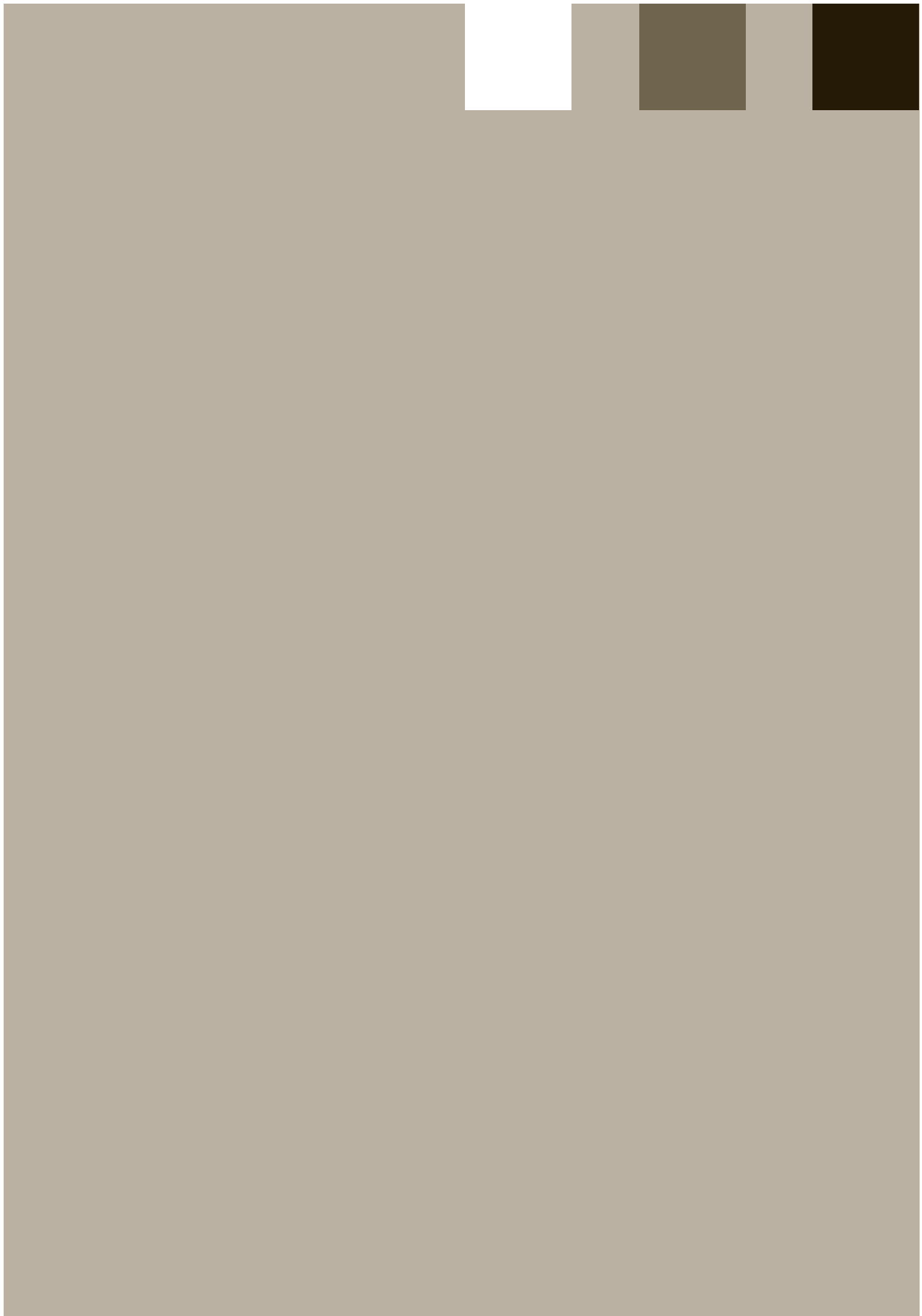




CROWN HEALTH
FINANCING AGENCY

lending, property, advisory

Statement of intent 2009-12



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chair's foreword

2

Background

The CHFA occupies a unique position in the health sector. It is a mature organisation providing independent advice to its Responsible Ministers, the Minister of Health and Minister of Finance and several lines of business directly to District Health Boards (DHBs). It has an in-depth knowledge of the health sector and can point to a successful track record in providing DHBs with expert lending, property, and financial advisory services in pursuit of their financial goals and objectives. All of what we do is intended to contribute to the financial sustainability of the sector.

Current environment

DHBs are operating in a very challenging fiscal environment. Their ability to contain cost growth within affordable funding levels is constrained by the ever increasing demand for their services, public expectations, new technologies and advanced models of care.

As "banker to the DHBs" the CHFA is familiar with these financial pressures and recognises that this situation may become even more difficult in the months ahead. As outlined in this document, it is our intent that we will work with DHBs, officials and other stakeholders to assist the sector to meet these challenges and to minimise as far as possible the inherent financial risks.

Future direction

Cognisant of the challenging fiscal environment, the Board has already taken some action to ensure that CHFA is delivering its services in the most effective and efficient manner possible. It has refocused staff efforts onto the delivery of its core lending and property functions, sought to improve the quality of its financial advice and to identify opportunities for efficiency and improvement both within the CHFA itself and across the DHB sector generally.

Of particular interest to the CHFA Board is the DHB capital allocation and approval process. Already the CHFA contributes to this process by way of offering an opinion on the affordability of business cases being presented to the Minister of Health for funding approval. Demand for capital continues unabated and at a level far in excess of the funding available. The Board considers this situation to be unsustainable and more work needs to be done to ensure capital is allocated to the "right" investments in the "right" place at the "right" time.

DHBs have always been free to obtain the advice and assistance of others when selling surplus property or seeking property advice so it is indeed very satisfying to the Board that a growing number of DHBs are accessing our property advisory services. The DHB property estate is complex and the Board is well aware of the range of regulatory and compliance regimes that DHBs have to contend with in managing their property assets. The Board considers that a sound argument can be made for a central agency like the CHFA with its knowledge and experience across the sector and the property industry generally to become the focal point for the

provision of advice and assistance in these matters. This would ensure consistency in approach and provide assurance of compliance with sometimes very complex policy settings and regulatory requirements.

The Government has clearly signalled the desire for a more efficient and effective public sector and a smarter health system that provides maximum value for each tax dollar.

