

CROWN HEALTH
FINANCING AGENCY
lending, property, advisory

annual report 2007

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chair's report

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The CHFA is a mature organisation with a successful track record in providing the District Health Boards with expert lending, property, and financial advisory services. It comprises senior people mostly from a private sector background with a diverse range of skills in general management, banking, finance and property. As a team it is focused on assisting the DHBs and other stakeholders meet their financial goals and objectives.

The CHFA has developed an in-depth knowledge of health sector financing. It has a unique position in the Health sector as the sole provider of term debt to DHBs and a solid reputation for the provision of timely, accurate, and independent financial advice to Ministers and officials.

THE YEAR IN REVIEW

During the past year, and consistent with our core functions, competencies and capability, the Board has worked to steadily broaden the scope of its services. Specifically, and in response to the expectations of the Minister of Health for improved cost-effectiveness across the sector, we have encouraged staff efforts to:

- Facilitate collaborative initiatives among DHBs and individual DHB efficiency projects;
- Expand the property function to include advice on acquisition, development, construction and rationalisation of the DHB property estate; and
- Undertake an "efficiency review" of our own Lending function.

For the year ended 30th June 2007, we estimate our contribution to the cost effectiveness of the sector from efficiency projects, property sales and interest cost savings to be in the order of \$25,000,000.

LENDING

The lending function is well established with loan application, credit assessment and monitoring procedures similar to those practiced by the corporate banking community. As at 30 June 2007 loans approved by the CHFA Board totalled \$1,530.3m. Actual loans outstanding were \$1,115.6m.

Except for \$120 million of private sector bonds issued by one DHB, the CHFA has refinanced all other long term bank debt. The focus is now on the provision of "new debt" for major capital investments.

Debt is a more flexible borrowing instrument than equity and facilitates DHB cash flow on a more cost-effective basis. As for other business-like environments, providing access

to debt affords the CHFA the opportunity to encourage prudent financial disciplines in the DHBs through the negotiation, supervision and monitoring of the use of debt and debt levels. This is achieved by the CHFA:

- Applying commonly accepted lending criteria to ensure that DHBs have enduring ability to service interest costs and provision for future asset replacement overtime
- Maintaining independent financial oversight of DHB financial performance to inform advice to the Minister of Health and protect the value of loans to DHBs from the CHFA
- Advising the Ministry of Health's National Capital Committee on the affordability and sustainability of major capital investment proposals (i.e. hospital redevelopments)

PROPERTY

In 1999, the CHFA was assigned the function of assisting DHBs to dispose of surplus property assets thereby releasing funds from under performing assets for reinvestment in the sector. In August 2005, the Property function was expanded to include the provision of other services including advice on acquisition, development, construction and rationalisation of DHB properties.

The Board is certain that a central agency like the CHFA can offer the sector many advantages and it is notable that a growing number of DHBs are requesting our strategic advice in these specialist property areas. These advantages include consistency in approach and assurance of compliance with sometimes very complex policy settings and regulatory requirements.

The success of our property unit is predicated on an objective to maximise the return to individual DHBs, our understanding of the sector, networks, the ability of staff and our commercial approach.

FINANCIAL SERVICES

The CHFA is the legal successor to the Area Health Boards and when established in 1993 it assumed a number of statutory functions. Most of these "residual functions" have been resolved. However, two significant claims remain.

In August 2005, this function was expanded to involve the provision of financial advisory services to DHBs to assist them to achieve their business goals and objectives. This includes financial and analytical support for efficiency projects and the development and implementation of collaborative initiatives. This strategy is now being advanced collectively with DHBNZ and

individually with some DHBs in the areas of supply chain management and procurement. Reports confirm the Board's views that significant opportunities exist for efficiency gains in these areas.

FUTURE DIRECTION

Within each of our lines of business the Board has identified for future consideration:

- Opportunities to further streamline current operations and to work more closely with officials in some areas of financial analysis and advice
- New activities aligned to existing functions which are consistent with our Terms of Reference, core competencies and capability
- New activities that will require further analysis and support from stakeholders before progressing.

Already, the Board has completed an internal review of the lending function and has approved several measures designed to improve its effectiveness and efficiency. Aside from the efficiencies to be gained from a restructure of DHB balance sheets, which is already under way, the review also identified opportunities to enhance the quality and focus of our monitoring of DHB performance and related reporting to Ministers. These improvements have already been implemented and have attracted positive feedback.

The Board remains committed to working in partnership with the Ministry of Health, The Treasury, the DHBs and other stakeholders to achieve the government's objectives for the sector.

BOARD MEMBERSHIP

During the year Dame Ann Hercus and Ian Sliper resigned from the Board having completed almost six years of continuous service. Dame Ann and Ian contributed significantly to the development of the CHFA and their governance expertise, knowledge of the sector and wider strategic perspectives will be missed. In their stead the Board welcomed Kay McKelvie and David Moore as new Board members. Both have extensive knowledge and experience in the health sector and can be expected to provide valuable leadership to the organisation.



ROSS TANNER

Chair

the crown health financing agency

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The CHFA's objective is to assist District Health Boards (DHBs) to achieve and maintain financial sustainability through the provision of a range of financial services and expert advice.

Our responsibilities are grouped into three distinct 'lines of business' designed to service the lending and property requirements of DHBs and resolve the Crown's obligations in respect of the residual assets and liabilities of the Area Health Boards that existed prior to July 1993.

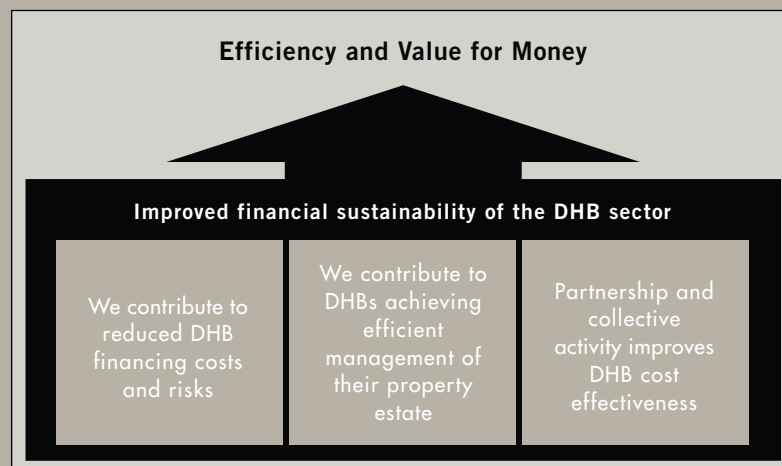
The nature and scope of these functions is covered by a Composite Terms of Reference (most recently updated August 2005).

The CHFA is committed to working in partnership with DHBs, the Ministry of Health, Treasury, and other stakeholders to achieve the Government's objectives for the health sector.

The lines of business undertaken by the CHFA are:

- **Lending:** we are the lender to the DHB sector and provide a range of loan facilities to refinance existing private sector debt or to finance new capital investment.
- **Property:** we assist DHBs with the disposal or acquisition of property to meet future service needs. We also offer advice to DHBs to achieve efficient use of their property estate including ownership, management, occupation, construction and use.
- **Financial services:** we manage a range of residual functions on behalf of the Government, and provide financial, analytical and management support to DHBs efficiency projects and collaborative initiatives.

