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The Board Members are pleased to present the report of Auckland District Health Board ("ADHB") and the Group comprising ADHB, its subsidiary company and associates for the year ended 30 June 2005.

For and on behalf of the Board Members who authorised the issue of this annual report.

W. K. F. BROWN
Chair

Dated:

H. J. BURKHARDT
Chair Audit Committee

Dated:



AUCKLAND DISTRICT HEALTH BOARD

Auckland District Health Board will provide New Zealand's finest comprehensive health service through excellence and innovation in patient care, education, research and technology.

*Hei Oranga Tika Mo Te Iti Me Te Rahi
Healthy Communities, Quality Healthcare*

DIRECTORY

Address for Service

Auckland District Health Board
First Floor Building 10
Greenlane Clinical Centre
Greenlane West
Epsom
Auckland

Postal Address

PO Box 26417
Auckland
Telephone: (09) 630 9817
Facsimile: (09) 639 9816

Auditor

Ernst & Young (on behalf of the Office of the Auditor-General)
41 Shortland Street
PO Box 2146
Auckland 1

Board Members to 5 December 2004

W.K.F. Brown (Chair)	
Dr. M.P.E. Horsburgh (Deputy Chair)	J. Retimana
C.J. Beavis	V.J. Salmon
H.J. Burkhardt	Dr. I.K. Scott
Dr. D.M. Nash	P.N. Snedden

Board Members from 6 December 2004

W.K.F. Brown (Chair)	B.J. de Geest
R.B. Keenan (Deputy Chair)	Dr. V.T. Hope
Dr. A.R. Bierre	Dr. D.M. Nash
Dr. J.D. Blue	J. Retimana
H.J. Burkhardt	Dr. I.K. Scott
Dr. C.J.W. Chambers	

Chief Executive

G.R. Smith

Executive Management

Dr. D. Sage	(Chief Medical Officer)
A. Lichkus	(Acting Chief Financial Officer)
T. Campbell	(Executive Director of Nursing and Midwifery)
S. Mayo-Smith	(Chief Information Officer)
Dr. N. J. Murray	(General Manager, Auckland City Hospital)
A. Norton	(General Manager, Human Resources)
Dr. D. Jury	(Chief Planning and Funding Officer)
F. Dougan	(General Manager, Greenlane and Mental Health Services)
Dr. M. Wilsher	(Medical Director)
M. Dotchin	(Nurse Director)
J. Mueller	(Director, Allied Health)
Dr. A. Pelkowitz	(Clinical Leader, Planning and Funding)
A. Redican	(General Manager, Pacific Health)
K. MacDonald	(General Manager, Maori Health)
Dr. S. Child	(Director, Clinical Training)
K. Hyman	(General Manager, Women and Children's Health)
F. Ritsma	(General Manager, Speciality Services)



AUCKLAND DISTRICT HEALTH BOARD

DIRECTORY (continued)

Clinical Board

Dr. D. Sage (Chair)
Dr. R. Aickin
Dr. N. Argyle
Dr. J. Bent
M. Broodkoorn
T. Campbell
A. Yates
R. Conway
Dr. R. Frith

Dr. R. Franklin
Dr. J. Henley
Dr. B. Kent
Dr. D. Knight
Dr. C. McArthur
J. Mueller
Dr. A. Pelkowitz
Dr. M. Wilsher

Clinical Board – Primary Care

Dr. A. Pelkowitz (Chair)
M. Broodkoorn
H. Brooke
T. Campbell
Dr. M. Hefford
M. Jensen
U. Manu

J. Mueller
Dr. W. Paterson
Dr. D. Sage
Dr. B. Tan
Dr. S. Trevallyan
Dr. J. Williams

CHAIRMAN'S REVIEW

This will be the sixteenth annual report that I have had the privilege of presenting on behalf of one of the Crown's health enterprises. Earlier reports were for Northland Health and Tairāwhiti Health with this as my fourth on behalf of ADHB.

In every one of those results the organizations have bettered the planned financial result whilst always meeting or exceeding the contracted delivery volumes of health care and I am pleased and relieved to say that once again this is true at ADHB. It is also true to say that it was among the most difficult challenges faced in my career as a health chair with the last year seeing the virtual completion of the biggest and most complex health construction project ever undertaken in our country.

The very achievement of shifting over 4000 staff and patients into new facilities during the last year while continuing to operate the nation's most complex hospital is significant and the Board extends its thanks to all those involved. No accidents took place during migration, nobody was harmed and in spite of all the potential disruption ADHB managed to deliver all of its contracted service volumes.

The hospital building project was conceived well before the current term of any of the existing board and most of the senior management team, so it is gratifying to know that the project was completed without any budget blowout. Attached (Appendix A) is a report summarizing the financial history of this project. This, of course was a major focus of the board members who now turn their attention to extracting from the project the promised efficiencies. It is fair to say that this is and will continue to be very challenging.

ADHB faces very significant financial hurdles which the board and management are planning to tackle in a measured but determined way. Our financial difficulties have been closely analysed and separated into those issues which we must face around doing things in a better and more cost effective way, and those issues which require an understanding from the centre that policy settings will have to move to get ADHB clear of this pressure.

It is clear that our staff pay rates are the highest in NZ and with average prices paid for health services this pay discrepancy will need to be addressed.

Some of the impacts of the PBFF (population based funding formula) do not appear to have been well understood by the centre but Ministry of Health have engaged constructively in the last year, mostly by the involvement of Deputy Director General Gordon Davies and this has been most helpful. Given the size of our deficit it is no surprise that Government have been quick to offer support in many and varied forms which have also varied in effectiveness.

This year ADHB seeks to address shortfalls in delivery of service levels to those of our own Auckland City population, who have possibly suffered at the hands of the losses incurred in delivering the 50% of hospital services that we provide for patients from other DHBs. More attention will be paid to newer primary health care initiatives for our own population and some hospital services may need to be better sized to match the actual paid demand from both our own district and outlying DHBs who are moving to provide more services close to their own populations.

These moves offer challenges and rewards which the board, management team and our fine clinical staff, ably led by our clinical directors, aim to meet on behalf of the DHB population.

WAYNE BROWN

Chairman on behalf of the board.

CHIEF EXECUTIVE'S REVIEW

Auckland District Health Board has completed another big year. There have been some momentous events that have punctuated the months since July 2004 and certainly put us in the public eye. Whether it is our building and migration projects, our deficit or waiting lists, our medical breakthroughs, or our quality and safety review, we are a public health service with accountability to our public and specifically to our Auckland city population. It is the health of our population we are responsible for and that is what drives us – to deliver on our vision 'Healthy Communities, Quality Healthcare'.

In the past year we have seen the completion of one of New Zealand's largest hospital building projects. We now have our inpatient services in a hospital that will take us well into the future. The development of the Greenlane Clinical Centre was completed and migration of our outpatient services to this accessible community-based site was nearing completion at the close of the financial year. In October 2004 we saw the last of our massive migrations when National Women's Health moved to Grafton into the new hospital and we achieved the co-location of the old Auckland, Green Lane and National Women's Hospitals.

Those migrations and building projects were key 'planks' in achieving our Healthcare Services Delivery Plan (HSDP) a project that gained sign-off by the Crown back in 1998. At this point I want to thank and acknowledge the enormous effort that has gone into getting this far.

The foundation 'blocks' have been laid, the cornerstone is in place – 2004 was a time to start shifting our focus from the internal 'framework' to become a true DHB. We entered into a 'new way of working' that was evidence-based, transparent, and values-based. This was a key message I sent to all employees with a desire that we rejuvenate the heart of our organisation as primarily a healthcare provider to our Auckland city population. Late in the year I launched four refreshed values; Integrity, Respect, Innovation and Effectiveness. Much has been written about and case studies show the benefits of becoming a values-based organisation. I look forward to reporting next year on how we are doing as we seek to embed those values into our everyday workplace.

For my senior management a significant part of the year has been spent reviewing our financial performance back over a number of years. We have done this so as to better understand the root causes of our deficit. We have adopted a transparent approach, opening our books to interested parties such as the Ministry of Health, comparing and contrasting our performance with other DHBs through benchmarking and other comparisons. This work has left us in a strong position to implement the plans we have developed to move forward and tackle the deficit.

To help us focus our efforts and realise our vision of 'Health Communities, Quality Healthcare', four goals were set.

- ***Get our Finances in Order***

Clearly, a result some \$25m better than budget is welcome - our financial result for the year was a deficit of \$58m against a budgeted of \$83m. However, I must caution that this result included some one-off benefits that will not reoccur. Our 'core' result, excluding one-off items was an actual deficit of \$62m against a budget of \$66m, once again favourable though by a lesser margin. With some of the financial analysis carried out during the year I believe we are closer than we have ever been to understanding some of the root causes of our underlying deficit. Our challenge for the future will be to convert these insights into action.

- ***Performance Improvement***

A real and sustainable improvement in our DHB performance was one of the commitments I made to our Board for the year. We laid the foundations for future improvements through our thorough review of our reporting systems. In June phase 1 of our HRMS Payroll Project went live to help managers in their reporting and enhancements to pay information for all employees. Phase two will take place over the next year. Every service was challenged to innovate and improve the quality of patient care. Services have responded with initiatives to reduce waiting time in specific settings like children's Emergency Department and to reduce waiting time for cancer therapy to close to or below national guidelines. The elective service guidelines are an area where we have not met all our objectives but the key thing to note is that we have targets and plans in place for improvement.

- ***Ensure Auckland City's population receive their fair share***

Our management and staff have a clear focus to ensure our Auckland city population receives a fair share of health resources and the attention of our staff. We are, and will remain, committed to our national and tertiary services, but we must not forget that it is the funding we receive for our own Auckland city population that serves as the foundation of all that we do and provides a large part of the infrastructure enabling our services to other DHBs to operate. I am pleased to report that we have maintained at the planned levels our services to our own population.

- ***Lift the Health of people in Auckland City***

Probably the foremost achievement against the above 04/05 goal has been the successful roll out of the Meningococcal B vaccination programme. There is much we can apply from their success when we look to deliver further health promotion campaigns. In Auckland City Hospital we saw more active bed management and winter workload planning that reduced 'gridlock' and surgical cancellations.

With an organisation as large and complex as ADHB there are many highlights in any given year. Among the highlights for me were:-

Financial and Non-Financial Performance

I would like to thank all our staff who worked so hard during the year, as noted above our financial performance was significantly better than budget. We are also measured on our non financial performance and these indicators demonstrated a commitment to quality and improvement. At the same time we acknowledge that in some areas our performance fell short of our targets. Where we didn't achieve, we need to understand why, and improve in 05/06. Our learnings must translate into actions.

Meningococcal Vaccine

ADHB has implemented the Meningococcal Vaccine strategy. By the end of the year we had achieved 74% coverage for the first dose of vaccine for the target 0-19 year old group in our DHB.

NZ Health Innovation Awards

ADHB had two finalists in the Awards – the Healthy Homes initiative promoted by the Auckland Regional Public Health Services and the Starship Medication Safety Campaign. The Starship Campaign also made the National Pharmacy Awards and Healthy Homes was honoured with the Supreme Award at the NZ Health Innovation Awards. The Healthy Homes initiative was a true inter-sectoral project involving Counties-Manukau and Northland DHBs and Housing NZ.

Starship Medication Safety Campaign – the 5Rs

Our staff went 'back to the basics' with the medication administration process. Staff were encouraged to question, check and challenge the medicine administration systems in place to ensure "the right medicine in the right dose by the right route at the right time gets to the right patient". The campaign enabled staff to talk about medication safety issues, and the impact they have on both patients and staff, in a non-punitive environment.

Accreditation

Accreditation is a voluntary process ADHB has been involved with Accreditation since 1997 through Quality Health New Zealand (QHNZ). It gives the organisation and its services an opportunity to examine itself from a quality and safety systems perspective. I'm pleased to report that Rehab+ has been reaccredited by QHNZ and received a Certificate of Recognition for continuous accreditation since 1998. National Women's Health was also reaccredited during the year.

Clinical Board – Primary Care

As part of its commitment to the primary care sector, ADHB set up a Clinical Board – Primary Care during the year. The Board is a key component in managing our relationships with Primary Health Organisations and in ensuring formal reporting on quality issues in the primary sector.

RMO Preferences

Our resident medical officers – registrars and house officers – identified us as the number one ranked hospital in the Northern Clinical Training Network run evaluations. This is a tribute to the type of challenging work they can expect to do here at ADHB and the quality of the senior staff they learn from.

Maori Health

The Maori-led PHO 'Tamaki Health' has broadened the scope of its services to include primary mental health services and participation in the diabetes "Get Checked" campaign.

We held the first Maori (kaimahi) workforce day for all Maori staff in ADHB, a great opportunity for networking and sharing of solutions to problems in common.

Ever Heard of Bronchiectasis?

Many people haven't. It is more commonly known as Bx, it is an incurable, but treatable lung disease which can easily be mistaken by parents for a stubborn cough. Starship Children's Health and Tamaki Health worked together to produce a road show which toured shopping areas and presented the message on Bx in a way which was culturally appropriate for the people most often affected by Bx – Maori and Pacific People.

Fisher & Paykel Healthcare Clinical Education Centre

In January 2005 this new centre was opened at Auckland City Hospital thanks to the fundraising efforts of our Charitable Trust, primary sponsor Fisher & Paykel Healthcare and a large number of other corporate and private donors. We now have a world class training facility which will greatly enhance the learning opportunities of our staff. To all who contributed we say – thank you!

Waiting Times for Cancer Treatment

The time which patients have to wait for any treatment will always be an issue of great public interest. Two significant improvements achieved during the year were the reduction of radiation treatment waiting time from 10 weeks to 5.5 weeks and the reduction of oncology chemotherapy waiting times to the target of 4 weeks. As at last November, patients no longer have to go to Australia for radiation treatment.

Healthcare Practitioner Competency Act

The HPCA was introduced during the year and presented challenges as diverse as ensuring that our role titles did not inadvertently mislead as to the profession of the healthcare professional, to no longer being able to pay registration fees en masse on behalf of our staff. A highly professional multi-disciplinary team made sure we met the challenges.

Information Systems

Effective information systems are essential for our services to be delivered and for planning our future funding intentions. We have had a busy year, including the appointment of a Clinical Advisor on IS matters, a key role as we further develop our systems. We successfully implemented the new national immunisation register (with our neighbours at Counties-Manukau), we implemented our new HR management and reporting system KIOSK. We have also introduced a new regional pharmacy system. And at a 'local' level we have a new system to help manage our two new retail pharmacies – an exciting new development in their own right.