The Board is confident that the CHFA is well positioned to contribute strongly to this goal and that CHFA offers a unique value proposition through its mix of services, capability and knowledge. It will seek to continue to add value to the sector by ensuring real improvements in value for money within our organisation and that our efforts are directed at managing outcomes and services that deliver long lasting benefits to the sector in the most cost effective manner.



John Anderson

Chair

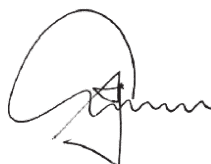
Crown Health Financing Agency

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.

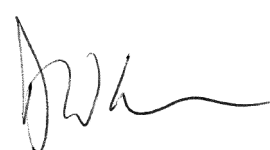
Parts One to Four of the SOI identify the outcomes that we will pursue in the next three years, the strategies we will use to achieve these outcomes, the measures of success, an assessment of the challenges and risk that we will face and the implications for our required capability. Parts Five to Six include our financial and non-financial measures and standards that we aim to achieve for 2009/10.



John Anderson

Chair

Date: 16th June 2009



David Moore

Board Member

Date: 16th June 2009



1.0 Our contribution to the sector

The CHFA aims to support the sector-wide outcome for “New Zealanders to lead longer, healthier and more independent lives” It contributes to this outcome through the provision of a range of financial services and expert advice targeted at assisting DHBs to achieve and maintain financial sustainability.

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 outcome seeks to achieve a system that operates efficiently, where services deliver relatively large gains in health status for each additional unit of resource. It supports the wider government expectation for a smarter public health system that provides maximum value for each tax dollar and is aligned with the Minister’s letter of expectations.

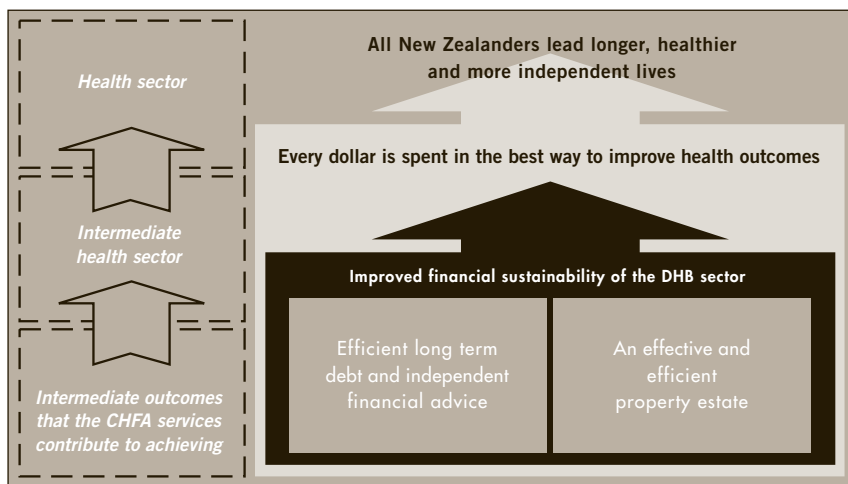
Our contribution to achieving efficiency and value for money has a flow-on impact to DHB financial performance and the financial sustainability in the DHB sector. Achieving financial sustainability will ensure that the DHB sector has sufficient financial resources to support future service needs and infrastructure requirements.

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

- the efficient and effective use of our resources and powers
- continuing to strengthen relationships and partnerships in the sector
- improving value for money in the sector.

The CHFA services contribute to improved efficiency and value for money in the health sector through two intermediate outcomes, and one Government objective:

Figure 1: Hierarchy of outcomes:



Government Objective²:

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

1.1 Our core business functions

The Crown Health Financing Agency (CHFA) is a Crown Entity under the New Zealand Public Health and Disability Act 2000 and is categorised as a Crown agent for the purposes of the Crown Entities Act 2004.

Our responsibilities are grouped into three distinct functions.

Lending

We are the term lender to the DHB sector and provide a range of loan facilities to refinance existing private sector debt or to finance new capital investment. We provide an independent line of advice to the Ministers' of Health and Finance of the assessed risks to the sector's financial sustainability.

We also have a mandate to provide financial and analytical support to DHBs to assist them achieve the Crown's objectives for cost effectiveness and value for money.

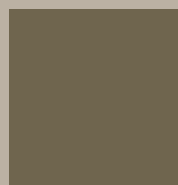
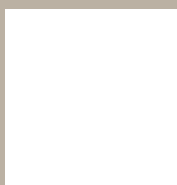
Property

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.

Residual services

We manage a range of residual functions on behalf of the Government.

The outcomes we aspire to for each of these functions are discussed in Section 2. Section 5 sets out our forecast statement of service performance for 2009/10.



2.0 Our Business

2.1 Lending

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Our Lending function contributes to the financial sustainability of the DHB sector

The CHFA contributes by:

- providing effective & efficient long term lending to DHBs
- providing independent financial advice to Responsible Ministers, DHBs, and other stakeholders.

And working in association with

DHBs, the Ministry of Health, the Treasury, Ministers' Offices, and other expert advisers.

Background

The CHFA has a unique position in the health sector as the sole provider of term debt to DHBs. Debt is a more flexible borrowing instrument than equity and facilitates DHB cash flow on a more cost-effective basis. As for other business-like environments, providing debt affords the CHFA the opportunity to encourage prudent disciplines in DHBs through the negotiation, supervision and monitoring of the use of debt and debt levels.

The Composite Terms of Reference require that CHFA approach its lending responsibilities "applying normally accepted lending criteria" and recognises that DHBs are required to operate on a financially sustainable basis. The Lending function is now well-established, with loan application, credit assessment, and monitoring procedures similar to those practiced by commercial banks. As at 31 March 2009, lending limits of \$1.6 billion had been approved, of which DHBs had drawn down \$1.3 billion. Funding for CHFA loans to DHBs is provided by the New Zealand Debt Management Office (DMO), with the DMO sourcing funds as part of wider Government bond tendering activity.

Private sector debt has been almost entirely re-financed [only \$120 million of Auckland DHB bonds remain outstanding], and CHFA's new lending is limited to the funding of major new capital projects.

The CHFA loans portfolio is forecast to increase to \$1.710 billion by 30 June 2010.

