

Crown Health Financing Agency

Statement of Intent

2005/06

TABLE OF CONTENTS

| | | |
|------------|---|-----------|
| 1.0 | FOREWORD | 3 |
| 2.0 | VISION, MISSION AND VALUES..... | 5 |
| 3.0 | OPERATING ENVIRONMENT..... | 6 |
| 4.0 | NATURE AND SCOPE OF ACTIVITIES..... | 8 |
| 5.0 | STRATEGIC DIRECTION..... | 12 |
| 6.0 | KEY RESULT AREAS AND PERFORMANCE MEASURES..... | 16 |
| 7.0 | REPORTING | 18 |
| 8.0 | PROSPECTIVE FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 30 JUNE 2008 (GST EXCLUSIVE)..... | 20 |

1.0 Foreword

1.1 Introduction

The Crown Health Financing Agency (CHFA), formerly the Residual Health Management Unit, was established by the Health Sector (Transfers) Act 1993, continues under Section 57 of the New Zealand Public Health and Disability Act 2000 (“the Act”) and operates as a Crown entity for the purposes of the Crown Entities Act 2004.

The CHFA was established to assume responsibility for all Area Health Board assets and liabilities that did not vest in Crown Health Enterprises, Regional Health Authorities, the Ministry of Health or other transferees at 1 July 1993 and to provide advice, assistance and some funding of last resort to Crown Health Enterprises, and later Hospital and Health Services when debt financing was required.

In June 2001, the CHFA was appointed as the Crown’s lender to the DHB sector. This followed the introduction of a new Government policy in June 2000 designed to transfer DHB debt from the private sector back to the Crown. This change in policy was influenced by:

- the ability of the Crown to lend money more cheaply than the private sector Banks;
- a perception that the private sector Banks were not actively managing their loans to DHBs but were resting on the implied Government guarantee in their assessment of the underlying credit risk; and
- a desire to establish an entity to provide independent advice to the Responsible Ministers on the overall financial sustainability of the DHB sector.

The CHFA is also responsible for assisting the DHB sector to dispose of surplus property by either buying surplus DHB property assets for the purpose of selling it on the open market or by holding properties by way of transfer or other means and managing them until disposal. The CHFA also provides strategic advice to the health sector in respect of property disposal and other related transactions.

Key stakeholders for the CHFA are the Minister of Health as the Responsible Minister for the CHFA, the Minister of Finance as Joint Responsible Minister for the CHFA and their officials. At present, the key clients for the CHFA are District Health Boards and other health crown entities.

1.2 Terms of Reference

Functional responsibilities for the CHFA are grouped together in three distinct “lines of business”. The activities of each function are described in more detail in Section 2.

A new Composite Terms of Reference was approved by the Minister of Health in December 2004 and is now operative. The revised document provides for a more flexible operating framework and affirms current work practices.

1.3 Future direction

Taken as a whole, the CHFA is fast approaching maturity in its current form. By 30 June 2005, the CHFA will have refinanced most of the DHBs' private sector debt. At that time only four DHBs will have outstanding private sector debt. Most of this remaining debt, totalling \$263.5 million, is in the form of publicly-held bonds. In addition, much of the work originally assigned to the CHFA in 1993 has been completed. Except for one property lease that expires in 2012 and the residual claims, it is expected that all of the other original tasks will have been dealt with by 30 June 2006.

The Board has given careful consideration to the future direction for CHFA and is strongly of the view that there are sound public policy reasons for the CHFA to broaden the scope of the functions and services it currently provides to the health sector. Whereas there has been some diversification of activities during 2004-5 there is considerable potential to go further, both within the wider health sector but also throughout the state sector in the future, without compromising in any way the current level of service given to existing health sector clients.

In its report to Parliament, after completing its 2003/04 review of the CHFA, the Health Select Committee noted that "the generic experience of the Crown Health Financing Agency would be beneficial to the wider state sector".

1.4 Board statement

This Statement of Intent has been prepared by the CHFA to meet the requirements of the Public Finance Act 1989 and to give effect to the Crown's Statement of Ownership Expectations for the CHFA. It outlines for Parliament the outcomes and performance standards that the CHFA has agreed with the Minister of Health to deliver for the period 1 July 2005 to 30 June 2006, and includes the forecast financial statements for the following two years. This specification of performance will be used as a basis for comparison against the CHFA's actual performance when its annual report is prepared.

