activities listed in the Board Charter.

DELEGATION FRAMEWORK

Responsibility for the day-to-day management of the Trust is delegated by the Board to the CEO. Responsibility for the day-to-day management of Trust subsidiaries is delegated by the subsidiary Boards to the subsidiary CEOs. The CEOs are expected to manage their businesses in accordance with the strategy, plans, budgets and the specific delegated authorities approved by their Boards.

COMMITTEES

The Board forms committees when it is efficient or necessary to facilitate decision making. The Trust Board has two standing committees:

Audit Committee

The Audit Committee's objectives are to assist the Board in discharging its responsibilities to exercise due care, diligence and skill in relation to oversight of financial functions, internal and external audit functions and risk management. Specific responsibilities include reviewing the content and disclosure of the Annual Report's Financial Statements; ensuring the Board makes informed decisions regarding accounting policies, practices and disclosures; recommending the appointment of external and internal auditors; reviewing the annual external and internal audit plans; ensuring that adequate internal controls are in place; ensuring management has established a risk management framework to effectively identify, treat, monitor and report key business risks; and reviewing health and safety objectives and management systems. The Audit Committee comprises Liz Hickey (Chair), Catherine Drayton, Greg Gent, Arthur Morris and Keith Taylor.

Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee's objectives include providing advice to the Trust Board in relation to the remuneration, employment conditions, development and performance management of the CEO, and other employment-related matters including standard terms and conditions of employment. Members of this Committee are Greg Gent (Chair), Catherine Drayton, Martin Misur and Keith Taylor.

EXTERNAL AUDIT INDEPENDENCE

The Board is committed to auditor independence. The Audit Committee is responsible for making recommendations to the Board concerning the appointment of external auditors and their terms of engagement.

LOANS TO TRUSTEES

The Southern Cross Health Trust and subsidiaries do not make loans to Board members.

MEETING ATTENDANCE

Trustee meeting attendance for the year ended 30 June 2017:

	Trust Board	Audit Committee	Remuneration and HR Committee	Strategic Workshop
Meetings held:	7	5	4	1
Meetings attended:				
Dr D Baird	4		1	1
C Drayton	7	5	2	1
G Gent	7	5	4	1
E Hickey	7	5		
Dr P Leightley	7		1	1
Dr M Misur	3			
Dr A Morris	4	1		1
K Taylor	7	5	2	1

A Morris was appointed to the Board on 1 January 2017 and to the Audit Committee on 28 March 2017.

M Misur was appointed to the Board and Remuneration Committee on 28 March 2017.

C Drayton was appointed to the Remuneration Committee on 28 March 2017.

D Baird resigned from the Board and the Remuneration Committee on 31 May 2017.

Board of Trustees



GREG GENT

ONZM
Chairman

Greg Gent joined the Trust Board in 2011 and was elected Chairman in 2014. He is also Chairman of Trust subsidiaries Southern Cross Hospitals and Southern Cross Benefits. Mr Gent is a Northland dairy farmer with a wealth of governance experience. From 2001 to 2011 he was a director of New Zealand's largest co-operative business, Fonterra. Prior to Fonterra's formation he was chair of Northland Dairy and Kiwi Co-op Dairies. He is chair of Dairy Holdings Limited; a director of New Zealand Institute for Plant and Food Research; and was a member of the Northland District Health Board from 2010 to mid-2015. Mr Gent is also chair of the Southern Cross Medical Care Society.



CATHERINE DRAYTON

BCom, LLB, FCA

Catherine Drayton joined the Trust Board in 2014 and is also a Director of subsidiary Southern Cross Hospitals. She is a professional, non-executive director on a variety of boards. She is Chair of Christchurch International Airport and a director of engineering consultancy BECA Group Limited, Fronde Systems Group and Ngai Tahu Holdings Corporation. She is a member of the University of Canterbury Council and former chair of the audit and risk committee for the Christchurch Earthquake Recovery Authority (CERA). Ms Drayton is a former partner in charge of assurance and advisory services for Pricewaterhouse Coopers in Central and Eastern Europe, and is a fellow of Chartered Accountants Australia and New Zealand. Ms Drayton is also a Director of Southern Cross Medical Care Society.