Current activity

CHFA's Lending activity is focused on:

- providing cost effective debt funding to DHBs
- monitoring the financial position and performance of individual DHBs in line with good commercial lending and credit risk assessment practice
- assessing the affordability of major capital expenditure proposals presented to the Ministry of Health's National Capital Committee
- providing independent advice to the Responsible Ministers and other relevant stakeholders of potential risks to financial sustainability, for both individual DHBs and the sector generally
- providing analytical support for DHB initiatives, efficiency projects and the development and implementation of collaborative initiatives. With its original brief to refinance private sector bank debt all but complete, the Lending function's priorities are those that relate to:
 - providing Ministers with high-quality independent advice on the assessed financial risks to sector financial sustainability, and
 - influencing sector participants to address such risks as they arise.

2.1.1 Measuring and evaluating our performance:

Loan portfolio management

CHFA loan facilities are designed to provide DHBs with the most cost effective borrowings at minimal administrative cost. The CHFA encourages DHBs to structure its debt maturities so as to minimise overall interest costs, and the need for them to use potentially risky and difficult to manage financial derivatives.

Monthly monitoring processes and annual reviews of DHB loans and district annual plans assess and forecast DHB cash flow performance to ensure that DHBs have the ability to service their debt and meet other operating and capital expenditure requirements. This relatively narrow “lender’s perspective” differs significantly from that of other stakeholders, whose interests include wider “ownership” or “service delivery” issues rather than simply financial sustainability.

CHFA independent monitoring and oversight of DHB financial performance promotes early problem diagnosis and intervention to assist DHBs to achieve their financial targets and to protect the quality of our loan portfolio.

Financial Advice

The CHFA provides independent financial advice to DHBs, Ministers and officials at the Ministry of Health and the Treasury. Our advice is intended to inform and influence sector financial performance and decision making.

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.

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.

National Capital Committee: The CHFA provides an independent opinion to the National Capital Committee on the affordability and financial sustainability of DHB capital investment proposals.

We measure the contribution of our advice through feedback from stakeholders on the timeliness, completeness, accuracy and level of satisfaction derived from our reports. In situations where it is possible to do so, we also measure the financial benefits gained from the implementation of our advice.

2.1.2 CHFA Main Measures and Standards

Main Measure of CHFA Performance	Performance Standard
<p>Effective and efficient long term lending</p> <ul style="list-style-type: none"> • Efficient loan facility processing. • Independent credit risk assessment and monitoring of DHB financial performance. 	<ul style="list-style-type: none"> • DHBs have access to funds when required. • CHFA credit risk assessment and financial monitoring processes are judged to be consistent with commercial best practice, as assessed periodically by independent review. • Risks to sector financial sustainability are highlighted to the CHFA Board and the responsible ministers at least quarterly. • Action plans are developed and implemented as necessary.
<p>Independent financial advice</p> <ul style="list-style-type: none"> • CHFA output is valued by recipients. 	<ul style="list-style-type: none"> • Level of stakeholder satisfaction with our advice as measured periodically.

2.1.3 Opportunities and Challenges

Opportunities

The DHB sector is facing significant financial challenges. Demands on the public health system continue to stretch current resources, and cost inflation across the sector is running at unaffordable levels. Forecast capital spending too, is budgeted to exceed available funding by a considerable margin.

All of this suggests that there will be opportunities for the CHFA, as banker to the sector, to contribute its strategic thinking and financial expertise in such areas as:

- individual reviews of DHBs in financial difficulty
- any financial policy initiatives that review the long run sustainability of the sector
- development and implementation of a sector capital asset management plan
- any review of the national capital allocation process.

Challenges

Understanding DHB performance: In order to provide early warning of perceived financial risks and to further enhance the quality of our advice, 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.

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.

2.1.4 Output class one: Lending services

Description of CHFA lending services and responsibilities

The lending output class contributes to the CHFA's outcome of reducing DHB financing costs and risk. The specific lending responsibilities are included in the table below:

CHFA Service	Service Description
Lending	CHFA provides effective & efficient long-term lending to DHBs.
Financial Advice	CHFA provides independent financial advice to Responsible Ministers, DHBs, and other stakeholders.

Output performance (and link to CHFA outcomes)

CHFA Outcome	CHFA Service	Performance Measure	Standard
Financial sustainability of the DHB sector	Lending	<ul style="list-style-type: none"> Efficient loan facility processing. Independent credit risk assessment and monitoring of DHB financial performance. 	<ul style="list-style-type: none"> By 30 June 2010, all approved facilities are documented and available to be drawn. CHFA credit risk assessment and financial monitoring processes are judged to be consistent with commercial best practice, as assessed periodically by independent review. Risks to sector financial sustainability are highlighted to the CHFA Board and the responsible ministers at least quarterly. Action plans are developed and implemented as necessary.
	Financial advice	<ul style="list-style-type: none"> CHFA output is valued by recipients. 	<ul style="list-style-type: none"> Level of stakeholder satisfaction with our advice as measured periodically.

2.2 Property

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Our Property function contributes to the financial sustainability of the DHB sector

The CHFA contributes to an effective and efficient DHB property estate by

Providing access to expert property services and advice, particularly:

- *Disposal service*: Releasing capital from the sale of surplus DHB property assets for reinvestment in more productive infrastructure
- *Property Advice*: Providing advice to DHBs that maximises the value for money from property decisions.

And working in association with

Ministry of Health, Land Information New Zealand (LINZ), 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.

Background

In 1999, CHFA was assigned the function of assisting DHBs to dispose of surplus property assets thereby releasing funds from under performing assets for reinvestment in the sector. The property unit has a core competency in the management and disposal of surplus properties and compliance with all of the necessary statutory clearance and other regulatory processes.

In August 2005, the Property function was expanded to include the provision of other services including advice on acquisition, development, construction, leasing and rationalisation of DHB properties.

A growing number of DHBs are seeking advice from CHFA in these specialist property areas.

There is no Crown funding or appropriation available for the property functions. Capital funding for property purchases and all of our holding costs are provided for by way of bank loan. The function has an objective to break even and all of its costs are covered by way of risk sharing with DHBs in the disposal process and income earned from advisory and agency services. Incentives are appropriately aligned such that we are always focused on delivering the best possible financial outcome for our DHB clients.

Disposal

The CHFA seeks to provide property services that assist DHBs to efficiently dispose of surplus properties, minimise the delays associated with the clearance processes, maximise the capital proceeds available for reinvestment in more productive assets and, overall achieve a more effective and efficient property estate.

The CHFA property disposal service allows DHBs to sell properties to the CHFA without them having to undertake the statutory clearance processes and thereby enabling an earlier release of capital for immediate reinvestment. The CHFA then proceeds to work through the necessary processes before disposing of the property. Other sale mechanisms require the DHB to have completed the clearance process before disposal can be effected.

