

CROWN HEALTH
FINANCING AGENCY
lending, property, advisory

statement of intent 2007/08

30 June 2007

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chair's foreword

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The functional responsibilities for the CHFA include lending, property and financial advisory services provided to District Health Boards (DHBs), the New Zealand Blood Service (NZBS), and the Minister of Health.

Lending services predominantly focus on providing finance for new capital investment for hospital redevelopments and major equipment upgrades. As part of an ongoing drive to enhance the impact of our services, the CHFA is reviewing its lending services to streamline administration processes, enhance the level of monitoring inquiry, and broaden its advice to Ministers and key decision makers.

Reflecting the mature role of monitoring in the sector, we are focused on ensuring that our monitoring and advisory outputs maintain a 'solutions-focus', and where possible work in partnership to assist DHBs to secure improvements in financial performance. This work relies heavily on our ability to maintain a close and open working relationship with DHBs.

The CHFA property services assist DHBs to achieve cost-effective property transactions, including disposal of surplus properties and planning for future property needs.

The CHFA has strong and ongoing relationships with DHBs (and the NZBS) and is recognised as a reliable and competitive source of expert property advice in the health sector.

By engaging CHFA property services, the DHBs can access specialist property skills and expertise.

To increase the impact of this service, the CHFA is tasked with increasing the coverage of what is already a very effective and strong performing service. This will require careful alignment between our capacity and increased demand from the sector over the next three years.

The CHFA also continues to manage a range of residual Area Health Board assets and liabilities on behalf of the Government. The remaining residual tasks include the ongoing management of contingent legal liabilities that arise from the previous Area Health Board responsibilities, the long term lease of Tourism and Travel House in Wellington and the investment of unclaimed patients' funds for the Southland DHB pending a resolution of the future use of these funds.

In managing down the residual functions, we will actively engage the stakeholders to review the ongoing role and function of the CHFA.

CHFA BOARD

In February 2007, two new board members, David Moore and Kay McKelvie, were appointed to the CHFA board. The extensive health sector experience and skills of these new board members will be valuable as the CHFA works to identify opportunities to enhance our contribution to the health sector.

FUTURE DIRECTION

The Board supports an ongoing emphasis on enhancing existing CHFA services and identifying new service opportunities. For 2007/08 importance has been placed on identifying new property, financing, and asset management opportunities to assist the DHB sector to achieve gains in value for money.

In the past year District Health Boards New Zealand (DHBNZ) and DHBs achieved good progress in establishing the framework for greater collaborative purchasing. Given the CHFA's independent position in the sector and specialist core competencies, we are well positioned to work with the sector to implement specific collaborative projects that complement our skill set and experience. We will continue to maintain our close working relationship with DHBNZ to ensure that we can contribute where needed.

In addition the CHFA will work with the Ministry of Health and the Treasury to enhance the effectiveness of monitoring and advisory outputs, and participate in the development of DHB financing policy and capital planning.

ROSS TANNER

Chair

Crown Health Financing Agency

BOARD STATEMENT

This Statement of Intent (SOI) has been prepared to meet the requirements of the Public Finance Act 1989 and the Crown Entities Act 2004 and to give effect to the Minister of Health's ownership expectations for the CHFA.

The SOI outlines for Parliament the nature and scope of the CHFA's functions, what we are trying to achieve, and provides a base against which actual performance can be assessed through the annual report.

Part one of the SOI identifies the outcomes that we will pursue in the next three years, the strategies we will use to achieve these outcomes, the measures of success, an assessment of the challenges and risks that we will face and the implications for our required capability. Part two includes our financial and non-financial measures and standards that we aim to achieve for 2007/08.

ROSS TANNER

Chair

Date: 25th June 2007

DAVID MOORE

Board Member

Date: 25th June 2007

the crown health financing agency

4 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 Reference¹ (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 social and financial objectives.

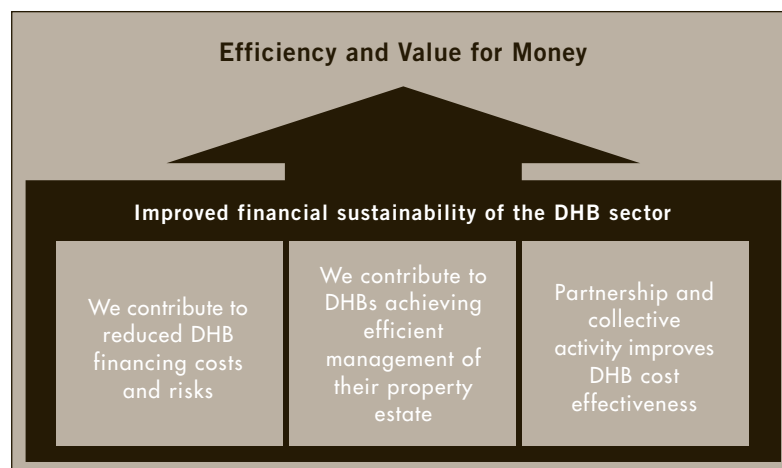
OUR CORE BUSINESS FUNCTIONS

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 and use.
- **Financial services:** we manage a range of residual functions on behalf of the Government, and provide financial and analytical support to DHB’s efficiency projects and collaborative initiatives.

SUMMARY OF OUTCOMES THAT THE CHFA SERVICES CONTRIBUTE TO ACHIEVING:



¹ Crown Health Financing Agency Composite Terms of Reference (August 2005)

OUR MANAGEMENT OBJECTIVES

- understand the needs of DHBs
- proactively monitor the financial performance of DHBs
- offer high quality, practical, professional and independent advice
- encourage access to our services through effective work practices
- work in partnership and cooperation with DHBs and other stakeholders.

VALUES

The CHFA will pursue its objectives through demonstrating commitment to its core values:

- **Integrity:** we expect 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 challenge ourselves to do better. We continuously seek to improve our business processes, systems and services.
- **Responsiveness:** what we do is driven by the expressed needs of the DHBs and the expectations of our stakeholders. We are committed to meeting these needs and expectations and our aim is to be accessible and responsive in a professional manner.

- **Teamwork:** we work towards achieving common goals in a spirit of co-operation that is made possible by a team ethic of respect, responsibility and accountability and where support is freely offered to colleagues and others.
- **Courage:** we work in a highly complex sector that requires courage and endurance to achieve outcomes, to challenge the "status quo", to try new things and to learn from our mistakes.
- **Enthusiasm:** we are proactive and passionate about identifying opportunities to contribute to the cost effectiveness and efficiency of the DHB sector. When we identify new opportunities we will respond constructively so as to deliver outcomes that are positive, effective and long-lasting.

part one: our contribution to the sector

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SECTOR OUTCOMES: IMPROVED FINANCIAL SUSTAINABILITY OF THE DHB SECTOR, EFFICIENCY AND VALUE FOR MONEY

At a sector level, the CHFA services contribute to achieving the DHB sector outcome of efficiency and value for money. This outcome² seeks to achieve a system that operates efficiently, where services deliver relatively large gains in health status for each additional unit of resource, and that supports the wider government outcome of economic transformation.

Our contribution to achieving efficiency and value for money has a flow-on impact on DHB financial performance and the financial sustainability of the DHB sector.

