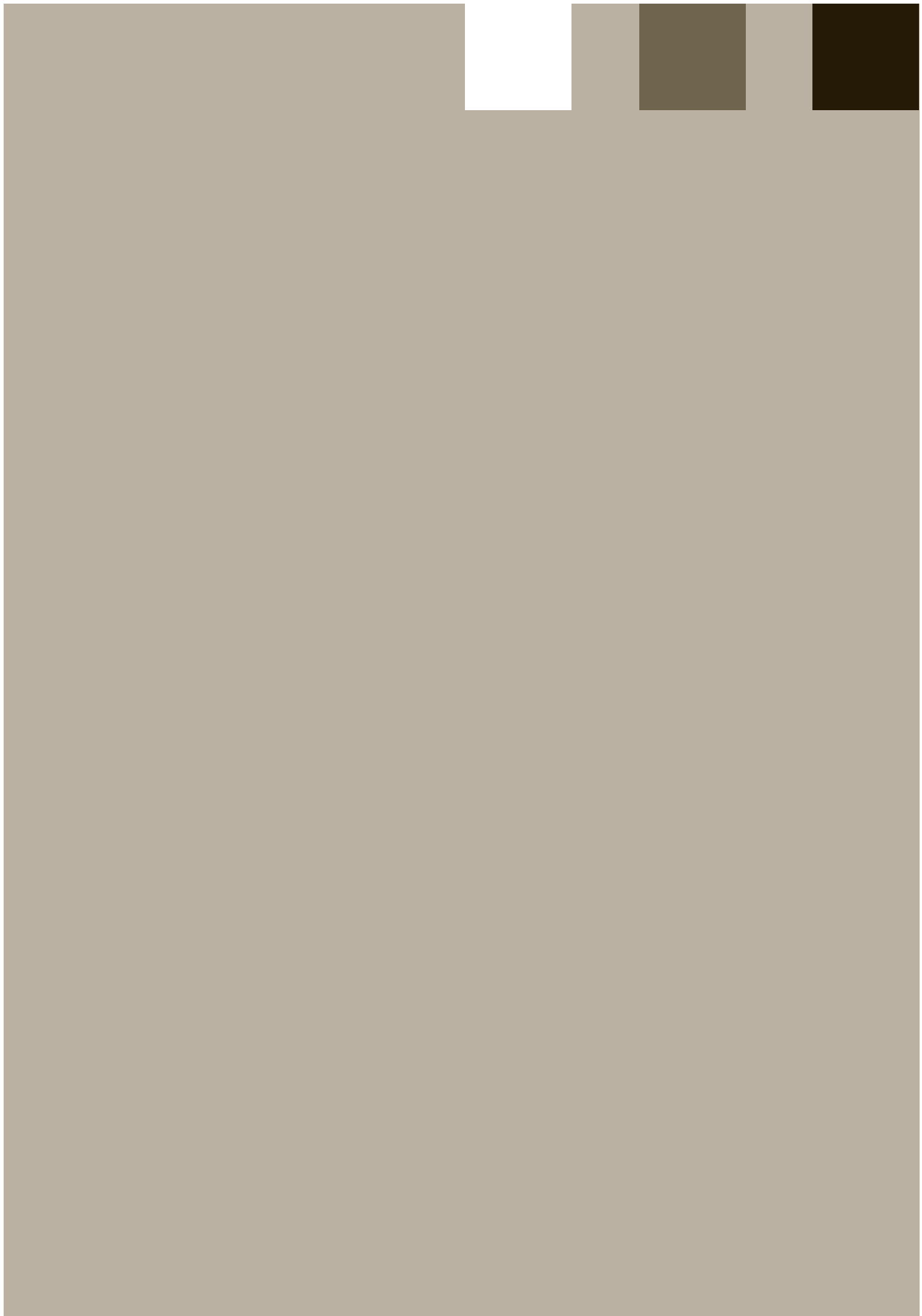




CROWN HEALTH
FINANCING AGENCY

lending, property, advisory

Statement of intent 2011-14



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chair's foreword

2

Background

The Crown Health Financing Agency (CHFA) occupies a unique position in the health sector. We are a mature organisation providing independent advice to our Responsible Ministers (the Minister of Health and for the Lending function only, the Minister of Finance).

We provide several lines of business and advice directly to District Health Boards (DHBs) and the National Health Board (NHB). We have 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. Already our public health system consumes more than 20% of total Government revenues and the ability of DHBs to contain cost growth within affordable funding levels is made more difficult by rising public expectations, an aging population and the ever increasing demand for health services, new technologies and changing models of care.

As “banker to the DHBs” the CHFA is familiar with these financial pressures. They are likely to persist in the short to medium term and to focus those who work in our health system on the need for collaborative effort and innovative responses. As outlined in this document, 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 acted to ensure that we are delivering our services in the most effective and efficient manner possible. In addition, for 2011/12, the Board has determined that CHFA will strive to improve the quality of its financial advice and seek to contribute our “bankers perspective” in areas intended to inform and influence sector financial performance, decision making and capital planning. Specifically we will seek to take a more active role in informing DHBs and their board members about the financial and service challenges facing their organisations and the sector as a whole.

Already we are working closely with the National Health Board and are committed to supporting them in their efforts to improve capital planning across the sector and the associated district and regional asset management plans. This is a natural extension of our lending role.

Lending

The DHB capital allocation and approval process is of particular interest to the CHFA Board. Demand for capital is at a level far in excess of the funding available.

The National Health Board, through its Capital Investment Committee has the task of managing capital investment across the sector. We contribute to this process by offering our opinion on the affordability of business cases being presented to the Minister for funding approval. We will continue to provide this advice and support their efforts to improve the capital processes and asset management planning.

