

CROWN HEALTH
FINANCING AGENCY
lending, property, advisory

annual report 2008

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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 District Health Boards 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 its core functions, competencies and capability, the Board has sought to focus the Agency on consolidating and enhancing its existing services. Specifically, and in response to the expectations of the Minister of Health for improved cost-effectiveness across the sector, and achieving value for money, the Board has encouraged staff efforts to:

- restructure DHB term debt facilities where as a consequence substantial interest cost savings have been achieved.
- Expand the property function to include advice on acquisition, development, construction and rationalisation of the DHB property estate; and
- Facilitate collaborative initiatives among DHBs and individual DHB efficiency projects;

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 2008 loans approved by the CHFA Board totalled \$1,545.0m. Actual loans outstanding were \$1,270.5m.

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 over time
- 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.

FUTURE DIRECTION

In 2007, the Board actively supported a joint assessment with the Ministry of Health and Treasury of the CHFA's strategic direction. The review concluded that the CHFA should continue to perform its current functions and identified several possible additional opportunities for the CHFA.

These opportunities, which are all closely aligned to our core functions, include enhancing our contribution to both sector capital policy initiatives and the capital allocation process itself and the development of financing strategies for future capital investment.

The Board fully endorsed the outcome of the review and looking ahead, will seek to identify new property, financing and asset management opportunities that will assist the DHB sector achieve gains in value for money. The Board believes that given the CHFA's independence and specialist core competencies it is well positioned to work with the sector to implement specific initiatives that complement the Agency's skills and experience.

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

BOARD MEMBERSHIP

The composition of the Board membership was unchanged from the previous year. However, subsequent to year end, Ross Tanner, Chair for the past seven years retired from the role.

As Chair, Ross had overseen the development of the CHFA into the Agency it is today. His governance expertise, knowledge of the "machinery of government", networks and wider strategic perspectives will be missed. We wish him well in his future endeavours.



JOHN ANDERSON
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.

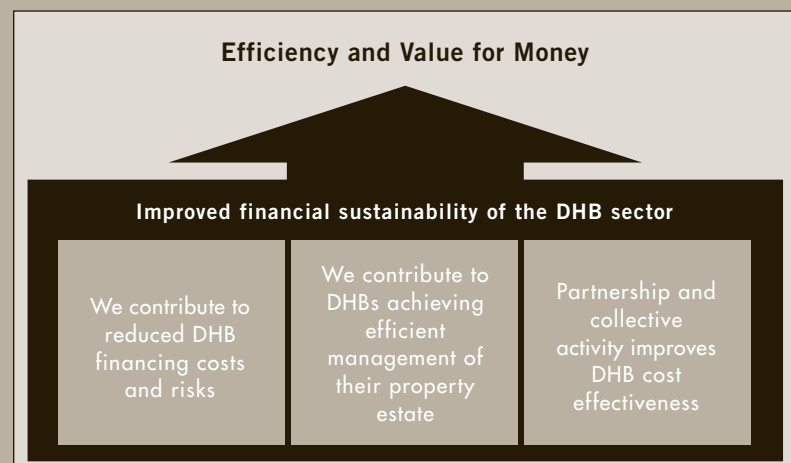
The nature and scope of these functions is covered by a Composite Terms of Reference (most recently updated August 2005).

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 2007/08

- As at 30 June 2008, CHFA loans to DHBs totalled \$1,270 million, an increase of \$154 million on the previous year.
- Implementation of our strategy to re-structure and diversify DHB long term debt over a ten-year time horizon.
- Achieving interest costs savings for the sector of an estimated \$5 million per annum.
- Transformation of our lending function, and the implementation of new credit risk assessment criteria and financial performance monitoring practices and associated reporting.
- A stronger focus for the lending function on financial monitoring, compliance and long term sector financial sustainability.
- Provision of advice to DHBs on debt structure, interest rate risk management and the use of financial derivatives.
- A significant decline in the property market and a heightened level of risk for our property function.
- The sale of four properties for \$0.9 m which returned a surplus of \$0.5m to the sector.
- Non settlement of the sale of the Napier hospital site which is now the subject of legal proceedings.
- Providing advice to an increasing number of DHBs in their planning for future property requirements.
- 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.
- Participation in a strategic review of our operations with the Ministry of Health and The Treasury, which confirmed our current role and identified additional opportunities for the CHFA.

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 greater financial sustainability.

In 2007/08 we have focused on developing 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 in the form of reduced interest costs, and efficiency gains from the collective insurance initiative.

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 implemented some significant changes to its lending operations. The changes reflect the maturity of the lending function, a desire to ensure that it operates efficiently, an intention to become more strongly focused on the longer term financial sustainability of the sector and an interest in becoming more closely associated with a range of sector capital policy developments.

A key achievement in 2007/08 has been the completion of our strategy to re-structure DHB long term 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 has reduced sector interest costs by an estimated \$5 million per annum, and has improved our efficiency through a lower cost of loans administration and credit risk management.

With the refinancing of private sector debt largely completed, the lending function is now primarily engaged in providing debt finance for major capital projects.

PROPERTY SERVICES

2007/08 has been a difficult year for our property disposal function. A declining property market, the rise in interest rates and an apparent inability of property developers to access capital have all conspired to restrict our ability to dispose of our properties held for sale.

Property sales achieved were a modest \$932,000 and generated a surplus for the sector of \$532,000.

Disappointingly the sale of the Napier hospital site negotiated in 2006/07 was not completed as planned. The unconditional contract due to settle on 30 April 2008 is now the subject of legal proceedings to enforce the purchase agreement.

On a more positive note we have continued to expand the range of property services we offer to our DHB clients. Managing the DHB property estate is complex. More and more our advice is being sought to ensure adherence to the plethora of regulatory and compliance issues. We are also actively engaged in providing advice and assistance for property development, leasing, site planning, construction and rationalising the use of sites

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 individual DHB and collective effort that improves cost effectiveness at a local, regional or national level.

During 2007/08 we continued our engagement with the sector through DHBNZ and other sector forums to ensure that we maintained a close alignment in pursuing greater DHB collective activity. However a deliberate decision was taken to focus on our core functions and we have not been as active in this area as in the past. Nonetheless we did enjoy some success in leading the renewal of the DHBNZ collective insurance programme for 2007/08 and in introducing supply chain management expertise to a number of DHBs.

OUR PERFORMANCE 2007/08

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 those which relate to our property function, where for reasons mostly outside of our control, performance did not measure up to our expectations. For reasons discussed earlier our property function represents the biggest risk to our business.

OUR FUTURE

In 2007/08, CHFA participated actively in a strategic review of its operations with the Ministry of Health and The Treasury.

The review confirmed CHFAs existing role in the sector and responded positively to suggestions made by us that we could offer the sector more. The opportunities identified by us were those that relate to our core functions and were focused on enhancing our contribution to the means by which the sector can achieve long term financial sustainability. These opportunities will be the subject of further work and policy development in 2008/09.

Otherwise we will continue to place 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 remain 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 2007/08

1.1 lending services

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The CHFA is the sole provider of term debt to the public health system, providing DHBs with cost-effective funding and Ministers with an independent assessment of DHB finances.