Ross Tanner
Chair
Crown Health Financing Agency

Date:

2.0 Vision, Mission and Values

2.1 Vision

To contribute positively to the long-term financial sustainability of our clients

2.2 Mission

The CHFA will achieve its Vision by:

- ensuring that we understand the needs of our clients
- providing effective and efficient solutions that are appropriate to the individual needs of our clients
- offering practical, professional and independent advice of outstanding quality
- adopting effective work practices that encourage access to our services
- being proactive in monitoring the financial performance of our clients
- working in a spirit of partnership and cooperation with our clients and stakeholders in the pursuit of common goals

2.3 Values

CHFA will pursue its mission, goals and objectives through actively demonstrating and living its core values of:

- **Integrity**- we expect firm adherence to ethical conduct, open and honest communication and delivering on commitments as the basis for earning and maintaining trust among the Board, staff and stakeholders.
- **Excellence**- we take pride in what we do and constantly challenge ourselves and each other to do even better. We are continuously seeking to improve our business processes, systems and the professional services we provide and to learn from any mistakes.
- **Responsiveness**- what we do is driven by the needs of our clients and the expectations of our stakeholders. We are committed to meeting these needs and expectations and our aim is to always be accessible and to respond in a timely and professional manner. We will always endeavour to deliver results that are positive, effective and long-lasting.
- **Teamwork**- we work towards the achievement of common goals in a spirit of cooperation that is made possible by a team ethic of respect, responsibility and accountability and where support is freely offered to colleagues and others.

3.0 Operating Environment

3.1 Overview

The CHFA's functional responsibilities are grouped into three distinct "lines of business" designed to service the lending requirements and property activities of our clients and to manage and resolve the Crown's obligations in respect of 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 which are outlined in Section 3.0.

The CHFA is committed to working with our stakeholders, the Ministry of Health, Treasury DHBs and other clients to achieve the Government's social and financial objectives.

3.2 Commitment to the Treaty of Waitangi

The CHFA recognises the particular relationship of Maori, as tangata whenua, with the Crown and will assist the Crown in honouring its obligations to Maori under the Treaty of Waitangi in so far as they affect our work.

The CHFA is committed to using culturally appropriate practices and procedures as integral requirements for the successful operation of its business.

3.3 Governance

3.3.1 Role of the Board

As a Crown Entity, a Board oversees the affairs of CHFA. The Minister of Health appoints members to the Board under the Crown Entities Act 2004 which defines their role, accountabilities collective and individual duties.

The role of the Board is one of corporate governance comprising:

- setting the strategic direction
- policy formulation
- risk management
- loan approval
- statutory compliance monitoring
- reporting on stewardship of the entity
- appointment and monitoring of the performance of the Chief Executive

At 1 July 2005, the Board comprises four members, Ross Tanner [Chair], Ann Hercus, Edie Moke and Ian Sliper.

The Board of the CHFA affirms its commitment to 'best practice' governance.

3.3.2 *Risk Management*

The nature and scope of the CHFA activities are diverse. Risk management is integral to a successful outcome for:

- the resolution of the residual claims against the Crown;
- the management of our loans portfolio and enhancement of the Crown's investment in the health sector;
- achieving the required break-even financial result from our involvement in health sector property activities; and
- minimising the reputational risk arising from the delivery of new products and services

The CHFA has established appropriate internal Risk Management strategies and business processes to manage the risks inherent in achieving these outcomes.

4.0 Nature and Scope of Activities

The three functional lines of business are summarised below.

4.1 Lending

The CHFA is well established as a fully operational lending organisation. It provides a range of term loan facilities to clients in the health sector similar to those offered by the private sector banks and has established loan application, credit assessment and monitoring procedures.

As at 31 March 2005, the CHFA has established lending relationships with 20 DHBs. At the same date, loan approvals amounted to \$1,268.476 million. The CHFA is forecasting its loan portfolio to increase to \$1,654.000 million by June 2007.

Funding for the CHFA loans to clients is provided by the New Zealand Debt Management Office (NZDMO). As a consequence, the CHFA is able to provide funding to clients at a lower overall cost and for a longer term than that which is ordinarily available from the private sector Banks. The NZDMO manages the CHFA's loan disbursements, loan repayments and interest collection in accordance with the terms of an Agency Agreement.

For the 2005/2006 plan year, the CHFA has a total available appropriation of \$262.345 million.

The Terms of Reference require the CHFA to approach its lending responsibilities "applying normally accepted lending criteria" recognising that DHBs are "required to operate on a sustainable financial basis whilst delivering a high standard of services" and are "taking all appropriate steps within their control to achieve and sustain this condition". The specific responsibilities of the CHFA are:

- to provide term loans to DHBs and other clients in the health sector through the provision of a range of financing products appropriate to their needs;
- in providing loans, to assess the credit worthiness of the client, utilising standard lending practices;
- to provide appropriate lending advice; and
- to report to the Ministers of Health and Finance on its on-going assessment of the credit worthiness and financial sustainability of clients.

The CHFA also maintains an active dialogue with the private sector banks to keep them informed of Government priorities for the health sector and to ensure that their existing term loans to DHBs are refinanced in a timely and efficient manner.

In the past year, the CHFA has been able to introduce more flexibility into its loan structures. The changes introduced in 2004 provide a wider range of options for the clients to manage their cash-flow and interest rate risk. As loan volumes have increased, the CHFA has introduced a graduated reduction in its loan administration charge from an original 0.35% pa to 0.20% pa and this will reduce to 0.15% pa when loans outstanding reach \$875.0 million which will likely be around December 2005.