Such processes might benefit from more central oversight of procurement, tendering, project management, post implementation review and to the extent required private financing options. Such a centralised pool of expertise is likely to free up resources for more investment in frontline services.

Property

The establishment of our Property function in 2000 was based on a nationwide assessment of the DHB property estate which judged certain assets to be surplus to requirements. Ten years on, and given the ever changing models of care, the desire for better, sooner and more convenient healthcare closer to home and our capital constraints, now might be a good time to evaluate the current sector property portfolio. In our view continued ownership of any stranded and/or unproductive assets should be subjected to a rigorous evaluation and if proven to be no longer required, disposed of in favour of investment in more modern and productive infrastructure. Such disclosure could be included within DHB asset management plans.

DHBs are 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. A central agency like the CHFA with its knowledge and experience across the sector and the property industry generally, could, with the appropriate mandate, become the focal point for the provision of such advice and assistance.

Moreover, and consistent with the Government's expectations for a more effective and efficient bureaucracy, a similar argument could be made for such knowledge and experience to be made available to the wider state sector. This would introduce efficiencies, ensure consistency in approach across the whole of government and provide assurance of compliance with sometimes very complex policy settings and regulatory requirements.

Residual

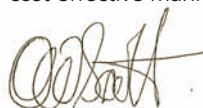
As the legal successor to the Area Health Boards, the CHFA is the defendant in a number of historic abuse claims against the Crown. Notwithstanding their complexity, it is the intention of the Board that CHFA resolve as many of these claims as possible in 2011/12. An appropriate strategy has been agreed.

Fiscal responsibility

With the authorisation of officials, we have been running operating deficits in recent years to reduce our equity to approved levels. These approved deficits, primarily due to the legal and other costs associated with the historic abuse claims have avoided the need for any additional funding. Except for the extra funding that might be required to settle the historic abuse claims, the Board is committed to living within its current level of appropriation for the period of this Statement of Intent.

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

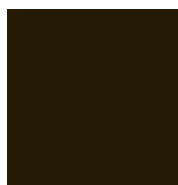
The Board is confident that the CHFA is well positioned to contribute strongly to this goal and that CHFA offers a unique value proposition through our mix of services, capability and knowledge. We will seek to continue to add value to the sector by ensuring real improvements in value for money within 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.



Alastair Scott

Chair

Crown Health Financing Agency



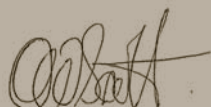
Board Statement

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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.

Sections 1 to 4 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. Sections 5 and 6 include our financial and non-financial measures and standards that we aim to achieve for 2011/12.



Alastair Scott
Chair

Date: 5th May 2011



Murray Burns
Board Member

Date: 5th May 2011

1.0 Our contribution to the sector

The health and disability system outcomes overall are for “New Zealanders to live longer, healthier and more independent lives” and that “New Zealand’s economic growth is supported”. CHFA aims to support these outcomes and the Ministry of Health’s intermediate outcomes for a “more unified and improved health and disability system” where “people receive better health and disability services”. CHFA contributes to these outcomes 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, effective allocation of resources, efficiency and value for money

These outcomes seek to achieve a system that operates efficiently, where services deliver relatively large gains in health status for each additional unit of resource. They support the wider government expectation for a smarter public health system that delivers maximum value for each tax dollar and are aligned with the Minister’s Letter of Expectations for 2011/12 and the Enduring Letter of Expectations dated December 2008.

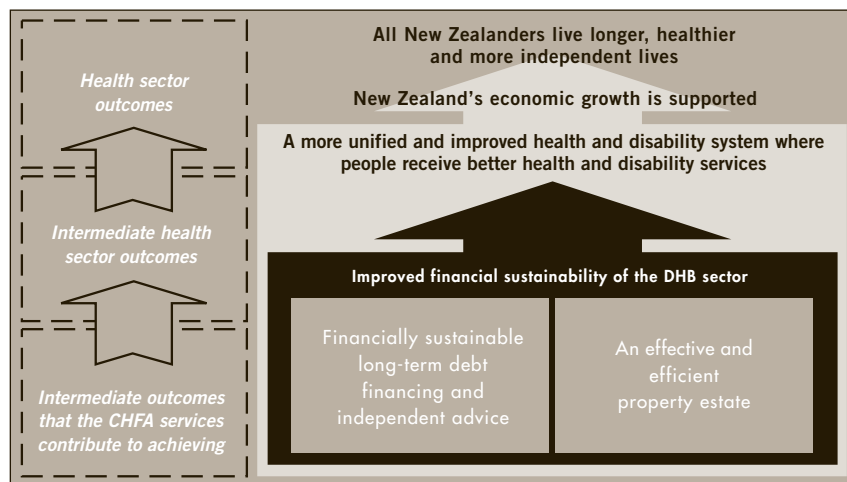
Our contribution to achieving efficiency and value for money has a flow-on impact to DHB financial performance and the financial sustainability in the DHB sector. Achieving financial sustainability will ensure that the DHB sector has sufficient financial resources to support future service needs and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

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

- Demonstrating a strong understanding of its business drivers
- Setting tight realistic budgets and managing within those budgets
- Having realistic pay and employment conditions
- Continuing to review how services can be improved and delivered more cost effectively.

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

Figure 1: Hierarchy of outcomes:



Government Objective:

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

1.1 Our core business functions

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 any existing private sector debt or to finance new capital investment. We provide an independent line of advice to the Ministers' of Health and Finance on the current financial performance of individual DHBs and the sector and perceived risks to the sector's financial sustainability.

We provide independent advice to the National Health Board on the affordability of capital investment proposals submitted by DHBs for their support and recommendation to Ministers' for funding approval.

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 2011/12.