Disposal of surplus Crown property assets can be complex and time consuming. It is unrealistic that all DHBs should have access to in-house capability and the CHFA offers the sector consistency in approach and assurance of compliance with the very complex policy settings and regulatory requirements.

Property Advice

DHBs operate in a complex environment which is susceptible to a high degree of financial risk for non-compliance with statutory requirements and building legislation. The CHFA offers specialist property advice to DHBs aimed at achieving outcomes that ensure compliance with these statutory requirements, follow good commercial business practice and are cost effective.

DHBs have always been free to seek the advice and assistance of others when selling surplus property or seeking property advice. However, a central agency like CHFA can offer the sector many advantages and added value, including our experience in the health sector and understanding of DHB property estate needs, knowledge of the statutory environment, consistency of approach and our property sector networks.

Current property portfolio

Currently, the CHFA owns the following properties (please see below).

Purchased from	Property	Current status
Auckland	Claude Road	Part site under contract
Whanganui	1 ground lease	For sale
Whanganui	Taihape section	For sale
Hawkes Bay	Napier hospital site	Unconditional contract for sale in default. Subject to legal proceedings.
Canterbury	Queen Mary hospital	Part property to be transferred to Department of Conservation. Balance to be sold.

2.2.1 Measuring and evaluating our performance

Property Disposal Service

The contribution of our property disposal service can be measured on an individual project basis and against DHB business objectives.

Since establishing the property services in 2001, the CHFA (on behalf of DHBs) has completed property sales of \$37.2m with these capital proceeds being reinvested in the sector. A further \$16.6m from property sales is anticipated in 2010.

For property disposal projects, the CHFA quantifies the holding and processing costs, final sales price,

and the total capital returned to the DHB. 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.

Property Advice

The impact of our property advisory services can be measured by the extent to which our advice is acted upon. This impact may have measurable financial implications including gains in cost effectiveness, or may result in improved 'fit for purpose' property outcomes, resolution of difficult property matters or assurance of compliance with regulatory requirements.

2.2.2 CHFA Main Measures and Standards

Main Measure of CHFA Performance	Performance Standard
<p>Total amount of capital released to the DHB sector from sale of unproductive assets</p> <p>Property advice is valued by recipients</p>	<p>Number and value of transactions completed.</p> <p>Our property advice improves the value for money from DHB property decisions.</p>

2.2.3 Opportunities and Challenges

Opportunities

Policy initiatives: Given our knowledge of the sector and the current DHB property estate, the CHFA is well placed to contribute to any policy initiatives intended to enhance its effectiveness and efficiency. For our property function this might include some or all of the following:

- rationalisation of DHB property holdings
- maximising the use of DHB property holdings
- development of a consistent approach to non-hospital based property holdings including, acquisition, leasing, financing and property development

- contributing to individual DHB and sector wide asset management plans
- contributing to capital asset management planning.

Property acquisition and planning: Given the significant constraint on the availability of new capital funding for the health sector, 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 help maximise the efficiency of their property estate.

Regulatory compliance: The CHFA is well aware of the range of regulatory and compliance regimes DHBs have to contend with in managing the property estate and the penalties that can be imposed for non-compliance. Opportunity exists for CHFA to become the focal point for the provision of expert guidance to the sector for property regulatory and compliance issues. Such an approach would facilitate a common understanding of the requirements, encourage a consistent and appropriate response and most importantly reduce the risk of non-compliance.

Challenges

Disposal: Compliance with the statutory Maori Protection Mechanism, the 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, the Office of Treaty Settlements and LINZ, to improve the efficiency of the disposal processes.

Property market: Historically CHFA has delivered significant surpluses to DHBs on disposal of their surplus property assets. This record may be at risk. Future surplus properties may be of a less saleable nature (due to the specific location, size and other characteristics) than premium surplus properties having previously been identified or disposed of. In addition, the continuing softening of the property market and the associated credit “crunch” will add further complexity to the disposal of property.

2.2.4 Output class two: Property advice and disposal services

Description of CHFA property services and responsibilities

The property output class contributes to the CHFA’s outcome of the establishment and maintenance of an effective and efficient DHB property estate. The specific property responsibilities are included in the table below:

CHFA Service	Service Description
Property disposal service (purchase, holding and sale)	<ul style="list-style-type: none"> <i>Purchasing of surplus DHB properties, holding and preparation for sale:</i> 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. <i>Provision of property advice to assist DHBs in the disposal of surplus properties:</i> The CHFA can advise DHBs to support them in managing the disposal process themselves.
Property advice	<ul style="list-style-type: none"> Provision of advice to DHBs 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
An effective and efficient property estate	Property disposal service	Total amount of capital released to the DHB sector from sale of unproductive assets.	By 30 June 2010, CHFA will: <ul style="list-style-type: none"> • complete 2 property disposal transactions • release \$2,000,000 in capital.
	Property advice	CHFA advice contributes to the quality of property decisions, minimises risk and improves value for money.	For the year ended 30 June 2010, CHFA property advisory fees will increase from \$120,000 to \$174,000. For completed assignments client satisfaction rating is no less than Good.

2.3 Residual

Our Residual function is responsible for resolution of medical claims against the former Area Health Boards, and other residual assets and liabilities consistent with Government direction.

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The CHFA is responsible for:

- *Residual medical claims:* As the legal successor to the former Area Health Boards (AHBs), the CHFA manages medical misadventure 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 lease:* The CHFA manages the sub-letting of the residual lease on Tourism and Travel House (Wellington) to reduce the overall cost to Government.

Background

CHFA is the legal successor to the Area Health Boards and when established in 1993 it assumed a number of statutory functions. Several of these “residual functions” have been resolved but two remain.

Residual Medical Claims

As at 31 March 2009, 720 claims have been vested in the CHFA since establishment. One substantive matter is active; the psychiatric hospital patients' claim (271 individual claimants), where total damages being sought are \$141.2 million.

CHFA is party to a whole of Government approach to resolving these and other similar historical allegations against the Crown and has engaged the Crown Law Office to defend the claims on its behalf.

The CHFA is committed to resolving these liabilities, however, advice from Crown Law suggests that the legal process could run on for some time yet. The cost of defending the claims is considerable and given current appropriation levels will be beyond CHFAs financial resources from 2010/11. Any settlement will require a new appropriation of funds.

The remaining claims are mostly settled or are unlikely to lead to further legal action.

Residual Property Lease

At establishment in 1993, the CHFA assumed responsibility for two long-term property leases. The one remaining lease for Tourism and Travel House (Wellington) continues under our management until 2012.