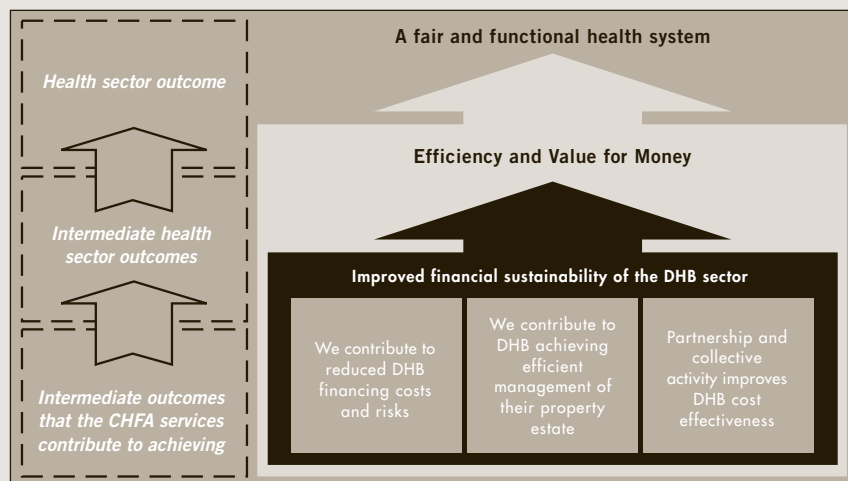
Achieving financial sustainability will ensure that the DHB sector has sufficient financial resources to support future service needs and infrastructure requirements.

To support this objective, the Government has placed an emphasis on:

- Identifying and seizing opportunities to improve the cost effectiveness of the DHB sector.
- Continuing to strengthen relationships and partnerships in the sector.
- Establishing more co-ordinated and complementary ways of working across the sector.

THE CHFA SERVICES CONTRIBUTE TO IMPROVED EFFICIENCY AND VALUE FOR MONEY IN THE HEALTH SECTOR, THROUGH THREE INTERMEDIATE OUTCOMES, AND ONE GOVERNMENT OBJECTIVE:

Figure 1: Hierarchy of outcomes:



Government Objective³: Efficient management of the residual assets and liabilities of the former Area Health Boards (AHBs) minimises the cost to the Crown.

These outcomes and the medium term targets are discussed in the following section. Part B sets out our statement of service performance for 2007/08.

² Ministry of Health Outcome Framework, Statement of Intent 2006-09

³ 'Objective' recognises that not all of our functions, such as managing residual assets, are intended to achieve the sector-level result – the effectiveness of our interventions should not be judged on that basis.

1.0 we contribute to reduced DHB financing costs and risks

WE CONTRIBUTE TO IMPROVED FINANCIAL SUSTAINABILITY OF THE DHB SECTOR THROUGH PROVIDING LENDING AND ADVISORY SERVICES THAT MINIMISE FINANCING COSTS AND RISKS TO THE SECTOR.

The CHFA contributes to this intermediate outcome by:

- **Lending Administration:** Robust and efficient lending administration.
- **Monitoring:** Continuous financial oversight of sector risks.
- **Advice:** Quality information and decision making relating to financial risk in the sector.

And working in association with:

The Ministry of Health, The Treasury and the New Zealand Debt Management Office to develop financing policy, monitor DHB performance, and provide term debt facilities to DHBs.

BACKGROUND

DHBs fund capital infrastructure (such as hospital buildings, major clinical equipment and plant) through a combination of Crown sourced debt and equity⁴ and their own internally generated funds.

The CHFA provides the 'term debt' component of DHB finance, and is responsible for assessing the affordability of capital investment proposals, structuring term debt facilities to support investments and providing financing advice to DHBs.

The CHFA responsibilities are to:

- provide term debt facilities in line with 'best practice' commercial banking
- assess the affordability of capital investment proposals
- monitor the financial sustainability of DHBs
- provide independent advice on sector sustainability to Ministers.

Role of the NZDMO and the CHFA: Funding for CHFA loans to DHBs is provided by the New Zealand Debt Management Office (NZDMO). The CHFA administers DHB loans providing 'front of house' lending services, with the NZDMO sourcing funds as part of wider Government bond tendering activity.

CHFA, Treasury and Ministry of Health monitoring perspectives:

The CHFA, the Ministry of Health, and the Treasury have partially overlapping financial monitoring roles – but each maintains a unique perspective. The CHFA monitors DHB cash flow performance against standard lending criteria to ensure that DHBs have an enduring ability to generate sufficient cash flow to service their interest costs and provision for future capital investment. Through our ongoing monitoring programme, we are able to provide Ministers with in depth independent advice on the financial condition of the DHB sector.

⁴ Crown equity is sourced through the Ministry of Health, with Crown term debt sourced through the CHFA.

THE DHB LOANS PORTFOLIO

The CHFA has progressively refinanced the majority of DHB private sector debt since 2001 and is now predominantly focused on lending to new capital investments such as hospital redevelopments and major equipment purchases. As at 31 December 2006 the CHFA had approved loans totalling \$1.425b (refer to figure 1). Loans actually drawn down amounted to \$0.988b.

Assuming that all debt appropriated is drawn, the CHFA loans portfolio is expected to increase to \$1.720b by 30 June 2010. At that date the only remaining private sector debt to be refinanced will be Auckland DHB's private sector bonds of \$120m.

Figure 1: CHFA Total Loans

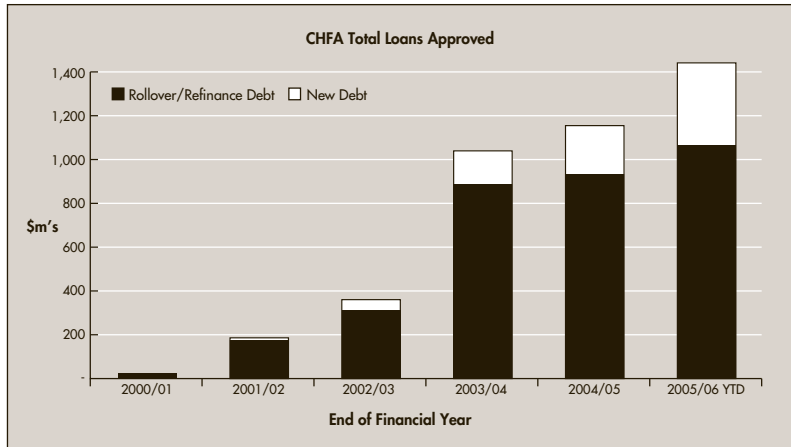
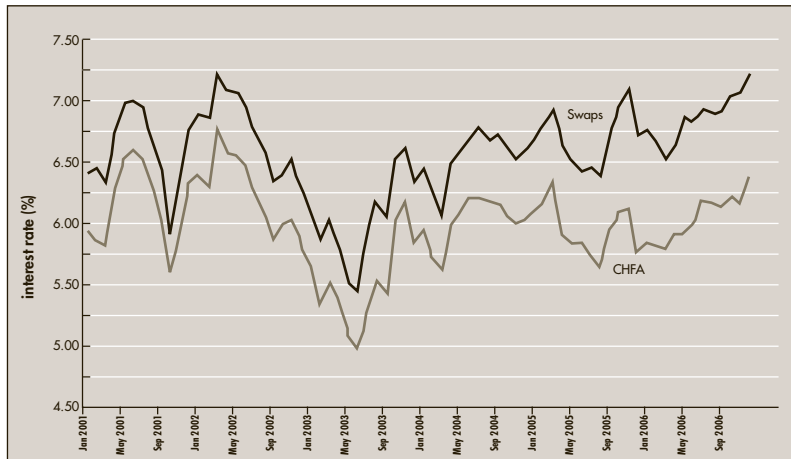


Figure 2: Government (CHFA) versus swap rate



1.1 measuring and evaluating our performance

LENDING ADMINISTRATION: ROBUST AND EFFICIENT LENDING ADMINISTRATION

Core components of our lending administration services include:

- documentation of loans to refinance existing private sector debt or to finance new capital investment
- management of lending cash flows, including DHB drawings, and interest and principal repayment
- loan facility management.

CHFA loan facilities are designed to provide DHBs with a lower cost of funding than Ministry of Health equity or private sector debt at minimal administrative cost.