2.0 Our business

2.1 Lending

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

The CHFA contributes by:

- Providing DHBs with cost-effective and financially sustainable long-term debt (primarily for new capital investments)
- On-going credit risk assessment, consistent with commercial banking practice
- Independent financial advice to Responsible Ministers, National Health Board, DHBs, and other stakeholders

And working in association with

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

Background

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 us the opportunity to encourage prudent disciplines in DHBs through the negotiation, supervision and monitoring of the use of debt and debt levels.

Our Composite Terms of Reference requires that, we apply "normally accepted lending criteria" to our lending portfolio, and recognise that DHBs are required to operate on a financially sustainable basis.

As at 31 March 2011, lending limits of \$2.09 billion had been approved, of which DHBs had drawn down \$1.58 billion. Funding for our loan portfolio is provided by the New Zealand Debt Management Office (DMO), with the DMO sourcing funds as part of wider Government bond tendering activity.

Only \$50.0 million of private sector debt borrowed prior to 2003 is left to be refinanced in 2015. New lending activity is restricted to the funding of approved major new capital projects.

Current activity

Our Lending function is divided into the three broad sets of activities summarised in the table above – providing loans, monitoring DHB financial performance, and providing independent advice to stakeholders.

A significant and emerging change from previous years is our work with the National Health Board and our planned contribution to the implementation of its refreshed capital planning and approval processes. In 2011/12, it is our expectation that we will provide assistance and support in the further development of sector long term capital intention plans and the associated district and regional asset management plans.

These activities, and how we measure success in their delivery, are outlined in the following sub-section.

2.1.1 Measuring & evaluating our performance:

Cost-effective long-term financing

Our loan facilities are designed to provide DHBs with the most cost effective borrowing at minimal administrative cost. In recent years we have been encouraging DHBs to borrow at fixed interest rates, with maturities spread over a ten-year period. This will tend to deliver a stable cost of funding approximately equal to the long-term average of the long-term government bond rate (exclusive of our 0.15% administrative margin), without the need for financial derivative products.

Success in this measure is evaluated by comparing actual sector interest costs to the long-term average of long-term government bond rates.

On-going credit risk assessment

Our approach to DHB credit risk monitoring is consistent with commercial banking practice and focuses principally on our assessment of whether actual and forecast DHB cash flow performance is sufficient 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.

Structure and discipline in our monitoring activity is achieved by compliance with monthly, quarterly, and annual report-based processes. These processes are intended to ensure the robustness and consistency of our independent financial advice.

Success in this measure is evaluated by the extent of compliance (ie. timeliness and completeness of internal and external reporting).

Independent financial advice

We provide independent and timely financial advice to our Responsible Ministers, the National Health Board, DHBs (and their support agencies), and officials at the Ministry of Health and Treasury.

Our advice is intended to inform and influence sector financial performance and decision making, and for the most part covers three broad areas:

- *DHB financial performance*: Our advice promotes early problem diagnosis and intervention, to assist DHBs achieve their financial targets and to protect the quality of our loan portfolio
- *DHB major investment proposals*: Our advice promotes the development and approval of capital requests which are consistent with the long-term financial sustainability of the proposing DHB and the health system generally
- *National Health Board “Capital Process”*: DHB investment proposals are subject to approval processes managed by central agencies (including central agency support for long-term asset management & investment plans).

We are assisting the NHB with the development and improvement of their capital approval and allocation processes. Our advice promotes the development of an approval process which is based on long-term planning, and for the development of long-term plans which are credibly consistent with long-term financial sustainability.

From time to time, we may have the opportunity to contribute our “banker’s perspective” in other areas – in particular:

- *Other Long-term / structural issues*: Our financial monitoring may help us identify potential long-term and/or structural threats to the sector’s financial sustainability. Our advice promotes awareness and discussion of any such issues, both within central agencies and at DHB Executive and Board level
- *DHB financial risk management (& similar)*: We may be able to provide financial risk management or similar advice to individual DHBs (for example, interest rate and other Treasury-related risks & policies). Our advice promotes the development of a relatively slow-growing and stable DHB cost base, consistent with expected revenue growth
- *Contribution to DHB collective initiatives*: We may contribute to DHB collective initiatives that might benefit from our lender’s perspective and expertise (for example, the establishment of centralised DHB cash management processes). Our advice typically focuses on the cost-effectiveness of such initiatives.

For all of the above areas of advice, success will be evaluated based on formal and informal stakeholder feedback – in particular, we will assess (i) the extent to which key sector participants are aware of issues identified by CHFA, and (ii) the extent to which key stakeholders are satisfied with the timeliness and usefulness of our advice.

Where possible, we 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
<ul style="list-style-type: none"> • Cost-effective long-term financing for new capital investments 	<ul style="list-style-type: none"> • Interest costs are approximately equal to the long-term average of the 10-year government bond rate
<ul style="list-style-type: none"> • On-going credit risk assessment, consistent with commercial banking practice 	<ul style="list-style-type: none"> • Appropriate assessment and reporting processes are in place and complied with
<ul style="list-style-type: none"> • Independent financial advice to Responsible Ministers, National Health Board, DHBs, & other stakeholders 	<ul style="list-style-type: none"> • CHFA advice is (i) timely and well understood by sector participants, and (ii) considered useful by stakeholders; in each case, as indicated by formal feedback received where appropriate

2.1.3 Opportunities and Challenges

Opportunities

The DHB sector continues to face significant financial challenges, with on-going productivity improvements required to control costs within likely revenue growth. CHFA can contribute to the improvement of the sector's long-term financial sustainability by:

- Providing advice to DHB Board members on the financial and service challenges facing their organisations and the sector as a whole
- Continuing to advise on DHB financial performance and the affordability of individual DHB investment proposals
- Enhancing our contribution to the development of the Capital Process, consistent with our formalised engagement with National Health Board
- Continuing to seek out other opportunities to contribute useful advice from a "banker's perspective", including

- Identifying and raising awareness of broader trends impacting on the future financial sustainability of the sector, in central agencies and at DHBs
- Providing financial risk management & similar advice to individual DHBs
- Contributing to DHB collective initiatives, as appropriate
- Promoting improved relationships / linkages between DHBs and central agencies (particularly Treasury).