Research Activities

During the year we conducted a review of the way in which research activities are managed and funded across ADHB. This has resulted in a number of changes. We are committed to a research and evidence based culture at ADHB but we see the need to keep it quite separate financially from our underlying results and we believe that research activities need to demonstrate they are 'living within their means' just as the DHB does.

Cogeneration Plant Commissioning

The plant was commissioned and became operational on 1 April 2005 following the signing of the agreement with Meridian Energy in September 2003. There were significant challenges in testing and commissioning while connected to the hospital's electricity network, requiring close management of Meridian's contractors and tight coordination with the hospital via the 24 hour centre. This plant has saved ADHB \$2.5m in avoided capital expenditure for emergency generators and generates 50% of ADHB's electricity requirements.

Regional Initiatives

One of the requirements on the DHBs in the greater Auckland region is to work together in a collaborative manner. During the year the DHBs have agreed on a future plan of work for service planning throughout the region and also agreed a set of principles for management of the services provided in one DHB for the residents of another ("inter district flows").

How we view our 'Business'

In last year's annual report I mentioned the different types of 'business' which are conducted within ADHB – national, tertiary, regional and local. During the year our thinking has further developed in terms of the differing approaches which we believe are required for planning, funding, running and monitoring these services.

We believe more strongly than ever that ADHB must respond to the demands of its own health needs analysis and the purchasing intentions of other health funders. We can no longer determine the amount of work we do by the capability and capacity of our current workforce as opposed to what others need us to produce. What is sometimes known as 'supplier-induced demand' in healthcare can no longer be afforded at ADHB.

Delivering on our Vision

I believe much has been achieved in the past twelve months towards realising our vision 'Health Communities, Quality Healthcare'. We have begun to enter a new phase - one that moves us up from the foundations laid in our building and migration programme, to one that looks at the internal framework of everything we do as a true DHB. It is a 'new way of working', that is evidence and values-based, but primarily this new way of working will focus us on our core business – providing quality healthcare for the people of Auckland city. 2005-06 is the year to put into action all our plans. I look forward to reporting on our process this time next year.

GARRY SMITH

Chief Executive



AUCKLAND DISTRICT HEALTH BOARD

SUMMARY OF PERSONNEL POLICIES FOR THE YEAR ENDED 30 JUNE 2005

ADHB is committed to being a good employer and to the principles of the Treaty of Waitangi. To this end ADHB has proactively pursued strategies to optimise the relationship between employees and their work performance in its endeavour to achieve the highest quality of work life for staff and the highest quality of healthcare for our patients.

Part of this process has been the widespread involvement of staff at all levels and all occupational groups in multi-disciplinary quality improvement groups and the formation of redesign teams aimed at improving ADHB's overall performance and efficient utilisation of its capital, material and human resources.




ADHB has continued to maintain its investment in its employees through training and development opportunities and the enhancement of its staff counselling and rehabilitation after injury services.



AUCKLAND DISTRICT HEALTH BOARD

STATEMENT OF RESPONSIBILITY FOR THE YEAR ENDED 30 JUNE 2005

1. The Board and management of ADHB accepts responsibility for the preparation of the financial statements and the judgements used in them;
2. The Board and management of ADHB accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and
3. In the opinion of the Board and management of ADHB, the financial statements for the year ended 30 June 2005 fairly reflect the financial position and operations of ADHB.

		
W. K. F. Brown Chair	G. R. Smith Chief Executive	A. Lichkus Acting Chief Financial Officer
Dated:	Dated:	Dated:



AUCKLAND DISTRICT HEALTH BOARD

STATUTORY INFORMATION

In respect of the financial year ended 30 June 2005 the board members of ADHB submit the following report:

Members of the Board - Current

Board member	Experience with ADHB
Wayne Kelvin Forrest Brown (Chair)	From December 2001
Ross Barry Keenan (Deputy Chair)	From December 2004
Dr. Anthony Ronald Bierre	From December 2004
Dr. Jacqueline Diane Blue	From December 2004
Harry Jacques Burkhardt	From June 2003
Dr. Christopher John Wesley Chambers	From December 2004
Barry Joseph de Geest	From December 2004
Dr. Virginia Theresa Hope	From December 2004
Dr. Diane Mary Nash	From December 2001
John Retimana	From December 2001
Dr. Ian Kevin Scott	From December 2001

Members of the Board - Ceased

Dr. Margaret Phyllis Elsie Horsburgh (Deputy Chair)	Ceased December 2004
Crystal Jean Beavis	Ceased December 2004
Victoria Jane Salmon	Ceased December 2004
Patrick Nesbit Snedden	Ceased December 2004

AUCKLAND DISTRICT HEALTH BOARD

BOARD COMMITTEES AS AT 30 JUNE 2005 - STATUTORY COMMITTEES

Community and Public Health Advisory Committee

W. K. F. Brown (Chair)	B. J. de Geest	M. Anae
R. B. Keenan (Deputy Chair)	Dr. V. T. Hope	I. Maxwell
Dr. A. R. Bierre	Dr. D. M. Nash	P. Stephenson
Dr. J. D. Blue	J. Retimana	M. Wills
H. J. Burkhardt	Dr. I. K. Scott	A. Woodward
Dr. C. J. W. Chambers		D. Wu

Disability Support Advisory Committee

B. J. de Geest (Chair)	Dr. D. M. Nash	B. Broome
W. K. F. Brown	J. Retimana	S. Gildenlore
Dr. V. T. Hope	R. Baker	M. E. M. Hull-Brown

Hospital Advisory Committee

W.K.F. Brown (Chair)	Dr. C.J.W. Chambers	Dr. I.K. Scott
R.B. Keenan (Deputy Chair)	B.J. de Geest	Professor P.G. Alley
Dr. A.R. Bierre	Dr. V.T. Hope	Professor P.J. Smith
Dr. J.D. Blue	Dr. D.M. Nash	
H.J. Burkhardt	J. Retimana	

BOARD COMMITTEES AS AT 30 JUNE 2005 - BOARD ESTABLISHED COMMITTEES

Audit Committee

H.J. Burkhardt (Chair)	W.K.F. Brown	Dr. I.K. Scott
Dr. A.R. Bierre	B.J. de Geest	V.J. Salmon

Quality Committee

Dr. D.M. Nash (Chair)	Dr. J.D. Blue	Dr. V.T. Hope
Dr. A.R. Bierre	Dr. C.J.W. Chambers	J. Retimana

Maori Health Advisory Committee

J. Retimana (Chair)	H.J. Burkhardt	Dr. A.R. Bierre
Dr. J.D. Blue	Dr. C. J.W. Chambers	J. Koea
A. Hudson	P. Rameka	B. Te Paa

Principal activities

The ADHB functions are set out in section 23(1) of the New Zealand Public Health and Disability Act 2000. It is responsible for the funding, previously performed by the Ministry of Health, of health services.

ADHB provides its own hospital and health services at:

- Auckland City Hospital
- Greenlane Clinical Centre
- Community and Mental Health Service sites

Review of operations

	Group \$000	Parent \$000
Results for the year ended 30 June 2005		
Operating deficit	(58,132)	(57,864)
Share of net surpluses of associates	22	0
Net deficit	<u>(58,110)</u>	<u>(57,864)</u>
Equity of ADHB as at 30 June 2005		
Current assets	117,834	117,692
Non-current assets	720,724	711,684
Total assets	<u>838,558</u>	<u>829,376</u>
Current liabilities	315,184	315,017
Non-current liabilities	194,154	194,154
Total liabilities	<u>509,338</u>	<u>509,171</u>
Total equity	<u>329,220</u>	<u>320,205</u>

Capital Charge

The capital charge for the year ended 30 June 2005 was \$17.909 million (to 30 June 2004: \$17.354 million) and is treated as an operating expense – note 14.

Equity Comparisons

Equity injections of \$67.011 million were recognised in the period (to 30 June 2004 \$62.778 million).

Financial statements

The financial statements of ADHB and the group for the year ended 30 June 2005 are included separately in this report. The group consists of ADHB, the Auckland District Health Board Charitable Trust (100% controlled) and associated entities, Biomed Investments Limited (In Liquidation) (50% owned), Northern Clinical Training Network Limited (40% owned), Northern DHB Support Agency Limited (33% owned), Treaty Relationship Company Limited (50% owned) and Westkids Limited (50% owned).

Accounting policies

Asset Revaluation

The Group has adopted fair value accounting from 30 June 2005 (in respect of land, buildings and associated building fitout and services) and revalued the majority of land and buildings– refer Note 1(o) for the impact on the financial statements.

Capitalisation of Interest

ADHB ceased capitalising interest for major projects effective 30 June 2004 – refer Note 1(o) for the impact on the financial statements.

Interests register

During the year the following entries were recorded in the interests register of ADHB:

(a) Board Members' Fees	Year ended 30/6/05
	\$
W. K. F. Brown	87,625
C. J. Beavis	11,398
Dr. A. R. Bierre	16,281
Dr. J. D. Blue	15,031
H. J. Burkhardt	29,562
Dr. C. J. W. Chambers	15,031
B. J. de Geest	16,031
Dr. V. T. Hope	15,031
Dr M. P. E. Horsburgh	15,628
R. B. Keenan	15,944
Dr D. M. Nash	26,500
J. Retimana	26,500
V. J. Salmon	12,604
Dr I. K. Scott	29,000
P. N. Snedden	12,719
Fees paid to Board Members	<u>344,885</u>

(b) Board Members use of ADHB information

No notices were received from the board members requesting the use of ADHB information, received in their capacity as Board Members, which would not otherwise have been available to them.

AUCKLAND DISTRICT HEALTH BOARD

(c) Board Members' interests

The Board Members have declared that they may benefit from any contract that may be made with the entities listed below by virtue of their directorship or memberships of those entities:

Board Member	Interest
W. K. F. Brown (Chair)	Chairman, Coastlines Group of Companies; Owner/Director of Waahi Paraone Ltd; Owner/Director of Alderton Construction Ltd; Owner/Director of Brown Consulting Ltd; Director, Open Group Ltd; Chairman, Transmission Holdings Ltd
R. B. Keenan (Deputy Chair)	Chairman, Cabletalk Group Ltd; Chairman, Southern Travel Group; Chairman, Auckland Regional Transport Network Ltd; Chairman, Allied Workforce Ltd; Director, Watercare Services Ltd; Director, Ngai Tahu Holdings Corporation; Director, Oceania Attractions Ltd; Director, Touchdown Ltd; Director, Oyster Bay Marlborough Vineyards Ltd; Deputy Chairman, Waitemata District Health Board; Deputy Chairman, Counties Manukau District Health Board
C. J. Beavis	President, Diabetes Youth New Zealand; Owner/Director of Bridger Beavis & Associates Limited
Dr. A. R. Bierre	Senior Lecturer (part-time) Department of Molecular Medicine and Pathology, University of Auckland; Owner/Director ZKTHB Ltd; Managing Director LABTESTS Auckland Ltd; Director LABTESTS New Zealand Ltd; Member, Medical Advisory Committee, New Zealand Breast Cancer Foundation
Dr. J. D. Blue	Breast Physician, Past President Australasian Society of Breast Physicians; Trustee, Breast Cancer Research Trust; Director, St Marks Group and BreastScreen Auckland and North; Steering Committee – NZ Breast Diseases conference 2005
H. J. Burkhardt	Owner/Managing Director of Replas Ltd; Owner/Director of Matta Products Ltd; Shareholder/Director of Remat Group Ltd; Shareholder/Director of Burkhardt Investments Ltd; Shareholder/Director Burris Ltd; Director Blue Skys Ltd; Director Reco Ltd; Shareholder of Solutions Dynamics Ltd; Trustee, ADHB Charitable Trust
Dr. C. J. W. Chambers	Employee ADHB; Wife employed by Safekids; Associate, Epsom Anaesthetic Group; Member ASMS; Executive HINZ
B. J. de Geest	Director, Renaissance Consulting Ltd; Director One2One Homecare Ltd; Director, Keane Group Ltd; Involvement with Disabled Persons Assembly
Dr. V. T. Hope	Medical Officer of Health, Auckland Regional Public Health Service; Senior Lecturer, School of Population Health, University of Auckland; Member, Ministry of Health Technical Advisory Group – Southern Saltmarsh Mosquito; Member, Land Transport Committee, Auckland Healthcare Services; Member, Grants Committee, Asser Trust; Member, Biosecurity Ministerial Advisory Committee; Member, ASMS
Dr. M. P. E. Horsburgh	Associate Dean, Faculty of Medical and Health Sciences, The University of Auckland; Trustee, Spectrum Care Trust
Dr. D. M. Nash	General Medical Practitioner; Member, NZ Labour Party Policy Council; Member, NZ Labour Party Health and Social Welfare Policy Committee; Member of Procure Primary Health Organisation; Partner, Cairnhill Health Centre, Epsom
J. Retimana	Consultant Advisor to Territorial Authorities, Opus International Ltd, Transit NZ, Ngati Whatua Trust Board and Te Ure O Hau Investments; Director, Whangai Investments Ltd
V. J. Salmon	Director & CEO, Restaurant Brands New Zealand Limited; Director, Salmon & Partners Limited; Trustee, ADHB Charitable Trust
Dr. I. K. Scott	Employee, Waitemata District Health Board as a Consultant, Auckland Regional Alcohol and Drug Service (RADS); Board member of the Alcohol Advisory Council of New Zealand
P. N. Snedden	Deputy Chair, Housing New Zealand Corporation; Managing Director, Snedden Publishing and Management Consultants Limited; Business Advisor to Health Care Aotearoa Inc; Director, Watercare Services Limited; Trustee & Deputy Chair, ASB Community Trust; Trustee & Deputy Chair, ASB Charitable Trust; Director, Mai Media Limited; Director, Commonsense Organics Limited



AUCKLAND DISTRICT HEALTH BOARD

Auckland District Health Board Charitable Trust

Auckland District Health Board Charitable Trust administers the donations and bequests of ADHB with the exception of funds held on behalf of patients and the Ngati Whatua Trust Board, which are still held by ADHB and will be distributed as required.