The CHFA encourages DHBs to also structure its debt maturity so as to minimise overall interest costs, interest rate re-pricing risks, and the use of potential risky and difficult to manage financial derivatives⁵.

The structural benefit of CHFA funding to the sector can be quantified by comparing the average 5-year government bond rate with the equivalent 5-year bank funding benchmark (the “swap” rate). Since 2001, the difference in these funding benchmarks has averaged 59 basis points, or approximately \$5.0m of interest costs per annum (based on the current CHFA portfolio). This saving excludes any differences between CHFA and bank credit and administrative margins (please refer to figure 2).

MONITORING: CONTINUOUS FINANCIAL OVERSIGHT OF SECTOR RISKS

CHFA independent monitoring and oversight of DHB financial performance promotes early problem diagnosis and intervention to assist DHBs to achieve their financial targets.

The impact of our monitoring services is that key decision makers and Ministers are aware of potential and emerging financing risks and the options for managing those risks. As a result total financing risks are reduced. We measure our contribution based on successful and timely identification of material financial risks.

The CHFA maintains ongoing monitoring to:

- protect the value of DHB loans
- forewarn potential or emerging financial risk
- inform independent advice to the Minister and key stakeholders.

Monitoring also influences DHB and Ministry of Health behaviour to ensure that remedial action is taken where potential performance problems are identified.

Ongoing monitoring is based on annual reviews of DHB loans and district annual plans, quarterly monitoring reports to Ministers, monthly monitoring reports to the CHFA board, primarily to identify financial issues and liaise with the Ministry of Health.

⁵ Financial derivatives refer to financial contracts that assist an organisation to hedge or manage their cash flow risks associated with fluctuations in interest rates.

ADVICE: QUALITY OF INFORMATION AND DECISION MAKING RELATING TO FINANCIAL RISK IN THE SECTOR

The CHFA provides independent financing advice to DHBs, Ministers and Stakeholders to improve the quality of financial information and decision making. Our advice enhances the awareness and understanding of potential operating risks and the required financial disciplines that influence sector performance.

Independent Advice to DHBs:

The CHFA advise DHBs on a range of financing and treasury practices to support DHBs in achieving their financial targets and minimise total financing costs. The CHFA is currently promoting a longer-term, mixed-maturity debt profile for the sector, inline with good financial risk management. This initiative, through working in partnership with DHBs and the NZDMO to align individual needs, is anticipated to result in savings of approximately \$5.0m in annual interest costs to the sector.

Independent Advice to Ministers and Stakeholders: Our independent advice to Ministers and Stakeholders provides frank, timely and accurate advice on the credit worthiness and financial sustainability of the sector. This includes early warning of perceived financial risks and where appropriate, plans or solutions to minimise those risks.

The CHFA also advises the National Capital Committee⁶ on the affordability of investment proposals. This committee facilitates advice to Ministers on major capital investments. Our role is to provide an independent opinion on the affordability and financial sustainability of DHB capital investment proposals to minimise both the cost and risk of the investment decision.

We measure the contribution of our advice to minimising DHB financing costs and risks based on the accuracy of our reporting and through feedback from stakeholders on the completeness, accuracy and satisfaction derived from our reports. Periodically, we also monitor the impact of our advice in improving value for money of investment decisions.

⁶ The National Capital Committee (NCC) leads and facilitates capital investment advice to inform the Ministry of Health's advice to Ministers. The allocation of Crown capital funding is managed via the NCC.

1.2 CHFA main measures and standards

| MAIN MEASURE OF CHFA PERFORMANCE | PERFORMANCE STANDARDS |
|---|--|
| <p>Interest Cost Savings: Total DHB interest cost savings as measured by the difference between bank funding benchmark and the average rate paid by DHBs.</p> | <p>Interest cost savings as demonstrated by:</p> <ul style="list-style-type: none"> • DHB average cost of funds are less than the average cost of equity. • Average cost of funds are less than the 90 day Bank Bill rate. |
| <p>Reduced financing risks: Key decision makers are aware of emerging financing risks and the options for managing those risks.</p> <p>Regular reviews of our advisory outputs demonstrate timely and accurate diagnosis of all material financing risks.</p> | <p>Reduced financing risks as demonstrated by:</p> <ul style="list-style-type: none"> • Change in cost of funds from one year to next is less than the 90 day Bank Bill rate (volume decreased). • No more than 20% of CHFA portfolio matures in any one financial year. • Profit and loss impact of financial derivatives for the sector is less than \$5m per annum. • Stakeholders have confidence in the quality of CHFA monitoring outputs. |

1.3 opportunities and challenges

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Understanding DHB performance:

To provide early warning of perceived financial risks it is important that we continue to expand our understanding of the drivers of DHB performance. This includes maintaining a sound understanding of sector risks, funding policies, contracting arrangements, and DHB cost structures.

Access to timely information:

Enhancing our understanding of the sector will require that we build on our existing relationships with DHBs, and make best use of our networks across the sector to access timely information.

Review of process efficiency:

The CHFA continually examines opportunities to strengthen advisory capability and the quality of our lending services. In 2007/08 this will include a review of our administrative processes with an aim to enhance the productivity of and value added by our activities.

Partnership across agencies:

The Ministry of Health, the Treasury and the CHFA maintain ongoing monitoring and advisory functions, often with the same audience. There is opportunity to work in partnership with these agencies to achieve greater alignment to improve the quality, coverage, and level of enquiry available to Ministers and key decision makers.

Flexibility: We will continue to work with the NZDMO and DHBs to identify opportunities to increase the flexibility of our lending facilities and the range of our advice to assist DHBs to manage cash flows and interest rate risks.

Conflicts of Interest between lending and financial activities:

Potential (but unlikely) conflicts of interest could arise from (i) the CHFA providing financial advice to DHBs and also providing lending to capital investment proposals, and (ii) the CHFA acting as an agent of the Minister and acting as an agent of a DHB. The CHFA actively manages these potential risks by maintaining an appropriate segregation of duties among staff providing advice and lending services.

1.4 maintaining and developing capability

Achieving the outcome of lower financing costs and risks to the sector will require a balance of health sector and financing expertise.

Our priorities are to ensure:

- we have the financial and health sector capability to interact effectively with DHBs
- we are able to analyse sector financial needs to identify suitable financial products that fit DHB business needs
- we retain staff with financial experience for our monitoring and lending functions
- we integrate our practical experience in the health sector with generic financial disciplines to influence the performance of the system
- we develop our performance monitoring to enhance understanding of the drivers of financial performance
- we work with the Ministry of Health and the Treasury to strengthen the linkages between our financial and policy advice.

2.0 we contribute to DHBs achieving efficient management of their property estate

CAPITAL IS RELEASED THROUGH THE SALE OF SURPLUS PROPERTY FOR REINVESTMENT IN DHB INFRASTRUCTURE. IN DETERMINING FUTURE PROPERTY NEEDS, DHBs ADOPT GOOD PLANNING PRACTICES THAT MAXIMISE VALUE FOR MONEY FROM PROPERTY DECISIONS.

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The CHFA contributes by:

Providing access to expert property services and advice, particularly:

- **Disposal service and advice:** Maximising capital proceeds from property sales by efficiently managing or advising DHBs on the clearance of properties through the statutory property disposal processes, and achieving a premium sale price through enhancing the saleability of properties.
- **Strategic advice:** Advising DHBs to improve the quality of property decisions to meet future property needs and retain value from the transactions.

And working in association with:

Ministry of Health, the Office of Treaty Settlements and Te Puni Kokiri with regard to the Crown's Maori Protection Mechanism and Sites of Significance processes when DHBs wish to dispose of surplus properties.

The CHFA property disposal services and strategic advice assists DHBs to efficiently dispose of surplus properties to achieve a more efficient property estate and maximise capital proceeds for reinvestment in DHB infrastructure. Our property advice adds value to the marketability of each property and to the disposal process through minimising delays associated with the land disposal process.