The CHFA has outsourced the day-to-day management of the lease. As at 31 March 2009, and inclusive of CHFA's tenancy, 100% of the lease space has been sublet, and we hold verbal or written agreement to subleasing all of the total lease space through to the expiry of our head lease in 2012. A final rent review through to the end of the lease is due in October 2009 after which we will begin our planning to transition the individual subleases to the building owner.

2.3.1 Measuring and evaluating our performance

The CHFA manages these residual assets and liabilities within an overall objective of minimising the total cost to the Crown, and overtime to successfully resolve these responsibilities.

The CHFA monitors and reports annually on the total cost of medical claims settled. The total costs include legal costs, administration and compensation to claimants.

2.3.2 CHFA Main Measures and Standards

Main Measure of CHFA Performance	Performance Standard
Efficient resolution of the residual liabilities	<p>Number of medical claims are reduced.</p> <p>Rental recovery from sub-leases exceeds the head lease cost to the Crown of the Tourism & Travel House.</p>

2.3.3 Opportunities and Challenges

Resolution of the existing active medical claims is likely to be difficult and we will need access to additional funding to defend and settle the claims against the Crown. Until now the CHFA has had an ability to fund the cost of defending the claims from

its reserves. Continuation of this approach will see our forecast reserves fall below our agreed level of equity by 2010/11.

Our medium term objective for the property lease at Tourism & Travel House is well in hand.

2.3.4 Output class three: Residual functions

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Description of CHFA Residual function and responsibilities

The Residual function responsibilities include:

CHFA Service	Service Description
Residual AHB responsibilities	<ul style="list-style-type: none"> <i>Medical claims</i>: the CHFA is responsible for settling legally meritorious claims at the lowest possible cost to the Crown and in such a way as to manage the risk of creating precedent for other litigation. <i>Property lease</i>: The CHFA is responsible for managing the residual long-term Wellington property lease until expiry in 2012.

Output performance (and link to CHFA outcomes)

CHFA Outcome	CHFA Service	Performance Measure	Standard
Efficient management of residual AHB liabilities	Resolution of residual AHB responsibilities	Number of medical claims resolved and Crown contingent liability exposure reduced.	By 30 June 2010: <ul style="list-style-type: none"> total number of active claims reduced from 721 to less than 700 contingent liability exposure as assessed by Crown Law Office is reduced from \$28.2m to \$26.2m.
		Property Leases	Rental recovery exceeds cost of head lease.

3.0 Organisational capability & development

3.1 Capability

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The CHFA has a permanent staffing establishment of eight people. Resourcing is about right for our current level of activity and we can flex our resources by volume and type of activity and/or services we are contracted to deliver. Currently, one position is being carried as vacant pending the outcome of the recently announced ministerial review of health spending before determining the future for this vacancy.

All of our staff have a private sector background and bring to the organisation a diverse range of skills in one or more of general management, banking and finance, property management and accountancy. Overall the group has an in-depth knowledge of the DHB sector. This is complemented as required by the CHFA having access to a number of expert advisers/contract staff for specific tasks and to cover workload peaks.

In discharging its functions, the CHFA has adopted the following management objectives, values and good employer obligations.

Our management objectives

Our priorities are to ensure that we:

- understand the needs of DHBs
- proactively monitor the financial performance of DHBs
- offer high quality, practical, professional and independent advice
- strengthen the linkages between our financial and policy 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 cooperation 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.

Good employer obligations

To ensure that we attract and retain productive and talented staff to support achieving our outcomes, we will follow and implement our 'good employer' obligations and continue to promote equal employment opportunities.

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

- leadership accountability and culture
- recruitment selection and induction
- employee development, promotion and exit
- flexibility and work design
- remuneration, recognition and conditions
- harassment and bullying prevention
- safe and healthy environment.

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

3.2 Development

Key development opportunities for the CHFA are those that focus on growing the capability of our people, ensuring compliance with and continuous improvement of the managing for outcomes frameworks and the effectiveness of our services.

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 2009/10 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
- continue to build our network of expert advisers.

Managing for outcomes

2009/10 represents a continuation of our current strategic direction, functions and responsibilities within the overarching objective to deliver on the outcomes covered in Section 2.0 and to participate in any policy and other sector initiatives that are consistent with our capability and core functions. We will continue to refine our approach so as to ensure compliance with stakeholder expectations and the required implications for planning, management and monitoring.

Adopting the management framework: The “managing for outcomes framework” has been embedded into our planning processes and covers the full management cycle including implementation, delivery and review. We regularly challenge ourselves to ensure that our contributions to the sector are closely aligned to our vision and sector outcomes.

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.

Enhance the effectiveness of our services

The CHFA continually examines opportunities to improve and strengthen the quality of its services and advisory capability. In 2009/10, and in light of the current economic environment, we will seek to identify further opportunities to ensure the efficiency of our current operations, exercise stringent budgetary controls and aim to work more closely with officials in areas of financial analysis and advice of mutual interest.

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.

3.3 Performance Measures

Description	Standard and Performance Measure
Managing for Outcomes	<p>The Statement of Intent and Statement of Service Performance clearly state CHFA’s services, outcomes, performance measures and standards as assessed by independent review.</p> <p>Internal performance management plans and systems are in place by August 2009.</p>
Invest in the capability of our people	<p>Staff are positive about career opportunities, professional growth and job satisfaction as determined by periodic survey.</p> <p>Personal Development Plans are aligned with outcomes by August 2009.</p>
Enhancing our effectiveness	<p>Internal/external audits reflect that policies, procedures and business systems are appropriate and being complied with at audit or following spot checks.</p>

4.0 Reporting

The following is a summary of the information that will be provided to the Responsible Ministers and the Ministry of Health:

4.1 Report on DHB Financial Performance

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

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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 DHBs and advise of CHFA's plans to manage those risks.

4.2 Report on CHFA activities

Quarterly as at 30 June, 30 September, 31 December and 31 March, by the last Tuesday of the month following each quarter reports on the CHFA lending, property, and financial services functions,

matching performance against the targets set. The quarterly report will be completed on the basis set out in the table on page 22.

4.3 Other Reporting

Lending Administration: On dates to be advised by Treasury, the CHFA will provide to the Ministry of Health and Treasury with 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: In accordance with The Treasury's direction, the CHFA will prepare and deliver to its Responsible Ministers, its draft Statement of Intent for the 2010-2011 year by no later than 31 days before Budget day 2010.