Also, and because of its expertise, the CHFA has continued to be an active participant in the development of a number of strategic and operational policy initiatives intended to enhance the financial sustainability of the DHB sector. With the support of its Responsible Ministers, these initiatives have included contributing to the development of asset management plans for the sector, reviewing the insurance cover for the sector, assisting officials with construction cost issues, developing financing structures for assets and identifying the derivative and borrowing powers required by the sector as part of the implementation of the Crown Entities Act.

The CHFA has also introduced the concept of a lender's Quantity Surveyor to assist it assess the viability of, and monitor the performance of construction loans to clients. This provides an extra level of assurance that projects can be completed within approved budgets and an early warning should this not be the case.

4.2 Property

The CHFA provides strategic property advice to health sector clients and offers a property disposal service which may be on the basis of:

- an outright purchase by the CHFA of a property or properties declared surplus ; or
- the CHFA acting as Agent to sell a surplus property; or
- properties transferred to the CHFA via Order in Council, Ministerial transfer or Ministerial directive.

The property function works within the guidelines detailed in the Composite Terms of Reference. Where the CHFA acquires a property or properties for sale, its Terms of Reference require that:

- the purchase be on the basis of an arms length commercial negotiation between a willing buyer and a willing seller;
- clear unencumbered title is held before any property is sold on the open market;
- all statutory clearance processes, including the offer-back process [Section 40 of the Public Works Act] have been concluded;
- it adds value to the land disposal process as well as the marketability of the property; and
- the overall margin on the sale of surplus properties is sufficient to meet the costs of selling the property including holding costs and the cost of capital

The property unit is focused on the effective and efficient disposal of properties declared surplus within an overall objective of maximising the return to health sector. It also offers strategic property advice covering acquisition, development (including physical works and subdivisions), leasing, site planning, construction, and rationalising use of property holdings.

The property function is required to achieve a break-even financial result. Funding is provided by way of risk sharing with clients in the disposal process, income earned from the provision of advisory and agency services and a revolving line of credit provided by Westpac Banking Corporation.

In 2004-05, the property unit helped secure land in Henderson, Auckland to establish a new Mental Health Unit for Waitemata DHB. It also continued to prepare the former Napier hospital site and a number of properties purchased from the Whanganui DHB for sale. The

Napier site is taking longer to dispose of than originally envisaged as a result of the time involved in lifting the Napier City Council caveat, removing the health sector reserve designation and the unforeseen delays in obtaining the required Crown land clearances.

Significantly too, and for the first time, several DHBs have in the past year sought strategic advice from CHFA in property acquisition and rationalisation of their property holdings.

4.3 Financial Services [including the “Residual” function]

When established in 1993, the CHFA assumed a number of statutory functions. At the time there was an expectation that these functions would all be of a relatively short duration. In the event, some of the functions involved have proven to be more complex and costly than originally envisaged; however, the CHFA continues to be responsible for them and their resolution.

The Residual functions are:

4.3.1 Area Health Board Debt

The CHFA took over the debt of the former Area Health Boards that had not been incorporated in the balance sheets of the new Crown Health Enterprises or other Crown transferees. Some \$700 million was involved, with repayments extending out until the year 2006. The debt has progressively been repaid. As at June 30, 2005, \$20.1 million remains outstanding.

A cash flow swap has been entered into with the New Zealand Debt Management Office to facilitate management and repayment of the debt, and to reduce the interest rate risk to the CHFA. In June 2001 with the establishment of the CHFA, the CHFA paid up its obligations under the swap but will continue to monitor the cash flows through to 2006.

4.3.2 Residual Contingent Liabilities

The CHFA is the legal successor to the former Area Health Boards. It is the only entity that can sue or be sued in respect of the acts or omissions allegedly caused by or through such entities prior to 1993. Some 370 claims or notifications have been vested in the CHFA since establishment. Many of these were subsequently confirmed by the instigation of legal action against the Crown during the earlier years of our operation. It was envisaged that with the passage of time and the impact of statutory time limits for commencing proceedings, receipt of new claims would almost have ceased. However, this has not been the case and the CHFA continues to receive claims relating to pre-1993 e.g. the Greenlane Heart Library and the psychiatric hospital patients' claims.

As at 31 March, 2005, the number of active claims has been reduced to seven. In managing these contingent liabilities, the CHFA is responsible for settling proven claims at the lowest possible cost to the Crown and in such a way as to manage the risk of creating a precedent for other litigation.

CHFA has initiated discussions with the Ministry of Health which may see any new pre-1993 claims from 1 July 2007 not being managed by the CHFA.

4.3.3 Residual Assets, including property leases

At establishment in 1993, the CHFA assumed responsibility for two long-term property leases. Only one, in Wellington where the lease runs until 2012, remains under its management.

4.3.4 Patient Trust Funds

In 1987, it was established that there had been certain irregularities in the management of funds held on behalf of the patients at some psychiatric and psychopaedic hospitals. These monies became known as the Mental Health Patients' Frozen Interest Funds.