RESULTS WE CONTRIBUTE TO



highlights of 2006/07

- Loans to DHBs surpassed \$1billion for the first time. At 30 June 2007, loans outstanding were \$1,115.6m.
- Restructure of DHB loans portfolio (including lengthening of loan maturities and alignment of borrowings to Government bond tenders) resulting in an annual interest cost saving of \$5m.
- Transformation of our lending function, including financial performance monitoring practices, tools and credit risk assessment criteria.
- A stronger focus for the lending function on financial monitoring, compliance and financial sustainability.
- Provision of advice to DHBs on debt structure, interest rate risk management and the use of financial derivatives.
- The sale of four properties (former Napier and Lake Alice Hospitals, Leasehold interests in Wanganui and a Medical Centre on Waiheke Island) which returned a surplus of \$15.8m to the sector.
- Providing advice to DHBs to assist in planning future property requirements.
- Assisting the NZ Blood Service to renegotiate their lease with Capital & Coast DHB, review their facility leases in Nelson, Christchurch and Dunedin and to identify and manage the refurbishment of new premises for their North Shore operation.
- Participation in local, regional and national procurement initiatives.
- Working in partnership with DHBNZ and all DHBs to renew the sector's collective insurance programme for the second year achieving further cost savings of \$1.0m and enhanced insurance coverage.
- DHB Client satisfaction survey revealed a very high level of satisfaction with the services we provide.

chief executive's report

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STRATEGIC OVERVIEW

The CHFA has continued to work along side DHBs to assist them to achieve their business objectives, and achieve greater financial sustainability.

We have actively sought to strengthen our networks and relationships with senior DHB management to facilitate information sharing, DHB partnerships, and opportunities for improved sector performance.

In 2006/07 we have continued to develop our core lending, property and financial services to ensure that they are responsive to the needs of the sector. We have delivered significant value to the sector from our core services in the form of reduced interest costs, capital gains from property sales and efficiency gains from the collective insurance initiative. All up, our contribution to the sector in the year is in the order of \$25 million.

This contribution follows on from the diversification of our property and financial advisory services in August 2005 when our Responsible Ministers gave approval for us to offer the sector a broader range of strategic advice and support.

LENDING SERVICES

During the past year CHFA has begun a re-focus of its lending operations, reflecting the increased maturity of the lending function now that standard documentation and the Lender's Quantity Survey process are largely established.

This re-focus aims to improve efficiency and the value of CHFA's output. A key achievement has been the re-structure of sector debt. CHFA has worked with the Treasury, NZ Debt Management Office and individual DHBs to diversify the sector's borrowings over a ten-year time horizon without materially restricting its ability to respond to adverse credit developments. This initiative will reduce sector interest costs by an estimated \$5 million per annum, and has reduced the cost of loans administration and risk management for DHBs.

CHFA has continued to provide debt finance for major capital investments (including use of the Lender's Quantity Surveyor process as a standard risk management discipline for all major construction projects), and to provide financial advice to individual DHBs as required.

PROPERTY SERVICES

2006/07 has been a defining year for our property function.

Property sales achieved were a record \$22.2 million and generated a surplus for the sector of \$15.8 million. We were also able to expand the range of services we offer to our DHB clients. We have been actively engaged in providing advice and assistance for property development, leasing, site planning, construction and rationalising the use of sites.

Of particular note was the success we achieved in effecting the sale of the former Napier hospital. This brought to a close several years of uncertainty for the Hawkes Bay community, and, from our perspective, an unfortunate and costly chain of legal actions against the sale.

Overall our property function has been very effective in assisting the health sector to achieve an efficient property estate and in releasing capital for reinvestment in more productive health infrastructure.

FINANCIAL SERVICES

CHFA financial services include the original 'residual functions' and the provision of financial advice and project assistance to DHBs.

Residual Portfolio

When established in 1993, the CHFA assumed a number of statutory functions that were transferred from the former Area Health Boards (AHBs). We have successfully resolved a number of these functions. Those that remain are the management of contingent liability claims (including the Greenlane Heart Library and Psychiatric Hospital Patient claims), the long-term lease of Tourism and Travel House in Wellington (expiring 2012), and the unclaimed Southland patients' Trust funds.

Financial Advisory

Our financial advisory services are focused on encouraging DHB collaboration and improving procurement and supply chain management performance at a local, regional or national level.

During 2006/07 we continued our engagement with the sector through DHBNZ to ensure that we maintained a close alignment in pursuing greater DHB collective activity. This work has also assisted in raising the awareness of the potential benefits and challenges associated with greater DHB partnership.

At a national level we have contributed to the development of the DHBNZ procurement initiative aimed at realising significant cost savings from collaborative purchasing arrangements. As for the initial programme in 2005/06, we provided project management resource for the 2006/07 renewal of the DHBNZ collective insurance programme

At a regional level we have been active in the facilitation of procurement initiatives in the South Island. For some DHBs, we have also contributed to their supply chain improvement projects.

OUR PERFORMANCE 2006/07

Aside from our financial contribution to the cost effectiveness of the sector we also measure our performance in a number of other ways. These are summarised elsewhere in this report.

Suffice to say here that we achieved or exceeded our targets in all areas except for that which measures our staff turnover.

It is pleasing to note from our client survey the high levels of satisfaction with the services we provide to DHBs and our continued achievement of an "Excellent" rating for all categories of the external audit.

OUR FUTURE

We have given considerable thought to how we can continue to play an effective role in contributing to the financial sustainability of the DHBs and the health sector.

We believe that working in partnership, strengthening relationships and sharing information across DHBs is essential to achieving improvements in cost effectiveness and financial sustainability.

To date, we have placed an emphasis on enhancing our services and, consistent with our core competencies and capability, actively identifying opportunities to assist DHBs to achieve gains in cost effectiveness.

We are committed to working closely with DHBs and the wider health sector to assist them in achieving their financial goals and objectives.



GRAEME BELL

Chief Executive

1.0 operational review for 2006/07

1.1 lending services

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The CHFA has a unique position in the health sector as the sole provider of term debt to DHBs. DHBs access our loans to refinance existing private debt, and to fund hospital infrastructure and other capital assets.

The CHFA applies commercial criteria in assessing DHB credit worthiness, recognising that DHBs are required to operate on a financially sustainable basis whilst delivering a high standard of services.

We assess the affordability of investment proposals, structure term debt facilities to support investments, and provide financial advice to DHBs.

Funding for CHFA loans is provided by the New Zealand Debt Management Office. This allows the CHFA to lend to DHBs at a very cost effective rate.

Debt finance, our lending criteria, and independent financial monitoring ensure that DHBs minimise borrowing levels and maintain sufficient cash flows to meet their loan requirements. By minimising and repaying debt, the DHB sector can build balance sheet provisions for future asset replacement.

CHFA LOANS PORTFOLIO

The CHFA has progressively refinanced the majority of DHB private sector debt since 2001, and is now predominantly focused on lending for major capital investments.

As at 30 June 2007, the CHFA has approved loans totalling \$1,530m (fig. 1). Loans actually drawn down amounted to \$1,116m, which is an increase of \$211m on the previous year.

CHFA's emphasis on providing term lending will tend to minimise both overall sector interest costs and the volatility of those costs from year to year. The cost of 5-year funding from CHFA has averaged around 0.60% lower than the equivalent commercial "swap" rate (that is, excluding any bank margins) since 2001 (fig. 2).