By 31 August 2009, 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).

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 5 of this Statement of Intent
- a quarterly report to the Responsible Ministers on its strategic initiatives and/or DHB project.

Report on CHFA activities Table

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.	✓		

5.0 Forecast Statement of Service Performance for 2009/10

5.1 Summary of performance measures

Output Class One [Lending]

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CHFA Outcome	CHFA Service	Performance Measure	Standard
Financial sustainability of the DHB sector	Lending	<ul style="list-style-type: none"> Efficient loan facility processing. Independent credit risk assessment and monitoring of DHB financial performance. 	<ul style="list-style-type: none"> By 30 June 2010, all approved facilities are documented and available to be drawn. CHFA credit risk assessment and financial monitoring processes are judged to be consistent with commercial best practice, as assessed periodically by independent review. Risks to sector financial sustainability are highlighted to the CHFA Board and the responsible ministers at least quarterly. Action plans are developed and implemented as necessary.
	Financial advice	<ul style="list-style-type: none"> CHFA output is valued by recipients. 	<ul style="list-style-type: none"> Level of stakeholder satisfaction with our advice as measured periodically.

Output Class Two [Property]

CHFA Outcome	CHFA Service	Performance Measure	Standard
An effective and efficient property estate	Property disposal service	Total amount of capital released to the DHB sector from sale of unproductive assets	By 30 June 2010, CHFA will: <ul style="list-style-type: none"> Complete 2 property disposal transactions Release \$2,000,000 in capital
	Property advice	CHFA advice contributes to the quality of property decisions, minimises risk and improves value for money	For the year ended 30 June 2010, CHFA property advisory fees will increase from \$120,000 to \$174,000 For completed assignments client satisfaction rating is no less than "Good".

Output Class Three [Residual]

CHFA Outcome	CHFA Service	Performance Measure	Standard
Efficient management of residual AHB liabilities	Resolution of residual AHB responsibilities	Number of medical claims resolved and Crown contingent liability exposure reduced.	By 30 June 2010: <ul style="list-style-type: none"> total number of active claims reduced from 721 to less than 700 contingent liability exposure as assessed by Crown Law Office is reduced from \$28.2m to \$26.2m.
		Property Leases.	Rental recovery exceeds cost of head lease.

Organisational capability and development

Description	Standard and Performance Measure
Managing for Outcomes	The Statement of Intent and Statement of Service Performance clearly state CHFA's services, outcomes, performance measures and standards as assessed by independent review. Internal performance management plans and systems are in place by August 2009.
Invest in the capability of our people	Staff are positive about career opportunities, professional growth and job satisfaction as determined by periodic survey. Personal Development Plans are aligned with outcomes by August 2009.
Enhancing our effectiveness	Internal/external audits reflect that policies, procedures and business systems are appropriate and being complied with at audit or following spot checks.

5.2 Prospective Statement of Service Performance

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Output classes	Value 2009/2010 (\$000)			
	(1) Lending	(2) Property	(3) Residual	Total
Appropriation	874	0	826	1,700
Interest income from District Health Boards	87,766	0	0	87,766
Other income	86	538	90	714
Total Income	88,726	538	916	90,180
Interest charge from NZ Debt Management Office	87,766	0	0	87,766
Operating expenditure	1,007	206	2,507	3,720
Total Expenditure	88,773	206	2,507	91,486
Surplus / (Deficit)	(47)	332	(1,591)	(1,306)

Note (1): The forecast deficit in the Residual output class relates to the costs of specific residual functions and is funded from CHFA equity.

6.0 Prospective Financial Statements for the three years ending 30 June 2012

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Prospective Statement of Comprehensive Income	2008/09 Full Year \$000 Planned	2008/09 Full Year \$000 Projected	2009/10 Full Year \$000 Planned	2010/11 Full Year \$000 Planned	2011/12 Full Year \$000 Planned
Income:					
Crown Funding	1,751	1,751	1,700	1,700	1,700
Additional Crown Funding (Note 1)	0	0	0	400	1,850
Interest Revenue:					
- District Health Boards	87,197	85,638	87,766	89,994	92,154
- Other	367	273	168	68	81
CHFA share of surplus on sale of properties	0	5	361	750	0
Other Income	165	165	185	185	185
Total revenue	89,480	87,832	90,180	93,097	95,970
Expenditure:					
Interest Expense:					
- NZ Debt Management Office	87,197	85,638	87,766	89,994	92,154
Residual asset management	746	718	804	806	796
Legal expenses - Medical Claims	1,357	678	1,080	1,080	1,080
Salaries	1,033	1,018	982	1,013	1,043
Board Fees	96	93	96	96	96
Projects	200	180	250	250	250
Depreciation	38	55	45	70	74
Reversal of previously recognised revenue		70	0	0	0
Other expenses	551	507	463	465	464
Total expenses	91,218	88,957	91,486	93,774	95,957
Net operating surplus (deficit) and Total comprehensive income (deficit)	(1,738)	(1,125)	(1,306)	(677)	13

Note 1: Additional Crown funding for residual functions for the 2010/2011 and 2011/2012 years has not yet been approved by the Minister of Health. Refer Assumption 6.1.4 (page 31).

Prospective Statement of Changes in Equity	2008/09 Full Year \$000 Planned	2008/09 Full Year \$000 Projected	2009/10 Full Year \$000 Planned	2010/11 Full Year \$000 Planned	2011/12 Full Year \$000 Planned
Shareholders interest at Start of Period	5,039	4,586	3,461	2,155	1,478
Net operating surplus/(deficit) and total comprehensive income (deficit) for the period	(1,738)	(1,125)	(1,306)	(677)	13
Equity at end of period	3,301	3,461	2,155	1,478	1,491
Consisting of:					
Contingent Liability Settlement Fund	2,265	2,833	0	0	0
Residual/Lending equity	350	1,252	2,447	1,052	1,093
Property equity	686	(624)	(292)	426	398
	3,301	3,461	2,155	1,478	1,491