DHBs' private sector debt has been progressively refinanced since 2001, and CHFA is now predominantly focused on lending for major capital investments.

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

CHFA LOANS PORTFOLIO

As at 30 June 2008, the CHFA had approved loans totalling \$1,545m. \$1,270m of these had been drawn (an increase of \$154m on the previous year).

The loans portfolio is funded by the New Zealand Debt Management Office, allowing CHFA to lend to DHBs at a very cost effective rate.

The weighted average rate on CHFA's loans portfolio as at 30 June 2008 was 6.49%. The benchmark 90-day bank bill rate was 8.68%, having averaged 7.22% over the past 5 years.

CHFA offers treasury risk management advice to DHBs, and encourages a commercially appropriate spread of debt maturities over the available 10-year horizon. As at 30 June 2008, the weighted average term to maturity of the CHFA loans portfolio was around 5 years.

MONITORING AND ADVICE

As lender, CHFA is responsible for monitoring and advising on the financial sustainability of the DHB sector, in line with good commercial practice.

Advice to Ministers

CHFA provides independent commentary on the financial sustainability of DHBs' operations to the Ministers of Health and Finance. During 2007/08, increased emphasis has been placed on potential threats to the sustainability of the sector as a whole (rather than to individual DHBs).

Where appropriate, CHFA contributes to initiatives to enhance DHB and/or sector financial sustainability.

Advice to the Ministry of Health's National Capital Committee ("NCC")

The NCC considers capital investment requests from DHBs, and manages the prioritisation of such requests within the available capital budget.

CHFA contributes to the NCC process by advising on "bankability"- that is, whether the financial aspects of each request (construction costs, sources of financing, and the DHB's ability to meet on-going capital costs) are credible and consistent with the on-going financial sustainability of the DHB.

1.2 property services

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

Four sales were achieved during the year: the former Marton Hospital, a leasehold property at Wanganui and a section at Waikouaiti, Dunedin. In addition an offer back to a former owner under the Public Works Act of the old boiler house on the Napier Hospital was completed.

Regrettably the settlement of an unconditional contract for the sale of the former Napier Hospital was not made on the due date of 30th April 2008 and is now subject to legal action to enforce the agreement.

It is likely that the sale proceeds of one property owned by CHFA (Claude Road, Auckland) will be less than the total costs incurred in purchasing and holding the property in preparation for sale. In recognition of this likely outcome, we have written down our property portfolio by \$500,000 in the current year.

Property purchases

No properties were purchased during the year. However, CHFA continued to monitor potential opportunities identified at Nelson Marlborough, Wairarapa and Capital and Coast.

Property advice

Auckland: CHFA were engaged to advise Auckland on property re-development and restoration at the Greenlane site. Advisory services included input into meetings with local council, conducting an RFP for services, advising on Statutory obligations, etc.

Waitemata: CHFA have continued providing Waitemata with advice in respect of their property matters. In particular during the 2008 year, CHFA identified lease accommodation, a property to purchase and is currently arbitrating a property issue on Waitemata's behalf.

NZ Blood Service: The CHFA assisted the NZBS to identify new donor premises to lease in Tauranga and advised on their refurbishment.

Northland: During 2007/08 the CHFA commenced the statutory clearance process on three surplus properties owned by Northland. Once the processes have been completed, the properties will be cleared to sell on the open market.

Waikato: CHFA has worked with Waikato in their endeavours to identify premises for maternity services in Thames.

1.3 financial services

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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 2008 has been reduced 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 2008, 100% of the total 2,691sqm lease space has been sublet. 84% of these subleases are aligned with the expiry of our lease.

Patient Trust Funds

Unclaimed Southland Patient Trust Funds: The CHFA is the trustee of approximately \$0.58m of unclaimed patient funds accumulated by Southland DHB prior to 1993. During 2007/08 the CHFA worked with Southland DHB and the Public Trust to progress a trust scheme for the funds. We expect that the funds under management will be transferred to the trust in 2008/09.

FINANCIAL ADVISORY

The CHFA has a medium term objective to work with the sector to promote individual and collaborative initiatives that improve DHB cost effectiveness. This strategy is being advanced collectively with DHBNZ and individually with some DHBs but within the bounds of our existing capability and wherever possible projects that are aligned to our core functions.

In the past year, the CHFA has provided financial, analytical and project management support for a range of initiatives. Specifically, we managed the renewal of the DHBNZ collective insurance programme, and introduced supply chain management expertise to both DHBNZ and individual DHBs.

We are working with the DHBNZ CFO Forum and have identified a number of possible opportunities to assist this group with a number of policy type initiatives intended to introduce standardisation or consistency in practice or performance. Much of this work is ongoing and expected to be further developed in 2008-09.

DHBNZ 'Value from Insurance'

During 2007/08 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 continued 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 supported this programme as part of its strategy to contribute to improved DHB cost effectiveness.

Aside from the insurance programme, the CHFA has offered to work with a number of DHBs to review their supply chain management and to assist in identifying opportunities for improvement. We have introduced supply chain management expertise to a number of DHBs.

National Haemophilia Management Group

During 2007/08, the CHFA continued to provide 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 2008, investment of funds by the CHFA has returned to the pool an additional \$0.928m

2.0 maintaining and developing organisational capability

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

Our team includes seven full-time staff. We have 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 us with greater capacity to contribute to sector initiatives.

GOOD EMPLOYER STRATEGY

CHFA recognises the need to attract and retain productive and talented staff. We take seriously our obligations as a "good employer" and continue to promote equal employment opportunities.

CHFA fully endorses the seven key elements of a "good employer", namely:

- a) leadership accountability and culture
- b) recruitment selection and induction
- c) employee development, promotion and exit
- d) flexibility and work design
- e) remuneration, recognition and conditions
- f) harassment and bullying prevention
- g) safe and healthy environment.

CHFA has policies in place covering these elements which are reviewed at least annually. All of our staff participate in this process.

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 - 2007/08

During 2007/08 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.
- Enhancing our core services within intent to assist DHBs in their pursuit of a cost effective health sector that provides value for money.
- Working with the sector and officials to identify other opportunities for the CHFA to contribute its knowledge and skills.
- Implementing the new planning and 'managing for results' requirements of the Crown Entities Act 2004 (which came into effect during 2005).

PRIORITIES FOR NEXT YEAR – 2008/09

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 2008/09 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 2008/09 we will continue to focus our efforts on contributing to the financial sustainability of the sector through the provision of our specialist services and expert advice. We will also be giving our attention to the opportunities identified in our strategic review. Specifically we will be aiming to contribute our expertise to the emerging and wide ranging capital policy issues confronting the sector.