The CHFA property disposal service allows DHBs to sell properties to the CHFA and thereby release capital for immediate re-investment in more productive assets. Capital proceeds are maximised by CHFA achieving high sale prices when the property is sold and reducing disposal costs.

We also offer specialist property advice to DHBs who do not have access to in-house expertise. Our advice assists DHBs to achieve cost effective property solutions including ownership, management, occupation and use of properties. The impact of our strategic advice is that DHBs follow good practice when dealing with property transactions.

The CHFA property services contribute to DHB financial sustainability through improving value for money in new property transactions, improving efficiency of the existing property estate, and maximising capital proceeds.

It is not mandatory for DHBs to use our property services. Our property services compete on the basis of our experience in the health sector and understanding of their property estate needs.

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. No direct funding is received from Vote Health for these services.

2.1 measuring and evaluating our performance

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PROPERTY DISPOSAL SERVICE AND ADVICE

The contribution of our property disposal service and advice can be measured on an individual project basis and against the client's business objectives.

Since establishing the property services in 2001, the CHFA (on behalf of DHBs) has completed property sales of \$26.7m with these capital proceeds being reinvested in the sector. A further \$20.0m from property sales is anticipated in 2008.

The CHFA is currently pursuing a further \$10m of surplus property for future resale.

For property disposal projects, the CHFA quantifies the holding and processing costs, final sales price, and the total capital returned to the DHB. The performance of property advisory services is measured

following the implementation of our advice based on the gains in cost effectiveness. The CHFA also measures the value added from our services through estimating the 'price premium' that can be attributed to our involvement in specific property transactions.

STRATEGIC PROPERTY ADVICE

The CHFA has been offering a more diverse range of strategic property advice since 2005. During this time the CHFA has been involved in new property projects with various DHBs, and a range of initiatives for the New Zealand Blood Service in terms of future property needs.

The impact of CHFA strategic advisory services is demonstrated by DHBs adopting good practice for property transactions and the resulting retention of value for money. This impact may have measurable financial implications, or may result in improved 'fit for purpose' or greater consistency with cost-effective leasing arrangements.

For example, from 2005 to 2007, Waitemata DHB commissioned the CHFA to identify and negotiate the development of a new community mental health facility. The CHFA supervised the construction and sale of the facility with a long-term lease back to the DHB. This 14 month project was completed on time and within budget.

The outcome for the DHB was an efficient facility designed to meet the DHB's future service needs, leasing terms and conditions that reflect robust property contracting, and a surplus for Waitemata on the sale to an investor. On a project basis, the CHFA measures the impact of its strategic property advice against the objectives of the project.

2.2 CHFA main measures and standards

| MAIN MEASURE OF CHFA PERFORMANCE | PERFORMANCE STANDARDS |
|---|---|
| <p>Total capital released for reinvestment in the DHB sector through transfer and disposal of surplus properties.</p> | <p>Further property disposal transactions release \$10m of capital for reinvestment by DHBs by 30 June 2010.</p> <p>Other property advice will improve the cost-effectiveness of DHB property decisions as measured against the DHBs' status quo property arrangements.</p> |

2.3 opportunities and challenges

Availability of surplus property:

The CHFA is currently negotiating with three DHBs to purchase surplus property with an estimated value of \$10m. Previous consultation identified that DHBs have a number of properties that may in future be declared surplus.

Disposal challenges: Compliance with the statutory Maori Protection Mechanism, Sensitive Land Test, and the Public Works Act is a key challenge to the disposal process.

Processing delays increase property holding costs and diminish the capital available for reinvestment. The CHFA will continue to work with Te Puni Kokiri and the Office of Treaty Settlements to streamline disposal processes.

The disposal of surplus properties is becoming increasingly difficult. Due to the specific location, size and other characteristics, future surplus properties may also be of a 'less saleable' nature (with premium surplus properties having previously been identified or disposed of).

In addition, gaps in the ownership history of properties and changes in the state of the real estate market will continue to add further complexity to the disposal of property.

Property acquisition and planning:

There is an opportunity to promote the use of our property expertise to advise DHBs on future planning, sale, and acquisition of property assets that helps to maximise the efficiency of their property estate.

2.4 maintaining and developing capability

Achieving this outcome will continue to require capability in financing, property, and health sector experience. Our priorities are to ensure:

- we retain and enhance commercial expertise to deliver effective property solutions and advice that meet DHB service and business needs
- we develop our capability to work with other Government agencies to increase the efficiency of statutory property disposal processes
- we develop our capability to focus on 'big picture' property issues to inform our advice to DHBs and other health sector clients.

3.0 partnership and collective activity improves DHB cost effectiveness

THROUGH ESTABLISHING PARTNERSHIPS THE CHFA, DHBNZ AND INDIVIDUAL DHBs FOCUS ON IDENTIFYING OPPORTUNITIES TO ACHIEVE COST SAVINGS THAT SUSTAIN AND IMPROVE FINANCIAL PERFORMANCE.

The CHFA contributes by:

- **Analytical advice and support:** Working in partnership with DHBs to identify and implement lending and financial service-type initiatives that contribute to improved financial performance.

And working in association with:

DHBNZ and DHBs. The CHFA works in partnership with DHBNZ, DHBs and existing networks (including regional and national forums) on specific initiatives.

The CHFA offers financial and analytical support to DHB initiatives, including efficiency-type projects and collaborative initiatives as part of an ongoing partnership with DHBNZ and regional DHB groups.

The financial and analytical support is distinct from our core lending and property advice – but reflects a natural extension of these services. Over the past 2 years the CHFA has maintained an involvement in two to three efficiency projects per year. Given that we are a small organisation, we need to prioritise our involvement and focus on those projects where our unique set of skills has the greatest impact.

We are working with DHBNZ to identify potential projects, highlighted by the ongoing DHB joint procurement initiatives to which we could usefully contribute.

PARTNERSHIPS AND COLLECTIVE DHB ACTIVITY

Partnership with DHBNZ: There is strong alignment between DHBNZ and the CHFA to see DHBs improve performance through collective activity. Recognizing this alignment, DHBNZ and CHFA have agreed to a Memorandum of Understanding to support the relationship and shared understanding⁷.

The CHFA is interested in building relationships with the DHB sector and participating in initiatives that deliver cost savings to the sector. These projects also assist the CHFA to enhance skills, knowledge, and capability to deliver well-informed independent advice.

The CHFA and DHBNZ prioritise projects in consultation with DHBs to identify projects that offer returns to the sector in terms of potential savings and/or added value, and where the sector has signaled a readiness and willingness to participate in the project. Projects commonly involve encouraging collective procurement and information sharing.

Partnership with DHBs: DHBs also directly engage the CHFA to access advice and support for individual or cross-DHB projects. Such projects commonly lead to lending solutions, efficiency gains, or information sharing aimed at achieving improved cost effectiveness. These projects are often initiated by the DHB, and reflect their current priorities, and the challenges and opportunities that they face in achieving their financial objectives.

⁷ Memorandum of Understanding between the Residual Health Management Unit and DHBNZ (2004).

3.1 measuring and evaluating our performance

For each project the CHFA sets measurable performance targets in terms of cost savings, effectiveness, quality and timeliness to evaluate success in meeting project objectives.

In implementing the managing for outcomes framework, the CHFA will focus on developing processes to enhance our capability to identify and monitor the effectiveness of projects over the next 3 years.

3.2 CHFA main measures and standards

| MAIN MEASURE OF CHFA PERFORMANCE | PERFORMANCE STANDARDS |
|--|---|
| Cost savings or increased value for money from efficiency and collaboration-type projects. | The CHFA works with individual DHBs and the wider health sector to identify potential efficiency-gains type projects and savings of \$2m per annum. |

3.3 opportunities and challenges

The identification and prioritisation of opportunities for collective projects with DHBNZ is managed through their Service Framework Group (SFG). In the medium term, the CHFA will continue to work with SFG/DHBNZ to continue and build on existing projects.