ELIZABETH HICKEY

MNZM, MCom(Hons), FCA, MInstD

Liz Hickey is a chartered accountant and member of the Institute of Directors who joined the Trust Board in 2009. She is also a Director of Trust subsidiaries Southern Cross Hospitals and Southern Cross Benefits. Ms Hickey is a trustee of the University of Auckland Foundation, and a director of Diabetes New Zealand Inc. Her past governance experience includes being a director of Radio New Zealand, Genesis Power and Environmental Science and Research. She has served on both the New Zealand and international boards of the World Association of Girl Guides and Girl Scouts, and is a Fellow and past-President of Chartered Accountants Australia and New Zealand. Ms Hickey is also a Director of Southern Cross Medical Care Society.



DR PHILIP LEIGHTLEY

MB, BS, DA, FRCA, FANZCA

Dr Philip Leightley joined the Trust Board in 2013 and has been a Director of subsidiary Southern Cross Hospitals since 2009. He is a practicing medical professional who has worked in Auckland as a specialist anaesthetist since 1987, including 25 years in the private sector. Dr Leightley also has extensive governance and administration experience, including chairing and serving on a range of hospital committees. He was a founding shareholder and then director of the Auckland Surgical Centre which was purchased by Southern Cross Hospitals in 2005. He is also a Director of Southern Cross Medical Care Society.



DR MARTIN MISUR

BHB, MBChB

Dr Misur is a Specialist Anaesthetist at Auckland City Hospital and in private practice at Epsom Anaesthetic Partnership. He was appointed as a Trustee, and as a Director of subsidiary Southern Cross Hospitals, in March 2017. His subspecialty interests include anaesthesia for hepatobiliary / upper gastrointestinal surgery and solid organ transplantation.



DR ARTHUR MORRIS

BSc(Hons), MD, Dip ABMM, FRCPA

Dr Arthur Morris is an Auckland-based clinical microbiologist who also works with the Health Quality and Safety Commission as a Clinical Lead. He was appointed as a Trustee, and as a Director of subsidiary Southern Cross Hospitals, in January 2017. He is a current director of Fisher and Paykel Healthcare and Mercy Healthcare Auckland, a trustee of the Auckland School of Medicine Foundation and a former Chief Executive of Diagnostic Medlab.



KEITH TAYLOR

ONZM, BSC, BCA, FIA, FINSTD

Keith Taylor was appointed to the Trust Board in 2010 and also sits on the boards of subsidiaries Southern Cross Hospitals and Southern Cross Benefits. He has over 30 years' experience in the insurance and financial services industries as a chief executive, chief financial officer and actuary. Mr Taylor is chair of Butland Holdings, Gough Holdings, and Auckland Council Investments Limited. He is also a director of Port Marlborough and the Reserve Bank of New Zealand. He has previously been a director of property, insurance, trustee and investment companies in both New Zealand and Australia. Mr Taylor is also a Director of Southern Cross Medical Care Society.

Financial statements

The following information is an extract from the Southern Cross Health Trust audited 2017 financial statements.

- 11 Consolidated Statement of Comprehensive Revenue and Expense
- 12 Consolidated Statement of Changes in Trust Funds
- 13 Consolidated Statement of Financial Position
- 14 Consolidated Statement of Cash Flows

The complete audited financial statements are available on request:

Email:

communications@southerncross.co.nz

Or write to:

Southern Cross Health Trust

PO Box 6772 Wellesley Street

Auckland 1141

Southern Cross Health Trust

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE for the year ended 30 June 2017