Trustees of the Trust at 30 June 2005

Trustee

Dr. R. Frith (Chair)

H. J. Burkhardt

T. Campbell

Dr. I. Civil

Dr. J. Henley

Dr. S. Macfarlane

Dr. A. Pelkowitz

Dr. D. Sage

V. J. Salmon

Experience with ADHB

Appointed 9 October 2003

Appointed 7 April 2005

Appointed 8 April 2004

Appointed 9 October 2003

Appointed 7 November 2002

Appointed 11 March 2005

Appointed 8 April 2004

Appointed 3 August 2003

Resigned 12 November 2004

AUCKLAND DISTRICT HEALTH BOARD

Employee remuneration

During the year the following numbers of employees of ADHB received remuneration over \$100,000:

<i>Remuneration range</i>	Number of employees
\$490,000 - \$500,000	1
\$420,000 - \$430,000	1
\$400,000 - \$410,000	1
\$340,000 - \$350,000	1
\$330,000 - \$340,000	2
\$320,000 - \$330,000	2
\$310,000 - \$320,000	1
\$300,000 - \$310,000	7
\$290,000 - \$300,000	1
\$280,000 - \$290,000	6
\$270,000 - \$280,000	8
\$260,000 - \$270,000	11
\$250,000 - \$260,000	12
\$240,000 - \$250,000	15
\$230,000 - \$240,000	24
\$220,000 - \$230,000	23
\$210,000 - \$220,000	23
\$200,000 - \$210,000	27
\$190,000 - \$200,000	15
\$180,000 - \$190,000	22
\$170,000 - \$180,000	30
\$160,000 - \$170,000	29
\$150,000 - \$160,000	37
\$140,000 - \$150,000	36
\$130,000 - \$140,000	35
\$120,000 - \$130,000	57
\$110,000 - \$120,000	62
\$100,000 - \$110,000	79
Total	568

Note: The above remuneration figures include payment of performance bonuses for both the 0304 and 0405 financial years. This was caused by the cessation of performance-related remuneration on 30 June 2005.

Of the 568 employees shown above, 482 are or were medical or dental employees and 86 are or were neither medical nor dental employees. If the remuneration of part-time employees were grossed-up to a full time equivalent basis, the total number of employees with full time equivalent salaries of \$100,000 or more would be 788 compared with the actual total number of employees of 568.

The remuneration received by the Chief Executive during the year ended 30 June 2005 falls within the salary band \$400,000 - \$410,000.

Employee remuneration (continued)

Termination payments

<i>Payment \$</i>	<i>Employees</i>	<i>Payment \$</i>	<i>Employees</i>	<i>Payment \$</i>	<i>Employees</i>
133	1	8,888	1	25,523	2
200	14	8,906	1	25,636	1
237	1	9,491	1	26,551	1
390	1	10,000	1	26,821	1
400	3	10,196	1	27,130	1
534	8	10,524	1	27,309	1
600	1	10,552	1	27,340	1
602	1	10,614	1	27,362	1
800	38	10,963	1	28,714	1
1,068	2	11,400	1	28,720	1
1,101	1	12,010	1	30,077	1
1,243	1	12,395	1	30,080	1
1,257	1	12,812	1	30,840	1
1,276	1	12,954	1	35,420	1
1,600	43	13,148	1	37,444	1
1,847	1	13,443	1	37,620	1
1,970	1	13,518	1	38,498	1
2,000	1	13,966	1	39,844	1
2,213	1	14,697	1	40,000	1
2,598	1	14,844	1	40,300	1
2,987	1	15,123	1	44,099	1
3,237	1	15,679	1	44,573	1
3,416	1	16,338	1	45,000	1
3,746	1	16,386	1	45,800	1
3,880	1	17,431	1	46,640	1
4,085	1	18,000	1	47,173	1
4,244	1	18,008	1	48,400	1
5,413	1	18,009	1	51,912	1
5,452	1	19,988	1	52,201	1
6,072	1	20,000	2	54,693	1
6,203	1	20,418	1		
6,372	1	21,759	1		
6,449	1	21,896	1		
6,655	1	22,525	1		
6,759	1	22,637	1		
7,154	1	23,172	1		
7,251	1	24,028	1		
7,300	1	24,072	1		
7,431	1	24,556	1		
7,834	1	24,981	1		
8,517	1	25,000	1		
Total				2,070,102	216

During the year ended 30 June 2005, termination payments were made in respect of 216 employees (132 payments in year ended 30 June 2004). Termination payments consist of settlements and redundancy payments made during the year.



AUCKLAND DISTRICT HEALTH BOARD

Auditor

The Controller and Auditor-General is appointed under section 43 of the New Zealand Public Health and Disability Act 2000. Ernst & Young has been contracted to provide these services.

Remuneration to auditor

	\$
Audit fees	196,000
Other assurance and consultancy fees paid to Ernst & Young	<u>2,100</u>
Amounts paid/payable to Ernst & Young	<u><u>198,100</u></u>

Donations

ADHB did not make any donations during the year.

For and on behalf of the Board Members who authorised the issue of this annual report.



W. K. F. Brown
Chair

Dated:

Statement of Service Performance

Strategic Plan Priorities

The following indicators reflect the performance measures specified in the 2004/05 Statement of Intent, which in turn reflect the Strategic Plan priorities.

1. Get Our Finances in Order

Objective:	Brief Description:
Reduce the level of deficit.	Reduce costs, enhance revenue and improve business performance to reduce the deficit and obtain the advantages that a lower deficit will bring.

Objective 2004/05	Performance Measure	Performance Targets	Results 2004/05	2003/04
Manage costs within agreed budgets to ensure ADHB meets all its financial targets.	Variance between budgeted and actual operating costs in statement of service performance	Variance = 0	+\$25m, Achieved	+\$4m, Achieved
Manage staff numbers to ensure ADHB does not exceed budgeted full time equivalent (FTE) levels.	Variance between budgeted and actual FTE numbers	Variance = 0	+86 FTE, Achieved	-123 FTE, Not achieved
Organization wide project to reduce Management and Administration costs to 10.5% target	Management & Administration Costs as a % of provider revenue	10.5%	11.0%, Not achieved	12.6%

AUCKLAND DISTRICT HEALTH BOARD

2. Performance Improvement

Objective:	Brief Description:
Improve Quality & Safety of hospital services.	Get health services working together to streamline care and improve efficiency; get the maximum benefit from our new and efficient hospital.

Objective 2004/05	Performance Measure	Performance Targets	Results 2004/05	2003/04
Patient satisfaction meets or exceeds national average	Percentage of patients satisfied or very satisfied	> 88% (0304 national average)	83%, Not achieved	84%
Workforce management plan implemented	1. Employment Relations strategy in place	By 30 June 2005	Not achieved	
	2. Learning and Development Plan in place	By 30 June 2005	Achieved	
	3. Workforce action plan in place	By 30 June 2005	Achieved	
	4. New HR information systems implemented	By 30 June 2005	Achieved	
Regional collaboration: manage access to secondary and tertiary services within the metro-Auckland Region.	1. Develop and implement strategies and monitoring systems to prevent inappropriate access to out-of-DHB hospitals	By 30 June 2005	Achieved	
	2. Finalise a detailed Regional Service Planning workplan for 2004-05 (signed off through the Regional Chief Executives Forum)	31 December 2004	Not Achieved	
	3. Complete 5-year volume forecasts by DHB for diagnosis related groups (DRG) and non-DRG in 2004-05	By 30 June 2005	Not achieved	
	4. Complete strategies for the provision of Renal services across the region within 2004-05	By 30 June 2005	Partially Achieved	
	5. Regional (and complementary local DHB) processes for assessing viability of new equipment, procedures and drug technologies in 2004-05	By 30 June 2005	Achieved	
Improve management of health and safety for all our staff, contractors and visitors and reduce the Lost Time Injury Frequency Rate (LTIFR) by 10% from the previous year.	Lost Time Injury Frequency Rate (LTIFR)	LTIFR reduced by 10% from 2003-04 level	7.26 Not achieved	7.68
Promote wellness and reduce over-use of sick leave within ADHB.	Sick leave %	Reduce sick leave by 5% compared to 2003-04 level	2.42 Achieved	2.7

3. Auckland City's Population Achieve Their Fair Share

Objective:	Brief Description:
Make sure people living in Auckland City get their fair share of the health resources.	Meet the contract for the levels of service provided and manage patient volumes; manage the costs associated with people from other DHB's who use Auckland DHB services so that people living in Auckland City are not disadvantaged.

Objective 2004/05	Performance Measure	Performance Targets	Results 2004/05	2003/04
Patient volumes up to 10% above contract for Auckland's population,	Variance between contracted and actual service volumes for Auckland City population	Variance between 0% and +10%	Overall the provider was -1% off budget for ADHB population. Not achieved	Not achieved
Inter-district flow (IDF) volumes within 1% variation of contract and costs within budget	Variance between contracted and actual service volumes for patients from outside Auckland City	Variance within + or - 1%	The provider delivered slightly over budget for IDFs. This will set the scene for tight monitoring of all IDF volumes for next year. Achieved	Not achieved

AUCKLAND DISTRICT HEALTH BOARD

4. Lift the Health of People Living in Auckland City

Objective:	Brief Description:
Improve the health status of the people within Auckland City.	Focus on population health and health outcomes; reduce health inequalities; strengthen the primary care sector and reduce cancer, diabetes and cardiovascular disease.

Objective 2004/05	Performance Measure	Performance Targets	Results	
			2004/05	2003/04
Reduce health inequalities for Maori people	Progress He Korowai Oranga, ADHB Maori Health Strategy and implement:			
	1. National Workforce Development Plan	By 30 June 2005	Partly Achieved	
	2. Regional Maori Mental Health Action Plan	By 30 June 2005	Achieved	
	3. Tikanga Best Practice Policy	By 30 June 2005	Achieved	
	4. Monitoring Maori health status	By 30 June 2005	Partly Achieved	
	5. Identification of the Maori specific spend annually	By 30 June 2005	Achieved	
	6. Development of Maori Primary Health Organisations (PHO's) and improve mainstream PHO performance for Maori	By 30 June 2005	Achieved	
Reduce health disparity for Pacific peoples.	Reduce health disparity for Pacific peoples in priority areas of diabetes, outreach immunisation services and parish nursing services	7. Complete new initiative projects: Do Not Attend, Discharge Planning, Whare Oranga	By 30 June 2005	Partly Achieved
		1. Implement the primary health care strategy and monitor the effectiveness of Pacific PHOs	By 30 June 2005	Partly Achieved
Undertake the work associated with the National Immunisation Register (NIR) and meningococcal B vaccine (MeNZB) vaccination strategy and meet Crown Funding Agreement obligations	2. Develop models of service delivery for Pacific peoples with complex and chronic conditions		By 30 June 2005	Achieved
			By 30 June 2005	Achieved
	NIR functional to support MeNZ B programme MeNZ B strategy implemented in the Eastern Corridor and ADHB as required in the Crown Funding Agreement		By 30 June 2005	Achieved
			By 30 June 2005	Achieved

AUCKLAND DISTRICT HEALTH BOARD

4. Lift the Health of People Living in Auckland City (continued)

Improve Equity of access to quality mental health services through integrated services	Restructure Regional Mental Health Services	By 30 June 2005	Achieved
	Implement Acute Services Review findings and a quality monitoring framework	By 30 June 2005	Achieved
	Review data management systems Stakeholder networks participate in planning and service development	By 30 June 2005 By 30 June 2005	Achieved Achieved

Objective 2004/05	Performance Measure	Performance Targets	Results 2004/05 2003/04
Implement NZ Health of Older People (HOP) Strategy.	Implement NZ Health of Older People Strategy. Plans developed for: Managing migration Home Based Support (regional) Community rehabilitation	Sustainable services in place by 30 June 2005	National project to address HOP IDF (migration) currently underway Regional project to review home based support in progress Community rehab model being developed for 05/06 implementation, Partly achieved
Implement the NZ Disability Strategy.	Project to implement the NZ Disability Strategy at the Greenlane Clinical centre Regional work to get consistent level and type of service for disabled people and families	Complete By 30 June 2005 Complete By 30 June 2005	This project awaits the appointment of a Planning & Funding Manager, Disability and Health of Older People. Will begin in latter half of 2005 Not achieved This is an ongoing objective for the Disability Support Advisory Committee (DiSAC). Achieved

4. Lift the Health of People Living in Auckland City (continued)

<p>Improve Diabetes Management.</p>	<p>Case detection ADHB District Annual Plan (DAP) target</p> <p>% of those screened with a glycated haemoglobin (HbA1c)<8%</p> <p>Maori Pacific People Others</p> <p>Eye Screening within last two years</p>	<p>60% by 30 June 2005 (national target 42%)</p> <p>70% 70% 80%</p> <p>80%</p>	<p>44%, Not achieved</p> <p>62%} 52%} 74%} Not achieved</p> <p>59%, Not achieved GP feedback suggests there may be some under-reporting of these measures</p>
<p>Reduce the Incidence and Impact of Cardiac Disease.</p>	<p>Heart Failure Project with cardiac services</p> <p>Growth in acute, elective services and vascular volumes</p> <p>Review of cardiac services (cardiology, cardiothoracic and catheter laboratories) for region to inform purchasing, equity of services and health gain.</p> <p>Cardiovascular risk assessment guidelines</p> <p>Research Opportunities into basic mechanisms, novel therapies and clinical trials</p> <p>Activities for obesity prevention</p>	<p>Undertaken by 30 June 2005</p> <p>Manage within budget for 0405</p> <p>Undertaken by 30 June 2005</p> <p>Implement by 30 June 2005</p> <p>Research commenced by 30 June 2005</p> <p>In place by 30 June 2005</p>	<p>Implemented Nov 04, Achieved</p> <p>Not achieved</p> <p>Not achieved</p> <p>Not Achieved</p> <p>Achieved</p> <p>Achieved</p>

4. Lift the Health of People Living in Auckland City (continued)

Objective 2004/05	Performance Measure	Performance Targets	Results 2004/05 2003/04
Reduce the incidence and impact of Cancer	Screening programmes promoted with hard to reach groups	In place by 30 June 2005	Not Achieved
	Waiting times for radiotherapy moved towards Ministry of Health Guidelines	Waiting times < 0304	Radiation Therapy (RT) patient at 5.5 weeks compared with 8.3 weeks(MoH 4 week target) Partly achieved
	Implement palliative care services	In place by 30 June 2005	In place but current service delivery constrained by staffing Achieved
	Identify research opportunities for clinical cancer treatment trials	At least one opportunity identified during 2004-05	7 new trials commenced 04 / 05 Achieved
	Plan and implement strategies that develop the cancer treatment workforce	Strategies developed by 30 June 2005	Currently developing strategies. Tumour Nurse appointed. Developing Chemotherapy resource nurses. Consulting on regional strategy. Partly achieved
	Contribution to the Cancer Register and development of national cancer data set and to the Cancer treatment services working party	Implement Breast Cancer database	Breast Cancer Data-base Implemented Achieved