Prospective Statement of Financial Position	2008/09 Full Year \$000 Planned	2008/09 Full Year \$000 Projected	2009/10 Full Year \$000 Planned	2010/11 Full Year \$000 Planned	2011/12 Full Year \$000 Planned
Crown Equity	3,301	3,461	2,155	1,478	1,491
Current Assets					
Cash and bank	241,798	179,504	174,167	166,835	166,968
Debtors	8,132	16,609	18,049	16,261	16,330
Advances to District Health Boards	106,000	112,532	117,728	272,319	375,339
Inventory - properties intended for sale	14,300	17,611	4,179	2,035	0
Total Current Assets	370,230	326,256	314,123	457,450	558,637
Non Current Assets					
Advances to District Health Boards	1,252,000	1,266,088	1,324,542	1,226,201	1,160,181
Fixed assets	155	140	140	111	63
Total Non Current Assets	1,252,155	1,266,228	1,324,682	1,226,312	1,160,244
Total Assets	1,622,385	1,592,484	1,638,805	1,683,762	1,718,881
Current Liabilities:					
Accounts payable & accruals	8,014	15,132	15,854	16,451	16,833
Advances from Westpac - Property transactions	15,070	6,806	6,787	2,300	0
Advances from NZ Debt Management Office	344,000	286,125	289,371	437,212	540,232
Total Current Liabilities	367,084	308,063	312,012	455,963	557,065
Non Current Liabilities:					
Advances from NZ Debt Management Office	1,252,000	1,266,088	1,324,542	1,226,201	1,160,181
Advances from Ministry of Health - Property transactions	0	14,800	0	0	0
Provision for make good costs	0	72	96	120	144
Total Non Current Liabilities	1,252,000	1,280,960	1,324,638	1,226,321	1,160,325
Total Liabilities	1,619,084	1,589,023	1,636,650	1,682,284	1,717,390
Net Assets	3,301	3,461	2,155	1,478	1,491

Prospective Cash Flow Statement	2008/09 Full Year \$000 Planned	2008/09 Full Year \$000 Projected	2009/10 Full Year \$000 Planned	2010/11 Full Year \$000 Planned	2011/12 Full Year \$000 Planned
Cash flows from operating activities					
Cash was provided from:					
Operating Income	1,751	1,751	1,700	2,100	3,550
Interest Received:					
- DHB Loan Advances	86,651	77,793	87,089	89,396	91,760
- Other	372	277	168	68	83
CHFA share of surplus on sale of properties	0	5	(139)	750	0
Other Income	715	781	831	831	831
Net GST	(3)	0	(2)	0	15
	89,486	80,607	89,647	93,145	96,239
Cash was applied to:					
Payments to Suppliers and employees	(4,106)	(3,543)	(3,668)	(3,687)	(3,733)
- Transfer to Ministry of Health	(550)	(616)	(645)	(647)	(647)
Interest Paid					
- NZ Debt Management Office	(86,651)	(77,793)	(87,089)	(89,396)	(91,760)
	(91,307)	(81,952)	(91,403)	(93,730)	(96,140)
Net Cash flows from operating activities	(1,821)	(1,345)	(1,755)	(585)	99
Cash flows from investing activities					
Cash was provided from:					
Sale of surplus DHB properties	2,900	3,800	16,669	11,632	2,681
Cash was applied to:					
Properties Intended for Sale	(12,886)	(16,486)	(3,638)	(7,102)	(121)
Fixed Assets	(50)	(50)	(45)	(40)	(26)
	(12,936)	(16,536)	(3,683)	(7,142)	(147)
Net Cash flows from investing activities	(10,036)	(12,736)	12,986	4,490	2,534

Prospective Cash Flow Statement	2008/09 Full Year \$000 Planned	2008/09 Full Year \$000 Projected	2009/10 Full Year \$000 Planned	2010/11 Full Year \$000 Planned	2011/12 Full Year \$000 Planned
Cash flows from financing activities					
Cash was provided from:					
Advance from NZ Debt Management Office	100,000	90,900	78,400	56,500	37,000
DHB principal repayment	95,850	10,875	14,750	250	0
Advances from Westpac	12,856	16,346	3,638	1,148	100
	208,706	118,121	96,788	57,898	37,100
Cash was applied to:					
Loans to District Health Boards	(195,850)	(142,837)	(97,050)	(63,500)	(37,000)
Repayments to Westpac	(2,852)	(2,120)	(16,306)	(5,635)	(2,600)
	(198,702)	(144,957)	(113,356)	(69,135)	(39,600)
Net Cash flows from financing activities	10,004	(26,836)	(16,568)	(11,237)	(2,500)
Net increase (decrease) in cash held	(1,853)	(40,917)	(5,337)	(7,332)	133
Opening cash balances	243,651	220,421	179,504	174,167	166,835
Closing cash balances	241,798	179,504	174,167	166,835	166,968
Comprising:					
Cash at Bank	3,798	5,911	2,524	1,942	2,075
CHFA Facility at NZ Debt Management Office	238,000	173,593	171,643	164,893	164,893
	241,798	179,504	174,167	166,835	166,968

6.1 Assumptions

6.1.1 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 purpose.

6.1.2 Responsibility

Responsibility for Statements

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

6.1.3 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.

6.1.4 Funding

Ministry of Health

The assumption is that the Ministry will provide funding of \$1.700m for the year ended 30 June 2010, \$2.100m for the year ended 30 June 2011 and \$3.550m for the year ended 30 June 2012.

Additional funding above the \$1.700m baseline is now required to fund ongoing costs of CHFA's specific residual functions. Future additional funding above the baseline level for 2011 and 2012 has not yet been approved.

CHFA is required to manage down equity and working capital to agreed levels within a reasonable

timeframe. CHFA has achieved this through approved, planned deficits over a number of years and the agreed equity range of \$500,000 to \$1,500,000 is projected to be reached during the year to 30 June 2011.

6.1.5 Lending

DHB Loans

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

6.1.6 Surplus DHB Property Disposal

Financial Breakeven Objective

Under the Property Disposal Terms of Reference, the CHFA Property Division is required to achieve a breakeven position. However, there is uncertainty about the timing of some property transactions and a deficit result can be expected in some future financial years. The anticipated level of equity over this period is however sufficient to maintain a breakeven position as required.

6.1.7 Contingent Liabilities Settlement Fund

Purpose of fund

The balance of this fund has been held as a provision against claims covered in the Statement of Contingent Liabilities. With the approval of the Ministry of Health this fund is now used for the purposes of payment of legal fees in relation to the medical claims. This has been arranged as part of the reduction of equity levels (refer 4.1.4) In the event of such claims being paid, this fund would no longer be available to meet costs and CHFA will be reliant upon the Ministry of Health for further appropriation to settle the claims. Officials have been alerted accordingly.

6.1.8 Creditors and Debtors

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

6.2 Summary of Accounting Policies

6.2.1 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 and section 198 (3)(b) of the Crown Entities Act 2004.