Figure 1: CHFA total loans approved

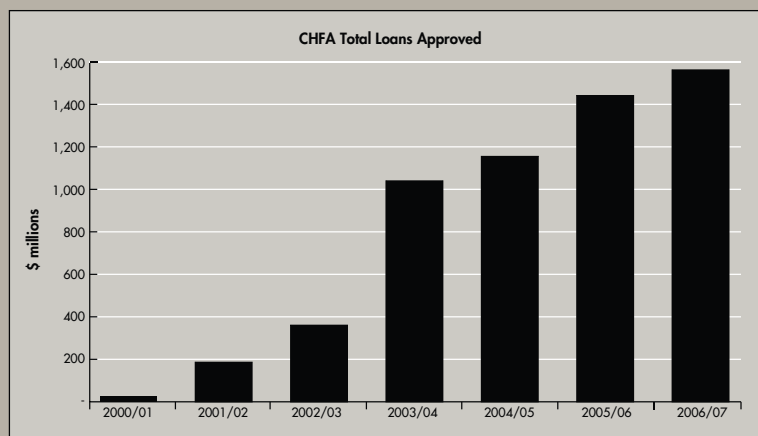
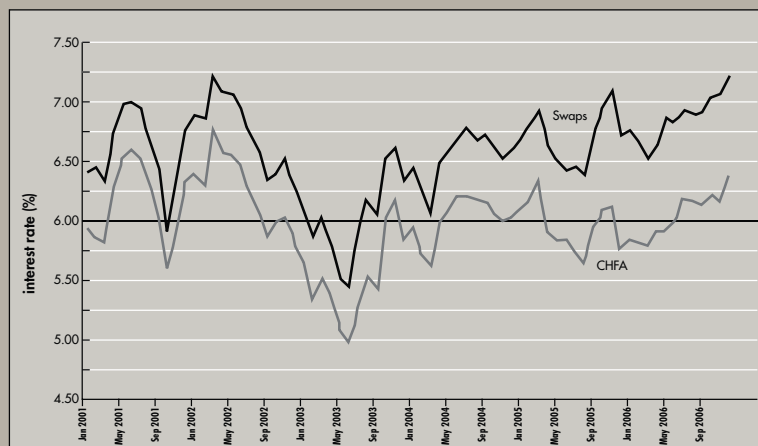


Figure 2: Cost of finance – 90 day benchmark bank rate compared to CHFA rate



MONITORING AND ADVICE

The CHFA is an independent advisor to the Minister of Health and Minister of Finance on the financial sustainability of the sector. Our objective assessment of DHB financial performance is based on the monitoring of DHB results against prudent lending criteria and commonly accepted financial standards.

During 2006/07 we maintained ongoing monitoring of sector trends and the potential opportunities and risks to achieving DHB financial targets. This monitoring programme also informed regular advice to stakeholders and officials.

The quality of CHFA's information and advice to its stakeholders is subject to continuous review, and substantial further enhancements are planned for the 2007/08 financial year. CHFA's monitoring objectives are both to highlight potential credit concerns and to influence the behaviours of stakeholders so that such concerns are addressed in a timely manner.

LENDING PROJECTS

Re-structure of the Loans Portfolio

CHFA has worked with the Treasury, NZ Debt Management Office, and individual DHBs to re-structure the CHFA loans portfolio, without materially affecting CHFA's ability to respond to adverse credit developments. Sector loans have been diversified over a ten-year period, to assist in minimising both interest costs and the volatility of those costs over time.

Direct interest cost savings to the sector from this initiative are estimated at around \$5 million per annum (equivalent to more than \$60 million of "free" equity). Indirect costs (administration and management time) have also been reduced.

Treasury Management Advice

Consistent with the change in portfolio structure, CHFA has provided DHBs with advice on treasury risk management, including debt structure, policy advice, and

the use of financial derivatives.

Most DHBs are no longer regular users of financial derivatives to manage their interest rate risk.

Transformation of the lending Function

The lending function is relatively mature, in that standard documentation and the Lender's Quantity Surveyor process have now been established. Accordingly, CHFA has begun a re-focus of its lending operations, aiming to improve the efficiency and value of its output.

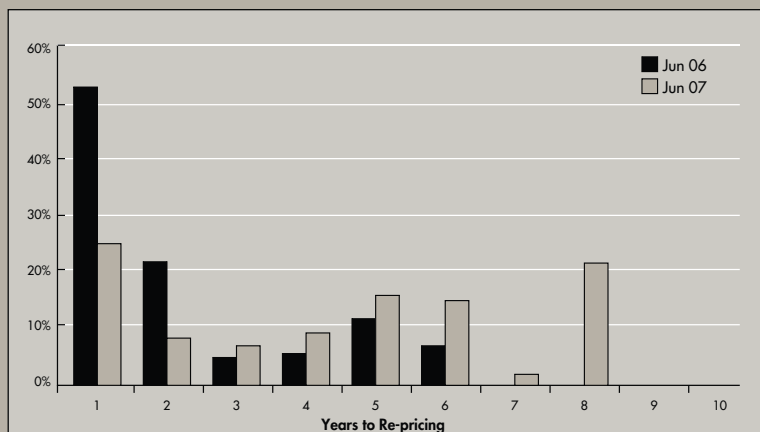
In addition to the loans portfolio re-structure, internal processes and management tools have been reviewed and improved, so that monitoring and reporting outputs are produced using fewer staff inputs. This process will continue in 2007/08, with CHFA aiming to improve the quality and scope of its monitoring, in line with the information requirements of its stakeholders.

Advice to the Ministry of Health's National Capital Committee

CHFA has continued to provide advice to the National Capital Committee and the Ministry of Health on a range of capital investment proposals, and to contribute to DHB asset management planning.

The scope and quality of such advice will be reviewed during 2007/08, as part of CHFA's transformation of its lending function.

Figure 3: CHFA Loan Portfolio Structure



1.2 property services

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CHFA assists DHBs and other health sector clients with the disposal of surplus property assets, and offers property advice to maximise the use of existing land holdings and to plan future property needs.

The CHFA property disposal service is focused on the efficient disposal of surplus properties to maximise the return to the health sector.

We also offer advice covering the acquisition, development (including physical works and subdivisions), leasing, site planning, construction and use of property holdings.

Funding is provided by way of risk sharing with clients in the disposal process, and income earned from advisory and agency services.

Capital funding for property purchases is provided by a revolving line of credit through the Westpac Banking Corporation.

PROPERTY PROJECTS

Property disposal

There were four sales this year: the former Lake Alice Hospital, 17 Wanganui Leasehold interests, a medical centre on Waiheke Island and the former Napier Hospital.

Of particular note was the sale of the former Napier Hospital for \$20.0m (120% over its rateable value).

Property purchases

CHFA purchased one property during the year. The property was in Claude Road, Epsom and was purchased from Auckland DHB.

We have continued to work with Northland, Wairarapa, and Otago DHBs on the disposal of properties declared surplus.

Potential opportunities identified at Nelson-Marlborough, Mid Central and Capital and Coast DHBs continue to be monitored.

Property advice

Waitemata: CHFA were contracted to identify a property to meet the specific needs of Waitemata DHB. We identified a property, negotiated the purchase and managed the refurbishment on Waitemata's behalf.

NZ Blood Service: The CHFA assisted the NZBS to finalise the new donor premises in Takapuna.

Northland: During 2006/07 the CHFA instigated negotiations with Kaitaia GPs to lease space in the refurbished Kaitaia Hospital.

1.3 financial services

The CHFA offers financial and analytical support to DHB initiatives, efficiency projects and the development and implementation of collaborative initiatives. The scope of our financial services also includes ongoing management of the 'residual portfolio'.

RESIDUAL PORTFOLIO

The CHFA is responsible for managing a range of residual functions that were assigned to us in 1993.

Contingent Liabilities

The CHFA continues to receive claims in relation to pre-1993 medical misadventure. The number of active claims at 30 June 2007 has been reduced from three to two.

The two active claims are the psychiatric patient's claims and the Greenlane Heart Library claims.

Property Lease

The CHFA is responsible for the residual lease of five floors of Tourism and Travel House (Wellington) until 2012.

As at 30 June 2007, 100% of the total 2,691 sqm lease space has been sublet. 84% of these subleases are aligned with the expiry of our lease.

Patient Trust Funds

Mental Health Patient Trust Funds: During 2005/06, the CHFA successfully resolved the responsibility for managing the unclaimed Mental Health Patients' Frozen Interest Funds. The Public Trust Office established the 'Mental

Health and Disability Services Trust' to administer the residual trust funds. The CHFA's remaining responsibility is to meet any future (unlikely) claims against the funds.

Unclaimed Southland Patient Trust Funds: The CHFA is the trustee of approximately \$0.54m of unclaimed patient funds accumulated by Southland DHB prior to 1993. During 2006/07 the CHFA worked with Southland DHB and the Public Trust to progress a trust scheme for the funds.

FINANCIAL ADVISORY

The CHFA has a medium term objective to work with the sector to promote collaborative initiatives. This strategy is being advanced collectively with DHBNZ and individually with some DHBs.