Challenges

As in prior years, the principal obstacles to CHFA's ability to deliver value are likely to be informational – in particular, continued efforts will be made to ensure that:

- There is sufficient understanding of the drivers of DHB performance within CHFA
- The information upon which CHFA bases its analysis is timely and accurate
- There is adequate co-ordination between the various groups and individuals currently working on financial sustainability issues.

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 include:

CHFA Service	Service Description
Lending	CHFA provides cost-effective long-term debt financing to DHBs
Monitoring	CHFA follows credit risk assessment policies and practices which are consistent with commercial banking practice
Independent Financial Advice	CHFA provides valuable independent financial advice to Responsible Ministers, National Health Board, DHBs, and other stakeholders

Output Performance and link to CHFA outcomes are set out in section 5.1.

2.2 Property

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 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 holding costs is provided for by way of a 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 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.

Legislation allows DHBs to sell properties to the CHFA without them having to undertake the Crown 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 Crown 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.

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 offers 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.

Purchased from	Property	Current status
Whanganui DHB	Taihape section	For sale
Whanganui DHB	Balance of land at Jubilee hospital	For sale
Hawkes Bay DHB	Napier hospital site	Subject to a conditional contract until 30 June 2011
Canterbury DHB	Queen Mary hospital	Part property to be transferred to Department of Conservation. The balance is now to be marketed for sale
Capital and Coast DHB	Lot 8, Kenepuru, Porirua	Property cleared for sale but with progress dependant on the signing of the Crown's settlement deed with Ngati Toa
Southern DHB	156 & 164 Kew Road and 194 Dee Street, Invercargill	Kew Road properties cleared for sale Dee Street to be held until expiry of peppercorn lease in 2012

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 \$33.3m with these capital proceeds being reinvested in the sector. A further \$12.5m from property transactions is anticipated in 2012.

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.

Property client revenue includes both recovery of the costs of our staff time in managing the disposal of properties owned by CHFA and in providing property advice to DHBs. Both of these services are contestable and the quantum of client revenue (over \$0.250m) is considered to be a measure of our success in these areas.

2.2.2 CHFA Main Measures and Standards

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

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
- Providing advice and oversight of procurement, tendering, project management and post implementation of proposed property developments.

Property stock take: Establishment of the Property function was predicated on an independent assessment of the DHB property estate and the identification of that part of the estate that could be surplus to future requirements. Continuing changes in models of health care and the likelihood of more care being delivered in the community suggests that another “stock take” of the DHB sector property estate could yield further opportunities for the realisation of unproductive assets for investment in modern healthcare infrastructure.

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 helps to 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.

Whole of government initiative: Consistent with the Government’s expectations for a more effective and efficient bureaucracy a central agency like the CHFA with its knowledge and experience in the property industry, could, with the appropriate mandate, become the focal point for the provision of such advice and assistance across the wider state sector.

Challenges

Disposal: Compliance with the statutory Maori Protection Mechanism and the Public Works Act are a key challenge to the disposal process. Any delays in processing increase property holding costs and diminish the capital available for reinvestment.

Property market: Historically CHFA has delivered significant surpluses to DHBs on disposal of their surplus property assets. This record may be at risk due to the ‘less saleable’ nature of future surplus property with premium surplus properties having previously been identified or disposed of. In addition, the risks associated with the property market remaining ‘soft’ and the associated slow recovery from recession are adding further complexity to the disposal of property.

Business model: Our current business model allows us to release capital to DHBs prior to the eventual sale of the surplus property on the open market. Historically it has proven to be a successful model. More recently however, given the downturn in the property market it has been less so with significant downside risk. The risk is accentuated by the fact that these transactions are currently facilitated by bank finance. Delays in the sales process for whatever reason give rise to the possibility for a substantial loss on sale.

2.2.4 Output class two: Property advice and disposal services

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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 include:

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 provide advice to 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 are set out in section 5.1

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.

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 2011, 738 claims have been vested in the CHFA since establishment. One substantive matter is active; the psychiatric hospital patients’ claim (237 individual claimants), where total damages being sought are \$124.3 million.

The CHFA is committed to resolving these liabilities and is party to a whole of Government approach to resolving these and other similar historic allegations against the Crown [collectively known as the historic abuse claims]. This inter-agency group briefed the Attorney General in January 2011 and in part sought approval for a CHFA strategy to settle its claims.

This strategy will be pursued in 2011/12 but will require a new appropriation for funds.

The remaining claims are mostly settled or are considered 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 September 2012.

The CHFA has outsourced the day-to-day management of the lease. As at 31 March 2011, and inclusive of CHFA’s tenancy, 100% of the lease space has been sublet, and we hold written agreement to subleasing all of the total lease space through to the expiry of our head lease in 2012. There are no further rent reviews through to the end of the lease.

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 over time to successfully resolve these responsibilities.

The CHFA monitors and reports annually on the total cost of 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

CHFA is party to the whole-of-government initiative to resolve long outstanding historic abuse cases against the Crown. Our medium term objective to reduce the number and quantum of the medical claims is to a large degree dependent on outcome of this initiative.

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

2.3.4 Output class three: Residual functions

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 September 2012.

Output performance and link to CHFA outcomes are set out in section 5.1

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.

All of our staff have a private sector background and bring to the organisation a diverse range of skills in general management, banking and finance, property management and accountancy. Overall the group has developed 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 participates 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 2011/12 we will:

- Maintain financial and health sector capability to interact effectively with DHBs and the National Health Board
- 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 and the National Health Board
- 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

2011/12 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.