3.0 key results and performance measures

LENDING SERVICES

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DESCRIPTION	REF	STANDARD AND PERFORMANCE	STATUS AS AT 30 JUNE 2008
Loans administration	1.1	DHBs are able to access required funds on time. The volume of cash flows and re-documentation will be 50% lower than 06/07.	Achieved. All loans available and drawn on time. Transaction volume reduced by more than half. Requirement to fully re-document existing loans eliminated.
	1.2	Reduced cost of DHB finance through improved alignment of bond tenders and DHB borrowing, and through changes in maturity profiles. Ongoing interest cost savings. By 30 June 2008 the new maturities profile has been implemented resulting in ongoing savings of \$2m.	Achieved. Loans portfolio re-structure completed. Interest cost savings for the 2-years to Jun 2008 are estimated at around \$13.5 million. Long-term savings are still estimated at around \$5m pa (equivalent to more than \$60m of "free" equity).
Monitoring	1.3	Accurate and timely forewarning of emerging risks and identification of appropriate mitigation strategies to reduce financing risk. Quarterly reports on DHB financial performance are completed on time. By 30 June 2008, implement revised monitoring and credit assessment tools.	Achieved. Quarterly reports for all periods have been completed on time. CHFA's enhanced credit assessment tools and monitoring processes were implemented on 1 July 2007. The first consolidated Annual Credit Review of all DHBs was presented to the CHFA Board in September 2007.
Advice	1.4	Lending advice to DHBs results in good financing decision, and prudent treasury policy. Advice is timely and accurate and DHBs are satisfied with the quality and coverage of CHFA advice.	Achieved. Advice relating to debt profiling has significantly reduced interest rate risk and volatility. Advice relating to use of financial derivatives has materially reduced the sector's risk exposure.
	1.5	Financing and risk management advice to Responsible Ministers increases awareness of sector risks. Advice is timely and accurate and Ministers are satisfied with the quality and coverage of CHFA advice.	Achieved. CHFA's revised Quarterly Reporting format more clearly highlights areas of concern. Escalation processes improved and implemented. No issues have arisen and informal feedback has been positive.

PROPERTY ADVICE AND DISPOSAL SERVICES

DESCRIPTION	REF	STANDARD AND PERFORMANCE	STATUS AS AT 30 JUNE 2008
Disposal Services	2.1	<p>Protect capital for reinvestment by minimising holding costs and disposal delays.</p> <p>Total holding costs are maintained within budgeted targets and properties are disposed of within the timeframes budgeted at purchase.</p> <p>All transactions comply with legislation as assessed through due diligence audits.</p>	<p>Partly achieved.</p> <p>The downturn in the property market has resulted in delays in selling properties and an increase in holding costs.</p> <p>Delays in some Statutory Clearance processes has resulted in holding costs exceeding budget for some properties.</p> <p>Audit NZ review and internal audit revealed that all CHFA policies and procedures had been complied with.</p>
	2.2	<p>Disposal advice to DHBs reduces processing delays and holding costs.</p> <p>DHBs receive timely and accurate disposal advice within agreed timeframes. Completed projects demonstrate the value that CHFA added to the disposal process.</p>	<p>Achieved, for a number of DHBs including Northland, Lakes and Capital & Coast.</p>
Strategic Property advice.	2.3	<p>Strategic advice:</p> <p>DHBs receive advice that improves value from property transactions.</p> <p>DHBs receive timely and accurate strategic advice within agreed timeframes. Completed advisory projects demonstrate the value that CHFA added to the property transaction.</p>	<p>Achieved for a number of DHBs including:</p> <ul style="list-style-type: none"> • Waitemata (acquisition) • NZ Blood Service (leasing and fitout) • Northland (leasing) • Auckland (plan changes) • Waikato (asset management)

FINANCIAL SERVICES

DESCRIPTION	REF	STANDARD AND PERFORMANCE	STATUS AS AT 30 JUNE 2008
Residual AHB responsibilities	3.1	Risk management of contingent liabilities. Contingent liabilities are regularly reviewed and Ministers are provided with quarterly, risk-focused reports and management strategies.	Achieved. Claims portfolio reviewed monthly. A one off review is currently being undertaken to determine the appropriateness of the claims categorisation. Crown Laws performance reviewed against its quarterly work plan. Quarterly reports prepared for the CHFA Board and Minister.
	3.2	Residual Property Liabilities. Sub tenancy agreements are in place to 2012 covering >85% of total floor area by 30 June 2008.	Not achieved. Sub tenancy agreements are in place to 2012 covering 84% of total floor area.
	3.3	Patient Trust Funds. Prudent investment increases total trust funds by 7% by 30 June 2008.	Achieved. Current annualised interest on invested funds \$582,809 is 8.90%.
Financial advisory services	3.4	Cost savings that result from efficiency-type projects. The CHFA will demonstrate cost savings or cost effectiveness improvements on a DHB project-by-project basis.	Achieved to the extent that CHFA led the renewal of the DHB's 2007/08 collective insurance programme and delivered a further saving in premiums of approximately \$1.0m over and above the \$3.5m saved in 2006/07.

ORGANISATIONAL CAPABILITY AND DEVELOPMENT

DESCRIPTION	REF	STANDARD AND PERFORMANCE	STATUS AS AT 30 JUNE 2008
Managing for Outcomes	4.1	Internal work and performance plans are in place by August 2007	Achieved. Work plans were established and performance plans agreed.
Invest in the capability of our people	4.2	Staff are positive about career opportunities, professional growth and job satisfaction as determined by an annual survey completed in December 2007.	Achieved. Survey has been completed, showing a high level of staff satisfaction.
	4.3	Personal Development Plans are aligned with outcomes by August 2007	Partly achieved. PDPs discussed with all staff but not all have been documented.
Enhancing our effectiveness	4.4	Internal/external audits reflect that policies, procedures and business systems are appropriate and being complied with at audit or following spot checks.	Achieved. External audit completed in October 2007 confirmed policies, procedures and business systems are appropriate. Comparative NZ IRFS compliant figures for the 2007 year have been externally audited with no significant issues identified.

statement of **service performance**

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	Lending Actual \$000	Lending Budget \$000	Property Actual \$000	Property Budget \$000	Financial Services Actual \$000	Financial Services Budget \$000
2008						
Appropriation	1,044	1,045	0	0	630	629
Other Income	174	127	272	786	204	204
Total Income	1,218	1,172	272	786	834	833
Operating expenditure	584	1,009	1,580	227	2,103	2,908
Surplus/ (Deficit)	634	163	(1,308)	559	(1,269)	(2,075)
2007						
Appropriation	967	965	0	0	707	706
Other Income	96	69	1,429	315	335	172
Total Income	1,063	1,034	1,429	315	1,042	878
Operating expenditure	716	915	378	228	2,018	2,501
Surplus/ (Deficit)	347	119	1,051	87	(976)	(1,623)

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 lower than budgeted as a result of a shortfall in the CHFA share of surplus on properties sold during 2008.