An amount of \$4.02 million was transferred to the CHFA at establishment to be appropriately disposed of. Approximately half of this sum has been repaid to the patients entitled to such monies, or their beneficiaries. Efforts to trace and repay the remaining mental health patients have run their course. With the accumulation of interest, the fund now stands at \$4.06 million. The Public Trustee was requested by the Attorney-General in 1997 to determine an appropriate scheme to administer the residual funds. A trust deed has been drafted and consultation with affected parties has been completed. The deed is now with the Attorney General for approval. It is anticipated the deed will be approved and that the CHFA will have transferred the funds by 1 July 2005. Subsequent to the transfer CHFA will be responsible for any future claims against the fund.

In April 2001, the Minister of Health assigned to the CHFA the function of being the constructive trustee of some Southland DHB unclaimed patient funds accumulated prior to 30 June 1993, pending the determination of disposal. With the accumulation of interest, the fund stands at \$0.45 million. The Public Trustee was requested by the Solicitor-General in 2002 to determine an appropriate scheme for these funds. Southland DHB and the Public Trustee are currently engaged in agreeing the terms of an appropriate Trust Deed.

5.0 Strategic Direction

Overall the CHFA has developed an in-depth knowledge of the health sector and has earned a reputation for the provision of timely and accurate, independent financial and strategic advice. Whereas there has been some diversification of activities during 2004-5 there is considerable potential for that to go further without compromising in any way the current level of service given to health sector clients.

In the 2005/06 year, the CHFA will continue to be proactive in maintaining sound working relationships with health sector clients, DHBNZ and related officials. It will, as a team, ensure that it assists health sector clients meet their goals and objectives. At the same time it will develop other strategic relationships within the state sector that will position it for possibly offering its services and products more widely.

The Board has given careful consideration to the future direction for CHFA and is strongly of the view that there is opportunity for the CHFA to broaden the scope of the functions and services it currently provides to the health sector. The Board also considers that CHFA is capable of offering a similar range of specialist services to the wider state sector. In its report to Parliament, after completing its 2003/04 review of the CHFA, the Health Select Committee noted that “the generic experience of the Crown Health Financing Agency would be beneficial to the wider state sector”.

5.1 Situation Analysis

5.1.1 *Lending*

The CHFA is actively engaged with all DHBs and is starting to build relationships with other health crown entities e.g. the New Zealand Blood Service. A client relationship management programme has been implemented and relationships with senior management and some Board Chairs are well established.

The CHFA has established itself as the sole provider of long-term funding to the DHBs, and as a reputable source of independent advice to Government on the financial sustainability of the sector. By 30 June 2005, formal lending relationships will exist with all of the DHBs. By that date, only four DHBs will have private sector debt left to be refinanced by the CHFA.

5.1.2 *Property*

The CHFA has developed a core competency in the management and disposal of surplus properties with a proven track record in compliance with all of the necessary regulatory processes. While DHBs are free to engage others of their choosing when selling surplus property and in seeking property advice, there are advantages in using the services of a central agency with multiple experiences from across the country.

The CHFA continues to explore the possibilities for expanding the range of property services it offers to clients. Examples of such additional services are advice on property leasing, property acquisition or development and the management of the associated tender processes.

5.1.3 Financial Services – Residual functions

The CHFA has a strategic goal to exit the Residual functions by 30 June 2006. By then, the only Residual functions left with the CHFA will be those relating to the management of the head lease at Tourism and Travel House [already contracted out] and the residual claims portfolio.

Good progress has been made towards achieving this goal. The number of active claims has been reduced to five. However two of these, the psychiatric hospitals and Greenlane heart library claims filed late in 2004 are expected to run on beyond that date and it is now very unlikely that the CHFA will be able to realise its goal. Initial discussions have been held with the Ministry of Health in respect of the future management of the claims portfolio. The Ministry and CHFA have agreed that CHFA will not assume responsibility for the management of new claims after 30 June 2007; however, this proposal will require the approval of the Minister of Health.

5.2 Future Direction

Now that the DHB model has taken effect, and given that refinancing of the private sector debt is largely complete, the potential exists for the CHFA to broaden the range of financial advisory services it offers to DHBs and other health sector clients. The sector itself has identified opportunities for the CHFA to provide financial and analytical support for client initiatives, efficiency projects and the development and implementation of collaborative initiatives. In the past year the CHFA part-funded and managed a major project for DHBNZ relating to the reduction of costs of insurance of the DHBs and is now well positioned to lead the implementation of this initiative. Other lending initiatives to be considered are those that relate to balance sheet effectiveness, the amortisation of debt and the financing of high cost medical equipment and other fixed assets.

Aside from the lending function, the CHFA can also point to a successful track record in the provision of specialist property advice to the DHB sector, the purchase and disposal of surplus property assets and in the settlement of pre-1993 legal claims against the public hospital system. In providing these services, the CHFA has accumulated not only additional knowledge of the DHB sector, but also a deeper understanding and appreciation of how the wider government sector operates.

This mix of services, capability and knowledge represents a unique value proposition that could in time, assuming support is gained from the Responsible Ministers, be applied more widely across the state sector.