AUCKLAND DISTRICT HEALTH BOARD

4. Lift the Health of People Living in Auckland City (continued)

Elective services managed within guidelines	% patients accepted for a first specialist assessment (FSA) not seen within 6 months of the date of referral	2%	5.4% (favourable trend) Not achieved
	% patients who are given a commitment to treatment, not receiving it within 6 months	5%	11%, Not achieved
	% patients in active review failing to receive a review every 6 months	15%	49.1%, (favourable trend) Not achieved
Implement NZ Primary Health Care Strategy.	Healthy Housing programme in place	By 30 June 2005	Achieved
	Cellulitis prevention programme continued to plan	By 30 June 2005	Achieved
	Sustainable cities development	By 30 June 2005	Achieved

5. Summary of Revenue and Expenses by Output Class (\$000's)

	Funder	Governance & Funding Administration	Provider	In-house Elimination	Total
Total Revenue	1,082,483	22,043	741,572	(632,202)	1,213,896
Total Expenditure	1,057,022	24,504	822,682	(632,202)	1,272,006
Net Surplus/(Deficit)	25,461	(2,461)	(81,110)	-	(58,110)

6. Summary of Equity Position by Output Class (\$000's)

	Funder	Governance & Funding Administration	Provider	A+ Charitable Trust	Total
Balance of Equity at 30 June, 2005	(21,693)	-	341,911	9,002	329,220

AUCKLAND DISTRICT HEALTH BOARD

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Group Budget	Group Actual		Parent Actual	
		2005 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Total operating revenue	2	1,166,380	1,214,434	1,128,718	1,212,262	1,126,031
Share of net surpluses of associates	5	0	22	132	0	0
Total operating expenses		1,249,631	1,272,566	1,173,513	1,270,126	1,172,229
Total operating deficit before taxation	3	(83,251)	(58,110)	(44,663)	(57,864)	(46,198)
Taxation	4	0	0	0	0	0
Net deficit for the year		(83,251)	(58,110)	(44,663)	(57,864)	(46,198)

The accompanying notes form an integral part of these financial statements.

AUCKLAND DISTRICT HEALTH BOARD

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Group Budget	Group Actual		Parent Actual	
		2005	2005	2004	2005	2004
		\$000	\$000	\$000	\$000	\$000
Equity at beginning of the year		177,132	177,132	159,017	167,871	151,291
Net deficit for the year		(83,251)	(58,110)	(44,663)	(57,864)	(46,198)
		<u>93,881</u>	<u>119,022</u>	<u>114,354</u>	<u>110,007</u>	<u>105,093</u>
Revaluation Reserves	6(ii)	0	143,187	0	143,187	0
Equity Injection		89,668	67,011	62,778	67,011	62,778
Equity at end of the year		<u><u>183,549</u></u>	<u><u>329,220</u></u>	<u><u>177,132</u></u>	<u><u>320,205</u></u>	<u><u>167,871</u></u>

The accompanying notes form an integral part of these financial statements.

AUCKLAND DISTRICT HEALTH BOARD

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2005

Notes	Group Budget	Group Actual		Parent Actual	
	As at 30/06/05 \$000	As at 30/06/05 \$000	As at 30/06/04 \$000	As at 30/06/05 \$000	As at 30/06/04 \$000
Equity					
Public equity	613,518	590,857	523,846	590,857	523,846
Accumulated deficit	6 (i) (438,976)	(413,564)	(355,721)	(413,839)	(355,975)
Revaluation Reserve	6 (ii) 0	143,187	0	143,187	0
Donations and bequests	6 (iii) 9,007	8,740	9,007	0	0
Total Equity	<u>183,549</u>	<u>329,220</u>	<u>177,132</u>	<u>320,205</u>	<u>167,871</u>
Represented by:					
Current Assets					
Cash and bank balances	7 140	5,718	28,910	5,718	28,910
Receivables and prepayments	8 95,018	102,097	91,191	101,955	90,958
Inventories	9 7,800	9,871	7,793	9,871	7,793
Property intended for sale	1(m) 148	148	0	148	0
Total Current Assets	<u>102,958</u>	<u>117,834</u>	<u>127,894</u>	<u>117,692</u>	<u>127,661</u>
Non-Current Assets					
Cash, bank balances and investment bonds	7 11,911	9,554	9,711	789	743
Property, Plant and Equipment	10 614,916	710,894	544,303	710,894	544,303
Investments in associates	5 253	276	254	1	1
Total Non-Current Assets	<u>627,080</u>	<u>720,724</u>	<u>554,268</u>	<u>711,684</u>	<u>545,047</u>
Total Assets	<u>730,038</u>	<u>838,558</u>	<u>682,162</u>	<u>829,376</u>	<u>672,708</u>
Current Liabilities					
Payables and accruals	12 187,190	188,559	176,573	188,392	176,380
Borrowings	13 32,106	125,836	41,656	125,836	41,656
Funds Held in Trust	743	789	743	789	743
Total Current Liabilities	<u>220,039</u>	<u>315,184</u>	<u>218,972</u>	<u>315,017</u>	<u>218,779</u>
Non-Current Liabilities					
Payables and accruals	12 11,450	14,154	11,825	14,154	11,825
Borrowings	13 315,000	180,000	274,233	180,000	274,233
Total Non-Current Liabilities	<u>326,450</u>	<u>194,154</u>	<u>286,058</u>	<u>194,154</u>	<u>286,058</u>
Total Liabilities	<u>546,489</u>	<u>509,338</u>	<u>505,030</u>	<u>509,171</u>	<u>504,837</u>
Net Assets	<u>183,549</u>	<u>329,220</u>	<u>177,132</u>	<u>320,205</u>	<u>167,871</u>

The accompanying notes form an integral part of these financial statements

For and on behalf of the Board Members who authorised the issue of these financial statements on 25/10/05

W. K. F. BROWN
Chair

H. J. BURKHARDT
Chair Audit Committee

AUCKLAND DISTRICT HEALTH BOARD

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

Notes	Group Budget	Group Actual		Parent Actual	
	2005 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Cash Flows from Operating Activities					
Cash was provided from:					
Provision of health services	1,153,720	1,200,383	1,118,298	1,198,630	1,116,057
Interest received	710	1,692	1,898	1,192	1,472
	<u>1,154,430</u>	<u>1,202,075</u>	<u>1,120,196</u>	<u>1,199,822</u>	<u>1,117,529</u>
Cash was applied to:					
Employee costs	464,877	505,102	491,486	505,102	491,489
Other operating costs	705,856	691,819	647,291	689,363	646,150
Interest paid	19,965	19,430	12,820	19,430	12,820
	<u>1,190,698</u>	<u>1,216,351</u>	<u>1,151,597</u>	<u>1,213,895</u>	<u>1,150,459</u>
Net cash inflow / (outflow) from operating activities	<u>(36,268)</u>	<u>(14,276)</u>	<u>(31,401)</u>	<u>(14,073)</u>	<u>(32,930)</u>
Cash Flows from Investing Activities					
Cash was provided from:					
Proceeds from sale of fixed assets	6,975	258	19,023	258	19,023
Payments received from associates	0	0	0	0	0
	<u>6,975</u>	<u>258</u>	<u>19,023</u>	<u>258</u>	<u>19,023</u>
Cash was applied to:					
Purchase of fixed assets	118,162	66,289	112,600	66,289	112,600
Interest capitalised on purchase of fixed assets	0	0	3,974	0	3,974
	<u>118,162</u>	<u>66,289</u>	<u>116,574</u>	<u>66,289</u>	<u>116,574</u>
Net cash (outflow) from investing activities	<u>(111,187)</u>	<u>(66,031)</u>	<u>(97,551)</u>	<u>(66,031)</u>	<u>(97,551)</u>
Cash Flows from Financing Activities					
Cash was provided from:					
Proceeds from capital contributed	89,668	67,011	62,778	67,011	62,778
Proceeds from loans raised/ (repaid)	31,217	(10,053)	71,867	(10,053)	71,867
Net cash inflow from financing activities	<u>120,885</u>	<u>56,958</u>	<u>134,645</u>	<u>56,958</u>	<u>134,645</u>
Movement in cash and bank balances					
Add opening balance	38,621	38,621	32,928	29,653	25,490
Net cash inflow / (outflow)	<u>(26,570)</u>	<u>(23,349)</u>	<u>5,693</u>	<u>(23,146)</u>	<u>4,163</u>
Closing bank balance	<u>12,051</u>	<u>15,272</u>	<u>38,621</u>	<u>6,507</u>	<u>29,653</u>

The accompanying notes form an integral part of these financial statements.

AUCKLAND DISTRICT HEALTH BOARD

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Group Budget	Group Actual		Parent Actual	
	2005 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000
RECONCILIATION OF REPORTED OPERATING DEFICIT AFTER TAXATION WITH NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES					
Reported net deficits for the year	(83,251)	(58,110)	(44,663)	(57,864)	(46,198)
Add non-cash items:					
Depreciation and impairment loss	54,197	41,683	43,351	41,683	43,351
Associates	0	(22)	(132)	0	0
Add items classified as investing activities:					
Net loss/(gain) on disposal of fixed assets	(14,060)	992	(8,766)	992	(8,766)
Add movements in working capital items:					
(Increase) Decrease in receivables	(3,401)	(9,694)	(4,510)	(9,775)	(4,492)
(Increase) Decrease in inventories	(7)	(2,078)	(1,881)	(2,078)	(1,881)
Increase (Decrease) in payables	10,254	12,907	(14,833)	12,923	(14,977)
Increase (Decrease) in funds held in trust	0	46	33	46	33
Net cash inflow/(outflow) from operating activities	<u>(36,268)</u>	<u>(14,276)</u>	<u>(31,401)</u>	<u>(14,073)</u>	<u>(32,930)</u>

The accompanying notes form an integral part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note

1 STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

The financial statements included in this report are for the reporting entity the Auckland District Health Board (ADHB) and associates and the Auckland District Health Board Charitable Trust.

Measurement Base

The accounting principles recognised as appropriate in the measurement and reporting of financial performance and financial position on a historical cost basis are followed by ADHB, with the exception that certain assets specified below have been stated at fair value.

Going concern

The financial statements, which comply with the requirements of the Financial Reporting Act 1993 and the Public Finance Act 1989, are prepared on the basis that the ADHB is a going concern. The Minister of Health and the Minister of Finance have provided a Letter of Comfort to the Board that it is appropriate for the financial statements for the year ended 30th June 2005 to be prepared on a going concern basis.

In this Letter of Comfort the Ministers state: "This letter of Comfort ("Letter") is provided to enable the Board of the Auckland District Health Board ("Board") to satisfy itself, for the purposes of the 2004/05 financial statements, that it is appropriate for the Board to prepare those financial statements on a going concern basis.

This letter is provided for that purpose, and is not a guarantee or indemnity, nor is it intended to create any legal liability on behalf of the Crown.

The Government is committed to working with the Board in its endeavours to maintain the financial viability, including banking covenant financial ratios, of the Auckland District Health Board ("Board"). The Government acknowledges that financial support by way of adjustment to its capital structure may be required and the Crown will provide such support where necessary to maintain viability. This Letter applies from the date of receipt until twelve months from the date of the signed audit opinion. We expect Auckland DHB will take all reasonable steps to minimise expenditure for the duration of the period of support, and to meet all targets in its approved District Annual Plan.

In view of this assurance, we expect the Board will not enter into any commitments for new capital projects greater than that specified in the approved District Annual Plan. We also expect that the Board will not enter into any commitments for capital projects greater than \$1 million without first obtaining Ministerial approval, supported by justification for the request. The \$1 million criterion does not apply to HSDP related expenditure, which has already been approved.

We will not unilaterally withdraw this Letter without prior consultation with you."

Budget figures

The budget figures are those approved by the Board. The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Board for the preparation of the financial statements.

1 STATEMENT OF ACCOUNTING POLICIES (continued)

Specific Accounting Policies

The following particular accounting policies which materially affect the measurement of financial performance and the financial position have been applied.

(a) **Goods and Service Tax (GST)**

All items in the financial statements are exclusive of GST with the exception of receivables and payables which are stated with GST included. The net amount of GST payable is included as part of payables in the Statement of Financial Position. In the Statement of Cash Flows, GST on receipts and GST on payments are offset to present a net amount of GST paid and included as an operating expense. Where GST is irrecoverable as an input tax then it is recognised as part of the related asset or expense.

(b) **Basis of consolidation**

Subsidiary

The consolidated financial statements include those of ADHB and the Auckland District Health Board Charitable Trust. The Auckland District Health Board Charitable Trust is accounted for using the purchase method, which involves adding together corresponding assets, liabilities, revenues and expenses on a line by line basis. The ADHB Charitable Trust is consolidated as ADHB has the power to appoint and remove Trustees. All significant inter-entity transactions are eliminated on consolidation.

Associates

Associates are entities in which ADHB holds an interest in the equity and over which ADHB exercises significant influence but does not control. The interest in associates is reflected in the consolidated financial statements on an equity accounting basis, which involves recognising ADHB's share of the associate's surplus or deficit in the consolidated Statement of Financial Performance and ADHB's share of the net assets of the associate in the consolidated Statement of Financial Position. Investments include shares in associates valued at cost, ADHB's share of the retained post-acquisition changes in reserves of associates and loans to associates. ADHB's share of the retained post-acquisition changes in reserves of associates are included in the consolidated financial statements only.

(c) **Employee entitlements**

Employee entitlements include liabilities for salary and wages, annual leave, long service leave and retirement gratuities accrued to employees for services rendered up to balance date. In determining the value of employee entitlements, salary and wages and annual leave are calculated on an actual entitlement basis whilst the other entitlements are calculated on an actuarial basis at current rates of pay.

(d) **Taxation**

Auckland DHB is a public authority under New Zealand Public Health and Disabilities Act 2000 and is exempt from Income tax under section CB3 of the Income Tax Act 1994.

(e) **Foreign currency**

Transactions denominated in foreign currencies (other than forward contracts) are translated at the rate of exchange ruling at the transaction date. Short-term transactions covered by forward exchange contracts are measured and reported at the forward rates specified in the contracts. At balance date foreign monetary assets and liabilities are translated at the closing rate and exchange differences arising from the translations are recognised in the Statement of Financial Performance.

Where a foreign monetary asset is designated as a hedge of a transaction denominated in a foreign currency, the exchange difference arising from their translations are recognised in the statement of financial performance.