In the past year, the CHFA has provided financial, analytical and project management support to a range of initiatives. We have also participated in or sought to facilitate a number of procurement and supply chain management projects at a local, regional or national level.

DHBNZ 'Value from Insurance'

During 2006/07 the CHFA continued to provide project management support to the DHBNZ 'Value from Insurance' programme. The collective programme was successfully renewed for a further year from 1 July 2007 with all 21 DHBs participating in the renewal. Further premium savings of approximately \$1.0m over the previous year (2006 approximately \$3.5m) were achieved along with enhancements in policy cover.

Procurement and Supply Chain Management

The DHBNZ "Value from Insurance" is a subset of their national procurement work programme. The CHFA has actively supported this programme as part of its strategy to contribute to improved DHB cost effectiveness.

Aside from the insurance programme, the CHFA has worked with a number of DHBs to review their supply chain management and to assist in identifying opportunities for improvement.

National Haemophilia Management Group

During 2006/07, the CHFA successfully implemented cash management arrangements for the National Haemophilia Management Group (NHMG). These arrangements provide for the collection, disbursement and accounting of the funding of haemophilia services provided by DHBs.

The centralisation of cash management for this service through the CHFA has meant that from time to time substantial funds are available for investment pending reimbursement of the costs incurred by the six DHB providers. In the year to 30 June 2007, investment of funds by the CHFA has returned to the pool an additional \$0.440m which might otherwise not have been earned.

2.0 maintaining and developing organisational capability

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Our team comprises senior people with private and public sector backgrounds, and a diverse range of skills in general management, banking, finance, claims, and property management.

We have seven full-time staff and access to a number of other “expert advisers” who we call upon as needs dictate. This enables us to cope with workload peaks and provides greater capacity to contribute to sector initiatives.

In 2006/07 we successfully brought the accounting function back in-house to provide staffing flexibility and to allow front line staff to focus on the needs of our clients. The move was also helpful in providing us with the capability to cope with the increased reporting and compliance requirements of the recently introduced Crown Entities Act.

Good Employer Strategy

We take seriously and have fully implemented our obligations as a “good employer” and continue to promote equal employment opportunities. Strategies are fully documented in our Policy Manuals and in Individual Employee Contracts.

All staff complete Personal Development Plans and Performance Plans which are directly linked to our outcomes.

Both plans are monitored closely.

The year in review - 2006/07

During 2006/07 the CHFA focused on capability building by way of:

- Expanding our networks and strengthening our relationships with the DHB sector.
- Providing high quality advice and services to DHBs that meet their expectations and contributes constructively to achieving their financial goals.
- Assisting DHBs to facilitate cooperative projects that contribute to achieving a cost effective and efficient health sector.
- Introducing the new planning and ‘managing for results’ requirements of the Crown Entities Act 2004 (which came into effect during 2005).

To test the effectiveness of the services we offer to DHBs, we conducted a client satisfaction survey in May/June 2007. The survey results indicated a very high level of satisfaction with our services with 20 of the 24 questions asked scoring a one or two on a five point rating scale.

Priorities for next year – 2007/08

In the medium term, we will continue to develop our capability to ‘manage for results’ and the required implications for planning, management, and monitoring.

CHFA capability development is an ongoing priority. In 2007/08 we will:

- Maintain financial and health sector capability to interact effectively with DHBs
- Retain staff with financial experience for our monitoring and lending functions
- Maintain financial expertise and awareness of DHB business needs to deliver credible advice and services to DHBs
- Retain commercial expertise to deliver effective property solutions and advice that meet DHB service and business needs.

In 2007/08 we will continue to focus on our contribution to the financial sustainability of the sector through the provision of our specialist services and expert advice.

3.0 key results and performance measures

2006/07 PERFORMANCE MEASURES: LENDING SERVICES

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DESCRIPTION	REF	STANDARD AND PERFORMANCE	STATUS AS AT 30 JUNE 2007
Refinance of existing CHFA loans and private debt.	1.1	All loan terms and conditions are agreed with the DHB 30 days prior to the expiry date of an existing facility.	Achieved.
Provide long-term finance for new capital projects.	1.2	For new loan facilities, all terms and conditions are negotiated with the DHB within 90 days of the loan being approved by the CHFA. The DHB is able to draw down the loan on the requested date.	Achieved. Eight facilities for new debt are either partly or fully undrawn as at 30 June 2007. These are available for draw down when required, subject to the satisfaction of any conditions precedent.
Meet DHB long-term financing needs	1.3	DHBs are satisfied with our lending products and administrative performance as demonstrated by an annual survey of DHB opinion.	Achieved. DHBs have been surveyed and have expressed an overall high level of satisfaction with the performance of our lending services in 2007.
Monitor and report on the credit worthiness and financial sustainability of DHBs against normally accepted lending practices.	1.4	Loan quality is demonstrated by DHBs successfully meeting the CHFA lending covenants with no defaults on interest payments.	Achieved. DHBs met all of their interest payment obligations.
	1.5	Loan quality and credit assessment is monitored through the loan application process, annual loan review and monthly monitoring of covenants.	Achieved. Ongoing monitoring of loan quality and credit worthiness was maintained through monthly monitoring of covenant compliance and risk analysis.
	1.6	Monthly monitoring of loan covenants and conditions identifies covenant breaches or loan quality risks. Covenant breaches are reported to the CHFA Board with recommendation for action to protect loan quality on a quarterly (or exception) basis.	Achieved. Ongoing monthly monitoring of DHB financial performance was undertaken and reported to the Board as necessary.

2006/07 PERFORMANCE MEASURES: LENDING SERVICES CONTINUED...

DESCRIPTION	REF	STANDARD AND PERFORMANCE	STATUS AS AT 30 JUNE 2007
Provide early warnings of perceived financial risks and plans to manage those risks.	1.7	Ministers are provided with timely reports on a quarterly basis. Other ad hoc advice will be delivered within agreed timeframes.	Achieved.
Key decision makers receive timely reports that enhance their understanding of financial performance.	1.9	Stakeholders receive timely and accurate advice within agreed timeframes.	Achieved.
DHBs receive financial advice that enhances their financial and operational well-being and assists in achieving their business objectives.	1.10	DHBs receive timely and accurate advice within agreed timeframes.	Achieved. CHFA has continued to work with DHBs, DMO, and Treasury to re-structure DHB debt. Most large DHB borrowers have been re-structured (or have agreed re-structure plans in place), and most DHBs are no longer regular users of financial derivative products to manage interest rate risk.
	1.11	DHBs will be formally requested on a regular basis to indicate their level of satisfaction with the overall quality of our advisory outputs.	Achieved. DHBs have been surveyed and have expressed an overall high level of satisfaction with our performance in our advisory services.

2006/07 PERFORMANCE MEASURES: PROPERTY ADVICE AND DISPOSAL SERVICES

DESCRIPTION	REF	STANDARD AND PERFORMANCE	STATUS AS AT 30 JUNE 2007
Property disposal service	2.1	Total holding and disposal costs are maintained within budgeted targets as agreed for each property.	Achieved, except for the unbudgeted legal costs incurred in defending the proceedings filed by the Napier Health Action Group in respect of the former Napier Hospital.
	2.2	All transactions comply with legislative and legal requirements as assessed through independent due diligence audits.	No due diligence audits have been completed. However, to the best of our current knowledge, all transactions comply with legislative and legal requirements.
	2.3	Properties are disposed within the timeframes agreed with the DHB.	Achieved.
Property advice.	2.4	Property advice assists DHBs and other health sector clients to identify opportunities to achieve a more efficient property estate by achieving cost savings and/or cost effectiveness gains as measured against status quo property arrangements.	Achieved. The CHFA provided advisory services to Wairarapa, Northland, Waitemata, Lakes, and NZ Blood Service during the year.
	2.5	Clients receive timely and accurate advice within agreed timeframes.	Achieved.
	2.6	Clients will be formally requested on a regular basis to indicate their level of satisfaction with the overall quality of the advisory outputs.	Achieved. Clients were surveyed on their level of satisfaction with the performance of our advisory services. The overall level of service was assessed at exceeding client expectations.