4.0 **financial** performance

for the year ended 30 June 2008

4.1 statement of financial performance

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Actual \$000s	2008 Budget \$000s	2007 Actual \$000s
Income				
Crown Funding		1,674	1,674	1,674
Interest revenue				
- District Health Boards		79,944	0	63,652
- Other		464	345	443
CHFA share of surplus on sale of properties		72	737	1,377
Other income		114	35	41
Total Operating Revenue		82,268	2,791	67,187
Expenditure				
Interest expense				
- NZ Debt Management Office advances		79,944	0	63,652
Residual asset management (T&T House)	2	672	771	639
Legal expenses – Medical Claims		883	1,573	714
Personnel Costs		811	957	951
Board Fees	18	91	96	80
Projects		129	200	174
Depreciation		55	48	59
Finance costs		0	25	15
Other expenses	3	1,626	474	481
Total Operating Expenses		84,211	4,144	66,765
Net operating surplus (deficit)		(1,943)	(1,353)	422

4.2 statement of movements in equity

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Actual \$000s	2008 Budget \$000s	2007 Actual \$000s
Net operating surplus (deficit)		(1,943)	(1,353)	422
Total recognised revenues and expenses		(1,943)	(1,353)	422
Equity at start of period		6,529	5,544	6,107
Equity at end of period		4,586	4,191	6,529

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 2008

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	Note	2008 Actual \$000s	2008 Budget \$000s	2007 Actual \$000s
Crown equity		4,586	4,191	6,529
Current assets				
Cash and bank	5	220,421	4,482	250,701
Debtors	6	19,912	895	30,779
Advances to District Health Boards	7	106,037	0	239,263
Inventory: Properties held for sale	8	2,680	10,462	2,768
		349,050	15,839	523,511
Non-current assets				
Advances to District Health Boards	7	1,164,421	1,397,210	876,345
Property, Plant and Equipment	9	153	207	193
		1,164,574	1,397,417	876,538
Total assets		1,513,624	1,413,256	1,400,049
Current liabilities				
Accounts payable and accruals	10	16,255	494	28,936
Advances from Westpac				
- Property transactions	14	7,621	11,361	4,439
Advances from NZ Debt Management Office	12	320,693	0	483,776
		344,569	11,855	517,151
Non-current liabilities				
Provisions	11	48	0	24
Advances from NZ Debt Management Office	12	1,164,421	1,397,210	876,345
		1,164,469	1,397,210	876,369
Total liabilities		1,509,038	1,409,065	1,393,520
Net assets		4,586	4,191	6,529

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 2008

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	Note	2008 Actual \$000s	2008 Budget \$000s	2007 Actual \$000s
Cash flows from operating activities				
Cash was provided from:				
Operating income		1,674	1,674	1,674
Interest received				
- District Health Boards loan advances		76,316	0	59,929
- Other		464	345	442
CHFA share of surplus on properties sold		72	737	675
Other income		631	555	603
Net GST		38	(21)	61
		79,195	3,290	63,384
Cash was applied to:				
Payments to suppliers and employees		(3,111)	(4,012)	(3,248)
Transfer to Ministry of Health		(590)	(500)	(505)
Interest paid				
- NZ Debt Management Office		(76,316)	0	(59,929)
		(80,017)	(4,512)	(63,682)
Net cash flow from operating activities	15	(822)	(1,222)	(298)
Cash flows from investing activities				
Cash was provided from:				
Sale of surplus District Health Board properties		504	23,846	3,612
		504	23,846	3,612
Cash was applied to:				
Properties intended for sale		(3,271)	(22,938)	(2,452)
Fixed assets		(15)	(45)	(26)
		(3,286)	(22,983)	(2,478)
Net cash flow from investing activities		(2,782)	863	1,134

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 2008

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Note	2008 Actual \$000s	2008 Budget \$000s	2007 Actual \$000s
Cash flows from financing activities			
Cash was provided from:			
Advance from NZ Debt Management Office	154,850	313,810	145,380
District Health Board principal repayment	209,655	0	556,583
Advances from Westpac	3,347	3,481	318
	367,852	317,291	702,281
Cash was applied to:			
Advances to District Health Boards	(394,363)	(313,810)	(767,504)
Repayment to Westpac	(165)	(4,120)	(1,357)
	(394,528)	(317,930)	(768,861)
Net cash flow from financing activities	(26,676)	(639)	(66,580)
Net increase (decrease) in cash held	(30,280)	(998)	(65,744)
Opening cash balances	250,701	5,480	316,445
Closing cash balances	220,421	4,482	250,701
Comprising:			
Cash at bank	398	1,458	417
Short term deposits	5,368	3,024	5,771
CHFA facility at NZ Debt Management Office	214,655	0	244,513
	220,421	4,482	250,701

The accompanying Statement of Accounting Policies and Notes should be read in conjunction with these financial statements

4.5 summary of significant accounting policies

STATUTORY BASE

The Crown Health Financing Agency (CHFA), formerly the Residual Health Management Unit, 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 (DHB's) 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.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000s). The functional currency of CHFA is New Zealand dollars.

The financial statements for CHFA are for the year ended 30 June 2008, and were approved by the Board on 31 October 2008.

STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with New Zealand equivalents to IFRS (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities. CHFA is deemed to be a Public benefit entity.

ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening NZ IFRS balance sheet as at 1 July 2006 and closing NZ IFRS balance sheet as at 30 June 2007 for the purposes of the transition of NZ IFRS.

The measurement base applied is historical cost modified by the revaluation of certain assets and liabilities as identified in this statement of accounting policies.

The accrual basis of accounting has been used unless otherwise stated.

JUDGEMENT AND ESTIMATIONS

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. CHFA have judged that there is no significant risk of material adjustment in the next year.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted and which are relevant to CHFA include:

- NZ IAS 1 *Presentation of Financial Statements (revised 2007)* replaces NZ IAS 1 *Presentation of Financial Statements* (issued 2004) and is effective for reporting periods beginning on or after 1 January

2009. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with the Crown in its capacity as "owner". The revised standard gives CHFA the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The CHFA intends to adopt this standard for the year ending 30 June 2010, and is yet to decide whether it will prepare a single statement of comprehensive income.

- NZ IAS 23 *Borrowing Costs (revised 2007)* replaces NZ IAS 23 *Borrowing Costs (issued 2004)* and is effective for reporting periods commencing on or after 1 January 2009. The revised standard requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. The CHFA intends to adopt this

standard for the year ending 30 June 2010 and has not yet determined the potential impact of the new standard.

- NZ specific amendment to NZ IAS 2 *Inventories*. In November 2007 the New Zealand Accounting Standards Review Board approved an amendment to NZ IAS 2 *Inventories*, which requires public benefit entities to measure inventory held for distribution at cost, adjusted when applicable for any loss of service potential. Prior to the amendment, public benefit entities were required to measure inventories held for distribution at the lower of cost and current replacement cost. Application of the amendment is mandatory for reporting periods beginning on 1 January 2008 or after. CHFA will adopt the amended standard for the year ending 30 June 2009 and has not yet determined the potential impact of the new standard.

REVENUE

- **Operations**
Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and it is probable that the economic benefits of the transaction will flow to CHFA.
- **Interest**
Interest income is accrued using the effective interest rate method.

GOODS AND SERVICES TAX

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

TAXATION

CHFA is a public authority in terms of the Income Tax Act 2004 and consequently is exempt from income tax.

FINANCIAL INSTRUMENTS

CHFA is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, advances to District Health Boards (DHBs), and advances from NZ Debt Management Office, debtors, creditors and loans. All financial instruments are recognised in the balance sheet.

Designation of financial assets and financial liabilities into instrument categories is determined by the business purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation. CHFA has designated financial assets and liabilities as follows:

Financial Assets

- **Cash and Cash Equivalents.**

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with a maturity of no more than three months from date of acquisition.