6.2.2 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.

The accounting policies set out below 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.

6.2.4 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.

6.2.5 Revenue

Operations

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

Interest

Interest income is accrued using the effective interest rate method.

6.2.6 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.

6.2.7 Taxation

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

6.2.8 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 statement of financial position.

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

CHFA has designated financial assets and liabilities as follows:

Financial Assets

Cash and Cash Equivalents

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

Loans and Receivables

Loans to District Health Boards (DHB's) and other receivables are designated as loans and receivables (i.e. non derivative financial assets with fixed or determinable payments that are not quoted in an active market). Loans to DHB's are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Loans and receivables issued with duration less than 12 months are recognised at their nominal value. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired.

Financial Liabilities

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

6.2.9 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 Statement of Financial Performance, unless the asset is carried at a re-valued amount in which case any impairment loss is treated as a revaluation decrease.

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

Typically, the estimated useful lives of different classes of property, plant and equipment are as follows:

Leasehold improvements

3.3 years (12.9%)

Computer Equipment

2.8 – 3.5 years (36.0% - 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%)

6.2.10 Inventory

Properties intended for sale

Properties intended for sale are assets purchased from DHBs and held by CHFA for subsequent re-sale on behalf of the DHB's. CHFA accounts for these assets as inventories as they are held for sale in the ordinary course of business.

Inventories are valued at the lower of cost or net realisable value. Any write down from cost to net realisable value is recognised in the statement of financial performance.

6.2.11 Employee Entitlements

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

6.2.12 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.

6.2.13 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.

6.2.14 Contingent Assets And Contingent Liabilities

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

CHFA has recorded no contingent assets.

Continent Liabilities of \$28,608,000 in respect of potential legal claims have been disclosed.

6.2.15 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.

Crown Health Financing Agency has the following commitments at 30 June 2009:

6.3 Statement of commitments

6.3.1 Capital

Nil

6.3.2 Operating Lease Commitments

Less than one year	\$ 550,680
One to two years	\$1,101,360
Two to five years	\$ 137,670
Over five years	nil
	\$1,789,710

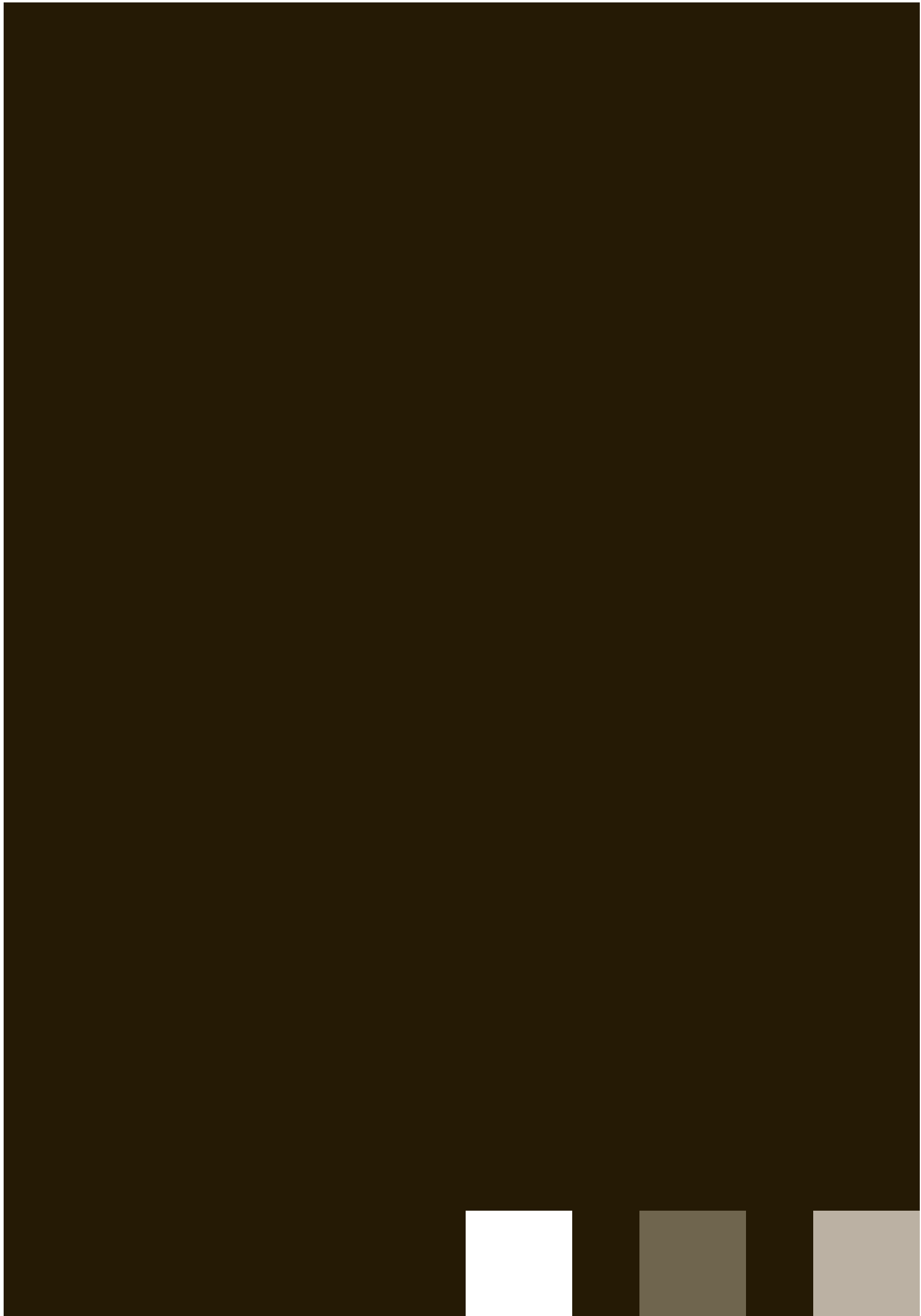
Operating lease commitments are in respect of the lease of five floors of Tourism and Travel House. The lease expires in 2012.

This statement of commitments excludes cancellable contracts.

6.4 Statement of contingent liabilities

Crown Law Office's estimate of CHFA's liability as at 30 June 2009 (based on estimated claims received of that date) arising from legal proceedings and disputes by third parties is assessed at \$28,608,000.

It should be noted, however, that CHFA is aware that there are potentially further claims in respect of the past treatment of psychiatric patients.



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