

Northern Sydney and Central Coast Area Health Service

AUDIT OPINION

The audits of the Service and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

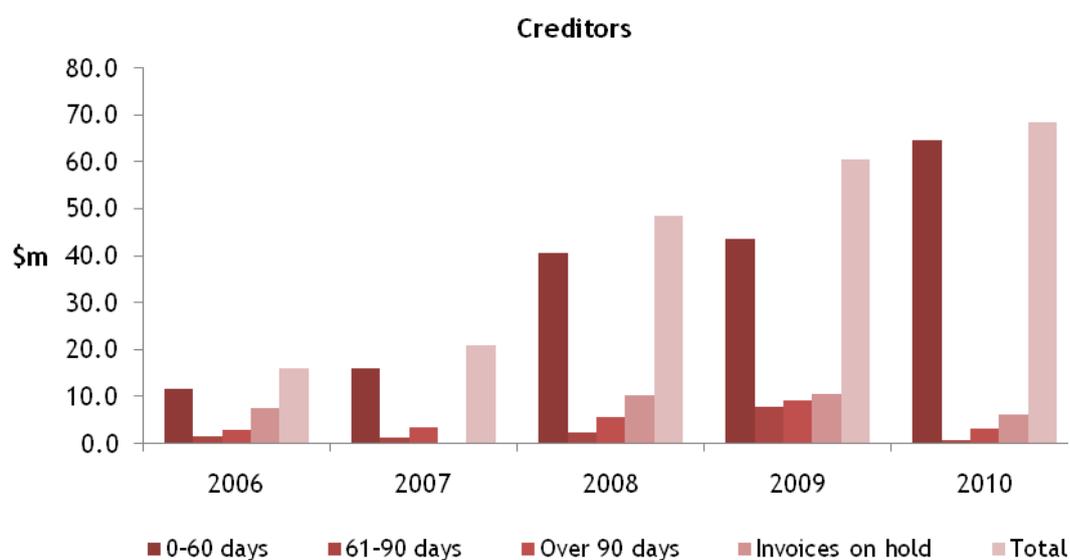
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

I again recommend the Service pays its creditors within agreed payment terms and follows up disputed invoices in a timely manner.

The following graph shows the ageing of trade creditors for the past five years and the invoices on hold or in dispute:



Note: Total column is the aggregate of the three ageing columns, as they include invoices on hold or in dispute.

The 0-60 days column for 2010 and 2009 include accruals, which are not included in 2008, 2007 and 2006.

Source: Northern Sydney and Central Coast Area Health Service (unaudited).

The Service has reduced the time it takes to pay its creditors. Creditors older than 90 days have decreased by 67.0 per cent. Total creditors increased to \$68.3 million at 30 June 2010 from \$60.5 million at 30 June 2009. During the year, the Service received \$62.3 million in additional funding from the Department of Health (the Department) to help pay outstanding creditors.

In each of the past five years, the amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2010, \$6.1 million, 14.0 per cent (20.0 per cent) of total creditors, were either on hold or in dispute. A significant amount of the on hold balance, \$3.0 million, was older than 90 days, with some invoices dating back more than two years.

Intra Health creditors at 30 June 2010 amounted to \$3.0 million (\$4.3 million) and are not included in the above graph as the normal credit terms do not apply.

In addition, some capital works creditors and non-trade creditors are not included in the graph as no ageing analysis was available. The total of these creditors at 30 June 2010 was \$4.8 million (\$430,000).

Budget to Actual Comparison (Repeat Issue)

I recommend the Service continue to improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of \$41.4 million, was \$15.7 million worse than the budgeted deficit of \$25.7 million. In comparison, the 2009 result was \$39.7 million worse than the budgeted surplus of \$32.2 million. Although there has been an improvement in 2009-10, the continued budget overruns should be appropriately addressed.

The Service advised that the Department has started implementing recommendations from the Independent Financial Management Review, and has completed an independent review of progress. Further comment is included in the 'Overview' earlier in this Volume.