2006/07 PERFORMANCE MEASURES: FINANCIAL SERVICES

DESCRIPTION	REF	STANDARD AND PERFORMANCE	STATUS AS AT 30 JUNE 2007
Residual Contingent Liabilities.	3.1	The status of all contingent liabilities are reviewed quarterly to the board.	Achieved.
Residual Property Liabilities (Tourism and Travel House).	3.2	Sub-letting of Tourism and Travel House achieves recovery of 80% of Crown costs of the head lease.	Exceeded subject to rent review (effective from October 2006) not yet finalised.
	3.3	Agreements are in place by 30 June 2007 for sub-tenancies through to 2012 covering at least 50% of the total Crown costs.	Exceeded. 84% of the leased space is tenanted through to 2012.
Residual Assets (Patient Trust Funds).	3.4	Patient trust funds distributed by 30 June 2007.	Not yet achieved. The CHFA is awaiting finalisation of an approved scheme for residual funds by the Public Trust and Southland DHB
	3.5	Prudent investment and management increases total trust funds by 5% by 30 June 2007.	Exceeded. Annualised return 7.56% p.a.
CHFA partnerships with DHBs assist in achieving cost effectiveness.	3.6	CHFA undertakes at least 2 efficiency-type projects in partnership with DHBs by 30 June 2007.	Achieved. On the DHBs behalf, CHFA has completed their renewal of the 2007 /2008 Collective Insurance Program achieving a further saving of \$1,000,000 over the 2006/2007 premium. In April, CHFA completed an operating theatres efficiency review for West Coast DHB.
	3.7	Terms of reference for each project will specify the cost savings and/or cost effectiveness targets and will be reported quarterly.	Achieved. As for 3.6.
Knowledge and information sharing.	3.8	Potential opportunities for sharing procurement information and expertise are identified by 31 December 2006, with a project being accepted by a DHB by 30 June 2007.	Partly achieved. The CHFA is participating in the DHBNZ procurement project which will identify opportunities for sharing information on supplier performance and procurement practices. Any procurement projects will be managed under the DHBNZ national project. Subsequent to year end, CHFA has sponsored a strategic procurement initiative at Capital & Coast DHB.

2006/07 PERFORMANCE MEASURES: ORGANISATIONAL CAPABILITY AND DEVELOPMENT

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DESCRIPTION	REF	STANDARD AND PERFORMANCE	STATUS AS AT 30 JUNE 2007
Managing for Results	4.1	Internal work and performance plans are in place by August 2006 and are consistent with CHFA key results, including appropriate milestones.	Achieved.
	4.2	By 30 June 2007, new key result and capability indicators will be developed for implementation in 2007/08 to support monitoring of results.	Achieved.
Invest in the capability of our people	4.3	Maintain low-staff turnover of no more than 1 person per annum.	Not Achieved. Staff turnover two Full Time Equivalents.
	4.4	Staff are positive about career opportunities, professional growth and job satisfaction as determined by an annual survey of the CHFA's work environment completed in December 2006.	Achieved. A survey of staff satisfaction was undertaken. The survey found the work environment is positive and that the majority of staff have a high degree of job satisfaction.
	4.5	Personal Development Plans are in place by August 2006 which is consistent with the CHFA key results and capability development needs.	Achieved.
Enhancing our effectiveness	4.6	Internal/external audits reflect that policies, procedures and business systems are appropriate and being complied with at audit or following spot checks.	Achieved. No defects were identified during the external audit completed in October 2006.
	4.7	Average audit rating greater than 3 [acceptable] achieved following audit in October 2006.	Exceeded. All five categories of assessment rated "Excellent" by Audit NZ at audit in October 2006.

3.1 statement of service performance

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	Lending \$000	Property \$000	Financial Services \$000
2007 Budget			
Appropriation	965	0	706
Other Income	69	315	172
Total Income	1,034	315	878
Operating expenditure	915	228	2,501
Surplus/ (Deficit)	119	87	(1,623)
2007 Actual			
Appropriation	967	0	707
Other Income	96	1,429	335
Total Income	1,063	1,429	1,042
Operating expenditure	716	378	1,995
Surplus/ (Deficit)	347	1,051	(953)

NOTE 1:

The deficit in the Financial Services output class relates to costs of specific residual functions and is currently funded from CHFA equity with the agreement of the Ministry of Health.

NOTE 2:**Major Budget Variation**

Property Other income was higher than budgeted as a result of an increase above budget of the CHFA share of surplus on properties sold during the year. A change in accounting policy in regard to Properties held for sale resulted in recognition of revenue on two properties earlier than budgeted

NOTE 3:

No comparative figures are available for the 2005/2006 year as the first year this information was collected for the purposes of the forecast included in the 2006/2007 Statement of Intent

4.0 **financial** performance

for the year ended 30 June 2007

4.1 statement of financial performance

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 Actual \$000s	2007 Budget \$000s	2006 Actual \$000s
Income				
Crown Funding		1,674	1,671	1,674
Interest revenue				
- District Health Boards		63,652	0	55,473
- Other		443	271	449
Gain on sale of properties		1,377	250	0
Other income		573	443	432
Total Operating Revenue		67,719	2,635	58,028
Expenditure				
Interest expense				
- Area Health Board debt		0	0	2,075
- NZ Debt Management Office advances		63,652	0	55,473
Residual asset management		615	702	550
Cash flow swap amortisation	9	0	0	3,042
Surplus property disposal	2	378	228	334
Other expenses	3	2,096	2,715	2,425
Total Operating Expenses		66,741	3,645	63,899
Net operating surplus (deficit)		978	(1,010)	(5,871)

4.2 statement of movements in equity

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 Actual \$000s	2007 Budget \$000s	2006 Actual \$000s
Net operating surplus (deficit)		978	(1,010)	(5,871)
Total recognised revenues and expenses		978	(1,010)	(5,871)
Funds transferred to Ministry of Health	4	(532)	(408)	(424)
Equity at start of period		6,107	6,894	12,402
Equity at end of period		6,553	5,476	6,107

The accompanying Statement of Accounting policies and notes should be read in conjunction with these financial statements

4.3 statement of financial position

AS AT 30 JUNE 2007

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	Note	2007 Actual \$000s	2007 Budget \$000s	2006 Actual \$000s
Crown equity		6,553	5,476	6,107
Current assets				
Cash and bank	5	250,701	5,504	316,445
Debtors	6	30,778	0	6,606
Advances to District Health Boards	7	239,263	0	209,873
Properties intended for sale	8	2,768	12,382	5,737
		523,510	17,886	538,661
Non-current assets				
Advances to DHBs	7	876,345	1,213,140	694,814
Fixed assets	10	193	244	227
		876,538	1,213,384	695,041
Total assets		1,400,048	1,231,270	1,233,702
Current liabilities				
Accounts payable and accruals	11	28,935	272	7,376
Advances from Westpac				
- Property transactions	14	4,439	12,382	5,478
Advances from NZ Debt Management Office	12	483,776	0	519,927
		517,150	12,654	532,781
Non-current liabilities				
Advances from NZ Debt Management Office	12	876,345	1,213,140	694,814
		876,345	1,213,140	694,814
Total liabilities		1,393,495	1,225,794	1,227,595
Net assets		6,553	5,476	6,107

The accompanying Statement of Accounting policies and notes should be read in conjunction with these financial statements