CHFA is fully committed to achieving our outcomes as stated in the Forecast Statement of Service Performance (Section 5.0)

We have embedded the “managing for outcomes framework” into our planning processes covering the full management cycle including implementation, delivery and review. Last year CHFA became the first public sector entity to achieve the highest audit ratings for service performance information and associated systems and controls. We will seek to continue to maintain this high standard and further refine our approach to ensure compliance with stakeholder expectations and the required implications for planning, management and monitoring.

We regularly challenge ourselves to ensure that our contributions to the sector are closely aligned to our vision and sector outcomes. 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.

Financial sustainability and cost effectiveness

The CHFA is focused on managing its business within its baseline appropriation. Our prospective financial statements demonstrate that this can be achieved up to the three year forecast period ending 30 June 2014. However, the ability to continue to live within our means is to a large degree dependent on the strategy adopted to resolve the historic abuse claims and retention of the existing level of appropriation.

CHFA has for a number of years, with the agreement of the Ministry of Health, been operating planned deficits to reduce equity levels down to the target range of \$500,000 to \$1,500,000. These deficits are a result of the payment of the legal fees in relation to resolving the historic abuse claims from CHFA equity. This approach continues out to the year ending 30 June 2014 where the equity level is projected at \$2.754m.

The Board is aware that the continued running of deficits is not acceptable in the long term. Opportunities exist to re-organise CHFA’s funding base. These will be pursued in 2011/12.

Lending: Net forecast expenditure for the year ending 30 June 2012 is \$1.365m.

This provides for loan administration of long term lending to DHBs, the monitoring of the financial performance of the DHB sector, providing independent advice and reporting to stakeholders.

Residual:

Net forecast expenditure for the year ending 30 June 2012 is \$1.366m as follows:

External legal costs of defending historic abuse medical claims	\$0.347m
Residual lease costs (T&T House) <i>Note sub tenant rental income of \$0.580m is returned to the Crown through the Ministry of Health</i>	\$0.749m
CHFA costs	\$0.310m
Total	\$1.406m

The T&T House lease expires in September 2012. The lease includes a reinstatement clause which may require CHFA to re-instate all five floors on expiry of the lease. The lease exit strategy is being actively managed and provision is being made in the accounts for this potential cost.

Legal costs in resolving the historic abuse medical claims plan are monitored closely in co-operation with Crown Law Office to ensure that actual costs are contained.

Property: There is no cost to the Crown. All costs are recovered from client revenues and share of surplus on sale of properties.

Organisational Capability: Costs for maintaining organisational capability are included in the figures summarised above, specifically \$24,000 is budgeted for training and development.

Enhance the effectiveness of our services

The CHFA continually examines opportunities to improve and strengthen the quality of its services and advisory capability in a cost effective manner. In 2011/12, 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.

Performance measures are set out in section 5.1

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:

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 encompass the following:

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		✓	✓
	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	✓		

4.3 Other Reporting

Lending Administration: On dates, to be advised by Treasury, the CHFA will provide 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 request, the CHFA will prepare and deliver to its Responsible Ministers, its draft Statement of Intent for the 2011-2012 year by no later than 31 days before Budget day 2011.

By 31 August 2011, 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.

5.0 Forecast Statement of Service Performance for 2011/12

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"> Low and stable interest costs 	<ul style="list-style-type: none"> As at 30 June 2012, the average interest rate on the CHFA portfolio is approximately equal to the long-term average of the 10-year government bond rate
	Monitoring	<ul style="list-style-type: none"> Credit risk assessment policies & practices are consistently applied 	<ul style="list-style-type: none"> All Policies & Procedures are complied with, including complete and timely production of all internal and external reporting
	Independent Financial Advice	<ul style="list-style-type: none"> CHFA perspectives are timely, well understood, and are valued by recipients 	<ul style="list-style-type: none"> As indicated by formal stakeholder feedback annually, including the National Health Board, and otherwise for specific initiatives

The 2012 standard is equally relevant for the two out years. There are no additional standards, and the standards for the two out years are unchanged from the 2012 standard.

Baseline and trend data

Performance Measure: Low and stable interest costs

Comparison of actual interest rates charged to DHBs compared with average bond rate.

Year ended	CHFA rate	Bond rate
June 2008	6.5%	6.4%
June 2009	6.3%	6.2%
June 2010	6.1%	6.0%

Performance Measure: CHFA perspectives are timely, well understood, and are valued by recipients

Results of formal stakeholder feedback

Year ended	Projected	Actual
June 2009	Not measured	Not measured
June 2010	100% good or very good	100% good or very good
June 2011	100% good or very good	
June 2012	100% good or very good	

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 health sector from sale of unproductive assets	By 30 June 2012, CHFA will: <ul style="list-style-type: none"> • Complete 4 property disposal transactions • Release \$12,500,000 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 2012, CHFA property advisory fees attain the budget of \$278,000 For completed assignments client satisfaction rating is no less than 60% Good or better

The uncertainty in the property market and the extent to which DHB's have surplus properties for disposal and the timing of such disposals makes forecasts beyond 30 June 2012 extremely difficult to the point where a standard for the two out years would be impractical and not relevant or helpful.

Similarly no standard has been set for client revenue.

