

July 7, 2010

Consolidated Financial Statements - April 1, 2009 to March 31, 2010

Alberta Health Services today released its [Consolidated Financial Statements for April 1, 2009 to March 31, 2010](#), approved by the AHS Board on June 29th, 2010 and audited by the Office of the Auditor General of Alberta. The financial statements include senior executive compensation, including the pay-at-risk component.

Financial Overview

Results are significantly improved from the budgeted operating deficit of \$885M due mainly to additional funding received from Alberta Health and Wellness. This additional funding included \$343M to fund the accumulated deficit, and funding for H1N1 costs.

Factors that influenced financial performance were operating costs associated with front-line patient care, Emergency Medical Services (EMS) services, labour agreements, additional costs to transfer employee groups from Public Service Pension Plan (PSPP) to Local Authorities Pension Plan (LAPP) and other inflationary increases. Additional costs were partially offset by stringent vacancy management initiatives, various cost-control measures and considerable effort across the organization to reduce discretionary spending in the areas of general supplies, education and workshops, other contracted services, minor equipment and sundry expenditures. AHS achieved \$500M in annualized cost savings and cost avoidance through these initiatives.

Administrative Cost Savings

The annualized cost savings noted above include a \$12.4M reduction in executive compensation, achieved largely by reducing the number of Vice-Presidents and above from 144 under the former health entities, to 79 today. This is an almost 45% reduction of the number of executives that existed in the former entities prior to the creation of AHS. The current number of positions for Vice Presidents and above make up approximately 0.09% of the total AHS employee population.

Balanced Budget

The AHS accumulated deficit is \$527M and the year-end unrestricted cash balance is \$314M. The accumulated deficit is largely comprised of the \$343M opening deficit, the current year operating deficit, and is offset by transfers related to internally funded capital assets. The unrestricted cash balance at year-end is better than expected due primarily to the reduced operating deficit.

NOTE: Due to the Five-Year Funding Agreement with the Government of Alberta, the AHS Board approved a 2010-2011 balanced budget, including elimination of the accumulated deficit, at its June 29th 2010 meeting.

Executive Compensation including Pay-At-Risk

Senior leaders in Alberta Health Services are required to participate in a 'pay-at-risk' program. Under this program, a component of remuneration is withheld and released (in full or in part) at the end of the year based on the achievement of defined, measurable performance objectives determined at the outset of the budget year. Typically these goals direct executives to lead improvements in system performance in access, quality and sustainability. Goals established for the President and Chief Executive Officer and his direct reports are approved by the Board and published on the Alberta Health Services' website. Payments under the pay-at-risk program are included in the Consolidated Financial Statements in Schedule 2 in the column entitled "Other Cash Benefits." All pay-at-risk is subject to completion of annual individual performance review and receipt of an unqualified opinion of the Auditor General confirming organizational performance. Payment is not made if performance measures are not met.

Background

In 2009 the AHS Board recognized the need to overhaul the wide variety of processes for executive contracts that had been in place prior to the amalgamation of the 12 former health entities in Alberta. The Board took decisive steps to address concerns held by the Board and the public about the need for transparent, uniform compensation agreements. In October 2009, based on performance measures consistent with AHS' strategic direction, the CEO established "pay at risk" for Vice Presidents and above, at percentages consistent with April 2009 market data for similar positions in health care nationally. The Board's compensation policy sets both salary and pay-at-risk at the national average for similar positions in health care.

2009/10 results against each goal have been published on the website for all members of the Executive Team and are attached to this Backgrounder. 2010/11 goals have also been published on the Alberta Health services' website.

> [AHS Executive performance agreements and results](#)

Five Year Funding Agreement

The 2010/11 budget includes committed funding from the Government of Alberta of \$9B in base funding, plus \$527M in one-time deficit coverage. The \$9B includes an increase to the 2009/10 base of \$812 million to reflect the level that AHS was operating at in 2009/10 as well as a 6%, or \$512 million, increase. The five-year funding agreement also includes increases of six per cent in each of the first three years (beginning in 2010/11) and 4.5 per cent increases in each of the following two years.

Senior Executive Pay-at-Risk

	Pay-at-risk	Percentage of Targets Achieved	Payment based on Performance
President and CEO Dr. Stephen Duckett	\$143,750	53.3	\$76,619
Executive VP, Corporate Services Mike Conroy*	\$68,370	64.3	\$43,948
Executive VP, Quality and Service Improvement, Dr. Chris Eagle	\$120,472	67.8	\$81,692
Executive VP and CFO Chris Mazurkewich*	\$89,347	64.3	\$57,423
Executive VP and Chief Medical Officer Dr. David Megran	\$120,109	66.8	\$80,221
Executive VP, Strategy and Performance Alison Tonge*	\$37,771	69.3	\$26,179
Executive VP, Rural Public and Community Health, Pam Whitnack	\$92,500	65.3	\$60,403
Executive VP, Clinical Support Services Andrew Will	\$66,000	70.8	\$46,701

*Joined AHS part-way through budget year; pay-at-risk prorated.

Performance Agreement Components/Weightings

The CEO's pay-at-risk is based on his performance agreement. For the CEO's direct reports, pay-at-risk is based on three components:

- The achievement of the CEO's Performance Agreement (40% of target, to ensure alignment of goals across the organization);
- Achievement as defined by the individual's Performance Agreement (30% of target); and;
- Demonstration of the AHS values of respect, accountability, transparency and engagement (30% of target).

The sum of the ratings from each of the three components determines the annual payment for each individual.