In addition, the CHFA will work directly with DHBs where appropriate to identify opportunities for the CHFA to provide analytical support to initiatives that contribute to improved financial performance.

A continuing challenge in establishing collective activity is achieving shared understanding of the costs and benefits (and respective allocation) and gaining credible support to achieve the savings in the short term.

3.4 maintaining and developing capability

Achieving this outcome will require developing our ability to identify opportunities in the sector and our capability to assist DHBs to implement projects. Our priorities are to ensure:

- we continue to strengthen our relationships and networks in the DHB sector.
- we are able to analyse sector needs and opportunities and to develop solutions that meet DHB business objectives
- we have analytical capability and capacity to assist DHBs to implement initiatives.

4.0 efficient management of residual AHB assets and liabilities

IN ADDITION TO THE THREE INTERMEDIATE OUTCOMES, THE CHFA IS RESPONSIBLE FOR ACHIEVING THE GOVERNMENT'S OBJECTIVE OF EFFICIENTLY MANAGING CLAIMS AGAINST THE FORMER AREA HEALTH BOARDS, AND OTHER RESIDUAL ASSETS AND LIABILITIES TO MINIMISE THE TOTAL COST TO THE CROWN.

The CHFA is responsible for:

- **Residual Contingent Liabilities:** As the legal successor to the former Area Health Boards (AHBs), the CHFA manages claims arising from acts or omissions of the former AHBs pre-1993 to achieve timely and appropriate compromise, settlement or defence of the claims.
- **Residual Property Liabilities:** The CHFA manages the sub-letting of the residual lease on Tourism and Travel House (Wellington) to reduce the overall cost to the Crown.
- **Residual Assets (Patient Trust Funds):** The CHFA is the constructive trustee of some Southland DHB unclaimed patient funds pre 1993.

4.1 measuring and evaluating our performance

The CHFA manages the residual assets and liabilities of the former Area Health Boards on behalf of the Crown. Our management services include governance, risk management, and day to day operational oversight to minimise the total cost to the Crown, and to successfully resolve these responsibilities overtime.

RESIDUAL CONTINGENT LIABILITIES:

In managing 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. The CHFA has engaged the Crown Law Office to defend the claims on behalf of the Crown and we continue to monitor emerging risks.

The CHFA continues to receive claims relating to pre-1993 including the Greenlane Heart Library and the psychiatric hospital patients' claims. As at 31 March 2007, the number of active claims has been reduced to four. The CHFA monitors and reports annually on the total cost of claims settled. The total costs include legal costs, administration and compensation to claimants. Due to the uncertain nature of the claims, this management responsibility will be ongoing.

RESIDUAL PROPERTY LIABILITIES

At establishment in 1993, the CHFA assumed responsibility for two long-term property leases. The residual lease for Tourism and Travel House (Wellington) remains under our management until 2012. The CHFA has outsourced the day-to-day management to a professional facility manager to ensure that sub-letting offsets total lease costs.

As at 31 March 2007, 100% of the lease space has been sublet, and we hold verbal or written agreement to subleasing 84% of the total lease space through to the expiry of our lease.

RESIDUAL ASSETS: PATIENT TRUST FUNDS

The CHFA is also the constructive trustee of some Southland DHB unclaimed patient funds, pending appropriate disposal. The CHFA manages the trust funds to protect and increase the total capital.

4.2 CHFA main measures and standards

| MAIN MEASURE OF CHFA PERFORMANCE | PERFORMANCE STANDARDS |
|--|--|
| Proactively reduce the residual responsibilities and minimise the total cost to the Crown. | <p>Resolve all of the existing active residual claims by June 2012.</p> <p>The residual cost to the Crown of the Tourism & Travel House (Wellington) is less than 20% of the total head lease and operating costs.</p> |

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4.3 maintaining and developing capability

To achieve this objective we will need to access additional funding to defend and settle claims against the Crown. The CHFA has had the ability to fund the cost of defending claims from our reserves.

However our reserves will be depleted during the 2008/09 year and it is anticipated that based on information currently available, additional funding will be required at that time.

part two: forecast performance for 2007/08

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| OUTPUT CLASS NAME | VALUE 2007/08 (\$000) | | |
|--------------------------------|-----------------------|--------------|------------------------|
| | (1) LENDING | (2) PROPERTY | (3) FINANCIAL SERVICES |
| Appropriation | 1,045 | 0 | 629 |
| Other Income | 127 | 786 | 204 |
| Total Income | 1,172 | 786 | 833 |
| Operating expenditure | 1,009 | 227 | 2,908 |
| Surplus/(Deficit) ¹ | 163 | 559 | (2,075) |

This section of the Statement of Intent outlines the financial and non-financial measures and standards that we aim to achieve for 2007/08 and which contribute to achieving our outcomes.

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.

1.0 forecast statement of service performance

1.1 output class one: lending services

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DESCRIPTION OF CHFA LENDING SERVICES AND RESPONSIBILITIES

The lending services output class includes the provision of term debt facilities, monitoring of DHB performance and financing risks, and provision of independent lending advice to DHBs and advice to responsible Ministers.

The lending output class contributes to the CHFA's outcome of reducing DHB financing costs and risk.

The Terms of Reference require the CHFA approach its lending responsibilities "applying normally accepted lending criteria" and recognise that DHBs are required

to operate on a financially sustainable basis. The specific lending responsibilities are summarised in the table below):

| CHFA LENDING SERVICES | SERVICE DESCRIPTION | |
|------------------------|--|---|
| Lending administration | <ul style="list-style-type: none"> • Provide and administer term loans to DHBs on behalf of the Crown. • Assess DHB credit worthiness. | |
| Monitoring | <ul style="list-style-type: none"> • Protect the value of the loans and manage risks. | |
| Advice | DHBs | <ul style="list-style-type: none"> • Provide appropriate lending advice to DHBs and National Capital Committee. |
| | Ministers | <ul style="list-style-type: none"> • Report to the Ministers on DHB credit worthiness and financial sustainability. • Provide early warning of perceived financial risks and mitigation strategies. |

OUTPUT PERFORMANCE (AND LINK TO CHFA OUTCOMES)

| CHFA OUTCOME | CHFA SERVICE | PERFORMANCE MEASURE | STANDARD |
|---------------------------------------|------------------------|--|--|
| Reduced DHB financing costs and risks | Lending administration | (1.1) DHBs are able to access required funds on time. | The volume of cashflows and re-documentation will be 50% lower than 2006/2007. |
| | | (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. |
| | Monitoring | (1.3) Accurate and timely forewarning of emerging risks and identification of appropriate mitigation strategies to reduce financing risks. | Quarterly reports on DHB financial performance are completed on time. By 30 June 2008, implement revised monitoring and credit assessment tools. |
| | Advice | (1.4) Lending advice to DHBs results in good financing decisions, and prudent treasury policy. | Advice is timely and accurate and DHBs are satisfied with the quality and coverage of CHFA advice. |
| | | (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. |

1.2 output class two: property advice and disposal services

DESCRIPTION OF CHFA LENDING SERVICES AND RESPONSIBILITIES

This output class includes the property disposal service, and strategic property advice. Property clients include DHBs and the New Zealand Blood Service.

The property output class contributes to the CHFA's outcome of improved value for money from property transactions, through ensuring that clients have access to well-founded and successful property advice. The specific property responsibilities are summarised in the table on page 23.