5.3 Strategic Goals

By 30 June 2008, our clients and stakeholders will recognise CHFA as:

- a primary source of quality independent advice
- a reliable provider of cost-effective long-term debt and other financial products
- a leading provider of expert property services
- a leading provider of expert financial services
- a leading state sector agency through the innovativeness of our solutions, the capability of our people and the quality of our policies, procedures and systems

We will achieve these strategic goals by:

- developing relationships with clients and stakeholders
- providing innovative and visionary leadership within the state sector
- working collaboratively with our clients and stakeholders to achieve the Government's economic, social and financial objectives
- developing a corporate identity that represents our services and products
- providing expert advice and practical solutions
- ensuring the employment, development and retention of skilled staff
- ensuring our business processes and systems are "user friendly" and aligned to "best practice"

5.4 Objectives for 2005-2006

Our objectives for the year to 30 June 2006 are:

5.4.1 *Crown Financing Agency*

- To refinance our health clients existing CHFA and private sector debt maturing in the period, and provide funding for approved projects and capital works
- To manage the Crown's risk in lending to the health sector
- To provide independent advice on the financial sustainability of the health sector

5.4.2 *Property*

- To purchase and dispose of surplus health sector client properties and add value to the process
- To advise clients in the disposal of surplus property
- To provide strategic property services and advice to health sector clients
- To return to health sector clients any surplus generated by CHFA from the sale of their surplus properties
- To ensure that the property unit is self funding

5.4.3 Financial Services [including Residual functions]

- To proactively effect the settlement of residual claims
- To agree with officials on the future management responsibilities for the residual claims portfolio
- To prudently manage and invest patient trust funds
- To manage the repayment of Area Health Board debt
- To proactively manage the tenancy risk at Tourism and Travel House
- To identify, lead, or participate in at least one significant national project that will contribute to the long term financial sustainability of the DHB sector
- To identify opportunities to be of service to the wider state sector

5.4.4 Organisational Capability and Development

- To maintain and enhance our professional capability through the recruitment, development and retention of appropriately skilled staff
- To continuously improve our policies, procedures and systems in line with best practice

6.0 Key Result Areas and Performance Measures

6.1 Lending

| | Key Result Area | Performance Measure | By When |
|-------|---|---|--|
| 6.1.1 | The provision of long term funding to the health sector | <ul style="list-style-type: none"> ▪ All existing CHFA loans and private sector term debt are refinanced ▪ All new term lending provided to DHB ▪ All loans funded within approved appropriation | <ul style="list-style-type: none"> ▪ On agreed dates ▪ On agreed dates ▪ 30 June 2006 |
| 6.1.2 | The Crown's risk in lending to the health sector is proactively managed | <ul style="list-style-type: none"> ▪ All loan covenants and conditions are monitored ▪ All loan covenant breaches are reported to CHFA Board with recommendation for action | <ul style="list-style-type: none"> ▪ Monthly and at covenant reporting dates ▪ Quarterly and otherwise by exception |
| 6.1.3 | The provision of independent advice to officials on the financial sustainability of individual clients and the sector generally | <ul style="list-style-type: none"> ▪ Early notification of potential risks ▪ Commentary and analysis is proven accurate ▪ Reports are submitted on time | <ul style="list-style-type: none"> ▪ As potential risks arise ▪ Always ▪ Quarterly on due date [and by exception] |

6.2 Property

| | Key Result Area | Performance Measure | By When |
|-------|--|--|---|
| 6.2.1 | The purchase and disposal of surplus health sector properties | <ul style="list-style-type: none"> ▪ Property Transaction Plans are prepared and approved by the Board for each transaction ▪ Property sales are consistent with the Property Transaction Plan ▪ All transactions comply with legislative and legal requirements ▪ No defects at audit | <ul style="list-style-type: none"> ▪ Prior to purchase ▪ At settlement date ▪ 30 June 2006 ▪ 30 June 2006 |
| 6.2.2 | The provision of advice to health sector clients on the disposal of surplus property | <ul style="list-style-type: none"> ▪ All transactions comply with legislative and legal requirements ▪ No defects at audit | <ul style="list-style-type: none"> ▪ 30 June 2006 |
| 6.2.3 | The provision of strategic property services and advice to health sector clients | <ul style="list-style-type: none"> ▪ Number of requests for strategic property services received by CHFA ▪ Number of proposals submitted by CHFA ▪ Number of CHFA proposals accepted by clients ▪ Estimates of measurable cost savings/benefits achieved | <ul style="list-style-type: none"> ▪ Quarterly on the 30 September, 31 December, 31 March and 30 June |

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|-------|--|---|--|
| 6.2.4 | The Property function is self funding with any surplus generated from the sale of surplus properties returned to its clients | <ul style="list-style-type: none"> ▪ Budgeted surplus in Property Transaction Plan achieved on sale ▪ A break-even result is achieved overall | <ul style="list-style-type: none"> ▪ 30 June 2006 |
|-------|--|---|--|