(f) **Accounts receivable**

Accounts receivable are stated at expected realisable value after providing for doubtful and uncollectible debts.

(g) **Inventories**

Inventories are valued on the basis of the lower of cost, determined on a first-in first-out basis, and net realisable value. This valuation includes allowances for slow moving and obsolete inventories.

Note

1 STATEMENT OF ACCOUNTING POLICIES (continued)

(h) Leases

Finance leases, which effectively transfer to the entity substantially all of the risks and benefits incident to ownership of the leased item, are capitalised at the lower of fair value of the leased property, and the present value of the minimum lease payments. The leased assets and corresponding liabilities are recognised in the statement of financial position and the leased assets are depreciated on a straight line basis over the period the entity is expected to benefit from their use.

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are charged as expenses in the periods in which they are incurred.

(i) Revenue recognition policy

Ministry of Health contract revenue and interest income are recognised on an accrual basis. Other operating revenue is recognised on invoice or receipt for delivery of service, whichever is earlier.

Donations and bequests received are treated as revenue on receipt, in the statement of financial performance. These funds are administered by the Auckland District Health Board Charitable Trust.

Donations and bequests from third party trusts are recognised as revenue only when actually received.

(j) Funds held in trust

Funds held on behalf of patients and the Ngati Whatua Trust Board are treated as a non-current liability "Funds held in trust" and are distributed to them as required.

(k) Research projects

Research costs are recognised in the statements of financial performance as incurred. Grants received in respect of research projects are recognised in the Statement of Financial Performance in the same period to the related expenditure. Research income not recognised in the period is held as Income Received in Advance in the Statement of Financial Position.

(l) Financial instruments

As a guardian of public money, ADHB must be risk averse and seek to minimise exposure arising from its treasury activity. ADHB is not authorised by Treasury policy to enter into any transaction, which is speculative in nature. Financial instruments carried on the Statement of Financial Position includes cash and bank balances, receivables, payables and borrowings. These instruments are generally carried at their estimated fair value.

Investments in bonds are recognised at market value at balance date. Gains or losses on the investments are recognised in the Statement of Financial Performance. ADHB is also party to financial instruments that are not recognised in the financial statements. These include interest rate swaps and forward exchange contracts. Their primary purpose is to reduce exposure to fluctuations in foreign currency exchange rates and interest rates. Any gains or losses arising from exposure to foreign exchange instruments are offset against the related gains or losses on the recorded assets or liabilities being hedged. The net differential paid or received on interest swaps is recognised as a component of interest expense or interest revenue over the period of the agreement.

Note

1 STATEMENT OF ACCOUNTING POLICIES (continued)

(m) Property Plant and Equipment

There are eight classes of property plant and equipment:

- Freehold Land
- Land Improvements
- Plant and Equipment
- Freehold Buildings
- Building Fitout and Services
- Leasehold Improvements
- Work in Progress
- Leased Plant and Equipment

Items of property, plant and equipment are initially recorded at cost.

The building assets of ADHB are considered to be specialised assets and accordingly are valued where appropriate based on depreciated replacement cost (fair value). Valuations have been obtained through an independent valuer.

Revaluations are carried out for most classes of property, plant and equipment to reflect the service potential or economic benefit obtained through control of the asset. Revaluation is based on the fair value of the asset. Where an asset is recorded using depreciated replacement cost, depreciated replacement cost is based on the estimated present cost of construction, reduced by factors for age and deterioration of the asset.

Classes of property, plant and equipment assets that are revalued, are revalued at least every five years.

For each property, plant and equipment asset project, borrowing costs incurred during the period required to complete and prepare the asset for its intended use are expensed.

Work in progress, which is not depreciated, is the cost of direct material, direct labour and direct overhead of capital works projects unfinished at balance date. When a project is finished the total cost of that project is transferred to buildings and/or plant and equipment.

The carrying amounts of all property, plant and equipment are reviewed on an ongoing basis. Any impairment in value is recognised immediately in the Statement of Financial Performance. If the recoverable amount of an asset is less than the carrying amount, the item is written down to its recoverable amount. The write down of an asset recorded at historical cost is recognised as an expense in the Statement of Financial Performance.

The carrying amount of an asset that has previously been written down to recoverable amount is increased to its current recoverable amount if there has been a reversal of the impairment loss. The increased carrying amount of the item will not exceed the carrying amount that would have been determined if the write down to recoverable amount had not occurred. On assets that are not revalued the reversal is recognised in the Statement of Financial Performance. On revalued assets the reversal is recognised as revenue to the extent that the impairment was recognised as an expense, and the balance is treated as an upward revaluation.

Gains and losses on disposal of property, plant and equipment are recognised as revenues or expenses in the Statement of Financial Performance.

Properties intended for sale are carried at the lower of cost and net realisable value and are recorded in current assets.

1 STATEMENT OF ACCOUNTING POLICIES (continued)

(n) Depreciation

Depreciation of property, plant and equipment, other than land and work in progress, is calculated on a straight line basis so as to allocate the cost of the assets, less their estimated residual values, over their useful lives as follows:

<u>Asset Class</u>	<u>2005</u>	<u>2004</u>
Freehold Buildings	1 to 89 years	10 to 60 years
Plant and Equipment	2 to 20 years	2 to 20 years
Building Fitout and Services	1 to 45 years	5 to 20 years
Leased Plant and Equipment	4 to 8 years	4 to 8 years
Leasehold Improvements	6 to 8 years	6 to 8 years

The reduction in depreciation for the year from the change in useful lives is estimated as \$10.4m.

(o) Changes in accounting policies

The Group has adopted fair value accounting from 30 June 2005 for the majority of its land and buildings to bring the accounting treatment in line with Crown accounting policies. Previously all land and buildings were held at cost. As a result of this change in accounting policy, these assets have been revalued upwards by \$143.187 million effective from 30 June 2005. From 1 July 2005 the revalued component of these buildings will be depreciated in line with the ADHB's depreciation methodology for each class of asset. Land and buildings intended for sale remain at cost and land subject to restrictive covenants is held at nil value.

In line with Crown accounting policies, ADHB ceased capitalising interest effective 1 July 2004. In the year ending 30 June 2004 capitalised interest amounted to \$3.974 million.

There are no other changes in accounting policies during the period.

FRS – 41: Disclosing the impact of Adopting New Zealand Equivalents to International Financial Reporting Standards came into effect for the year ended 30 June 2005 and has been applied for the first time in the current period.

(p) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current year.

AUCKLAND DISTRICT HEALTH BOARD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Group Actual		Parent Actual	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
2 REVENUE				
Patient Care Revenue	1,137,721	1,042,515	1,137,721	1,042,515
Interest received – other	1,192	1,472	1,192	1,472
Interest received – Charitable Trust	500	426	0	0
Donations and Bequests	1,672	2,261	0	0
Gain on disposal of assets	0	8,765	0	8,765
Other revenue	73,371	73,411	73,349	73,279
Total Revenue	<u>1,214,456</u>	<u>1,128,850</u>	<u>1,212,262</u>	<u>1,126,031</u>
3 OPERATING DEFICIT BEFORE TAXATION				
After charging/(crediting) :				
Mental Health Revenue	(2,491)	(3,858)	(2,491)	(3,858)
Remuneration of auditor				
- audit fees	196	172	196	172
- other services (assurance and consultancy fees)	2	6	2	6
Depreciation				
Freehold Buildings	4,922	5,147	4,922	5,147
Building Fitout and Services	7,814	12,037	7,814	12,037
Plant and Equipment,	27,976	25,868	27,976	25,868
Leasehold Improvements	108	121	108	121
Leased Plant and Equipment	29	39	29	39
Total depreciation	<u>40,849</u>	<u>43,212</u>	<u>40,849</u>	<u>43,212</u>
Employee costs	512,001	492,061	512,001	492,061
Loss on disposal of assets	992	0	992	0
Board Members' fees	345	347	345	346
Impairment loss/(gain) (Note 10)	835	139	835	139
Interest expense	19,120	13,398	19,120	13,398
Finance costs	63	129	63	129
Foreign currency loss/(gain)	(44)	(15)	(44)	(15)
Rental and operating lease costs	9,625	10,215	9,625	10,215
Research costs	5,978	5,326	5,978	5,326
Bad debts written off	2,739	2,438	2,739	2,438
Increase (decrease) in estimated doubtful debts	1,119	(333)	1,119	(333)
Capital charge (Note 14)	17,909	17,354	17,909	17,354
4 TAXATION				

Auckland DHB is a public authority under the New Zealand Public Health and Disability Act 2000 and is exempt from Income Tax under Section CB 3 of the Income Tax Act 1994.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	Group Actual		Parent Actual	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
5 INVESTMENTS IN ASSOCIATES				
<i>Results of associates</i>				
Share of post acquisition surplus written back on liquidation	22	132	0	0
Share of taxation	0	0	0	0
Share of net surpluses of associates	22	132	0	0
Share of distributions received during the year	0	0	0	0
Carrying amount at the beginning of the year	254	122	0	0
Loans to associates repaid during the year	0	0	0	0
Cost of investments sold during the year	0	0	0	0
Carrying amount at end of year	276	254	0	0
<i>Represented by:</i>				
Shares in associates (unlisted at cost)	1	1	1	1
Share of post-acquisition retained surpluses	275	253	0	0
	276	254	1	1

Name of associates (Principal activity)

Biomed Investments Ltd (In Liquidation) is a holding company for Investments in medical and laboratory supply companies.

% Interest held

50 50

Northern Clinical Training Network Limited (co-ordinates trainee medical personnel)

40 40

Northern DHB Support Agency Limited (management of a number of regional contracts on behalf of the Auckland region DHBs.)

33 33

Treaty Relationship Company Limited (joint venture for health initiatives with local iwi)

50 50

Westkids Limited (provides paediatric services in the community in West Auckland)

50 50

All associates have balance dates of 30 June.

ADHB do not have a share in any contingent liabilities or capital commitments of the associates.

AUCKLAND DISTRICT HEALTH BOARD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Group Actual		Parent Actual	
	As at 30/06/05 \$000	As at 30/06/04 \$000	As at 30/06/05 \$000	As at 30/06/04 \$000
6 EQUITY				
(i) Accumulated deficits				
Opening balance	(355,721)	(309,655)	(355,975)	(309,777)
Operating deficit after deducting capital charge	(58,110)	(44,663)	(57,864)	(46,198)
Transfer to donations and bequests (Note 6(iii))	267	(1,403)	0	0
	<u>(413,564)</u>	<u>(355,721)</u>	<u>(413,839)</u>	<u>(355,975)</u>
(ii) Revaluation Reserve				
Opening balances	0	0	0	0
Land Revaluation Surplus	46,171	0	46,171	0
Land Improvement Revaluation Surplus	4,097	0	4,097	0
Building Revaluation Surplus	39,282	0	39,282	0
Building Fitout and Services Revaluation Surplus	53,637	0	53,637	0
	<u>143,187</u>	<u>0</u>	<u>143,187</u>	<u>0</u>
This revaluation reserve relates to land and buildings carried at valuation.				
(iii) Donations and bequests				
Opening balances	9,007	7,604	0	0
Transfer from accumulated deficits (Note 6(i))	(267)	1,403	0	0
	<u>8,740</u>	<u>9,007</u>	<u>0</u>	<u>0</u>

AUCKLAND DISTRICT HEALTH BOARD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Group Actual		Parent Actual	
	As at 30/06/05 \$000	As at 30/06/04 \$000	As at 30/06/05 \$000	As at 30/06/04 \$000
7 CASH, BANK BALANCES AND INVESTMENT BONDS				
<i>Current assets</i>				
Cash at bank	5,718	4,662	5,718	4,662
Short term deposits	0	24,248	0	24,248
	<u>5,718</u>	<u>28,910</u>	<u>5,718</u>	<u>28,910</u>
<i>Non-current assets</i>				
Bank balances (restricted)	4,795	4,129	789	743
Investment Bonds (at market)(restricted)	4,759	5,582	0	0
	<u>9,554</u>	<u>9,711</u>	<u>789</u>	<u>743</u>
	<u>15,272</u>	<u>38,621</u>	<u>6,507</u>	<u>29,653</u>
Interest is receivable on short term deposits at year-end interest rate of 6.75% (30/6/2004: 5.75%)				
Trust Funds				
The restricted assets above are Trust Funds and are restricted exclusively for the purposes of a charitable nature and within New Zealand.				
8 RECEIVABLES AND PREPAYMENTS				
Accounts receivable	89,671	79,419	89,671	79,419
Provision for doubtful debts	(2,446)	(1,327)	(2,446)	(1,327)
	<u>87,225</u>	<u>78,092</u>	<u>87,225</u>	<u>78,092</u>
Prepayments	1,820	3,151	1,820	3,151
Amounts receivable from associates	29	40	29	40
Other receivables	13,023	9,908	12,881	9,675
	<u>102,097</u>	<u>91,191</u>	<u>101,955</u>	<u>90,958</u>
9 INVENTORIES				
Pharmaceuticals	346	71	346	71
Surgical and medical supplies	9,498	7,684	9,498	7,684
Other supplies	27	38	27	38
	<u>9,871</u>	<u>7,793</u>	<u>9,871</u>	<u>7,793</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	Group Actual		Parent Actual	
	As at 30/06/05 \$000	As at 30/06/04 \$000	As at 30/06/05 \$000	As at 30/06/04 \$000
10 PROPERTY, PLANT and EQUIPMENT				
Gross Carrying Value				
Freehold Land (at valuation)	49,798	3,627	49,798	3,627
Land Improvements (at valuation)	4,097	0	4,097	0
Freehold Buildings (at valuation)	233,285	221,453	233,285	221,453
Building Fitout and Services (at valuation)	317,127	299,355	317,127	299,355
Plant and Equipment (at cost)	246,027	225,558	246,027	225,558
Leasehold Improvements (at cost)	727	998	727	998
Leased Plant and Equipment (at cost)	6,470	6,470	6,470	6,470
Work in Progress (at cost)	6,901	44,995	6,901	44,995
Property Intended for Resale (at cost)	0	536	0	536
Total Gross Carrying Value	864,432	802,992	864,432	802,992
Accumulated Depreciation				
Freehold Buildings	0	(26,206)	0	(26,206)
Impairment Loss - Buildings	0	(295)	0	(295)
Impairment Loss - Computer Systems	(1,130)	0	(1,130)	0
Building Fitout and Services	0	(102,475)	0	(102,475)
Plant and Equipment	(146,575)	(123,814)	(146,575)	(123,814)
Leasehold Improvements	(551)	(604)	(551)	(604)
Leased Plant and Equipment	(5,282)	(4,926)	(5,282)	(4,926)
Property Intended for Resale (at cost)	0	(369)	0	(369)
Total Accumulated Depreciation	(153,538)	(258,689)	(153,538)	(258,689)
Net Carrying Value				
Freehold Land	49,798	3,627	49,798	3,627
Land Improvements	4,097	0	4,097	0
Freehold Buildings	233,285	194,952	233,285	194,952
Building Fitout and Services	317,127	196,880	317,127	196,880
Plant and Equipment	98,322	101,744	98,322	101,744
Leasehold Improvements	176	394	176	394
Leased Plant and Equipment	1,188	1,544	1,188	1,544
Work in Progress	6,901	44,995	6,901	44,995
Property Intended for Resale (at cost)	0	167	0	167
Total Net Carrying Value	710,894	544,303	710,894	544,303
By Holding				
Freehold Assets	709,530			
Leasehold Assets		1,364		
	710,894			
Impairment Loss				

The carrying amounts of all property, plant and equipment are reviewed on an ongoing basis. Any impairment in value is recognised immediately. An impairment loss of \$835k (2004: \$139k) was recognised as an expense in the Statement of Financial Performance (Computer Systems \$1,130k less release of Building Provision from 2004 \$295k).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	Group Actual		Parent Actual	
	As at 30/06/05 \$000	As at 30/06/04 \$000	As at 30/06/05 \$000	As at 30/06/04 \$000
10 PROPERTY, PLANT AND EQUIPMENT (continued)				
Capitalised interest at balance date included in WIP and Property Plant and Equipment.				
Freehold Buildings	0	16,078	0	16,078
Plant and Equipment	0	1,168	0	1,168
	<u>0</u>	<u>17,246</u>	<u>0</u>	<u>17,246</u>

In line with Crown Accounting policies, ADHB ceased capitalising interest effective 1 July 2004.