The property services operate on a competitive, break even basis. Funding is provided by way of risk sharing with clients in the disposal process, income earned from the provision of advisory services, and capital funding through a revolving line of credit provided by Westpac Banking Corporation.

| CHFA PROPERTY SERVICES | SERVICE DESCRIPTION |
|--|--|
| Property disposal service (purchase, holding and sale) | <ul style="list-style-type: none"> Purchasing of surplus DHB properties, holding and preparation for sale: the CHFA can purchase the property from the DHB for future sale (to release immediate funds for reinvestment). The CHFA manages the holding costs, prepares the property, and presents it to the market to achieve a premium sale price for the DHB. Provision of property advice to assist DHBs in the disposal of surplus properties: The CHFA can advise DHBs to support them in managing the disposal process themselves. |
| Strategic property advice | <ul style="list-style-type: none"> Provision of strategic advice to DHBs and the New Zealand Blood Service in relation to the acquisition, development (including physical works and subdivisions), leasing, site planning, construction, and use of property holdings. |

OUTPUT PERFORMANCE (AND LINK TO CHFA OUTCOMES)

| CHFA OUTCOME | CHFA SERVICE | PERFORMANCE MEASURE | STANDARD |
|---|---------------------------|--|---|
| Improved value for money from property transactions | Property disposal service | (2.1) Disposal service: Protect capital for reinvestment by minimising holding costs and disposal delays. | Total holding costs are maintained within budgeted targets and properties are disposed of within the timeframes budgeted at purchase. All transactions comply with legislation as assessed through due diligence audits. |
| | | (2.2) Disposal advice: Disposal advice to DHBs reduces processing delays and holding costs. | DHBs receive timely and accurate disposal advice within agreed timeframes. Completed advisory projects demonstrate the value that CHFA added to the disposal process. |
| | Strategic property advice | (2.3) Strategic advice: DHBs receive advice that improves value from property transactions. | DHBs receive timely and accurate strategic advice within agreed timeframes. Completed advisory projects demonstrate the value that CHFA added to the property transaction. |

1.3 output class three: financial services

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DESCRIPTION OF CHFA LENDING SERVICES AND RESPONSIBILITIES

Financial services include the originally assigned residual functions and our financial advisory services.

- **Residual functions:** The CHFA is responsible for achieving the Government's objective of efficiently managing claims against the former Area Health Boards. The impact of our services in this output class is to minimise (where possible) the cost to the Crown.

- **Financial advisory:** This output class also includes our financial advisory services which contribute to enhancing sector partnership and value for money in the sector.

The financial services responsibilities include (please refer to table below):

| CHFA SERVICE | SERVICE DESCRIPTION |
|--------------------------------------|--|
| Residual AHB responsibilities | <p>As the legal successor to the former Area Health Boards, the CHFA is responsible for managing a range of residual assets and liabilities of the former Area Health Boards:</p> <ul style="list-style-type: none"> • Residual 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. • Residual assets (including property leases): The CHFA is responsible for managing the residual long-term Wellington property lease until expiry in 2012. • Patient trust funds: The CHFA is the constructive trustee of some Southland DHB unclaimed patient funds pre 1993. |
| Financial advisory services | <ul style="list-style-type: none"> • The CHFA offers financial and analytical support to DHB initiatives, efficiency projects and the development and implementation of collaborative initiatives. |

These two services have been grouped together into one output class to recognise their common 'management and financial services'

elements and reflect the small nature of financial advisory services as a proportion of our core lending and property services.

OUTPUT PERFORMANCE (AND LINK TO CHFA OUTCOMES)

| CHFA OUTCOME | CHFA SERVICE | PERFORMANCE MEASURE | STANDARD |
|---|-------------------------------|---|--|
| Efficient management of residual AHB assets and liabilities | 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. |
| | | (3.2) Residual Property Liabilities. | Sub tenancy agreements are in place to 2012 covering >85% of total floor area by 30 June 2008. |
| | | (3.3) Patient Trust Funds. | Prudent investment increases total trust funds by 7% by 30 June 2008. |
| Sector partnership improves value for money | 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. |

2.0 organisational capability and development

Over the next 3 years we will develop our capability to manage for outcomes and the required implications for planning, management and monitoring. To ensure that we attract and retain productive and talented staff to support achieving our outcomes, we will implement our 'good employer' obligations and continue to promote equal employment opportunities.

MANAGING FOR OUTCOMES

In 2005/06 we adopted the 'managing for outcomes framework' into our strategic planning processes. 2007/08 represents a continuation of our existing strategic direction, functions and responsibilities and we will continue to implement our strategic plan to achieve the outcomes covered in Part One.

PERFORMANCE MEASURES

| DESCRIPTION | STANDARD AND PERFORMANCE MEASURE |
|--|---|
| Managing for Outcomes | (4.1) Internal work and performance plans are in place by August 2007. |
| 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. (4.3) Personal Development Plans are aligned with outcomes by August 2007. |
| 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. |

Adopting the management

framework: In 2007/08 we will continue to implement the framework to cover the full management cycle including implementation, delivery and review.

Monitoring performance: We are committed to monitoring and reviewing our performance continually. This will include seeking regular feedback from the Minister of Health and our clients to assess our ability to meet expectations.

INVEST IN THE CAPABILITY OF OUR PEOPLE

Success in achieving our outcomes depends on maintaining and developing our people and making full use of their capabilities. CHFA capability development is an ongoing priority. In 2007/08 we will:

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

ENHANCE THE EFFECTIVENESS OF OUR SERVICES.

The CHFA will maintain suitable quality control procedures including internal peer review, consultation and routine checks for compliance with CHFA procedures. All analysis and advice outputs will comply with the CHFA's quality standards.

3.0 reporting

The CHFA and the Ministry of Health will refine the reporting requirements during 2007/08 and align the reporting requirements stated in the CHFA Composite Terms of Reference

(where required). The following is a summary of the information that will be provided to the Responsible Ministers and the Ministry of Health:

3.1 report on DHB financial performance

Quarterly as at 30 June, 30 September, 31 December and 31 March. Within 45 business days of the end of each quarter and will encompass the following:

| AREA | DESCRIPTION OF REPORTING REQUIREMENT |
|------------------------------|--|
| DHB Financial Sustainability | <ul style="list-style-type: none"> General comment on CHFA's view as to the financial sustainability of DHBs, including where appropriate, specific case-by-case comment. |
| Emerging financing risks | <ul style="list-style-type: none"> 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. |

3.2 report on CHFA activities

Quarterly as at 30 June, 30 September, 31 December and 31 March. Within 30 business days of the end of each quarter reports on the CHFA lending,

property, and financial services functions, matching performance against the targets set. The quarterly report will encompass the following (please refer to the table on page 28):

| AREA | DESCRIPTION | REPORTING REQUIREMENT | QUARTERLY/ ROUTINE | OTHERWISE BY EXCEPTION | ANNUAL SUMMARY |
|----------------------------------|---|--|-----------------------|---------------------------|-------------------|
| Lending | Loan administration | New loan applications. | | ✓ | |
| | | New loan approvals. | | ✓ | |
| | | All loan transactions to date. | | | ✓ |
| Property | Property Disposal Services | New property under negotiation for purchase. | | ✓ | |
| | | Summary of total CHFA property holdings and realisable value. | | ✓ | ✓ |
| | | Property sold by the CHFA. | | ✓ | ✓ |
| | | Details of any identified issues and risks. | | ✓ | |
| | The costs incurred in holding and selling the property. | | ✓ | ✓ | |
| | Strategic Advisory service | New advisory projects. | | ✓ | ✓ |
| Financial services | Residual | 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. | | ✓ | ✓ |
| | Financial advisory services | New financial advisory projects . | | ✓ | ✓ |
| | | Material change in existing advisory projects. | | ✓ | ✓ |
| Financial & Performance Measures | Financial reports | Consisting of consolidated statements of financial performance, financial position and contingent liabilities in an agreed form. | ✓ | | |
| | CHFA Performance measures | Report progress against CHFA performance measures. | ✓ | | |

3.3 other reporting

Lending Administration: 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.