6.3 Financial Services [including Residual functions]

| | Key Result Area | Performance Measure | By When |
|-------|---|---|---|
| 6.3.1 | Residual assets and liabilities are proactively “managed down” | <ul style="list-style-type: none"> ▪ Active residual claims reduced from 7 to 4. ▪ Final Area Health Board debt repaid ▪ Patient Trust funds distributed ▪ Rental at Tourism and Travel House is at market levels ▪ Status of all contingent liabilities reviewed quarterly to the Board | <ul style="list-style-type: none"> ▪ 30 June 2006 ▪ 30 June 2006 ▪ 30 June 2006 ▪ 30 June 2006 ▪ Quarterly |
| 6.3.2 | The future management responsibilities for the residual claims portfolio are agreed. | <ul style="list-style-type: none"> ▪ Business case is presented to officials ▪ Agreement is reached | <ul style="list-style-type: none"> ▪ 30 September 2005 ▪ 30 June 2006 |
| 6.3.3 | To identify, lead or participate in a significant national project that will contribute to the long term financial sustainability of the DHB sector | <ul style="list-style-type: none"> ▪ Suitable projects are identified by the CHFA ▪ A project is supported and approved by the CHFA Board ▪ A project is accepted by the DHB sector ▪ Analysis and recommendation is presented to DHBs | <ul style="list-style-type: none"> ▪ 30 Sep 2005 ▪ 31 Dec 2005 ▪ 31 March 2005 ▪ 30 June 2006 |
| 6.3.4 | Opportunities to be of service to the wider state sector are identified | <ul style="list-style-type: none"> ▪ Potential clients identified ▪ Client relationships established | <ul style="list-style-type: none"> ▪ 31 March 2006 ▪ 30 June 2006 |

6.4 Organisational Capability and Development

| | Key Result Area | Performance Measure | By When |
|-------|---|--|--|
| 6.4.4 | Our professional capability is maintained and enhanced through the recruitment, development and retention of appropriately skilled staff. | <ul style="list-style-type: none"> ▪ All staff to have agreed Performance Plans ▪ All staff to have agreed Personal Development Plans ▪ Performance Plans and Personal Development Plans are consistent with the strategic goals and objectives of CHFA ▪ Nil staff turnover | <ul style="list-style-type: none"> ▪ 31 July 2005 ▪ 31 July 2005 ▪ 31 July 2005 ▪ Year to 30 June 2006 |
| 6.4.5 | Our policies, procedures and business systems are continuously improved and judged to be in line with “best practice” | <ul style="list-style-type: none"> ▪ Internal/external audits reflect that policies, procedures and business systems are appropriate and being complied with. | <ul style="list-style-type: none"> ▪ At audit or spot check |

| | | |
|--|---|-------------------|
| | ▪ Average audit rating greater than 3 [acceptable] achieved | ▪ 30 October 2006 |
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7.0 Reporting

The following information will be provided to the Responsible Ministers and to the Ministry of Health.

7.1 Lending

Quarterly as at 30 June, 30 September, 31 December and 31 March, and within 45 business days of the end of each quarter, reports on the CHFA lending function, matching performance against the targets set. The quarterly report will encompass the following:

- current loan applications;
- all loan approvals;
- details of loan transactions to date;
- general comment on CHFA's view as to the financial sustainability of DHBs, including where appropriate specific case-by-case comment;;
- where considered appropriate, alert Responsible Ministers to any emerging problems and/or risks (actual or potential) to the value of the Crown's Loans to Clients and advise of CHFA's plans to manage those risks;
- forecasts of client debt requirements for the current financial year and three out-years.

Six-monthly 30 June and 31 December, and within 45 business days of the end of each half-year, reports to the Ministry of Health with updated forecasts of loan disbursements for the remainder of the current financial year and three out-years.

On dates to be advised by Treasury, the CHFA will provide to the Ministry of Health and Treasury forecast cash flows relating to the Refinancing of DHB private sector debt and the rollover of CHFA loans on a monthly basis for the first two years and annually for the three out-years.

7.2 Property

Quarterly as at 30 June, 30 September, 31 December and 31 March, and within 45 business days of the end of each quarter, reports on the property portfolio function matching performance against benchmark standards. The quarterly report will encompass:

- property currently under negotiation for purchase by the CHFA;
- property held by the CHFA identifying the estimated time of disposal for each property held;
- estimated total realisable value for the property portfolio held by the CHFA;
- property sold by the CHFA during the period and cumulatively since beginning the activity in terms of value and location;
- details of any identified issues and risks;
- the costs incurred in holding and selling the property; and
- details of Other Advisory Services provided

7.3 Financial Services [including Residual functions]

Quarterly as at 30 June, 30 September, 31 December, and 31 March, and within 45 business days of the end of each quarter, reports on:

- Contingent Liabilities - The status and estimated liability for damages or other monetary awards.
- Residual Assets - The management status and plans for disposal of all assets vested in the CHFA.
- Patient Trust Funds - The balance of funds held and current investment strategy.
- Details of any Financial Advisory Services provided

7.4 Financial

By 31 May 2006, the CHFA will prepare and deliver to its Responsible Ministers, its draft Statement of Intent in accordance with the Crown Entities Act for the 2006-2007 year.

By 31 August 2006, the CHFA will have completed its annual accounts for external audit.