Valuation Information

Land, Buildings and associated fitouts and services were independently valued on 30 June 2005 by TelferYoung (Auckland) Ltd, a firm registered with the Institute of Valuers of New Zealand for \$604.307m. This value assesses key parcels of land subject to restrictive covenants as having a Nil value. TelferYoung have provided a second valuation for \$749.118m which takes into account the value of these parcels if there were no restriction on the ability to sell that land. The Board take the view that the appropriate valuation method is to reflect the fair value as being affected by the inability to sell this land due to the surrounding restrictive covenants.

Surplus land subject to disposal which is subject to due process with regard to the New Zealand Public Health and Disabilities Act 2000, including Ministerial approval, Public Works Act 1981, S.40, the mechanism for protection of Maori interests in Crown owned land and any other interests registered on the title or under any other applicable legislation (e.g. Reserves Act 1977), is held at cost as property intended for resale.

All asset categories above as at 30 June 2004 are recorded at cost.

11 CONTINGENT ASSET

ADHB benefits from grants from the Greenlane Research and Educational Fund Trust (GREFT). This fund was set up for the purpose of administering funds to further the services in the cardio-thoracic surgical and cardiology units at Greenlane Hospital. The assets of the fund have not been consolidated in the financial statements because ADHB does not exercise control over the GREFT in terms of Financial Reporting Standard Number 37 "Consolidating Investments in Subsidiaries". Furthermore ADHB is unable to control the timing and amount of any distribution of funds, consequently it is not possible to estimate the future economic benefit to ADHB in terms of Financial Reporting Standard Number 15 "Provisions, Contingent Liabilities and Contingent Assets".

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	Group Actual		Parent Actual	
	As at 30/06/05 \$000	As at 30/06/04 \$000	As at 30/06/05 \$000	As at 30/06/04 \$000
12 PAYABLES AND ACCRUALS				
Current				
Trade payables and accruals	84,382	75,922	84,382	75,922
Provisions	650	682	650	682
PAYE and GST	15,237	15,296	15,239	15,296
Employee entitlements	67,032	60,217	67,032	60,217
Amounts payable to associates	133	20	133	20
Other payables and accruals	21,125	24,436	20,956	24,243
	<u>188,559</u>	<u>176,573</u>	<u>188,392</u>	<u>176,380</u>
Non-current				
Employee entitlements	<u>14,154</u>	<u>11,825</u>	<u>14,154</u>	<u>11,825</u>
PROVISIONS				
Litigation Provision				
Opening balance	0	1,192	0	1,192
Additional provisions made during year	0	0	0	0
Charged against provision for the year	0	(8)	0	(8)
Unused amounts reversed during year	0	(1,184)	0	(1,184)
Closing balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
No provision has been made for litigation as it is believed that no material costs are likely to arise from outstanding legal issues.				
Redundancy Provision				
Opening balance	682	1,825	682	1,825
Additional provisions made during year	521	333	521	333
Charged against provision for the year	(553)	(1,476)	(553)	(1,476)
Closing balance	<u>650</u>	<u>682</u>	<u>650</u>	<u>682</u>
Total provisions	<u>650</u>	<u>682</u>	<u>650</u>	<u>682</u>

Note: The provision relates to expected costs arising from specific service reviews in progress at year-end. It is anticipated that all expenditure will be incurred in the next financial year.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	Group Actual		Parent Actual	
	As at 30/06/05 \$000	As at 30/06/04 \$000	As at 30/06/05 \$000	As at 30/06/04 \$000
13 BORROWINGS				
Current				
Short term bank loans (ASB)	35,600	0	35,600	0
Crown Financing Agency	90,000	41,000	90,000	41,000
UDC Finance Lease	236	656	236	656
	<u>125,836</u>	<u>41,656</u>	<u>125,836</u>	<u>41,656</u>
Non-current				
Crown Financing Agency	60,000	154,000	60,000	154,000
UDC Finance Lease	0	233	0	233
15 year note issue	50,000	50,000	50,000	50,000
10 year note issue	70,000	70,000	70,000	70,000
	<u>180,000</u>	<u>274,233</u>	<u>180,000</u>	<u>274,233</u>
Borrowings are repayable:				
Less than one year	125,600	41,000	125,600	41,000
One to two years	0	154,000	0	154,000
Two to five years	60,000	0	60,000	0
Over five years	120,000	120,000	120,000	120,000
	<u>305,600</u>	<u>315,000</u>	<u>305,600</u>	<u>315,000</u>
Finance leases are repayable:				
Less than one year	236	656	236	656
One to two years	0	233	0	233
Two to five years	0	0	0	0
Over five years	0	0	0	0
	<u>236</u>	<u>889</u>	<u>236</u>	<u>889</u>
Interest rates	% pa	% pa	% pa	% pa
Short term bank loans	5.80-7.05	5.30-6.05	5.80-7.05	5.30-6.05
Crown Health Financing Agency	5.68-6.71	5.45-6.10	5.68-6.71	5.45-6.10
UDC Finance lease	9.45	9.45	9.45	9.45
Bonds	7.75	7.75	7.75	7.75

ADHB borrows funds based on covenants and a negative pledge deed. This includes the covenant that security cannot be given over assets of ADHB without prior written consent of the lender.

Finance leases were established prior to the enactment of New Zealand Public Health and Disabilities Act 2000.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	Group Actual		Parent Actual	
	As at 30/06/05 \$000	As at 30/06/04 \$000	As at 30/06/05 \$000	As at 30/06/04 \$000
13 BORROWINGS (continue)				
<i>Banking facilities</i>				
	Limit available	Limit available	Limit available	Limit available
The following banking facilities are available to ADHB:				
Revolving Cash Facilities:				
Crown Health Financing Agency	195,000	195,000	195,000	195,000
ASB	<u>65,000</u>	<u>65,000</u>	<u>65,000</u>	<u>65,000</u>
Total revolving cash facility	<u>260,000</u>	<u>260,000</u>	<u>260,000</u>	<u>260,000</u>
14 CAPITAL CHARGE	<u>17,909</u>	<u>17,354</u>	<u>17,909</u>	<u>17,354</u>

All DHBs are required to pay a capital charge to the Crown based on their shareholders' funds. The charge is set at 11 percent on shareholders' funds based on the monthly closing balance.

AUCKLAND DISTRICT HEALTH BOARD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Group Actual		Parent Actual	
	As at 30/06/05 \$000	As at 30/06/04 \$000	As at 30/06/05 \$000	As at 30/06/04 \$000
15 COMMITMENTS				
(i) Capital commitments				
Approved and contracted	14,900	40,552	14,900	40,552
Approved and to be contracted	6,632	14,975	6,632	14,975
	<u>21,532</u>	<u>55,527</u>	<u>21,532</u>	<u>55,527</u>
Term classification of commitments				
Less than one year	21,532	54,813	21,532	54,813
One to two years	0	714	0	714
Two to five years	0	0	0	0
Over five years	0	0	0	0
	<u>21,532</u>	<u>55,527</u>	<u>21,532</u>	<u>55,527</u>
(ii) Operating commitments	<u>55,384</u>	<u>21,143</u>	<u>55,384</u>	<u>21,143</u>
Term classification of commitments				
Less than one year	37,627	14,029	37,627	14,029
One to two years	10,468	4,501	10,468	4,501
Two to five years	6,897	2,297	6,897	2,297
Over five years	392	316	392	316
	<u>55,384</u>	<u>21,143</u>	<u>55,384</u>	<u>21,143</u>
16 TRANSACTIONS WITH RELATED PARTIES				
Associates identified in note 5 are related parties. The transactions with associates during the year:				
Sales to associates	146	374	146	374
Interest received on loans to associates	0	0	0	0
Purchases from associates	3,697	2,758	3,697	2,758

These transactions were made on commercial terms and conditions and at market rates.
No related party debts have been written off or forgiven during the year.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

Group Actual		Parent Actual	
As at 30/06/05 \$000	As at 30/06/04 \$000	As at 30/06/05 \$000	As at 30/06/04 \$000

17 FINANCIAL INSTRUMENTS

Credit Risk

To the extent ADHB has a receivable from another party there is a credit risk in the event of non-performance by that counter party. Financial instruments which potentially subject ADHB to credit risk principally consist of bank balances, receivables, foreign currency forward rate agreements and swaps.

ADHB manages its exposure to credit risk and limits the amount of credit exposure to any financial institution. The maximum exposure is disclosed in the fair value of financial assets and liabilities.

The ADHB receives 95.27% (30/06/04 94.51%) of its revenue from the Crown through the Ministry of Health. Accordingly the Board does not consider there is any risk arising from the concentration of credit with respect to accounts receivable.

Concentrations of credit risk

Ministry of Health owed ADHB \$76.409 million (30/06/04: \$68.595 million) as at 30 June 2005. The Ministry of Health has substantially cleared the debt by (05/07/05) and the Board Members of ADHB believe the balance, after provisions, is fully recoverable.

Fair values

Ministry of Health debt	76,409	68,595	76,409	68,595
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The carrying amount of cash, bank balances, receivables and payables reflect their fair values.

The carrying amount of all other borrowings reflects their fair values. Accordingly these are excluded from the table above.

Fair values of financial assets and liabilities

Cash and bank balances	15,272	38,621	6,507	29,653
Receivables	100,277	88,040	100,135	87,807
Payables	(143,244)	(135,605)	(143,077)	(135,412)
Borrowings (non-current)	(188,576)	(283,328)	(188,576)	(283,328)
Borrowings (current)	(125,836)	(41,656)	(125,836)	(41,656)
Restricted funds held in trust	(789)	(743)	(789)	(743)
	<u>(342,896)</u>	<u>(334,671)</u>	<u>(351,636)</u>	<u>(343,679)</u>
Off Balance Sheet financial instruments				
Foreign exchange forward contracts	0	67	0	67
Interest rate swaps	6,512	6,538	6,512	6,538
	<u>6,512</u>	<u>6,605</u>	<u>6,512</u>	<u>6,605</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

17 FINANCIAL INSTRUMENTS (continued)

Interest rate risk and currency risk

Interest rate risk:

ADHB adopts a policy of spreading its interest rate exposure between fixed and floating rates. Interest rate swaps are used to achieve the appropriate mix of interest rate exposures as set out in the board's treasury policy.

Foreign currency risk:

The group had not entered into any foreign exchange contracts at balance date. (30/06/04 USD \$1.870m).

	Weighted Average Interest Rate %	GROUP Maturity Periods				Total
		0 – 1 Years	1 – 2 Years	2 – 5 Years	Over 5 Years	
Interest Rate Repricing Schedule		\$000	\$000	\$000	\$000	\$000
As at 30 June 2005						
Monetary Assets						
Cash and bank balances	6.15%	10,513	0	0	0	10,513
Investment bonds	7.15%	0	4,759	0	0	4,759
Total Monetary Assets		<u>10,513</u>	<u>4,759</u>	<u>0</u>	<u>0</u>	<u>15,272</u>
Monetary Liabilities						
Short Term Bank Loans	7.05%	35,600	0	0	0	35,600
Crown Health Financing Agency	6.67%	90,000	0	60,000	0	150,000
Bonds	7.75%	0	0	0	120,000	120,000
Finance leases	9.45%	236	0	0	0	236
Total Monetary Liabilities		<u>125,836</u>	<u>0</u>	<u>60,000</u>	<u>120,000</u>	<u>305,836</u>
Off Balance Sheet Items (Interest Rate Derivatives)						
Contract Value		30,000	35,000	90,000	140,000	295,000
As at 30 June 2004						
Monetary Assets						
Cash and bank balances	4.85%	33,039	0	0	0	33,039
Investment bonds	7.38%	2,862	2,720			5,582
Total Monetary Assets		<u>35,901</u>	<u>2,720</u>	<u>0</u>	<u>0</u>	<u>38,621</u>
Monetary Liabilities						
Crown Health Financing Agency	5.98%	41,000	154,000	0	0	195,000
Bonds	7.75%	0	0	0	120,000	120,000
Finance leases	9.45%	656	233	0	0	889
Total Monetary Liabilities		<u>41,656</u>	<u>154,233</u>	<u>0</u>	<u>120,000</u>	<u>315,889</u>
Off Balance Sheet Items (Interest Rate Derivatives)						
Contract Value		15,000	30,000	55,000	210,000	310,000

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

**17 FINANCIAL INSTRUMENTS
(continued)**

	Weighted Average Interest Rate %	PARENT Maturity Periods				Total
		0 – 1 Years	1 – 2 Years	2 – 5 Years	Over 5 Years	
Interest Rate Repricing Schedule		\$000	\$000	\$000	\$000	\$000
As at 30 June 2005						
Monetary Assets						
Cash and bank balances	5.77%	6,507	0	0	0	6,507
Total Monetary Assets		6,507	0	0	0	6,507
Monetary Liabilities						
Short Term Bank Loans	7.05%	35,600	0	0	0	35,600
Crown Health Financing Agency	6.67%	90,000	0	60,000	0	150,000
Bonds	7.75%	0	0	0	120,000	120,000
Finance leases	9.45%	236	0	0	0	236
Total Monetary Liabilities		125,836	0	60,000	120,000	305,836
Off Balance Sheet Items (Interest Rate Derivatives)						
Contract Value		30,000	35,000	90,000	140,000	295,000
As at 30 June 2004						
Monetary Assets						
Cash and bank balances	4.83%	29,653	0	0	0	29,653
Total Monetary Assets		29,653	0	0	0	29,653
Monetary Liabilities						
Crown Health Financing Agency	5.98%	41,000	154,000	0	0	195,000
Bonds	7.75%	0	0	0	120,000	120,000
Finance leases	9.45%	656	233	0	0	889
Total Monetary Liabilities		41,656	154,233	0	120,000	315,889
Off Balance Sheet Items (Interest Rate Derivatives)						
Contract Value		15,000	30,000	55,000	210,000	310,000

18 SEGMENTAL REPORTING

ADHB only operates in the area of the health and disability support services sector in the Auckland region.