Financial: By 31 May 2007, the CHFA will prepare and deliver to its Responsible Ministers, its draft Statement of Intent in accordance with the Crown Entities Act for the 2007-2008 year.

By 31 August 2007, 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 30 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).

General: 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 DHB projects.

4.0 prospective financial statements for the three years ending 30 June 2010

| PROSPECTIVE INCOME STATEMENT | 2006/07 Full Year \$000 Planned | 2006/07 Full Year \$000 Projected | 2007/08 Full Year \$000 Planned | 2008/09 Full Year \$000 Planned | 2009/10 Full Year \$000 Planned |
|---|--|--|--|--|--|
| Income: | | | | | |
| Crown revenue | 1,671 | 1,674 | 1,674 | 1,674 | 1,674 |
| Additional revenue for Residual Functions (note1) | 0 | 0 | 0 | 1,500 | 2,000 |
| Interest revenue | 270 | 320 | 345 | 293 | 264 |
| Gain on sale of properties | 250 | 675 | 737 | 200 | 93 |
| Other income | 35 | 30 | 35 | 37 | 38 |
| Total Operating Revenue | 2,226 | 2,699 | 2,791 | 3,704 | 4,069 |
| Expenditure: | | | | | |
| Residual asset management (T&T House) | 702 | 700 | 771 | 777 | 783 |
| legal expenses – Medical claims | 1,171 | 850 | 1,573 | 1,366 | 1,161 |
| Salaries | 980 | 960 | 957 | 995 | 1,035 |
| Board Fees | 104 | 80 | 96 | 100 | 104 |
| Projects | 245 | 200 | 200 | 208 | 216 |
| Depreciation | 38 | 60 | 48 | 69 | 57 |
| Finance costs | 30 | 15 | 25 | 26 | 27 |
| Other expenses | 374 | 397 | 474 | 646 | 512 |
| Total Expenses | 3,644 | 3,262 | 4,144 | 4,187 | 3,895 |
| Net Operating Surplus (Deficit) | (1,418) | (563) | (1,353) | (483) | 174 |

Note 1: Additional revenue for residual functions has not yet been approved by the Minister of Health. Refer to Assumption 4.1.4 (page 35).

prospective financial statements for the three years ending 30 June 2010

| PROSPECTIVE STATEMENT OF CHANGES IN EQUITY | 2006/07 Full Year \$000 Planned | 2006/07 Full Year \$000 Projected | 2007/08 Full Year \$000 Planned | 2008/09 Full Year \$000 Planned | 2009/10 Full Year \$000 Planned |
|---|--|--|--|--|--|
| Shareholders interest at start of period | 6,894 | 6,107 | 5,544 | 4,191 | 3,708 |
| Surplus/(deficit) for the period | (1,418) | (563) | (1,353) | (483) | 174 |
| Shareholders interest at end of period | 5,476 | 5,544 | 4,191 | 3,708 | 3,882 |
| Consisting of: | | | | | |
| Contingent Liability Settlement Fund | 2,856 | 2,815 | 3,024 | 3,236 | 3,462 |
| General Equity | 2,620 | 2,729 | 1,167 | 472 | 420 |
| | 5,476 | 5,544 | 4,191 | 3,708 | 3,882 |

prospective financial statements for the three years ending 30 June 2010

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| PROSPECTIVE BALANCE SHEET | 2006/07 Full Year \$000 Planned | 2006/07 Full Year \$000 Projected | 2007/08 Full Year \$000 Planned | 2008/09 Full Year \$000 Planned | 2009/10 Full Year \$000 Planned |
|---|--|--|--|--|--|
| Crown Equity | 5,476 | 5,544 | 4,191 | 3,708 | 3,882 |
| Current Assets | | | | | |
| Cash and bank | 5,504 | 5,872 | 4,482 | 4,026 | 4,042 |
| Debtors | 1,987 | 1,508 | 895 | 814 | 0 |
| Inventory - Properties intended for sale | 10,395 | 2,892 | 10,462 | 4,600 | 0 |
| | 17,886 | 10,272 | 15,839 | 9,440 | 4,042 |
| Non Current Assets | | | | | |
| Advances to District Health Boards | 1,213,140 | 1,094,000 | 1,397,210 | 1,493,850 | 1,568,550 |
| Fixed assets | 244 | 244 | 207 | 178 | 161 |
| | 1,213,384 | 1,094,244 | 1,397,417 | 1,494,028 | 1,568,711 |
| Total Assets | 1,231,270 | 1,104,516 | 1,413,256 | 1,503,468 | 1,572,753 |
| Current Liabilities | | | | | |
| Accounts payable and accruals | 272 | 272 | 494 | 505 | 321 |
| Advances from Westpac – Property transactions | 12,382 | 4,700 | 11,361 | 5,405 | 0 |
| | 12,654 | 4,972 | 11,855 | 5,910 | 321 |
| Non Current Liabilities | | | | | |
| Advances from NZ Debt Management Office | 1,213,140 | 1,094,000 | 1,397,210 | 1,493,850 | 1,568,550 |
| | 1,213,140 | 1,094,000 | 1,397,210 | 1,493,850 | 1,568,550 |
| Total liabilities | 1,225,794 | 1,098,972 | 1,409,065 | 1,499,760 | 1,568,871 |
| Net assets | 5,476 | 5,544 | 4,191 | 3,708 | 3,882 |

prospective financial statements for the three years ending 30 June 2010

| PROSPECTIVE CASH FLOW STATEMENT | 2006/07 Full Year \$000 Planned | 2006/07 Full Year \$000 Projected | 2007/08 Full Year \$000 Planned | 2008/09 Full Year \$000 Planned | 2009/10 Full Year \$000 Planned |
|--|--|--|--|--|--|
| Cash flows from operating activities | | | | | |
| Cash was provided from: | | | | | |
| Operating income | 1,671 | 1,674 | 1,674 | 3,174 | 3,674 |
| Interest received | 270 | 320 | 345 | 293 | 264 |
| CHFA share of surplus on properties sold | 250 | 675 | 737 | 200 | 93 |
| Other Income | 760 | 846 | 555 | 537 | 538 |
| Net GST | | | (21) | (17) | (7) |
| | 2,951 | 3,515 | 3,290 | 4,187 | 4,562 |
| Cash was applied to: | | | | | |
| Payments to suppliers and employees | (3,773) | (3,375) | (4,012) | (4,089) | (4,015) |
| Transfer to Ministry of Health | (408) | (500) | (500) | (500) | (500) |
| | (4,181) | (3,875) | (4,512) | (4,589) | (4,515) |
| Net Cash flow from operating activities | (1,230) | (360) | (1,222) | (402) | 47 |
| Cash flows from investing activities | | | | | |
| Cash was provided from: | | | | | |
| Property sales | 5,729 | 1,540 | 23,846 | 9,580 | 8,314 |
| Cash was applied to: | | | | | |
| Sector share of surplus on properties sold | (3,840) | (1,394) | (22,938) | (3,638) | (2,900) |
| Fixed assets | (45) | (60) | (45) | (40) | (40) |
| | (3,885) | (1,454) | (22,983) | (3,678) | (2,940) |
| Net cash flow from investing activities | 1,844 | 86 | 863 | 5,902 | 5,374 |