	2017 \$000	2016 \$000
Revenue	343,106	325,742
Operating expenses	(310,940)	(302,789)
Other income	6,275	5,693
Insurance compensation	2,734	-
Share of profit from equity accounted investments	8,395	6,789
Impairment of assets	300	(2,482)
Surplus before interest, income tax, depreciation and amortisation	49,870	32,953
Depreciation	(18,779)	(17,504)
Amortisation	(1,622)	(1,531)
Finance income	1,540	2,066
Finance costs	(87)	(324)
Surplus before tax	30,922	15,660
Tax expense	-	(1)
Net surplus after tax	30,922	15,659
Other comprehensive revenue and expense		
Movement in foreign currency translation reserve	(105)	(753)
Total comprehensive revenue and expense	30,817	14,906

Southern Cross Health Trust

CONSOLIDATED STATEMENT OF CHANGES IN TRUST FUNDS for the year ended 30 June 2017

	Retained surpluses \$000	Capital reserve \$000	Foreign currency translation reserve \$000	Total Trust funds \$000
Balance at 1 July 2015	310,434	250	(657)	310,027
Net surplus	15,659	-	-	15,659
Total other comprehensive revenue and expenses	-	-	(753)	(753)
Balance at 30 June 2016	326,093	250	(1,410)	324,933
Balance at 1 July 2016	326,093	250	(1,410)	324,933
Net surplus	30,922	-	-	30,922
Total other comprehensive revenue and expenses	-	-	(105)	(105)
Balance at 30 June 2017	357,015	250	(1,515)	355,750

Southern Cross Health Trust

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 June 2017

	2017 \$000	2016 \$000
Current assets		
Cash and cash equivalents	31,891	33,546
Receivables and prepayments	35,252	36,221
Financial assets	54,899	37,356
Insurance recovery receivable	174	-
Inventories	4,269	4,065
Total current assets	126,485	111,188
Non-current assets		
Equity accounted investments	38,771	32,981
Property, plant and equipment	241,647	230,847
Intangible assets	4,908	5,125
Goodwill	15,569	15,569
Total non-current assets	300,895	284,522
Total assets	427,380	395,710
Current liabilities		
Payables and accruals	25,025	23,444
Employee entitlements	9,477	9,087
Deferred settlement	2,000	2,042
Finance lease	48	-
Insurance contract liabilities	35,080	34,268
Total current liabilities	71,630	68,841
Non-current liabilities		
Deferred settlement	-	1,936
Total non-current liabilities	-	1,936
Total liabilities	71,630	70,777
Net assets	355,750	324,933
Trust funds		
Retained surpluses	357,015	326,093
Capital reserve	250	250
Foreign currency translation reserve	(1,515)	(1,410)
Total Trust funds	355,750	324,933

Southern Cross Health Trust

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 30 June 2017

	2017 \$000	2016 \$000
Cash flows from operating activities		
Receipts from customers	349,539	322,757
Payments to employees and suppliers	(271,351)	(252,750)
Payment of direct claims	(41,248)	(46,764)
Receipt of reinsurance recoveries	1,138	2,503
Receipt of insurance compensation	2,560	-
Interest received	1,464	2,166
Dividends received	2	1
Rental income received	4,784	4,842
Other income received	859	224
Net cash flows from operating activities	47,747	32,979
Cash flows used in investing activities		
Proceeds from sale of property, plant and equipment	9	29
Purchase of property, plant and equipment	(32,259)	(37,217)
Distributions from joint ventures and associates	5,468	4,978
(Investment)/disposal of financial assets	(17,444)	5,958
Investment in joint venture	(2,562)	-
Purchase of intangible assets	(512)	(2,833)
Proceeds from loan with associate party	-	306
Deferred settlements paid	(2,042)	(2,425)
Net cash flows used in investing activities	(49,342)	(31,204)
Net cash flow	(1,595)	1,775
Add: cash at the beginning of the year	33,546	32,117
Add: effect of exchange revaluation on foreign currency balances	(60)	(346)
Cash at the end of the year	31,891	33,546
Bank balances	4,221	7,197
Call deposits	27,670	26,349
Cash at the end of the year	31,891	33,546



Southern Cross Health Trust

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