Fully Depreciated Plant and Equipment (Repeat Issue)

I recommend the Service continue to liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

Following my recommendation in 2008-09, the Service conducted physical stock takes of fully depreciated plant and equipment and reduced the cost of fully depreciated assets from \$92.0 million to \$33.7 million at 30 June 2010. The Service advised all equipment is periodically inspected by technicians for service delivery capabilities.

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer to Health Overview section of this Volume).

The table below shows the extent of the Service's fully depreciated plant and equipment over the last three years.

At 30 June	2010	2009	2008
Total Plant and Equipment - at cost (\$'000)	181,576	204,940	221,961
Fully Depreciated Plant and Equipment - at cost (\$'000)	33,700	92,000	83,600
Fully depreciated Plant and Equipment as a percentage of total (%)	18.6	44.9	37.7

The Service plans to review the lives of these assets on an ongoing basis.

Special Purpose & Trust Funds (Repeat Issue)

I recommend the Service continue to institute a process to locate the source documentation for a number of trust funds.

Last year, I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose. The Service has completed this review and found the source documentation for some trust funds was incomplete. The Service has instituted a process to locate these documents. It had \$35.9 million of these funds at 30 June 2010 (\$38.4 million).

The table below shows the dissection of Special Purpose and Trust Funds at 30 June 2010.

At 30 June 2010	Number of SP&T accounts
\$1 - \$9,999	404
\$10,000 - \$99,999	247
\$100,000 - \$499,999	57
\$500,000 - \$999,999	10
\$1,000,000 and over	5
Total	723

Source: Northern Sydney and Central Coast Area Health Service (unaudited).

Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Overview' earlier in this Volume.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Northern Sydney and Central Coast area decreased slightly to 4.3 days (4.4 days). This is well above the state average of 3.6 days (3.7 days) and the highest in the state.

The Service's bed occupancy rate increased to 89.8 per cent (88.3 per cent). This was higher than the State average of 88.3 per cent (87.4 per cent).

The Service has met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories (met or exceeded three of the five triage categories in 2009).

The Service's emergency admission performance slightly increased to 71.0 per cent (70.0 per cent). This was less than its 80.0 per cent target.

OTHER INFORMATION

Asset Stock Take (Repeat issue)

I recommend the Service strengthen its policies and procedures in relation to missing items identified from plant and equipment stock takes.

Last year, I recommended the Service strengthen its policies and procedures of plant and equipment stock takes. Following my recommendation, the Service performed a stock take of all plant and equipment in 2009-10. All cost centres returned complete stock take sheets and total of \$2.6 million of plant and equipment was written off.

Payments to Visiting Medical Officers and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff.

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Total Medical Staff*	192,392	190,039	174,491	160,951
VMOs	65,467	58,884	57,629	49,363

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

Source: Northern Sydney and Central Coast Area Health Service (unaudited)

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system. At other times they work in private practice. They supplement staff specialists and other staff employed directly by the Service (medical staff).

VMO costs are a substantial part of the overall medical costs for the Service.

Human Resources

This year I reviewed the following areas relating to human resources:

- workforce ageing profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities .
- management of annual leave balances in excess of threshold policies
- extent of overtime.