- **Loans and Receivables**

Loans to DHBs and other receivables are designated as loans and receivables (i.e. non derivative financial assets with fixed or determinable payments that are not quoted in an active market). Loans to DHB's are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired.

Financial Liabilities

- Advances from NZ Debt Management Office and other financial liabilities are recorded initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with duration less than 12 months are recognised at their nominal value.

PROPERTY, PLANT & EQUIPMENT

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

Realised gains and losses arising from disposal of plant and equipment are recognised in the Statement of Financial Performance in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

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

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Statement of Financial Performance, unless the asset is carried at a re-valued amount in which case any impairment loss is treated as a revaluation decrease.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost of valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. Typically, the estimated useful lives of different classes of property, plant and equipment are as follows:

Leasehold improvements

6.2 – 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%)

INVENTORY - PROPERTIES**INTENDED FOR SALE**

Properties intended for sale are assets purchased from DHBs and held by CHFA for subsequent re-sale on behalf of the DHB's. CHFA account for these assets as inventories as they are held for sale in the ordinary course of business. Inventories are valued at the lower of cost or net realisable value. Any write down from cost to net realisable value is recognised in the statement of financial performance.

EMPLOYEE ENTITLEMENTS

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the Statement of Financial Performance when they accrue to employees. The liability for employee entitlements to be settled within 12 months is reported at the amount expected to be paid.

OPERATING LEASES

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

OTHER LIABILITIES AND PROVISIONS

Other liabilities and provisions are recorded at the best estimate of expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their present value.

CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities and contingent assets are recorded in the Statement of Contingent Liabilities and Contingent Assets at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

CHFA has recorded no contingent assets.

Continent Liabilities of \$30,216,000 in respect of potential legal claims have been disclosed.

CHANGES IN ACCOUNTING POLICIES

Accounting policies are changed only if the change is required by a standard of interpretation or otherwise provides more reliable and more relevant information.

COMPARATIVES

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

BUDGET FIGURES

The budget figures are those approved by the CHFA Board at the beginning of the year in the statement of intent. The budget figures have been prepared in accordance with NZ IFRS, using accounting policies that are consistent with those adopted by CHFA for the preparation of the financial statements.

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 in the 2008 year 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.

CHFA share of surplus on sale of properties: Share of surplus from one property budgeted for sale in 2008 was recognised in the previous year.

Residual asset management (T&T House): Re-negotiated lease rates resulted in saving in management costs of operating the T&T House residual asset.

Legal expenses – Medical claims: Delays in legal proceedings resulted in less than anticipated legal fees being incurred in the current year.

Personnel expenses: Lower number of staff employed during the year resulted in savings to budget.

Other expenses: In the current year there is a write down of receivables of \$500,000 and a reversal of revenue recognised in the previous year of \$750,000. Neither of these adjustments were budgeted.

Statement of financial position

Cash and Bank: The NZDMO CHFA Facility of \$214.7m was greater than budgeted for. The funds represent temporary repayment from DHBs. The timing and amounts of the repayments is dependent on DHBs surplus cash flow.

Inventory - Properties intended for sale: One major property purchase budgeted for in the current year did not eventuate.

Accounts payable and debtors: These accounts include payables and receivables for property transactions recognized in the current year but not settled.

Advances from Westpac: One major property purchase budgeted for in the current year did not eventuate and no draw down 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 and purchases has resulted in variations from actual to budget.

DHB principal repayment: Movement in DHB principal repayment was not budgeted for as the repayment of debt is dependent on the cash position of DHBs and the timing of DHB loan rollovers.

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

2. RESIDUAL ASSET MANAGEMENT

The cost of \$672,000 represents the full cost of leasing five levels of Tourism and Travel House, 79 Boulcott Street, Wellington.

CHFA is responsible for the lease obligations until expiry of the lease in 2012.

Sub tenant rental received by CHFA is returned to the Crown through the Ministry of Health on a quarterly basis.

4.6 notes to the financial statements (continued)

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3. OTHER EXPENSES

	2008 Actual \$000s	2007 Actual \$000s
Other expenses include:		
Audit fees for financial statements audit (Audit NZ)	23	22
Audit fees for NZ IFRS transition (Audit NZ)	5	5
Property related costs	86	319
Write down of receivables (note 6)	500	0
Reversal of previously recognised CHFA share of surplus on sale of properties	750	0
CHFA lease rental	55	51
Board expenses	13	16
Legal Fees	75	24
Other Expenses	119	44
	1,626	481

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)

5. CASH AND BANK

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	2008 Actual \$000s	2007 Actual \$000s
Westpac cheque accounts	398	417
Westpac on call	0	603
Short term deposits maturing three months or less from date of acquisition		
ASB deposit	0	2,868
National Bank of NZ deposit	3,370	0
Westpac deposit	1,998	2,300
NZ Debt Management Office – CHFA facility	214,655	244,513
Total cash and cash equivalents	220,421	250,701

Interest rates receivable on deposits range from 8.55% to 8.78%

The carrying value of short term deposits with maturity dates of three months or less approximates their fair value.

The \$214.7m (2007: \$244.5m) facility relates to appropriation drawdown to fund cash advance facilities to DHBs and then temporarily repaid by them. These facilities are available 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. Carrying value is deemed to be fair value.

6. DEBTORS

	2008 Actual \$000s	2007 Actual \$000s
Interest receivable	13,814	10,186
Sale of property receivables	22,709	20,255
Other	115	338
	36,638	30,779
Less provision for impairment	(16,726)	0
	19,912	30,779

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The carrying value of sale of property receivables are fair values based on cash flows discounted using a rate based on the cost of equity 7.75%. (2007 8.0%)

All other receivables are recognized at their nominal value.

As at 30 June 2008 and 2007, all receivables have been assessed for impairment and appropriate provisions applied, as detailed below.

	2008			2007		
	Gross	Impairment	Net	Gross	Impairment	Net
Interest Receivable						
Not past due	13,814	0	13,814	10,186	0	10,186
Sale of property receivables						
Not past due	4,209	(500)	3,709	20,255	0	20,255
Past due > 90 days	18,500	(16,226)	2,274	0	0	0
	22,709	(16,726)	5,983	20,255	0	20,225
Other						
Not past due	10	0	10	308	0	308
Past due 1-30 days	9	0	9	23	0	23
Past due 31-60 days	2	0	2	5	0	5
Past due 61-90 days	94	0	94	2	0	2
Past due > 90 days				0	0	0
	115	0	115	338	0	338

CHFA have reviewed the property receivables on a property by property basis and have provided for impairment on two properties. The declining property market has resulted in the anticipated proceeds of sale being less than the purchase cost and costs of holding the Claude Road, Auckland property. Accordingly a provision has been made of \$0.5m in respect of this property.

Settlement of the unconditional contract for sale for the former Napier Hospital was not made on the due date of 30 April 2008 and is now subject to legal action to enforce the agreement. Due to the uncertainty, a provision has been made of \$16,226 reducing the debtor value to the original cost plus holding costs of the property.