CHFA will supply the Ministry of Health and/or the NZDMO and/or the Treasury, as applicable, with:

- *quarterly financial reports*: consisting of consolidated statements of financial performance, financial position and contingent liabilities in an agreed form within 45 working days of the end of such quarter to which the report relates;
- *summary financial information*: in an agreed form for inclusion in the Crown's accounts as at 30 June in each year, no later than such dates as are specified by the Treasury.
- *an annual report*: in accordance with the Crown Entities Act or Public Finance Act (as applicable)

7.5 Other

The CHFA will also provide:

- any information that the Responsible Ministers might request.
- a quarterly report to the Responsible Ministers on progress made towards achieving the performance measures noted in Section 4 of this Statement of Intent.
- a quarterly report to the Responsible Ministers on its strategic initiatives and/or national projects

8.0 Prospective Financial Statements for the three years ended 30 June 2008 (GST exclusive)

| FORECAST STATEMENT OF FINANCIAL PERFORMANCE (Excl GST) | 2005/06 Full Yr \$000 Planned | | 2006/07 Full Yr \$000 Planned | | 2007/08 Full Yr \$000 Planned |
|---|--|--|--|--|--|
| Crown funding | 1,671 | | 1,671 | | 2,044 |
| Interest received | 75 | | 43 | | 42 |
| Total Revenue | 1,746 | | 1,714 | | 2,087 |
| Operating Expenditure | (3,569) | | (2,293) | | (2,344) |
| Surplus / (Deficit) before Other Income and Expenses | (1,822) | | (580) | | (257) |
| Surplus / (Deficit) on property transactions | 292 | | (81) | | (156) |
| ROBOC Income | 528 | | 528 | | 528 |
| CLSF Interest | 113 | | 115 | | 120 |
| Interest & amortisation on AHB Debt | 5,117) | | - | | - |
| Depreciation | (53) | | 24) | | (24) |
| Total Other Income and Expenses | (4,238) | | 540 | | 468 |
| SURPLUS / (DEFICIT) | \$(6,060) | | \$(40) | | \$211 |

| STATEMENT OF MOVEMENTS IN EQUITY (Excl GST) | 2005/06 Full Yr \$000 Planned | | 2006/07 Full Yr \$000 Planned | | 2007/08 Full Yr \$000 Planned |
|--|--|--|--|--|--|
| Shareholders interest at start of period | 12,802 | | 6,215 | | 5,648 |
| Surplus / (Deficit) for the period | (6,060) | | (40) | | 211 |
| Transfers to MOH of ROBOC | (528) | | (528) | | (528) |
| Shareholders interest at end of period | \$6,215 | | \$5,648 | | \$5,331 |

| STATEMENT OF FINANCIAL POSITION (Excl GST) | 2005/06 \$000 Planned | 2006/07 \$000 Planned | 2007/08 \$000 Planned |
|---|-----------------------------|-----------------------------|-----------------------------|
| CROWN EQUITY | \$6,215 | \$5,648 | \$5,331 |
| <u>CURRENT ASSETS:</u> | | | |
| Bank | 3,631 | 2,816 | 2,803 |
| Contingent Liability Settlement Fund (CLSF) | 2,652 | 2,767 | 2,889 |
| Patient Trust Funds | 478 | - | - |
| Receivables | - | - | - |
| Properties intended for sale | 2,318 | 1,400 | - |
| | 9,078 | 6,984 | 5,690 |
| <u>CURRENT LIABILITIES:</u> | | | |
| Creditors | 505 | 507 | 531 |
| Patient Trust Funds | 478 | - | - |
| Property Loans | 2,050 | 1,000 | - |
| | 3,033 | 1,507 | 531 |
| Net Working Capital | 6,045 | 5,476 | 5,160 |
| <u>NON CURRENT ASSETS:</u> | | | |
| Fixed Assets | 169 | 171 | 171 |
| Loans to DHBs | 1,172,951 | 1,386,587 | 1,486,587 |
| | 1,173,120 | 1,386,758 | 1,486,758 |
| <u>NON CURRENT LIABILITIES:</u> | | | |
| Loans to DHB's | 1,172,951 | 1,386,587 | 1,486,587 |
| NET ASSETS | \$6,215 | \$5,648 | \$5,331 |

| STATEMENT OF CASH FLOWS (Excl GST) | 2005/06 Full Yr \$000 Planned | 2006/07 Full Yr \$000 Planned | 2007/08 Full Yr \$000 Planned |
|--|--|--|--|
| OPERATING CASHFLOWS | | | |
| Cash was provided from Crown Agencies and other income sources | 2,895 | 2,641 | 3,066 |
| Cash was provided to employees, suppliers and payment of interest | (4,221) | (2,941) | (3,026) |
| | (1,326) | (301) | 40 |
| INVESTING CASHFLOWS | | | |
| Cash was provided from sale of assets | 25,625 | 1,400 | 1,500 |
| Cash was provided to purchase of assets | (4,659) | (332) | (25) |
| | 20,966 | 1,068 | 1,475 |
| FINANCING CASHFLOWS | | | |
| Cash was provided from borrowings | 6,626 | 180 | 189 |
| Cash was provided to repayment of borrowings and distributions to the Ministry | (24,028) | (1,763) | (1,717) |
| | (17,402) | (1,583) | (1,528) |
| Net increase / (decrease) in cash held | 2,238 | (816) | (13) |
| Add Opening cash balance | 1,392 | 3,631 | 2,816 |
| CLOSING CASH BALANCE | 3,631 | 2,816 | 2,803 |
| Made up from: | | | |
| Balance Sheet Cash | \$3,631 | \$2,816 | \$2,803 |