Baseline and trend data

Performance Measure: Total amount of capital released to the health sector from sale of unproductive assets

Year ended	Projected	Actual
June 2009	3 transactions \$21.0m	5 transactions \$18.5m
June 2010	2 transactions \$2.0m	6 transactions \$3.8m
June 2011	4 transactions \$23m	
June 2012	4 transactions \$12.5m	

Performance Measure: CHFA advice contributes to the quality of property decisions, minimises risk and improves value for money

Client revenue earned

Year ended	Projected	Actual
June 2009	\$150k	\$144k
June 2010	\$174k	\$218k
June 2011	\$278k	
June 2012	\$278k	

Property advice service: Client satisfaction rating

Year ended	Projected	Actual
June 2009	Not formally measured	Not formally measured
June 2010	No less than good	Basis of survey changed
June 2011	60% good or better	4 Very good, 1 Good
June 2012	60% good or better	

Output Class Three [Residual]

CHFA Outcome	CHFA Service	Performance Measure	Standard for 2012	Standard for 2013	Standard for 2014
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 2012: <ul style="list-style-type: none"> Total number of active claims reduced to less than 200 Contingent liability exposure as assessed by Crown Law Office is reduced to \$19.5m 	By 30 June 2013: <ul style="list-style-type: none"> Total number of active claims reduced from 200 to less than 180 Contingent liability exposure as assessed by Crown Law Office is reduced from \$19.5m to \$17.5m 	By 30 June 2014: <ul style="list-style-type: none"> Total number of active claims reduced from 180 to less than 160 Contingent liability exposure as assessed by Crown Law Office is reduced from \$17.5m to \$15.5m
		Property Leases	Rental recovery exceeds cost of head lease Arrangements in place for exiting the Head Lease in September 2012 Arrangements in place for alternative lease arrangements for CHFA	Rental recovery exceeds cost of head lease until expiry of lease on 30 September 2012 Head lease exited and finalised Alternative lease arrangements made for CHFA	All CHFA obligations resolved

Baseline and trend data

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Performance Measure: Number of medical claims resolved and Crown contingent liability exposure reduced

Year ended	Projected	Actual
June 2009	Number of claims is reduced	266
June 2010	From 266 to less than 246 \$28.2m to \$26.2m	247 \$26.1m
June 2011	From 255 to less than 200 From \$25.6m to \$19.5m	
June 2012	To less than 200 To \$17.5m	
June 2013	From 200 to less than 180 \$17.5m to \$15.5m	
June 2014	From 180 to less than 160 \$15.5m to \$13.5m	

Performance Measure: Rental recovery exceeds cost of head lease

Year ended	Standard	Actual
June 2009	Exceeds cost	Exceeded cost by \$86k
June 2010	Exceeds cost	Exceeded cost by \$50k
June 2011	Exceeds cost	
June 2012	Exceeds cost	
June 2013	Exceeds cost	
June 2014	Not applicable	

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. Assessed as 'very good' by Audit New Zealand
Invest in the capability of our people	Staff are positive about career opportunities, professional growth and job satisfaction as determined by periodic survey
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
Attaining long term financial sustainability for CHFA	The prospective financial statements included in the 2012/13 Statement of Intent clearly demonstrate the long term financial sustainability of CHFA

Baseline and trend data

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Performance Measure: Staff are positive about career opportunities, professional growth and job satisfaction as determined by periodic survey.

Year ended	Standard	Actual
June 2009	Not measured	Not measured
June 2010	Periodic survey carried out with a positive outcome	Not achieved Next survey planned for September 2010
June 2011	Periodic survey carried out with a positive outcome	Achieved Staff survey was positive in all areas
June 2012	Periodic survey carried out with a positive outcome	

Performance Measure: The Statement of Intent and Statement of Service Performance clearly state CHFA's services, outcomes, performance measures and standards. Assessed as "very good" by Audit NZ

Category	2011 and 2012 targets	2010 Actual	2009 Actual	2008 Actual
Management control environment	Very good	Very good	Very good	Very good
Financial information, systems and controls	Very good	Very good	Very good	Very good
Service performance information and associated systems and controls	Very good	Very good	Good	Not assessed

5.2 Prospective Statement of Service Performance

Output classes	Value 2011/2012 (\$'000)			
	(1) Lending	(2) Property	(3) Residual	Total
Appropriation	1,389	0	311	1,700
Interest income from District Health Boards	105,114	0	0	105,114
Other income	127	1,030	40	1,197
Total Income	106,630	1,030	351	108,011
Interest charge from NZ Debt Management Office	105,114	0	0	105,114
Operating expenditure	1,365	263	1,406	3,034
Total Expenditure	106,479	263	1,406	108,148
Surplus / (Deficit)	151	767	(1,055)	(137)

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 2014

Prospective Statement of Comprehensive Income	2010/11 Full Year \$000 Planned	2010/11 Full Year \$000 Projected	2011/12 Full Year \$000 Planned	2012/13 Full Year \$000 Planned	2013/14 Full Year \$000 Planned
Income:					
Crown Funding	1,700	1,700	1,700	1,700	1,700
Additional Crown Funding		100			
Interest Revenue:					
- District Health Boards	101,709	88,336	105,114	115,117	119,335
- Other	116	466	156	140	134
CHFA share of surplus on sale of properties	977	0	750	0	0
Other Income	290	289	291	291	291
Total Revenue	104,792	90,891	108,011	117,248	121,460
Expenditure:					
Interest Expense - NZ Debt Management Office	101,709	88,336	105,114	115,117	119,335
Residual asset management	759	741	749	205	0
Legal expenses - Medical Claims	1,057	157	347	297	297
Salaries	1,046	960	1,099	1,120	1,141
Board Fees	96	92	96	96	96
Projects	250	250	200	200	200
Depreciation	59	60	76	63	54
Other expenses	516	466	467	495	516
Total Expenses	105,492	91,062	108,148	117,593	121,639
Net Operating Surplus (Deficit) and Total Comprehensive Income (Deficit)	(700)	(171)	(137)	(345)	(179)