Movements in the provision for impairment of receivables are as follows:

	2008 Actual \$000s	2007 Actual \$000s
Balance at 1 July	0	0
Additional provisions made during the year	16,726	0
Receivables written off during period	0	0
Balance at 30 June	16,726	0

4.6 notes to the financial statements (continued)

7. ADVANCES TO DISTRICT HEALTH BOARDS

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	2008 Actual \$000s	2007 Actual \$000s
Current		
CHFA advances	106,037	239,263
	106,037	239,263
Non current		
CHFA advances	1,164,421	876,345
	1,164,421	876,345
Total advances	1,270,458	1,115,608

The following is a maturity analysis of CHFA's advances to District Health Boards

Maturity analysis and effective interest rates	2008 Actual Loans \$000s	2008 Weighted Av. effective interest rate	2007 Actual Loans \$000s	2007 Weighted Av. effective interest rate
Less than one year	106,037	6.810%	239,263	6.424%
One to two years	106,550	6.760%	106,350	6.851%
Three to five years	492,574	6.394%	359,795	6.474%
Beyond five years	565,297	6.519%	410,200	6.384%
	1,270,458	6.490%	1,115,608	6.466%

The fair value of the total advances of \$1,270,458 is \$1,268,472

The fair value is measured at amortized cost using the effective interest rate method and is based on the present value of each scheduled cash flow (principal and interest) calculated at government bond rates.

Loans to DHBS are unsecured.

8. INVENTORIES – PROPERTIES HELD FOR SALE

The carrying value of inventories of \$2,679,652 (2007 \$2,768,000) is measured at cost.

No inventories are pledged as security for liabilities.

4.6 notes to the financial statements (continued)

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9. PROPERTY, PLANT AND EQUIPMENT

2008	Leasehold Improvements \$000	Furniture & Fittings \$000	Office Equipment \$000	Computer Equipment \$000	Total \$000
Cost					
Balance 1 July 2007	164	86	28	145	423
Additions			1	14	15
Disposals		(2)	(8)	(77)	(87)
Balance 30 June 2008	164	84	21	82	351

Accumulated depreciation and impairment losses

Balance 1 July 2007	55	30	16	129	230
Depreciation	21	9	5	20	55
Eliminate on disposals		(2)	(8)	(77)	(87)
Balance 30 June 2008	76	37	13	72	198
Carrying amount 30 June 2008	88	47	8	10	153

2007	Leasehold Improvements \$000	Furniture & Fittings \$000	Office Equipment \$000	Computer Equipment \$000	Total \$000
Cost					
Balance 1 July 2006	161	77	16	144	398
Additions	3	9	12	1	25
Disposals					
Balance 30 June 2007	164	86	28	145	423

Accumulated depreciation and impairment losses

Balance 1 July 2006	33	21	14	103	171
Depreciation	22	9	2	26	59
Balance 30 June 2007	55	30	16	129	230
Carrying amount 30 June 2007	109	56	12	16	193

4.6 notes to the financial statements (continued)

10. ACCOUNTS PAYABLE AND ACCRUALS

33

	2008 Actual \$000s	2007 Actual \$000s
Creditors	173	326
Accruals		
- NZ Debt Management Office Interest	13,810	10,181
- Property transactions	1,816	17,686
- Leave Entitlements	37	53
- Other	419	690
	16,255	28,936

All payables are recognized at their nominal value except the carrying value of property transactions. These are stated at fair value, based on cash flows discounted using a rate based on the cost of equity 7.75% (2007 8.0%).

NZ Debt Management Office interest property transactions and leave entitlements are not past due and other creditors are normally settled on 30 day terms.

The leave entitlement accrual of \$37,000 is the total of CHFA's employee benefit liabilities and is classified as current liabilities.

11. PROVISIONS

	2008 Actual \$000s	2007 Actual \$000s
Non current provisions are represented by:		
Lease make-good	48	24
Total non-current portion	48	24
Total provisions	48	24

4.6 notes to the financial statements (continued)

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Movement in provision is as follows.

	Lease make good	Total
2007		
Balance 1 July 2006:	0	0
Additional provisions made:	24	24
Balance 30 June 2007	24	24
2008		
Balance 1 July 2007:	24	24
Additional provisions made:	24	24
Balance 30 June 2008	48	48

Lease make-good

In respect of Tourism & Travel House leased premises, the CHFA is required at the expiry of the lease term (September 2012) to make good any damage caused to the premises from installed fixtures and fittings and to remove any fixtures or fittings installed by CHFA. The cash flows are expected to occur at that time.

12. ADVANCES FROM NZ DEBT MANAGEMENT OFFICE, TREASURY

	2008 Actual \$000s	2007 Actual \$000s
Current		
Advances to CHFA Existing Debt	106,037	239,263
NZ Debt Management Office Facility	214,655	244,513
	320,692	483,776
Non Current		
Advances to CHFA Existing Debt	1,164,421	876,345
Total advances	1,485,113	1,360,121

4.6 notes to the financial statements (continued)

The following is a maturity analysis of CHFA's loan borrowings from NZ Debt Management Office.

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	2008 Actual Loans \$000s	2008 Weighted Av. effective interest rate	2007 Actual Loans \$000s	2007 Weighted Av. effective interest rate
Less than one year	106,037	6.810%	239,263	6.424%
One to two years	106,550	6.760%	106,350	6.851%
Three to five years	492,574	6.394%	359,795	6.474%
Beyond five years	565,297	6.519%	410,200	6.384%
	1,270,458	6.490%	1,115,608	6.466%
NZ Debt Management Office Facility	214,655	Nil interest	244,513	Nil interest
Total advances	1,485,113		1,360,121	

The \$214.7m (2007: \$244.5m) facility relates to appropriation drawn down to fund cash advance facilities to DHBs and then temporarily repaid by them. These facilities are available 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.

The fair value of the advances of \$1,270,458 is \$1,268,472

The fair value is measured at amortized cost using the effective interest rate method and is based on the present value of each scheduled cash flow (principal and interest) calculated at government bond rates.

Advances from DMO are unsecured.

4.6 notes to the financial statements (continued)

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13. LOAN FACILITIES

Undrawn Loan facilities for advances to DHBs and borrowings from DMO are as follows.

	2008 Actual \$000s	2007 Actual \$000s
Repaid Loan Facility	214,655	244,513
Undrawn Loan Facility	59,900	75,192
Total	274,555	319,705

At 30 June 2008, DHB's have undrawn loan facilities of \$274.5 m with CHFA (2007: 319.7m).

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, \$7.62m (2007: \$4.44m) was drawn down.

15. RECONCILIATION OF OPERATING CASH FLOWS WITH NET OPERATING SURPLUS

	2008 Actual \$000s	2007 Actual \$000s
Net Operating Deficit	(1,943)	422
Add (less)		
Non cash items		
Write down of inventory	500	0
Depreciation	55	59
Total non-cash items	555	59
Add (less)		
Movements in working capital items		
Decrease (increase) in debtors	(2,939)	(4,335)
Increase (decrease) in accounts payable	3,505	3,556
Total movements in working capital items	566	(779)
Net cash flow from operating activities	(822)	(298)

4.6 notes to the financial statements (continued)

16. COMMITMENTS AND CONTINGENCIES

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Commitments

	2008 Actual \$000s	2007 Actual \$000s
Non-cancellable Lease Operating Commitments	2,295	2,776
Term Classification of Commitments:		
Less than one year	551	537
One to two years	551	537
Two to five years	1,193	1,612
Over five years	0	90
	2,295	2,776
Other Non-cancellable Contracts	3	8
Term Classification of Commitments		
Less than one year	3	5
One to two years	0	3
Two to five years	0	0
	3	8

Total future minimum sublease payments to be received under non-cancellable subleases for office space at the balance sheet date are \$2,156,542 (2007 \$2,615,540).