prospective financial statements for the three years ending 30 June 2010

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| STATEMENT OF CASH FLOWS | 2006/07 Full Year \$000 Planned | 2006/07 Full Year \$000 Projected | 2007/08 Full Year \$000 Planned | 2008/09 Full Year \$000 Planned | 2009/10 Full Year \$000 Planned |
|--|--|--|--|--|--|
| Cash flows from financing activities | | | | | |
| Cash was provided from: | | | | | |
| Advance from NZ Debt Management Office | 281,160 | 162,020 | 313,810 | 96,640 | 74,700 |
| Advances from Westpac | 3,842 | 674 | 3,481 | 514 | 91 |
| | 285,002 | 162,694 | 317,291 | 97,154 | 74,791 |
| Cash was applied to: | | | | | |
| Loans from District Health Boards | (281,160) | (162,020) | (313,810) | (96,640) | (74,700) |
| Repayments to Westpac | (5,431) | (919) | (4,120) | (6,470) | (5,496) |
| | (286,591) | (162,939) | (317,930) | (103,110) | (80,196) |
| Net Cash flow from financing activities | (1,589) | (245) | (639) | (5,956) | (5,405) |
| Net increase (decrease) in cash held | (975) | (519) | (998) | (456) | 16 |
| Opening cash balances | 6,479 | 6,391 | 5,480 | 4,482 | 4,026 |
| Closing cash balances | 5,504 | 5,872 | 4,482 | 4,026 | 4,042 |
| Comprising: | | | | | |
| Cash at Bank | 2,648 | 3,057 | 1,458 | 791 | 580 |
| Short term deposits | 2,856 | 2,815 | 3,024 | 3,235 | 3,462 |
| | 5,504 | 5,872 | 4,482 | 4,026 | 4,042 |

4.1 assumptions

4.1.1 PURPOSE

Purpose of statements

The prospective financial statements have been prepared for the purposes of reporting in the annual Statement of Intent and should not be relied on for any other purposes.

4.1.2 RESPONSIBILITY

Responsibility for statements

CHFA is responsible for the prospective financial statements including appropriateness of assumptions and other required disclosures.

4.1.3 BASIC ASSUMPTIONS

Bases of assumptions made, uncertainty and material effect

Certain assumptions in the preparation of the prospective statements have been made. These assumptions have been made to the best of our knowledge and based on best information available at the time. Where there is uncertainty and/or the potential for material effect on the prospective statements, further comment is made on these specific issues later in this section.

4.1.4 FUNDING

Ministry of Health

The Ministry will provide funding of \$1.674m for the year ended 30 June 2008, \$1.674m for the year ended 30 June 2009 and \$1,674m for the year ended 30 June 2010.

Continued planned deficits are budgeted up to the 2008/2009 year in order to reduce equity and working capital to an optimal level agreed with the Ministry of Health.

Additional funding in the 2008/2009 and 2009/2010 years is required to fund ongoing costs of CHFA's specific residual functions. This funding has not yet been approved by the Minister of Health and is subject to further negotiation with the Ministry during the 2007/2008 year.

4.1.5 LENDING

DHB Loans

The budgeted loan balances at year end have a neutral effect in the Balance Sheet, being recognised as an asset in respect of the DHB loans and a liability in respect of Treasury advances. The interest paid and received is also neutral.

The timing of DHB draw downs is uncertain and values are based on the best estimate of anticipated draw downs.

4.1.6 SURPLUS DHB PROPERTY DISPOSAL

Financial Breakeven Objective

Anticipated property sales for the year are budgeted to make a surplus. However, uncertainty about unanticipated property transactions and timing of these transactions, together with a brought forward

deficit position, is anticipated to negate this surplus, resulting in a breakeven position as required in accordance with the Property Disposal Terms of Reference.

4.1.7 CONTINGENT LIABILITIES SETTLEMENT FUND

Purpose of fund

The balance of this fund is held as a provision against claims covered in the Statement of Contingent Liabilities. In the event of such claims being paid, this fund would be reduced or exhausted. If the funds are insufficient to meet costs awarded, CHFA will be reliant upon the Ministry of Health for further appropriation to settle the claims. Officials have been alerted accordingly.

4.1.8 FINANCIAL MEASURES

CHFA is required to manage down equity and working capital to agreed levels within a reasonable timeframe. An optimal equity level of \$500,000 (excluding CLSF) has been agreed with the Ministry of Health which will be achieved by the 2008/2009 year. Working capital has also been managed down to the agreed level of below 3.0 times within this timeframe.

4.1.9 CREDITORS AND DEBTORS

Creditors and Debtors have been budgeted as payable/receivable within 30 days.

4.2 summary of accounting policies

4.2.1 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, Part 4 of the Crown Entities Act 2004 and section 198 (3)(b) of the Crown Entities Act 2004.

4.2.2 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 including FRS - 42, Prospective Financial Statements, as appropriate for public benefit entities. CHFA is deemed to be a Public Benefit Entity.

4.2.3 TRANSITION TO NZIFRS

The transition to NZ IFRS has not materially affected the reported financial position of the Crown Health Financing Agency. Minor amendments are summarised below.

- Current assets have been re-categorised to reflect the accounting treatment of Inventory - Properties held for sale. Holding costs on the properties held for sale are recognised as debtors (receivables from DHBs) with a corresponding reduction in the Inventory - Properties held for sale asset. The total value of assets remains unchanged.

- CHFA receives rental income on behalf of the Crown in respect of lease obligations carried out as part of its residual function. These funds are returned quarterly to the Ministry of Health. Under GAAP, receipts were initially recognised as revenue and reversed out of equity at year end. CHFA has determined that under NZIFRS, this arrangement constitutes an agency agreement, and the revenue has not been recognised in the Profit and Loss Statement. The equity position remains unchanged.

4.2.4 ACCOUNTING POLICIES

The accounting policies included in this statement have been applied consistently to all periods presented in these consolidated financial statements. 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. These financial statements are presented in New Zealand dollars rounded to the nearest thousand.

4.2.5 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 financial results achieved for the period covered are likely to vary from the information presented. Variations may be material.

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.

4.2.6 REVENUE

- **Operations**

Revenue from the supply of goods is recognised when the risks and rewards of ownership have been transferred to the buyer.

- **Interest**

Interest income is accrued using the effective interest rate method.

- **Rental income**

Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

4.2.7 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.

4.2.8 TAXATION

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

4.2.9 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 DHB's, 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 bank**

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 District Health Boards (DHB's) 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. CHFA has determined that this value is the nominal value of the loans.

Other loans and receivables are also 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 and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Loans and receivables issued with duration less than 12 months are recognised at their nominal value, unless the 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**

Advances from NZ Debt Management Office are recorded initially at fair value plus transaction costs. CHFA has determined that this value is the nominal value of the advances.

- **Other financial liabilities**

Other financial liabilities are recognised 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.

4.2.10 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 plant, property 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 Income statement, 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

2.8 - 12.8 years (7.8% - 36.0%)

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%)

4.2.11 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 DHBs. 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 income statement.

4.2.12 EMPLOYEE ENTITLEMENTS

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

4.2.13 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.

4.2.14 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.

Contingent liabilities of \$26,000,000 in respect of potential legal claims have been disclosed.

4.2.15 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.

4.2.16 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.

4.2.17 ACCOUNTS RECEIVABLE

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

4.2.18 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.

4.3 statement of commitments

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Crown Health Financing Agency has the following commitments at 30 June 2008:

4.3.1 CAPITAL

Nil

4.3.2 OPERATING LEASE

COMMITMENTS

| | |
|--------------------|--------------------|
| Less than one year | \$629,500 |
| One to two years | \$1,259,000 |
| Two to five years | \$734,500 |
| Over five years | nil |
| | \$2,623,000 |

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.

4.4 statement of contingent liabilities

Crown Law Office's estimate of CHFA's liability as at 30 June 2008 (based on estimated claims received at that date) arising from legal proceedings and disputes by third

parties, is assessed at \$26,000,000. It should be noted however, that CHFA is aware that there are potentially further claims in respect of the past treatment of psychiatric patients