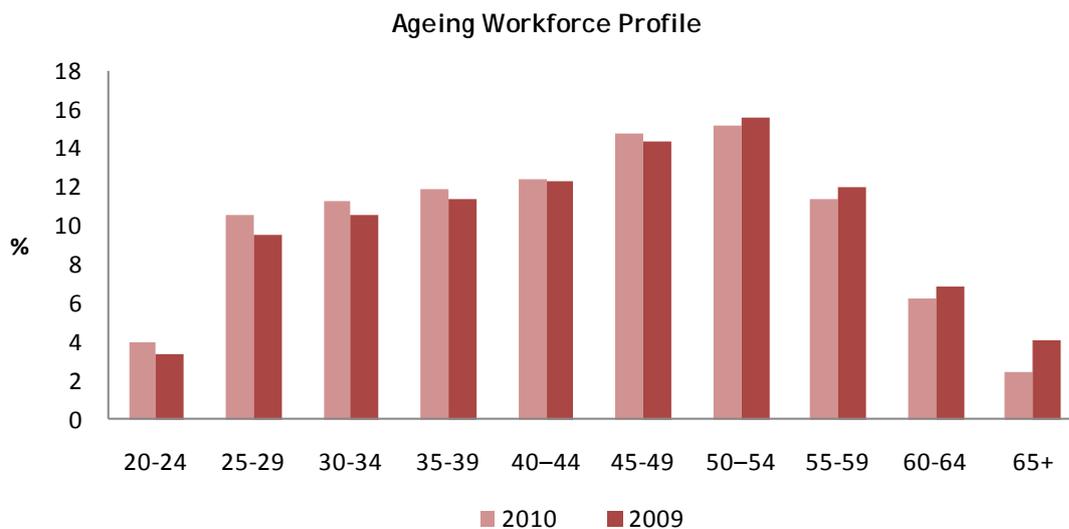
A summary of the results of my review follows.

Workforce Ageing

I recommend the Service review the effectiveness of its policies for managing its ageing workforce.

Twenty three percent of the Services employees are over 55 years of age and 38.5 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Permanent Staff *	%	No. of Permanent Staff *	%
20 - 49	7,093	61.5	7,836	64.7
50 - 54	1,795	15.5	1,837	15.2
55 - 59	1,382	12.0	1,377	11.4
60 - 64	792	6.9	750	6.2
65+	470	4.1	302	2.5
Total	11,532	100	12,102	100

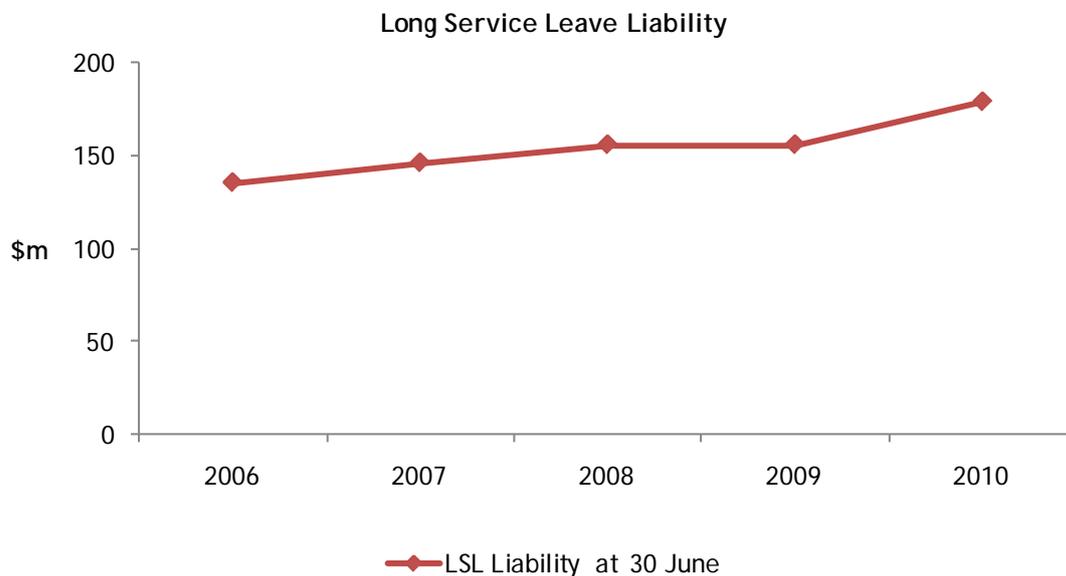
* Permanent staff includes staff employed under Crown Employee Award but excludes contract, temporary and casual staff

Source: Northern Sydney and Central Coast Area Health Service (unaudited)

To ensure sufficient availability of experienced staff in the future, the Service should actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with the strategic direction of the Service.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. Long service leave liabilities increased by 14.8 per cent to \$179 million in 2010 (\$156 million).