Prospective Statement of Changes in Equity	2010/11 Full Year \$000 Planned	2010/11 Full Year \$000 Projected	2011/12 Full Year \$000 Planned	2012/13 Full Year \$000 Planned	2013/14 Full Year \$000 Planned
Shareholders interest at Start of Period	2,752	3,586	3,415	3,278	2,933
Net operating surplus/(deficit) and total comprehensive income (deficit) for the period	(700)	(171)	(137)	(345)	(179)
Equity at end of period	2,052	3,415	3,278	2,933	2,754
Consisting of:					
Residual/Lending equity	1,673	3,622	2,717	2,353	2,157
Property equity	379	(207)	561	580	597
	2,052	3,415	3,278	2,933	2,754

Prospective Statement of Financial Position	2010/11 Full Year \$000 Planned	2010/11 Full Year \$000 Projected	2011/12 Full Year \$000 Planned	2012/13 Full Year \$000 Planned	2013/14 Full Year \$000 Planned
Crown Equity	2,052	3,415	3,278	2,933	2,754
Current Assets					
Cash and bank	132,783	127,839	96,625	84,909	72,156
Debtors	17,437	17,789	20,336	21,727	23,773
Advances to District Health Boards	249,079	205,500	263,246	331,626	71,620
Inventory - properties intended for sale	3,500	12,325	9,650	0	0
Total Current Assets	402,799	363,453	389,857	438,262	167,549
Non Current Assets					
Advances to District Health Boards	1,418,956	1,519,147	1,647,116	1,648,736	1,931,342
Fixed assets	104	95	74	65	47
Total Non Current Assets	1,419,060	1,519,242	1,647,190	1,648,801	1,931,389
Total Assets	1,821,859	1,882,695	2,037,047	2,087,063	2,098,938
Current Liabilities:					
Accounts Payable & accruals	17,530	18,119	19,768	21,842	23,896
Advances from Westpac - Property transactions	3,844	2,603	270	0	0
Advances from NZ Debt Management Office	379,357	327,991	355,171	413,552	140,946
Total Current Liabilities	400,731	348,713	375,209	435,394	164,842
Non Current Liabilities:					
Advances from NZ Debt Management Office	1,418,956	1,519,147	1,647,116	1,648,736	1,931,342
Advances from Ministry of Health - Property transactions	0	11,300	11,300	0	0
Provision for make good costs	120	120	144	0	0
Total Non Current Liabilities	1,419,076	1,530,567	1,658,560	1,648,736	1,931,342
Total Liabilities	1,819,807	1,879,280	2,033,769	2,084,130	2,096,184
Net Assets	2,052	3,415	3,278	2,933	2,754

Prospective Cash Flow Statement	2010/11 Full Year \$000 Planned	2010/11 Full Year \$000 Projected	2011/12 Full Year \$000 Planned	2012/13 Full Year \$000 Planned	2013/14 Full Year \$000 Planned
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Operating Income	1,700	1,800	1,700	1,700	1,700
Interest Received					
- DHB Loan Advances	100,617	87,091	101,531	112,878	117,289
- Other	116	526	156	140	134
CHFA share of surplus on sale of properties	477	0	750	0	0
Other Income	895	863	871	455	291
Net GST	1	0	0	0	0
	103,806	90,280	105,008	115,173	119,414
<i>Cash was applied to:</i>					
Payments to suppliers and employees	(3,620)	(2,802)	(2,958)	(2,730)	(2,198)
Transfer to MOH	(606)	(574)	(580)	(164)	0
Net GST	0	(514)	0	0	0
Interest Paid - DMO	(100,617)	(87,091)	(101,531)	(112,878)	(117,289)
	(104,843)	(90,981)	(105,069)	(115,772)	(119,487)
Net Cash flows from operating activities	(1,037)	(701)	(61)	(599)	(73)
Cash flows from investing activities					
<i>Cash was provided from:</i>					
Sale of surplus DHB properties	23,275	3,053	10,675	9,997	0
<i>Cash was applied to:</i>					
Properties Intended for Sale	(9,726)	(6,058)	(7,604)	(486)	0
Fixed Assets	(43)	(46)	(50)	(80)	(80)
	(9,769)	(6,104)	(7,654)	(566)	(80)
Net Cash flows from investing activities	13,506	(3,051)	3,021	9,431	(80)

Prospective Cash Flow Statement	2010/11 Full Year \$000 Planned	2010/11 Full Year \$000 Projected	2011/12 Full Year \$000 Planned	2012/13 Full Year \$000 Planned	2013/14 Full Year \$000 Planned
Cash flows from financing activities					
<i>Cash was provided from:</i>					
Advance from NZ Debt Management Office	202,756	285,189	155,150	60,000	10,000
DHB principal repayment	250	125	0	0	0
Advances from Westpac / MOH	4,221	6,412	1,164	229	0
	207,227	291,726	156,314	60,229	10,000
<i>Cash was applied to:</i>					
Loans to District Health Boards	(243,356)	(318,064)	(185,715)	(70,000)	(22,600)
Repayments to Westpac / MOH	(18,998)	(12,553)	(4,773)	(10,777)	0
	(262,354)	(330,617)	(190,488)	(80,777)	(22,600)
Net Cash flows from financing activities	(55,127)	(38,891)	(34,174)	(20,548)	(12,600)
Net increase (decrease) in cash held	(42,658)	(42,643)	(31,214)	(11,716)	(12,753)
Opening cash balances	175,441	170,482	127,839	96,625	84,909
Closing cash balances	132,783	127,839	96,625	84,909	72,156
Comprising:					
Cash at Bank	2,505	5,348	4,699	2,983	2,830
CHFA Facility at NZ Debt Management Office	130,278	122,491	91,926	81,926	69,326
	132,783	127,839	96,625	84,909	72,156

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 continue to provide funding of \$1.700m for the years ended 30 June 2012, 2013 and 2014.

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 quantum and timing of some property transactions and a deficit result can be expected in some financial years. The anticipated level of equity over this period is however sufficient to maintain a breakeven position as required.