4.4 statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2007

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	Note	2007 Actual \$000s	2007 Budget \$000s	2006 Actual \$000s
Cash flows from operating activities				
Cash was provided from:				
Operating income		1,674	1,671	1,674
Interest received				
- DHB loan advances		59,929	0	54,257
- Area Health Board		0	0	2,372
- Other		442	271	450
Properties intended for sale		675	250	0
Other income		603	759	475
Net GST		61	0	(26)
		63,384	2,951	59,202
Cash was applied to:				
Payments to suppliers and employees		(3,248)	(3,773)	(3,230)
Transfer to Ministry of Health		(505)	(408)	(392)
Interest paid				
- Area Health Board		0	0	(2,372)
- to NZ Debt Management Office		(59,929)	0	(54,257)
		(63,682)	(4,181)	(60,251)
Net cash flow from operating activities	15	(298)	(1,230)	(1,049)
Cash flows from investing activities				
Cash was provided from:				
Sale of surplus District Health Board properties		3,612	5,729	0
		3,612	5,729	0
Cash was applied to:				
Properties intended for sale		(2,452)	(3,840)	(361)
Fixed assets		(26)	(45)	(87)
		(2,478)	(3,885)	(448)
Net cash flow from investing activities		1,134	1,844	(448)

The accompanying Statement of Accounting policies and notes should be read in conjunction with these financial statements

4.4 statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2007

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Note	2007 Actual \$000s	2007 Budget \$000s	2006 Actual \$000s
Cash flows from financing activities			
Cash was provided from:			
Advance from NZ Debt Management Office	145,380	0	174,624
District Health Board principal repayment	556,583	0	642,928
Area Health Board Swap mismatch	0	0	20,010
Advances from Westpac	318	3,840	4,406
	702,281	3,840	841,968
Cash was applied to:			
Loans from District Health Boards	(767,504)	0	(737,098)
Area Health Board Debt	0	0	(20,010)
Repayment to Westpac	(1,357)	(5,429)	0
	(768,861)	(5,429)	(757,108)
Net cash flow from financing activities	(66,580)	(1,589)	84,860
Net increase (decrease) in cash held	(65,744)	(975)	83,363
Opening cash balances	316,445	6,479	233,082
Closing cash balances	250,701	5,504	316,445
Comprising:			
Cash at bank	244,930	2,648	310,282
Short term deposits	5,771	2,856	6,163
	250,701	5,504	316,445

The accompanying Statement of Accounting policies and notes should be read in conjunction with these financial statements

4.5 statement of accounting policies

STATUTORY BASE

The Crown Health Financing Agency (CHFA), formerly The Residual Health Management Unit (RHMU), was established on 1 July 1993 by the Health Sector (Transfers) Act 1993, continues under section 57 of the NZ Public Health and Disability Act 2000 and operates as a Crown Entity for the purposes of the Crown Entities Act 2004.

With effect from 1 July 1993, CHFA assumed responsibility for all Area Health Board assets and liabilities that did not vest in District Health Boards (formerly Crown Health Enterprises) or other transferees. In addition CHFA manages lending to District Health Boards (DHBs) and provides assistance to the sector to dispose of surplus property. All activities are undertaken in accordance with the CHFA's Composite Terms of Reference approved by the Responsible Ministers.

These financial statements have been prepared in accordance with section 41 of the Public Finance Act 1989, section 67 of the New Zealand Health and Disability Act 2000 and section 198 (3)(b) of the Crown Entities Act 2004.

MEASUREMENT SYSTEM

Generally accepted accounting practice recognised as appropriate for the measurement and reporting of results and financial position on an historical cost basis has been followed.

BUDGET FIGURES

The budget figures are those approved by the Board at the beginning of the financial year.

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.

GOODS AND SERVICES TAX

The financial statements have been prepared exclusive of goods and services tax (GST), with the exception of accounts payable and accounts receivable, which are stated GST inclusive.

REVENUE RECOGNITION

Fees, interest and other revenue is recognised when earned and is reported in the financial period to which it relates.

COMPARATIVE FIGURES

To ensure consistency with the current period, comparative figures have been reclassified where appropriate.

TAXATION

CHFA is a public authority in terms of the Income Tax Act 1994 and consequently is exempt from income tax.

INVESTMENTS

Investments are stated at the lower of cost and net realizable value.

FIXED ASSETS

All items of property, plant and equipment are initially recorded at cost and depreciated. Initial cost includes the purchase consideration and those costs directly attributable in bringing the asset to the location and condition necessary for its intended use.

DEPRECIATION

Depreciation is calculated on a straight line basis to allocate the cost of an asset, less any residual value, over its useful life.

The estimated useful lives of property, plant and equipment are as follows:

Leasehold improvements

6.2 to 10.3 years (9.7% – 16.1%)

Computer equipment

2.1 – 3.5 years (28.8% – 48.0%)

Office equipment

2.8 – 5.4 years (18.6% – 36.0%)

Furniture and fittings

4.6 – 12.8 years (7.8% – 21.6%)

ACCOUNTS RECEIVABLE

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

STATEMENT OF CASH FLOWS

Cash is defined as cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which CHFA invests as part of its day-to-day cash management.

Cash flows derived from:

Operating activities includes cash received from all income sources of CHFA and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets and money market investments.

Financing activities comprise the change in equity and debt capital structure of CHFA.

FINANCIAL INSTRUMENTS

CHFA is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors, creditors and loans. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

Except for loans, which are recorded at cost, and those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

As a guardian of public money, CHFA must be risk averse and seek to minimise exposure arising from its treasury activity. CHFA is not authorised by its finance policy to enter into any transaction that is speculative in nature.

CHFA establishes limits for each counterparty based on external credit ratings.

CHFA has in the past entered into financial instruments which give rise to off-balance sheet exposures in order to reduce risks arising from carrying out its ongoing business.

These instruments include a cash flow swap with the New Zealand Debt Management Office (NZDMO) to facilitate the management of the repayment of Area Health Board debt and to hedge the associated interest rate exposure.

Any gains or losses arising from exposure to these instruments are offset against the related gains or losses on the assets or liabilities being hedged.

This arrangement was concluded in the year ended 30 June 2006.

OPERATING LEASES

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease expenses are recognised on a systematic basis over the period of the lease.

PROPERTIES INTENDED FOR SALE

Property intended for sale is stated at acquired cost.

CHANGES IN ACCOUNTING POLICIES

The accounting policy in respect of Properties Intended for Sale has been changed.

The previous accounting policy provided for both the initial cost of the properties purchased, and subsequent holding costs incurred to be recognized as Properties held for sale.

The new policy provides for recognition of the initial cost of the properties to be stated as Properties held for sale, with holding costs being recognized as Receivables from DHBs.

An assessment has also been carried out at balance date to determine material changes in the estimated sale price or actual to budgeted holding costs on individual properties. Such changes have been recognized as appropriate.

All other policies have been applied on bases consistent with those used last year.

4.6 notes to the financial statements

1. MAJOR BUDGET VARIATIONS

Statement of financial performance

Interest revenue and expenditure:

DHB interest income and the corresponding NZDMO interest expense were not budgeted for as the amounts offset each other.

Interest revenue:

Interest rate returns were higher than budgeted due to higher levels of deposits held and higher than budgeted interest rates being attained.

Gain on sale of properties:

CHFA share of surplus on properties sold was higher than budgeted. A change in accounting policy in regard to Properties held for sale has resulted in recognition of revenue on two properties earlier than budgeted.

Other expenses:

Delays in legal proceedings resulted in less than anticipated legal fees being incurred in the current year. Saving in costs of operating the Residual asset Management (T&T House) was also achieved.

Statement of financial position

Cash and Bank: The NZDMO CHFA Facility of \$244.5m was greater than budgeted for. The funds represent temporary repayment from DHBs. The timing and amounts of the repayments is dependant on DHBs surplus cash flow.

Properties intended for sale:

One major property budgeted for purchase in the current year did not eventuate.

The change in accounting policy in regard to assessment of material variances has also resulted in a reduction of properties recognized as held for sale.

Accounts payable and debtors:

These accounts include payables and receivables in regard to property transactions recognized in the current year but not settled.

Advances from Westpac

One major property budgeted for purchase in the current year did not eventuate and no drawing was made.