1.0 Assumptions

1.1 Funding

1.1.1 Ministry of Health

The Ministry will provide funding of \$1.88m (incl GST) for the years ending 30 June 2006, 2007 and \$2.3m for the year ending 30 June 2008 to meet operating expenditure.

1.1.2 Equity Funding

The Ministry has approved that the balance of the baseline funding of \$2.3m (incl GST) be funded from CHFA's equity reserves for the year ending 30 June 2006. CHFA has budgeted for this arrangement to continue for the year ending 30 June 2007 with full baseline funding receivable from the ministry for the year ending 30 June 2008.

1.2 Lending

1.2.1 DHB Loans

The timing of the drawdown of DHB loans is uncertain. As the interest received/receivable and paid/payable is neutral, it has not been recognised in the Statement of Financial Performance and Statement of Financial Position. The budgeted loan balances at year end are reflected in the Statement of Financial Position.

1.3 Surplus DHB Property Disposal

1.3.1 Financial Breakeven Objective

Anticipated property sales over the forecast period are budgeted to make a surplus. Any surplus will be used to offset possible losses on future property transactions, or will be returned to the Crown if the property function ceases.

1.4 Creditors and Debtors

Accounts Payable and Accounts Receivable are as payable/receivable within 30 days

2.0 Statement of Accounting Policies

2.1 Statutory Base

Pursuant to the Health Sector (Transfers) Amendment Act 2000, the Crown Health Financing Agency (CHFA) was established on 1 July 1993, continues under section 57 of the NZ Public Health and Disability Act 2000 and operates as a Crown Entity for the purposes of the Crown Entities Act 2004.

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

The prospective financial statements have been prepared in accordance with the Crown Entities Act 2004 and the New Zealand Public Health and Disability Act 2000.

2.2 Measurement System

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

2.3 Goods and Services Tax

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

2.4 Revenue Recognition

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

2.5 Interest on Borrowings & Deposits

All interest income and expenses have been calculated on a monthly basis.

2.6 Taxation

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

2.7 Provisions

2.7.1 ROBOC

Receipts on behalf of the Crown represent rental income from tenants of Tourism and Travel House. CHFA has a lease obligation for five floors of Tourism and Travel House until 2012. Space not occupied by CHFA is sub leased with this rental being returned to the Crown.

2.8 Investments

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

2.9 Fixed Assets

All items of fixed assets stated on Note 10 are initially recorded at cost and depreciated. Initial cost includes the purchase consideration and those costs directly attributable in bringing the asset to the location and condition necessary for its intended use.

2.10 Depreciation

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

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

| | |
|--|---------------------------|
| Leasehold improvements | 10 years (10%) |
| Plant and equipment | 8.3 years (12%) |
| Office equipment, furniture and fittings | 2.8-12.8 years (7.8%-36%) |

2.11 Accounts Receivable

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

2.12 Statement of Cash Flows

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

Cash flows are derived from:

- Operating activities, which includes cash received from all income sources of CHFA and records the cash payments made for the supply of goods and services.
- Investing activities are those activities that relate to the acquisition and disposal of non-current assets and money market investments.
- Financing activities comprise the change in equity and debt capital structure of CHFA.

2.13 Financial Instruments

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

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

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

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

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

2.14 Properties Intended For Sale

Property intended for sale is stated at acquired cost plus all recognised revenue and expenditure associated with that property. Revenue consists of rental income earned during the holding period. Expenditure includes all holding costs including maintenance, interest and rates.

When an unconditional contract for the sale of a property exists, and as soon as the total profit can be estimated reliably, the profit is recognised.

3.0 Statement of Commitments

Crown Health Financing Agency has the following commitments at 30 June 2006:

3.1 Capital

Nil

3.2 Operating Lease Commitments

| | |
|--------------------|----------------|
| Less than one year | 450,000 |
| One to two years | 450,000 |
| Two to five years | 1,350,000 |
| Over five years | <u>450,000</u> |
| | \$2,700,000 |

Operating lease commitments are in respect of the lease of five floors of Tourism and Travel House. The lease expires in 2012.

This Statement of Commitments excludes cancellable contracts.

4.0 Statement of Contingent Liabilities

Based on the claims received at the date of publication of this document (30 April 2005) Crown Law Office's (CLO) estimate of Crown Health Financing Agency's liability at 30 June 2005, arising from legal proceedings and disputes by third parties, is assessed at \$9,437,800. It should be noted however, that CHFA is aware that there are potentially further claims receivable in respect of the past treatment of psychiatric patients.