19 MAJOR VARIATIONS FROM BUDGET

The ADHB recorded a net deficit of \$ 58m compared with a budgeted deficit of \$ 83m. The result for the year was favourable to budget by \$25m. Major favourable variances contributing to this result were the receipt of \$11m Asbestos funding , reduction in depreciation \$11m , release of \$8m Mental Health funding and accrual of Pharmac Rebates \$4m while major unfavourable variances were an increase in Long Service Leave and Retiring Gratuities \$3m and Land Sales not completed \$7m.

20 EVENTS SUBSEQUENT TO BALANCE DATE

No events have occurred subsequent to balance date that requires adjustment or disclosure in these financial statements.

21 INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board (ASRB) announced that New Zealand entities required to comply with NZ GAAP under the Financial Reporting Act would be required to apply International Financial Reporting Standards (IFRS) for financial periods commencing on or after 1 January 2007 with earlier adoption permitted from 1 January 2005. The new standards that have been approved by the ASRB for application in New Zealand are referred to as New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as certain adaptations have been made to reflect New Zealand circumstances.

Auckland District Health Board (ADHB) intends to present NZ IFRS for the first time for the year beginning 1 July 2007.

ADHB are in the early stages of adoption and therefore are unable to reliably estimate the effects of NZ IFRS on the Group's financial statements. There can be no assurances that the financial performance and the financial position as disclosed in these financial statements would not be significantly different if determined in accordance with NZ IFRS.

Appendix A

REPORT TO THE BOARD HOSPITAL BUILDING PROJECT AND CHANGE PROJECT

CFO's Report May 2005

1. **Auckland District Health Board (ADHB) has invested around \$0.5 billion in capital works and \$13m on the Change Programme, in the expectation that ADHB would by now be in a break even or better financial position.**
2. **Five years on from making the capital commitment ADHB has an underlying deficit of \$100m plus per year.**
3. The Key Elements
 - (a) The Building Programme has been completed to date, on time and within budget.
 - (b) The Change Programme has identified recurring savings of over \$31m per annum, with a potential \$5m further to come, out of an expected \$45m.
 - (c) The savings identified by the Change Programme, taken together with those from building projects with stand-alone business cases are not sufficient to fully fund the capital costs of the Building Programme and the additional running costs of facilities.
 - (d) Financial forecasting through ADHB's District Annual Plan (DAP) process, the Change Programme and the Building Programme was not integrated and presents a confusing picture of ADHB's future financial performance. ADHB's DAP financial forecasts have been inconsistent over the last 5 years and in some years unrealistic especially the 2003/04 DAP.
 - (e) Operating cost increases have outstripped Future Funding Track (FFT) increases by an estimated \$11m per annum over the past five years.
 - (f) Additional building running costs of \$7.5 m for the new hospital were not allowed for in the original base savings target of \$27m, but were allowed for in an increase in the target firstly to \$34m, then \$40m and finally \$45m.
 - (g) A previous forecast for the financial impact of the total Building Programme (February 2004) was incomplete in respect of depreciation, interest and capital charges for some 'non-core Health Services Delivery Plan (HSDP)' items within the Building Programme. Apart from an early forecast by Bancorp there have been no comprehensive reports on the total operating cost implications of the capital investment programme.

4. Site Specific Adjuster Payment by the MOH

In August 2002 ADHB raised with the Ministry of Health the discontinuance of the Site Specific Adjuster methodology to fund increased capital cost as this is not recognised within population based funding.

Site specific adjuster revenue payments identified for the following years were declined by the Ministry of Health (MoH)

2002/03 \$15m
2003/04 \$53m
2004/05 \$85m

The adjuster payment would have had a material impact on ADHB reported deficits had it been paid.

5. Sustainability Options

In a report prepared by Health Care Management Associates Ltd in June 2003 to ADHB and MoH 'HSDP and Strategies for Future Operation within Income' it was identified that the sustainability option benefits were understated.

"The report questioned the lack of a more staged sustainability Net Present Value (NPV) analysis comparison with HSDP. The Board at the time of committing to the HSDP Business Case in 1998 were not prepared to accept delayed compliance with the building code (although delay was legally acceptable)."

In addition to this there is a strong view that a significant portion of the change programme benefits could have been achieved under sustainability.

It is difficult to quantify the precise amount of savings which were not dependent upon HSDP. However, of the \$36m savings claimed as having already been achieved or capable of being achieved as a result of Change Programme related activity, approximately \$11m (31%) was achieved during financial year 2002-03 which ended 3 months prior to the start of the first significant service migrations

What is to be done?

6. **It is clear from the review undertaken that ADHB's large and deteriorating deficit in recent years has been due to two principal factors:-**
 - **The capital investment programme was not funded by savings as was the expectation when the capital expenditure was approved.**
 - **The impact of additional funding through FFT failing to keep pace with increases on ADHB's input costs and conversely : ADHB did not live within the MoH funding envelope.**
7. Capital costs (interest, depreciation and the capital charge) once incurred, cannot be reduced significantly. They *can* be reduced at the margin by addressing the costs of financing, reviewing depreciation rates and changes to the capital structure. All of these areas are being pursued, and where appropriate with the MoH.
8. The emphasis must now switch to ensuring that the commitments made by previous Boards to the Crown in respect of savings and efficiencies to match capital costs are fulfilled. The analyses presented to the Board over recent months have indicated some of the root causes of the deficit and the current draft of the District Annual Plan contains savings targeted at reducing the deficit to a more 'acceptable' level. Strategies and plans are required to implement a large portion of the savings over the next 3 years and there is a risk in achieving these savings, given the level of savings required and ADHB's track record in delivering savings.

W J Russell
Chief Financial Officer

Note: Subsequent to this report being prepared ADHB has adjusted depreciation rates for buildings, building services and building fit out following the revaluation carried out by Telfer Young in June 2005. This adjustment would have had a favourable impact on the net deficit reported in notes 12 & 16 of this report. In addition the information used in the report relating to 0405 is actual results to the date of the report and forecast for the remainder of the year.

Background - General

1. The Building Programme was charged with implementing the HSDP Business Case of 1998 and the various approved changes to that case. In addition, they were responsible for implementation of a number of other building and systems projects which had stand-alone business cases and separate benefits streams, examples being Lab Plus and the PACS system.

2. The Board approved capital investment administered by the Building Programme is \$473m (see March 2005, Building Programme monthly report), not including baseline equipment purchases. This comprises 'core HSDP' and a number of other projects.

3. The Change Programme objectives were to:-

- Provide effective and safe services to its patients with the right staffing levels and be supported through the introduction of appropriate clinical information systems
- Manage effectively and efficiently in a new hospital with less beds than currently available
- *Reduce operating costs through the elimination of duplicated processes or those that do not add value to the patient or the organisation.*

In the context of this report, it is the last of these objectives which is relevant.

4. The reduced operating costs targeted by the Change Programme totalled \$45m per annum after a phased implementation over four years. The reduced operating costs were intended to fund the additional capital costs (interest, depreciation and capital charge) associated with the projects within HSDP.

5. The key documents in seeking to integrate the impact upon the organisation of these two programmes are:-

- The HSDP business case
- Successive DAPs
- Building Programme reporting to the Building & Change Sub-Committee
- Change Programme reporting to the Building & Change Sub-Committee
- Bancorp Funding Information Memorandum

Background - Building Programme

6. The approved spend per the HSDP Business case was \$237m.

7. This spend was justified on two grounds:-

- Taking the expected benefits into account, the spend had a positive net present value.
- The spend had a more favourable financial outcome than what was known as "sustainability" – the likely, inevitable cost of bringing existing building stock to a safe working condition.

8. This approved spend was later increased through 'escalation' and additional scope; adding stand-alone projects, and capitalised labour and interest and subtracting land sales brings the total to \$463m.

Background - Change Programme

9. The Change Programme ran over a period of five financial years from FY0001 to FY0405, in the last year as "the Programme Office". The savings targets for that period were:-

	\$000
FY0203	10,000
FY0304	11,000
FY0405	18,000
FY0506	6,000

10. In total, from FY0506 the Change Programme was to have identified and implemented cumulative, recurring savings of \$45m per annum.

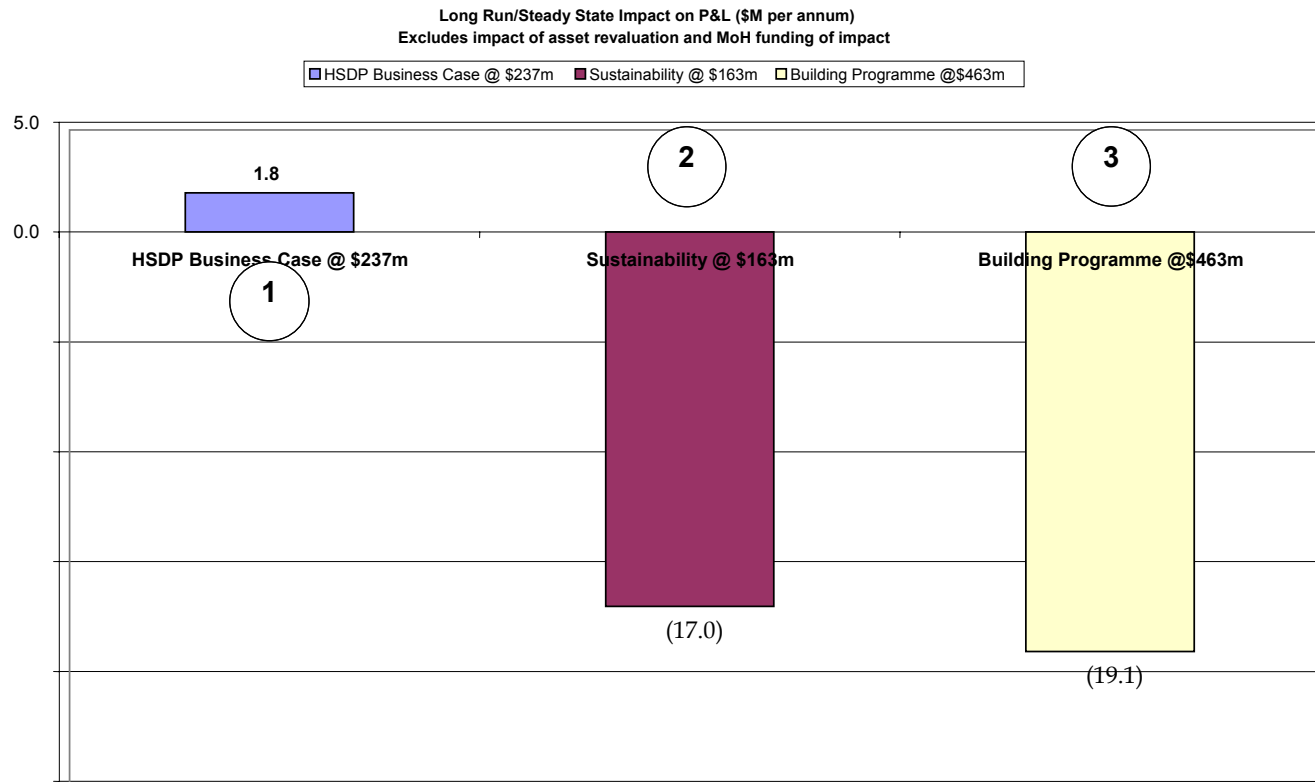
11. The original savings target was \$27m, this was increased progressively to \$34m, \$40m and finally \$45m in response to escalation of HSDP, additional building running costs of \$7.5m and finally the requirements of the FY0304 DAP

Detailed Findings

HSDP & Building Programme – estimated financial impact

12. Financial Forecasts for the HSDP & the Building Programme were identified as follows:-

- (a) HSDP Business Case for a capital spend of \$237m over **six** years.
- (b) Sustainability (per the HSDP business case) or a total capital spend of \$163m over **twenty** years.
- (c) Impact of Building Programme for a total \$463m spend, (ADHB Finance Team estimate)



Detailed Findings

THE BUILDING PROGRAMME

13. There is some confusion as to what is in the Building Programme from the perspective of capital costs and benefits.

14. The implications of the Building Programme need to be looked at from the total programme and the various parts of it.

15. The following projects should be considered to be the "Building Programme":-

1 – including use of contingency	Project	Budget ¹ \$k	Forecast \$k
Main Building	01	215,018	215,037
Ambulatory	50	52,826	49,513
Support Building	70	48,568	45,036
Children's Services	60	17,362	17,393
Grafton Site works	05	14,956	15,108
Greenlane Site works	55	3,028	2,919
Sustainability	80	5,872	5,801
HSDP Fees	90	7,278	3,896
Oncology	91	1,375	1,350
Psychogeriatric	92	2,524	2,462
Contingency		0	12,893
Capitalised Labour/Interest		25,602	25,602
Less donations		0	(1,303)
Less asbestos claims			(5,354)
Less asset sales			(10,000)
Core HSDP		394,409	380,353
Business Case and other Non-Core Projects			
LabPlus	20	19,784	19,784
Heli Car Park	30	13,045	13,045
Conolly	40	16,036	15,929
Car Park	32	2,124	1,913
Greenlane Carparks	34	3,921	3,604
Equipment (PACS,CREAME)	82	28,967	28,303
RIS System	RIS	2,800	2,800
Baseline Equipment	84	50,626	50,626
Total per March 2005 "HSDP Project Consolidated Finance Report)		531,712	516,357
Items excluded from this analysis:-			
RIS System	RIS		(2,800)
Baseline Equipment	84		(50,626)
Adjusted Financial Total for this analysis			\$462,931

Detailed Findings

Net Cost of the Building Programme

16. It does not appear that a financial forecast was prepared for the consolidated impact of the \$463m spending programme on ADHB's statement of financial performance. The long term impact of the project for the total spend is reconciled as follows (ADHB Finance Team estimate).