Advances to District Health Boards and advances from NZDMO- current and non-current portion:

The facilities were not fully drawn down at balance date. The current portion was not budgeted for separately as the term of the loans were not known at the time of setting the budget.

Statement of cash flows

Interest received from DHBs and

interest paid to NZ Debt

Management Office: DHB interest received and the corresponding NZ Debt Management Office interest paid were not budgeted for as the amounts offset each other.

Properties intended for sale and sale of surplus DHB properties: The timing of property sales have resulted in variations from actual to budget.

Advance from NZ Debt

Management Office:

Movement in the NZDMO advance of \$145.4m was not budgeted for as the repayment of debt is dependant on the cash position of DHBs.

Advance from Westpac: Reduced as a result of a budgeted purchase not proceeding until early in the 2008 year.

Repayment to Westpac: Reduced as a result of delayed settlement of properties beyond budgeted timeframes.

Reconciliation with CHFA's Prospective Cash Flow Statement included in the 2006/07 Statement of Intent.

The SOI did not include the balance of the Contingent Liabilities Settlement Fund (\$2.856m) The budget figures used in this report have been amended to include this amount to more accurately reflect the comparatives.

2. SURPLUS PROPERTY DISPOSAL EXPENSES

These expenses were funded by an operating loan.

4.6 notes to the financial statements (continued)

3. OTHER EXPENSES

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	2007 Actual \$000s	2006 Actual \$000s
Other expenses include:		
Audit fees	22	22
Other services provided by Auditors	5	0
Depreciation		
Leasehold improvements	21	10
Furniture & fittings	9	6
Office equipment	3	2
Computer equipment	26	26
Total depreciation for the year	59	44
Board fees	80	80
Board expenses	16	27
Rental and leasing costs	615	459
Board members earned the following fees during the 2007 year:		
Ross Tanner (Chair)	32	32
Dame Ann Hercus	11	16
Ian Sliper	11	16
Edie Moke	16	16
Kay McKelvie	5	0
David Moore	5	0

4. FUNDS TRANSFERRED TO THE MINISTRY OF HEALTH

CHFA receives rental income on behalf of the Crown in respect of its lease obligations of five floors of Tourism and Travel House. These funds are returned to the Ministry on a quarterly basis. CHFA receives appropriations for the full cost of leasing the five floors.

4.6 notes to the financial statements (continued)

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5. CASH AND BANK

	2007 Actual \$000s	2006 Actual \$000s
Westpac cheque accounts	417	228
Westpac on call	603	110
Short term deposits:		
ASB deposits	2,868	6,053
Westpac deposits	2,300	0
NZ Debt Management Office - CHFA facility	244,513	310,054
Total cash and bank	250,701	316,445

Interest rates receivable on deposits range from 8.0% to 8.3%

The \$244.5m (2006: \$310.1m) facility relates to appropriation drawdown to fund cash advance facilities to DHBs and then temporarily repaid by them. These facilities were able to be redrawn by the DHBs and the amounts in this account are specifically allocated to individual DHBs. No interest is earned by CHFA on the balance in this account.

6. DEBTORS

	2007 Actual \$000s	2006 Actual \$000s
Interest receivable	10,186	6,462
Sale of property receivables	19,849	0
Other	743	144
	30,778	6,606

4.6 notes to the **financial statements** (continued)

7. ADVANCES TO DISTRICT HEALTH BOARDS

29

The following loans made to District Health Boards have interest rates that vary between 5.80% and 8.01% per annum.

	2007 Actual \$000s	2006 Actual \$000s
Current		
CHFA advances	239,263	209,873
	239,263	209,873
Non current		
CHFA advances	876,345	694,814
Total advances	1,115,608	904,687
Repayable as follows		
Less than one year	239,263	209,873
One to two years	106,350	338,119
Three to five years	359,795	356,695
Beyond five years	410,200	0
	1,115,608	904,687

8. PROPERTIES INTENDED FOR SALE

	2007 Actual \$000s	2006 Actual \$000s
Cost	2,768	5,225
Costs attributed to properties	0	808
Income received from properties	0	(296)
Total properties intended for sale	2,768	5,737

4.6 notes to the financial statements (continued)

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9. CASH FLOW SWAP

On 2 August 1993 the CHFA entered into a cash flow swap agreement with the New Zealand Debt Management Office to hedge all future cash flows relating to the Area Health Board debt assumed and loan advances made to Crown Health Enterprises.

CHFA's obligations under the Cash flow Swap Agreement were repaid during 2006

10. PROPERTY, PLANT AND EQUIPMENT

	Cost \$000	Accumulated Depreciation \$000	Depreciation \$000	Net Book Value \$000
2007				
Leasehold improvements	164	55	21	109
Furniture and fittings	86	30	9	56
Office equipment	28	16	3	12
Computer equipment	145	129	26	16
Total	423	230	59	193
2006				
Leasehold improvements	161	33	10	128
Furniture and fittings	77	21	6	56
Office equipment	16	14	2	2
Computer equipment	144	103	26	41
Total	398	171	44	227

4.6 notes to the financial statements (continued)

11. ACCOUNTS PAYABLE AND ACCRUALS

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	2007 Actual \$000s	2006 Actual \$000s
Creditors	326	357
Accruals		
- NZ Debt Management Office Interest	10,181	6,459
Property transactions	17,686	0
- Leave Entitlements	53	35
- Other	689	525
	28,935	7,376

12. ADVANCES FROM NZ DEBT MANAGEMENT OFFICE. TREASURY

The following advances from NZ Debt Management office have interest rates that vary between 5.80% and 8.01% per annum.

	2007 Actual \$000s	2006 Actual \$000s
Current		
Advances to CHFA Existing Debt	239,263	209,873
NZ Debt Management Office Facility	244,513	310,054
	483,776	519,927
Non Current		
Advances to CHFA Existing Debt	876,345	694,814
Total advances	1,360,121	1,214,741

Repayable as follows:

One to two years	106,350	338,119
Two to five years	359,795	356,695
Beyond five years	410,200	-
	876,345	694,814

The \$244.5m (2006: \$310.1) facility relates to appropriation drawn down to fund cash advance facilities to DHBs and then temporarily repaid by them. These facilities were able to be redrawn by the DHBs and the amounts in this account are specifically allocated to individual DHBs. No interest is payable by CHFA on the balance in this account.

4.6 notes to the **financial statements** (continued)

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13. LOAN FACILITIES

The following advances from NZ Debt Management Office have interest rates that vary between 5.77% and 7.25% per annum.

	2007 Actual \$000s	2006 Actual \$000s
Repaid Loan Facility	244,513	310,054
Undrawn Loan Facility	319,705	170,292
	564,218	480,346

At 30 June 2007, DHB's have undrawn loan facilities of \$564.22 m with CHFA (2006: 480.35m).

CHFA has the equivalent undrawn loan facilities with NZDMO.

The budgeted NZDMO & DHB loans have not been apportioned between current and non-current assets and liabilities. This information was not available during the budget preparation.

14. ADVANCES FROM WESTPAC – PROPERTY TRANSACTIONS

The facility with Westpac is in place to finance the purchase of DHB surplus property. The facility is capped at \$15.0m, is unsecured and has a maturity date of 30 October 2009, or such later date as the lender may from time to time agree. As at balance date, \$4.44m (2006: \$5.48m) was drawn down.