Contingencies*Contingent Assets*

CHFA has no contingent assets.

Contingent Liabilities

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:

	2008 Actual \$000s	2007 Actual \$000s
Medical	30,216	27,339
Total contingent liabilities	30,216	27,339

4.6 notes to the financial statements (continued)

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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 2008 was \$55,472 (2007: \$51,266).

17. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

Related party transactions

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 related party transactions with one member of the Board, appointed 1 March 2007, who is also Chair of Waitemata DHB.

The value of revenue received from Waitemata DHB was as follows.

- Revenue from Property advisory services \$15,119 (2007 \$19,780)
- Loan interest paid by Waitemata DHB to CHFA \$11,714,993 (2007 \$9,609,747)

The value of balances with Waitemata DHB are as follows.

- Debtors balances at 30 June 2008 \$17,605 (2007 \$7,777)
- Loan balances 30 June 2008. \$65,796,000 (2007 \$164,254,000)

There were no other related party transactions.

Key Management personnel compensation

	2008 Actual \$000s	2007 Actual \$000s
Salaries and other short-term employee benefits	666	619
Post-employment benefits	0	0
Other long-term benefits	0	0
Termination benefits	0	0
Total key management personnel compensation	666	619

Key management personnel include all board members, the Chief Executive, and two members of the Leadership Team.

4.6 notes to the financial statements (continued)

18. BOARD MEMBER REMUNERATION

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Board members earned the following fees during the year:	2008 Actual \$000s	2007 Actual \$000s
Ross Tanner (Chair)	32	32
John Anderson	11	0
Edie Moke	16	16
Kay McKelvie	16	5
David Moore	16	5
Dame Ann Hercus	0	11
Ian Sliper	0	11
Total	91	80

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

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.

19. EMPLOYEE REMUNERATION

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

Total remunerations and benefits \$000	Number of employees	
	2008	2007
231-240	1	-
221-230	-	1
181-190	-	1
171-180	1	-
151-160	1	-
121-130	-	1
100-110	-	1

20. SUPERANNUATION SCHEME

Obligations for contributions to Kiwisaver are accounted for as defined contribution superannuation scheme and is recognized as an expense in the statement of financial position.

21. FINANCIAL INSTRUMENTS RISKS**Categories of financial assets and liabilities.**

The carrying amounts of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

	2008 Actual \$000s	2007 Actual \$000s
Loans and Receivables		
Cash and Bank (note 5)	220,421	250,701
Debtors (note 6)	19,912	30,779
Advances to District Health Boards (note 7)	1,270,458	1,115,608
Total Loans and Receivables	1,510,791	1,397,088
Financial Liabilities measured at amortized cost		
Accounts payable and accruals (note 10)	16,255	28,936
Advances from Westpac (note 14)	7,621	4,439
Advances from NZ DMO (note 12)	1,485,113	1,360,121
Total Loans and Receivables	1,508,989	1,393,496

CHFA has policies to manage the risks associated with financial instruments. CHFA is risk averse and seeks to minimize exposure from its treasury activities. CHFA has established borrowing and investment policies. These policies do not allow any transactions that are speculative in nature to be entered into.

Market Risk

Interest rate risk is the risk that the value or cash flow from a financial instrument will fluctuate because of changes in market interest rates.

Investments are limited to short term bank deposits. The risk is therefore minimal.

Advances from Westpac are drawn in respect of funding CHFA cost of purchase of surplus properties and subsequent holding costs. The cost of interest is included in the calculation of surplus/deficit of the property on sale and accordingly there is exposure to CHFA in respect of interest rate risk on these advances. The cost/benefit to CHFA of a 1% movement in interest rates at the current level of borrowing, would be an \$11,000 (2007 \$7,000) effect on revenue and equity. This analysis assumes a CHFA share of surplus on sale of property of 15%.

Advances to District Health Boards have rates that match the associated New Zealand Debt Management Office advances to CHFA. There is therefore no interest rate risk in these transactions.

4.6 notes to the financial statements (continued)

CHFA is not exposed to currency risk, as it does not enter into foreign currency transactions.

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Credit Risk

Credit risk is the risk that a third party will default on its obligation to CHFA, causing CHFA to incur a loss.

CHFA's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash equivalents Note 5 and debtors Note 6 and advances to District Health Boards Note 7.

CHFA has a significant concentration of risk in the health sector which is inherent in the operations of this agency.

Cash and Bank:

Due to the timing of its cash inflows and outflows, CHFA invests surplus cash with registered banks. CHFA's investment policy requires risk to be spread over more than one institution.

Debtors:

CHFA debtors consist largely of District Health Boards and Government Agencies where there is very limited credit risk. Credit risk is covered by the continued holding of the property asset.

In respect of the private sector purchaser of CHFA property, the value of the receivable has been written down to the fair value of the collateral, land and buildings CHFA holds against the debt.

Other debtors held are deemed to be immaterial.

A breakdown of debtors by entity type is as follows:

	2008 Actual \$000s	2007 Actual \$000s
Loans and Receivables		
District Health Boards	14,200	10,587
Private sector purchaser of CHFA held property	2,274	16,503
Government Agencies	3,430	3,651
Other	8	38
Total	19,912	30,779

Advances to District Health Boards: Advances to District Health Boards are reviewed monthly in compliance with borrowing arrangements.

The advances are unsecured.

Liquidity Risk

Liquidity risk is the risk that CHFA will encounter difficulty raising liquid funds to meet commitments as they fall due.

CHFA is funded quarterly by appropriation from the Ministry of Health. CHFA holds sufficient equity to fund short term cash requirements.

The maturity profiles of CHFA's advances to DHBs are disclosed in Notes 5 and 7 and borrowings from DMO are disclosed in Note 12. The advances and borrowings are back to back and present no liquidity risk.

Borrowings from Westpac are disclosed in Note 14 and accounts payables and accruals are disclosed in Note 10.

Equity funds are placed on short term deposits (under 90 days) with a spread of maturity dates to ensure even cash flow.

4.6 notes to the financial statements (continued)

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22. CAPITAL MANAGEMENT

The CHFA's capital is its equity, which comprises accumulated funds and other reserves. Equity is represented by net assets. The CHFA is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives. The CHFA manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure the CHFA effectively achieves its objectives and purpose, whilst remaining a going concern.

23. TRUST FUNDS

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 2008 are as follows:

Southland patients' frozen funds	2008 Actual \$000s	2007 Actual \$000s
Liquid assets		
ASB Money Market Deposit	583	535
	583	535
Represented by		
Balance at beginning of year	535	496
Add:		
Interest revenue from money market deposits	48	39
	583	535
Less:		
Payments to patients	-	-
Total Southland patients' frozen funds	583	535

24. EXPLANATION OF TRANSITION TO NZIFRS

Transition to NZ IFRS

CHFA's financial statements for the year ended 30 June 2008 are the first financial statements that comply with NZ IFRS. CHFA has applied NZ IFRS 1 in preparing these financial statements.