6.1.7 Settlement of Contingent Liabilities

In previous years CHFA held a Contingent Liability Settlement Fund as a provision against claims covered in the Statement of Contingent Liabilities. With the approval of the Ministry of Health from 1 July 2009 this fund was absorbed into general equity for the purposes of payment of legal fees in relation to the medical claims. This was arranged as part of the progressive reduction of CHFA total equity levels. In the event of such claims being paid, this fund is 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.

6.2.3 Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

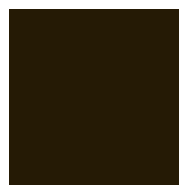
The measurement base applied is historical cost modified by the revaluation of certain assets and liabilities as identified in this statement of accounting policies.

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 balance sheet.

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

CHFA has designated financial assets and liabilities as follows:

Financial Assets

Cash and Cash Equivalents

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

Loans and Receivables

Loans to 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

1.3 years (12.9%)

Computer Equipment

2.1 – 2.8 years (36.0% - 48.0%)

Office Equipment

2.8 – 13.9 years (7.2% - 36.0%)

Furniture and Fittings

3.3 – 11.9 years (8.4% - 30.0%)

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 fair market value. Any write down from cost 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.

Contingent Liabilities of \$24.8m 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.

6.3 Statement of commitments

Crown Health Financing Agency has the following commitments at 30 June 2011.

6.3.1 Capital

Nil

6.3.2 Operating Lease Commitments

Less than one year	\$ 580,151
One to two years	\$ 145,038
Two to five years	\$ nil
Over five years	\$ nil
	\$725,189

Operating lease commitments are in respect of the lease of five floors of Tourism and Travel House. The lease expires in September 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 2011 (based on estimated claims received of that date) arising from legal proceedings and disputes by third parties is assessed at \$24.8m.

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

appendix: directory

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Board Members

Alastair Scott (Chair)

Murray Burns

Philippa Dunphy

Ingrid Collins

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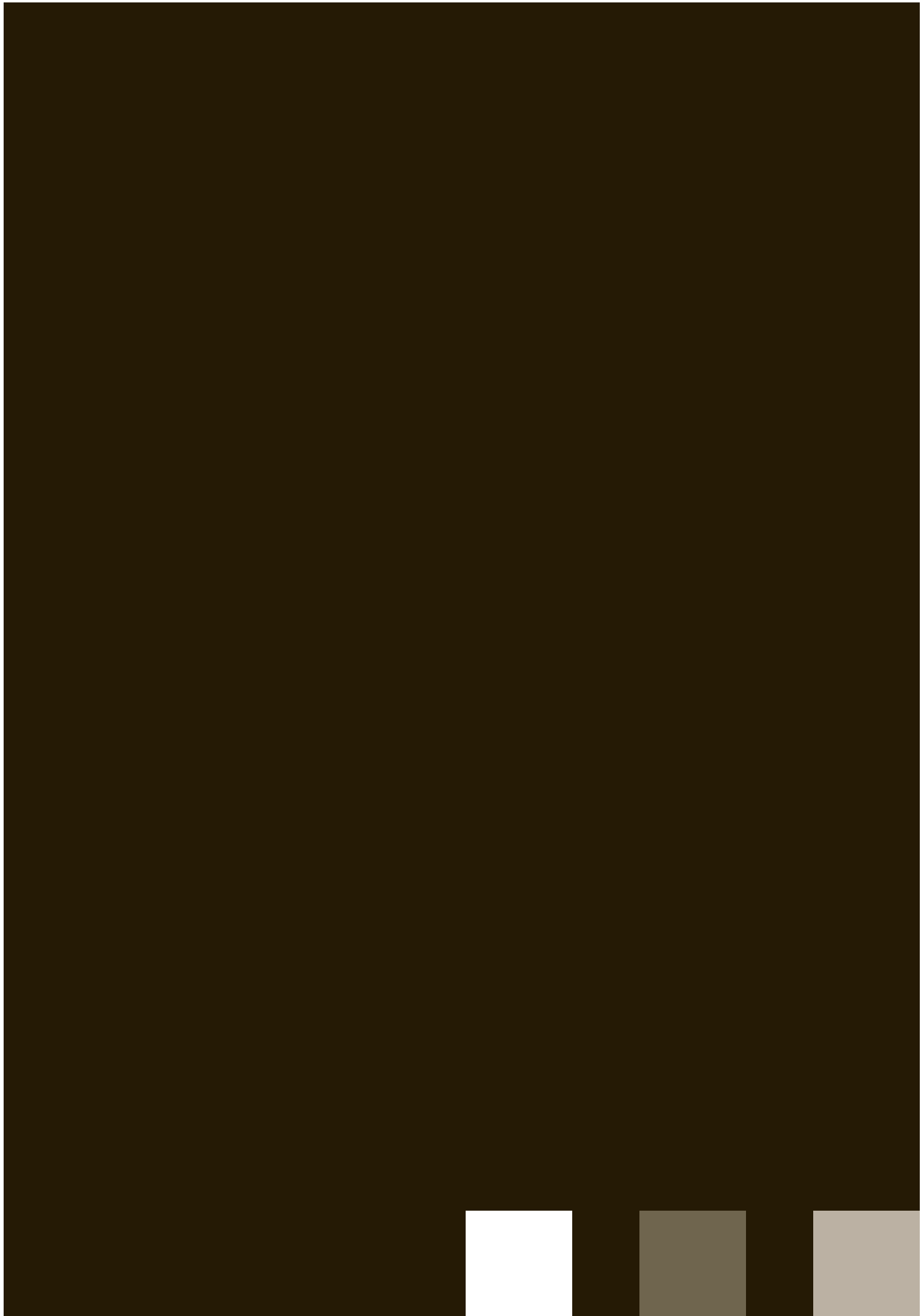
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Auditor

Audit New Zealand on behalf of the Auditor-General



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