4.6 notes to the financial statements (continued)

15. RECONCILIATION OF OPERATING CASH FLOWS WITH NET OPERATING SURPLUS

33

	2007 Actual \$000s	2006 Actual \$000s
Net Operating Deficit	978	(5,871)
Add (less)		
Non cash items		
Amortisation of cash flow swap	0	3,042
Depreciation	59	44
Total non-cash items	59	3,086
Add (less)		
Movements in working capital items		
Decrease (increase) in debtors	(4,335)	(1,182)
Increase (decrease) in accounts payable	3,000	546
Decrease (increase) in swap mismatch account	0	2,372
Total movements in working capital items	(1,335)	1,736
Net cash flow from operating activities	(298)	(1,049)

4.6 notes to the financial statements (continued)

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16. COMMITMENTS AND CONTINGENCIES

	2007 Actual \$000s	2006 Actual \$000s
Commitments		
Non Cancellable Lease Operating Commitments	2,776	2,869
Term Classification of Commitments:		
less than one year	537	459
One to two years	537	459
Two to five years	1,612	1,377
Over five years	90	574
	2,776	2,869
Other Non Cancellable Contracts	8	13
Term Classification of Commitments		
less than one year	5	5
One to two years	3	5
Two to five years	0	3
	8	13

Contingencies

CHFA has been notified of contingent liabilities for potential legal claims plus associated legal fees in respect of the actions of the former Area Health Boards. CHFA is defending those claims that have resulted in litigation and will defend any of the others that result in litigation. It does not accept liability for the claims and no provision has been made in the financial statements.

Quantifiable contingent liabilities are as follows:

	2007 Actual \$000s	2006 Actual \$000s
Medical	27,339	17,769
Total contingent liabilities	27,339	17,769

4.6 notes to the financial statements (continued)

Accommodation lease

CHFA has a lease obligation in respect of 2,691 square metres of office accommodation in Tourism and Travel House, Wellington. The lease expires in 2012. This space is sublet to tenants including CHFA at a rate greater than the current cost of CHFA's lease. The cost of the lease is apportioned and all sub-lease rental recovered is returned to the Ministry of Health. CHFA rental expense for the year 30 June 2007 was \$51,266 (2006: \$34,429).

17. EMPLOYEES' REMUNERATION

Remuneration for employees in excess of \$100,000 is as follows:

Total remunerations and benefits \$000	Number of employees	
	2007	2006
221-230	1	-
211-220	-	-
201-210	-	1
191-200	-	-
181-190	1	-
171-180	-	-
161-170	-	-
151-160	-	-
141-150	-	-
131-140	-	1
121-130	1	-
111-120	-	-
100-110	1	-

18. INDEMNITIES AND INSURANCE COVER FOR BOARD MEMBERS AND EMPLOYEES

Under individual employment contracts, CHFA indemnifies employees for any act done or omitted by the Employee in good faith in pursuance or intended pursuance of the functions, duties or powers of the Employer or the Employee.

Insurance cover is provided to board members and employees under Directors and Officers Liability, Personal Accident and Overseas Travel policies.

19. FINANCIAL INSTRUMENTS

CHFA has a policy for providing risk management for interest rates and the concentration of credit. All expenditure is in New Zealand dollars and CHFA is not exposed to any foreign currency risk.

Interest Rate Risk

Advances to District Health Boards have rates that match the associated New Zealand Debt Management Office advances to CHFA.

4.6 notes to the financial statements (continued)

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Credit Risk

Credit risk is the risk that a third party will default on its obligations to CHFA, causing CHFA to incur a loss. In the normal course of its business, CHFA incurs credit risk from trade debtors including DHBs, and transactions with financial institutions and the New Zealand Debt Management Office.

Financial instruments that potentially subject CHFA to credit risk consist principally of cash, short-term investments, advances to District Health Boards and various transactions with the New Zealand Debt Management Office and the Crown.

CHFA places its cash and short-term investments with high credit quality financial institutions and limits the amount of exposure to any one financial institution.

Credit risk with respect to advances to District Health Boards are reviewed monthly in compliance with borrowing arrangements.

The New Zealand Debt Management Office is part of the Treasury with a high quality credit rating.

All CHFA's financial instruments, including advances to District Health Boards as at 30 June 2007, are recorded at cost.

A fair value valuation has been carried out on advances to District Health Boards. Advances made with a face value of \$1,115,608,000 are valued at \$1,100,182,000

20. RELATED PARTY INFORMATION

CHFA is a wholly owned entity of the Crown. The Government significantly influences CHFA's role as well as being its major source of revenue.

The Board has entered into a number of transactions with government departments and crown agencies on an arms length basis. Where those parties are acting in the course of their normal dealings with CHFA, related party disclosures have not been made for transactions of this nature.

There were no related party transactions with the members of the Board.

There were no other related party transactions.

21. NZ IFRS IMPACT

The adoption period for reporting under NZIFRS, will be for the year ended 30 June 2008.

Significant accounting policy changes have been addressed and a full review on accounting policies and determinations made in relation to NZIFRS adoption has been carried out.

CHFA has determined that there are no significant impacts on CHFA's financial statements as a result of the adoption of NZ IFRS.

Appropriate systems are in place for the recording of accounting data in accordance with NZ IFRS

CHFA has prepared an opening balance sheet in accordance with NZ IFRS which has been audited.

Financial Statements have been prepared in accordance with NZ IFRS for the year ended 30 June 2007 for the purposes of 2008 comparatives. These financial statements are subject to audit assurance.

4.6 notes to the financial statements (continued)

22. TRUST FUNDS

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CHFA has responsibility for the management of Southland DHB Patient Interest Funds. These funds are held in trust pending the preparation of a scheme, under section 11 of the Health Sectors (Transfers) Act 1993, on behalf of the patients.

Trust funds on hand at 30 June 2007 are as follows:

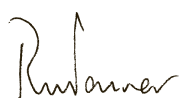
	2007 Actual \$000s	2006 Actual \$000s
Southland patients' frozen funds		
Liquid assets		
ASB Money Market Deposit	535	496
	535	496
Represented by		
Balance at beginning of year	496	461
Add:		
Interest revenue from money market deposits	39	35
	535	496
Less:		
Payments to patients	-	-
Total Southland patients' frozen funds	535	496

4.7 statement of responsibility

The Board and management of the CHFA accept responsibility for the preparation of the annual financial statements and the judgements used therein;

The Board and management of the CHFA accept 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

In the opinion of the Board and management of the CHFA, the financial statements for the year ended 30 June 2007, fairly reflect the financial position, cash flows and operations of the CHFA.



ROSS TANNER

Chair

Date: 30 October 2007



DAVID MOORE

Board Member

Date: 30 October 2007

4.8 audit report

to the readers of the Crown Health Financing Agency's financial statements and performance information

FOR THE YEAR ENDED 30 JUNE 2007

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The Auditor General is the auditor of the Crown Health Financing Agency (the Agency). The Auditor General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Agency for the year ended 30 June 2007.

UNQUALIFIED OPINION

In our opinion:

The financial statements of the Agency on pages 20 to 37:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Agency's financial position as at 30 June 2007; and
 - the results of its operations and cash flows for the year ended on that date.

The statement of service performance of the Agency on pages 13 to 18:

- complies with generally accepted accounting practice in New Zealand; and
- fairly reflects for each class of outputs:

- its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
- its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 30 October 2007, 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 and statement of service performance 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 and the statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. 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 and statement of service performance disclosures are adequate.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

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

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. 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 and a statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Agency as at 30 June 2007 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Agency's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's

responsibilities arise from the Crown Entities Act 2004 and the New Zealand Health and Disability Act 2000.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

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.

Other than the audit, we have no relationship with or interests in the Agency.



S B LUCY

Audit New Zealand

On behalf of the Auditor General
Wellington, New Zealand

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS

This audit report relates to the financial statements of the Crown Health Financing Agency for the year ended 30 June 2007 included on the Crown Health Financing Agency's web site. The Board is responsible for the maintenance and integrity of the Crown Health Financing Agency's web site.

We have not been engaged to report on the integrity of the Crown Health Financing Agency'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 30 October 2007 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.

appendix 1: directory

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BOARD MEMBERS

Ross Tanner (Chair)

Edie Moke

Dame Ann Hercus

until 28 February 2007

Ian Sliper

until 28 February 2007

David Moore

Appointed 1 March 2007

Kay McKelvie

Appointed 1 March 2007

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AUDITOR

Audit New Zealand on behalf
of the Auditor-General