The Service advised that the Department of Health is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity, to bring the Department into line with other Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excess annual leave.

Managing excessive annual leave balances remains a challenge for the Service. Of its total workforce of 11,532, 2,366 employees or 20.5 per cent (22.8 percent) had annual leave balances in excess of 40 days. The highest employee annual leave balance was 421 days (422 days). The total number of staff with annual leave balances exceeding 40 days decreased by 405 employees this year.

The Department advised a significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Department advised in such instances, and using the public sector benchmark of two years' accrual as a guide, Health staff may not be in an excess leave position until the accrual exceeds 70 days.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

The Service should continue to apply the measures it has implemented to reduce leave balances focussing on staff at the high end of the excessive leave range.

Overtime

Overtime paid to staff in 2009-10 was \$38.4 million (\$39.3 million). Overtime was paid to approximately half of all permanent staff, slightly less than in the prior year. The average overtime paid over to people who worked overtime was \$5,899. There were incidences of overtime payments totalling in excess of \$130,000.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	1,082,833	1,053,759	--	--
Personnel services	--	--	1,082,833	1,053,759
Visiting medical officers	65,467	58,884	65,467	58,884
Other expenses	680,578	637,287	680,578	637,287
TOTAL EXPENSES	1,828,878	1,749,930	1,828,878	1,749,930
TOTAL REVENUE	357,477	342,491	373,537	359,944
Loss on disposal of non-current assets and other losses	24,666	2,965	24,666	2,965
NET COST OF SERVICES	1,496,067	1,410,404	1,480,007	1,392,951
Total government contributions	1,454,624	1,402,860	1,438,564	1,385,407
DEFICIT	41,443	7,544	41,443	7,544
OTHER COMPREHENSIVE INCOME				
Asset revaluation increment/(decrement)	77,933	(30)	77,933	(30)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	77,933	(30)	77,933	(30)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	36,490	(7,574)	36,490	(7,574)

Employee related expenses rose due to award rate increases that were partially offset by the fall in permanent staff numbers.

The increase in other expenses was mainly due to: higher pathology services costs of \$16.3 million resulting from the transfer of these services from the Service to Hunter New England Area Health Service; increases in food, drug and medical supplies costs of \$15.9 million; and increased maintenance costs of \$5.9 million.

The loss on disposal of non-current assets of \$21.0 million was mainly due to disposal of Royal North Shore Hospital car park, leased to a private entity.

The asset revaluation increment of \$77.9 million comprised: increases in the value of buildings, \$82.7 million; increases in the value of infrastructure systems, \$4.5 million; and decreases in the value of land, \$9.3 million.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	161,973	133,120	161,973	133,120
Non-current assets	1,512,428	1,411,184	1,512,428	1,411,184
TOTAL ASSETS	1,674,401	1,544,304	1,674,401	1,544,304
Current liabilities	430,123	395,645	430,123	395,645
Non-current liabilities	150,929	90,573	150,929	90,573
TOTAL LIABILITIES	581,052	486,218	581,052	486,218
NET ASSETS	1,093,349	1,058,086	1,093,349	1,058,086

The increase in current assets is mainly due to the transfer of land and buildings held for sale, valued at \$17.2 million, from non-current assets.

The increase in non-current assets and non-current liabilities is mainly due to the non-current receivable of \$68.0 million for the car park leasing and the revaluation increase.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of Northern Sydney and the Central Coast through the following hospitals:

- Gosford Hospital
- Hornsby Ku-ring-gai Hospital
- Long Jetty Hospital
- Macquarie Hospital
- Manly Hospital
- Mona Vale Hospital
- Royal North Shore Hospital
- Ryde Hospital
- Woy Woy Hospital
- Wyong Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service's activities, refer to www.nsccahs.health.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name	Website
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity	*

* This entity does not have a website.