		\$k	\$k
Estimated Capital Spend (March 2005 Building Programme Report)			526,357
Capital costs excluded from this analysis			(53,426)
Adjusted total for analysis			462,931
Estimated Depreciation Impact		25,769	
Financing – Debt		18,164	
Financing - Equity		17,931	
Additional Capital Costs			61,683
Additional Running costs			7,500
Additional Cost			69,363
Operating Benefits (Core HSDP)		31,000	
Operating Benefits (to come)		5,000	
			36,000
Operating Benefits on the following projects			
Lab Plus		3,471	
Conolly		1,921	
Car Park Helipad		1,950	
Car Park Greenlane		1,057	
Radiology PACS		2,341	
CREAME		3,441	
			14,266
Net Deficit Impact			(19,098)

Detailed Findings

Building Committee Report dated 2 February 2004 was in complete , excluding some 'non-core' projects.

17. A report was tabled to the Building Committee early February 2004 giving an analysis of the impact on the 05/06 Profit and Loss position and can be summarised as follows:-

Capital Spend	Core HSDP	HSDP Excluding Sustainability	Sustainability Only
	\$m	\$m	\$m
Costs:			
Depreciation	21	19	15
Interest	12	10	8
Building Costs	8	7	5
Total Cost	41	36	28
Benefits			
Change Programme	45	45	8
University Rental	1	1	
Total Benefits	46	46	8
Net Contribution	5	10	(20)

18. This report was incomplete on a number of counts:-

1. It did not include the full capital cost and associated depreciation charges for:
 - Contingency \$16.4m
 - Capitalised labour and Interest \$27.2m

Note : interest was excluded as the options of expensing this were being considered at the time the report was done.

It also excluded the capital costs of baseline equipment \$50.6m, which is likewise excluded from this analysis.

2. It accounted for \$371m of the total \$525m capital spend but included the full impact of the Change Programme.

The analysis was based on :

Core HSDP		341,973
Equipment		29,232
Analysis based on this cost total		371,205
Items excluded :		
Stand-alone projects		
Heli carpark	13,047	
Conolly	15,929	
Grafton car parks	4,660	
Greenlane Car Parks	2,982	
Lab Plus	19,864	
		56,482
Other		
Use of contingency, less donations	16,357	
Baseline equipment	50,626	
Capitalised labour and interest	27,232	
HSDP wide fees	3,399	
		97,614
Building Programme forecast @ February 2004		525,301

3. It explicitly excluded the capital charge on \$143m of equity funding @ 11% or \$15.7m per annum, pending resolution of discussions with the Ministry of Health on the site specific adjuster. No agreement has been reached with the Ministry.

19. A summary of the reported view and most likely position is as follows :-

	Reported Net Benefits	More Likely Position
Costs	41	73
Benefits	46	60
Net Contribution	5 F	(13) U

20. The more likely position was a cost of \$(13)m not a net contribution of \$5m. This is a revised analysis based on the assumptions used for the original report. Adjustments to **both costs and benefits** have been made in respect of the capital costs excluded. The More Likely Position assumes achievement in full of CP savings of \$45m as this was the working assumption for the organisation at the time of preparation of the 2004 analysis. The table above on page 11 may be considered a "more likely position" based on information and facts known today.

Detailed Findings

Change Programme

21. The original target for savings from HSDP was \$27m. Through time, with the identification of additional building running costs of \$7.5m and the requirements of successive DAPs, this target was increased. Following a number of false starts in setting up a credible and effective 'change programme', The Change Programme of February 02 committed over time to the following savings.

	\$m
FY 02/03	\$10.0m
FY 03/04	\$11.0m
FY 04/05	\$18.0m
FY 05/06	<u>\$ 6.0m</u>
Total	<u>\$45.0m</u>

22. These savings were cumulative eg. The \$11m in 03/04 was intended to be **in addition** to the \$10.0m in 02/03. It was proposed that by 05/06 change programme initiatives should be achieving recurring savings of \$45m per annum.

23. The savings were targeted as predominantly staffing with some supplies and treatment costs arising from more efficient working – reduced length of stay and faster throughput.

24. The February 2005 Audit Committee paper outlined the achievement of Change Programme (CP) and related savings to date. Although the full target of \$45m has not been achieved, savings from the first two years of CP activity, taken together with purchasing efficiencies and especially, M&A savings, has achieved a result in the region of \$31m with a potential further \$5m to come. The following table summarises the position discussed in the February 2005 paper, adjusted for some items now counted in the 'stand-alone' projects benefits referred to in the Building Programme summary above.

Estimated :-

<i>efficiency benefits including 0405</i>							
Asset Sales	Actuals		Actuals		Total	yet to be realised **	Total
	Phase 1 CP *	Kitchen	Purchasing/M&A				
99/00	-	-	-	-	-		-
00/01	1,212	-	-	-	1,212		1,212
01/02	4,686	-	248	-	4,934		4,934
02/03	-	8,000	1,860	1,000	10,860		10,860
03/04	2,620	11,000	1,860	1,000	16,480		16,480
04/05	6,997	13,000	1,860	10,000	31,857	2,800	34,657
05/06	-	13,000	1,860	16,000	30,860	5,600	36,460
06/07	-	13,000	1,860	16,000	30,860	5,600	36,460
07/08	-	13,000	1,860	16,000	30,860	5,600	36,460
08/09	-	13,000	1,860	16,000	30,860	5,600	36,460
		84,000	13,268	76,000	188,783	25,200	213,983

↑
↑

***Source of Benefits:-**

- 0203 benefits
- ADT
- R&R
- 24HC
- integrated practice
- OAS
- Surgical

- Recovery of some phase 1 shortfall
- Research
- Community
- SMO

25. The Change Programme did not achieve its original financial target and the approach to "Change Programme-like" work in ADHB has now changed to one with change champions embedded in services. There were a number of reasons identified for the shortfall:-

- The programme started late.
- Push-back from within ADHB.
- Externalisation of change and separation from the building programme, this factor includes an excessive reliance on the input of external consultants.
- Amplification and acceleration of savings targets in a manner not envisaged under original savings expectations.
- Reporting on the Change Programme focussed on the degree of implementation of projects and not sufficiently on the degree of embedding of changes.

Detailed Findings

Combined Impact of Building & Change Programme

26. Given the degree of achievement of the intended Change Programme savings, how do these compare with the flow on operating costs of the Building Programme?

27. It does not appear that a financial forecast has been prepared for the consolidated impact of the \$463m spending programme on ADHB's statement of financial performance. The long term impact of the project for the total spend is reconciled as shown on page 7 (ADHB Finance Team estimate). As shown on page 7 the net cost to the organisation of the projects within the Building Programme (excluding baseline equipment) is approximately \$20m per annum.

28. It is clear that the estimated costs of the Building Programme at some \$70m are not fully funded by the combined total of Change Programme savings and benefits from Building Programme projects with stand alone business cases. It is noteworthy that had the Change Programme made its 'official' target of \$45m this would still have been inadequate to achieve a nil bottom line impact.



AUCKLAND DISTRICT HEALTH BOARD

Detailed Findings

Reporting on ADHB's Deficit Position

29. ADHB's Financial projections have been inconsistent over time leading to potentially unrealistic expectations as to the reduction of the deficit over the period of the Building and Change Programmes. In light of current analysis of ADHB's underlying financial deficit the FY0304 DAP was unrealistic.

ADHB Financial Deficit Projections Through Time (\$m)

Document	Date Prepared									
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Bancorp Debt Financing Information Memorandum for an external debt raising of \$380m	Oct 99	1	-20	-26	-35	-21	-6	-3	-2	4
Strategic Plan 2002-2007	Mar 02	-71	-62	-74	-72					
DAP 2001/2002 One Year DAP	Apr 02	-72								
DAP 2002/03	Mar 03		-70	-91	-105					
DAP 2003/04	Sept 04			-49	-27	-17	1	4		
DAP 2004/05 One Year DAP Underlying Deficit	Dec 04				-104					
DAP 2005/2006 Draft	Mar 05					-87	-91	-92		
Actual		-66	-49	-45						

Detailed Findings

To what extent has the Building Programme contributed to the deficit?

30. It is difficult to get a clear picture of what was expected from the Building Programme and HSDP in respect of ADHB's financial performance.

- The HSDP business case, a subset of the overall building programme did not include financial projections
- The Building Programme as it was proposed in the HSDP business case was anticipated to add cost of approximately \$25m to ADHB's cost structure through higher depreciation, interest and capital charges. It was expected that benefits of at least \$27m would be achieved to offset these costs.
- The deficit recorded by ADHB in 1999 and 2000 was around **\$20m at the time** the Building Programme was committed to.

31. The underlying deficit to ADHB in 04/05 is \$104m. A reasonable question is "what have been the factors contributing to the growth in the deficit from \$20m to over \$100m?" The major contributing factors to the higher than expected deficit are:-

- Additional capital costs of Building Programme (@ 90% complete) over and above core HSDP:-

	HSDP	BP	Variance	\$M
Depreciation	7	23	(16)	
Interest	9	16	(7)	
Capital Charge	9	16	(7)	
				(30)
▪ Additional operating costs of facilities				(7)
▪ Impact of costs outstripping FFT increases @ \$11m a year				(45)
▪ Benefits from 'stand-alone' projects				14
▪ Additional benefits over the original \$27m (ie vs. \$31m referred to in this paper)				4
▪ Other				(20)
				(84)

Included within "Other" will be the additional depreciation associated with the baseline equipment of \$50.6m excluded from this analysis. Financing costs for this item will not be relevant as it was funded from a 'stand-alone' fund.

It is clear that the single largest factor is the funding shortfall "**FFT vs input inflation**".

Detailed Findings

Bancorp Debt Financing Information Memorandum

32. In October 1999 Bancorp prepared a memorandum for the external debt financing of \$380m for the financing of the Building Programme spend of (then) \$520m. This documents forecast of depreciation, interest and capital charge were very accurate, allowing for a subsequent reduction in ADHB's weighted average cost of capital (WACC).

33. The forecast in the memorandum projected that ADHB's deficit would worsen from 2001 reaching a peak deficit of \$35m in 2004/05 after which time the deficit would reduce progressively until a break even position was reached in 2010.

34. A comparison of the Bancorp 2004/05 projection and the actual underlying performance a \$104 deficit is as follows:

	Bancorp 0405	ADHB 0405 Underlying Deficit Excluding the Funder \$k
	\$k	\$k
Revenue	646	744
Staff	405	511
Other	169	244
Capital/Interest/Depreciation	107	93
	(35)	(104)

35. There are a number of key contributors to this deteriorating financial performance between Bancorp forecast and actual performance for 2004/05

- The assumptions used for wage and other cost inflation in the Bancorp projections were unrealistically optimistic. Wage inflation was assumed to be 1.75% per annum and other treatment costs 2.0% per annum. Although patient care revenue was assumed to increase at only 0.5% per annum, the difference between the Bancorp shortfall in unfunded cost increases and what we estimate has been the actual impact is some **\$55m** on a cumulative basis.
- The Bancorp projections did not take account of the additional running costs of new facilities **\$7.5m** which were not allowed for in the savings target for HSDP.
- We are unable to clarify the remaining balance of the deficit of **\$6m**.

AUDIT REPORT

TO THE READERS OF AUCKLAND DISTRICT HEALTH BOARD AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

The Auditor-General is the auditor of Auckland District Health Board (the Health Board) and group. The Auditor-General has appointed me, Gordon Fulton, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Health Board and group, on his behalf, for the year ended 30 June 2005.

Qualified Opinion

Note 10 to the financial statements discloses two separate amounts for the value of land, buildings and associated fitout and services forming part of Property, Plant and Equipment ("the assets"). The fair value of the assets has been independently assessed by the valuer, Telfer Young (Auckland) Limited, at \$749,118,000. Also, at the request of the Health Board, the valuer carried out a valuation of the assets, excluding those parcels of land subject to restrictive covenants, and assessed a value of the remaining assets at \$604,307,000. The assets have been recorded in the financial statements of the Health Board at \$604,307,000. In our opinion, the revaluation has not been accounted for in accordance with Financial Reporting Standard No.3 Accounting for Property, Plant and Equipment ("FRS 3"), which requires the revaluation of all assets within a class of assets to be recorded at fair value. If the revaluation had been accounted for in accordance with the requirements of FRS 3, the effect on the financial statements would have been to increase the balance of Property, Plant and Equipment and the Revaluation Reserve in the Statement of Financial Position by \$144,811,000.

In our opinion, except for the failure to record the revaluation of land, buildings and associated fit outs and services in accordance with the requirements of FRS 3, the financial statements of the Health Board and group on pages 19 to 50:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Health Board and group's financial position as at 30 June 2005;

In our opinion, the financial statements of the Health Board and group on pages 19 to 50 fairly reflect:

- the results of operations and cash flows for the year ended on 30 June 2005; and
- the service performance achievements measured against the performance targets adopted for the year ended on that date.

The audit was completed on 25 October 2005, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. We found material misstatements that were not corrected, as we referred to in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Health Board and group as at 30 June 2005. They must also fairly reflect the results of operations and cash flows and service performance achievements for the year ended on that date. The Board's responsibilities arise from the New Zealand Public Health and Disability Act 2000 and the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001, section 43 of the New Zealand Public Health and Disability Act 2000 and the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit services our firm provided consultancy services valued at \$2,100 to the Health Board during the year ended 30 June 2005. We have no other relationships or interests in the Health Board or any of its subsidiaries.



Gordon Fulton
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements of Auckland District Health Board and Group for the year ended 30 June 2005 included on Auckland District Health Board's web-site. The District Health Board's Board of Directors is responsible for the maintenance and integrity of the Auckland District Health Board's web site. We have not been engaged to report on the integrity of the Auckland District Health Board's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 25 October 2005 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.