CHFA's transition date is 1 July 2006. CHFA prepared its opening NZ IFRS balance sheet at that date. The reporting date of these financial statements is 30 June 2008. CHFA's NZ IFRS adoption date is 1 July 2007.

In preparing these financial statements in accordance with NZ IFRS 1, CHFA has not applied any optional exemptions from full retrospective application of NZ IFRS.

CHFA is required to make the following mandatory exception from retrospective application:

- Estimates exception: - Estimates under NZ IFRS at 1 July 2006 are consistent with estimates made for the same date under previous NZ GAAP.

4.6 notes to the financial statements (continued)

Reconciliation of Equity

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The following table shows the changes in CHFA equity, resulting from the transition from previous NZ GAAP to NZ IFRS as at 30 June 2007:

	Note	Previous NZ GAAP	1 July 06 Effect on transition to NZ IFRS	NZIFRS	Note	Previous NZ GAAP	30 June 07 Effect on transition to NZ IFRS	NZIFRS
Equity at Start of Period:		12,402		12,402		6,107		6,107
Net operating surplus (deficit)	A	(5,871)	(424)	(6,295)	A/D	978	(556)	422
Funds transferred to Ministry of Health	A	(424)	424	0	A	(532)	532	0
Equity at end of period		6,107		6,107		6,553		6,529
Current Assets:								
Cash and bank		316,445		316,445		250,701		250,701
Debtors	B	6,606	512	7,118		30,779		30,779
Advances to DHBs		209,873		209,873		239,263		239,263
Properties Intended for Sale	C	5,737	(5,737)	0				0
Inventory	C		5,225	5,225		2,768		2,768
Total Current Assets		538,661		538,661		523,511		523,511
Non Current Assets:								
Advances to DHBs		694,814		694,814		876,345		876,345
Fixed assets		227		227		193		193
Total Non Current Assets		695,041		695,041		876,538		876,538
Total Assets		1,233,702		1,233,702		1,400,049		1,400,049
Current Liabilities:								
Accounts Payable & accruals		7,376		7,376	D	28,936		28,936
Area Health Board Debt		0		0		0		0
Advances from Westpac - Property transactions		5,478		5,478		4,439		4,439
Advances from DMO		519,927		519,927		483,776		483,776
Total Current Liabilities		532,781		532,781		517,151		517,151
Non Current Liabilities:								
Provisions					D	0	24	24
Advances from DMO		694,814		694,814		876,345		876,345
Advances from Westpac		0		0		0		0
Total Non Current Liabilities		694,814		694,814		876,345		876,369
Total Liabilities		1,227,595		1,227,595		1,393,496		1,393,520
Net Assets		6,107		6,107		6,553		6,529

4.6 notes to the financial statements (continued)

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Reconciliation of Surplus for the year ending 30 June 2007

The following table shows the changes to CHFA surplus, resulting from the transition from previous NZ GAAP to NZ IFRS as at 30 June 2007:

	Note	Previous NZ GAAP	30 June 07 Effect on transition to NZ IFRS	NZIFRS
Income:				
Crown funding		1,674		1,674
Interest Revenue:				
- District Health Boards		63,652		63,652
- Other		443		443
Gain on Sale of Properties		1,377		1,377
Other Income	A	573	(532)	41
Total Revenue		67,719		67,187
Expenditure:				
Interest Expense				
- Area Health Board Debt		0		0
- NZDMO advances		63,652		63,652
Residual asset management	D	615	24	639
Legal expenses – medical claims		714		714
Salaries		951		951
Board fees		80		80
Projects		174		174
Depreciation		59		59
Finance costs		15		15
Cash Flow swap amortisation		0		0
Other expenses		481		481
Total Expenses		66,741		66,765
Net Operating Surplus (Deficit)		978		422

Statement of Cash Flows

There have been no material adjustments to the statement of cash flows for the year ended 30 June 2008, on transition to NZ IFRS.

4.6 notes to the financial statements (continued)

Reconciliation of Equity Table (page 43) Notes

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- Note A.** Under GAAP sub tenant rental income on T & T House was recognised as revenue. This income was returned to the Crown and charged directly to equity. Under NZ IAS 18 it was determined that this arrangement was in the nature of an agency agreement and the income should not be recognised as revenue, but as a liability to the Crown.
- Note B.** Debtors increased by the value of holding costs on properties held for sale Under NZ IFRS these costs are recognised as receivables from District Health Boards. Under GAAP these costs were capitalised and included in properties held for sale.
- Note C.** Properties intended for sale have been reclassified under NZ IFRS as Inventory. The core value has been retained at cost, with the associated holding costs now recognised as receivables from District Health Boards.
- Note D.** NZ IAS 17 requires operating lease payments to be made on a straight line basis over the lease term Provision has been made for "make good" costs on expiry of operating lease.

Reconciliation of Surplus for the year ending 30 June 2007 Table (page 44) Notes

- Note A.** Under GAAP sub tenant rental income on T & T House was recognised as revenue. This income was returned to the Crown and charged directly to equity. Under NZ IAS 18 it was determined that this arrangement was in the nature of an agency agreement and the income should not be recognised as revenue, but as a liability to the Crown.
- Note D.** NZ IAS 17 requires operating lease payments to be made on a straight line basis over the lease term. Provision has been made for "make good" costs on expiry of operating lease.
- Provision has been made for "make good" costs on expiry of operating lease.

4.7 statement of responsibility

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

The Board and management of the CHFA accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and

In the opinion of the Board and management of the CHFA, the financial statements for the year ended 30 June 2008, fairly reflect the financial position, cash flows and operations of the CHFA.

Signed on behalf of the Board.



JOHN ANDERSON

Chair

Date: 31 October 2008



DAVID MOORE

Board Member

Date: 31 October 2008

audit report

to the readers of the Crown Health Financing Agency's financial statements and performance information FOR THE YEAR ENDED 30 JUNE 2008

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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 2008.

UNQUALIFIED OPINION

In our opinion:

- The financial statements of the Agency on pages 19 to 45:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Agency's financial position as at 30 June 2008; 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 17:
 - 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 31 October 2008, 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 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 and 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 the financial statements and 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 2008 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 and Statement of Service Performance

This audit report relates to the financial statements and statement of service performance of Crown Health Financing Agency for the year ended 30 June 2008 included on the Crown Health Financing

Agency's website. The Crown Health Financing Agency's Board is responsible for the maintenance and integrity of the Crown Health Financing Agency's website. We have not been engaged to report on the integrity of the Crown Health Financing Agency's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. 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 statement of service performance and related audit report dated 31 October 2008 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

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

appendix 1: directory

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BOARD MEMBERS

John Anderson (Chair)

Appointed 13 November 2007

Ross Tanner (Former Chair)

Until 31 July 2008

Eddie Moke

David Moore

Kay McKelvie

POSTAL ADDRESS

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AUDITOR

Audit New Zealand on behalf
of the Auditor-General

