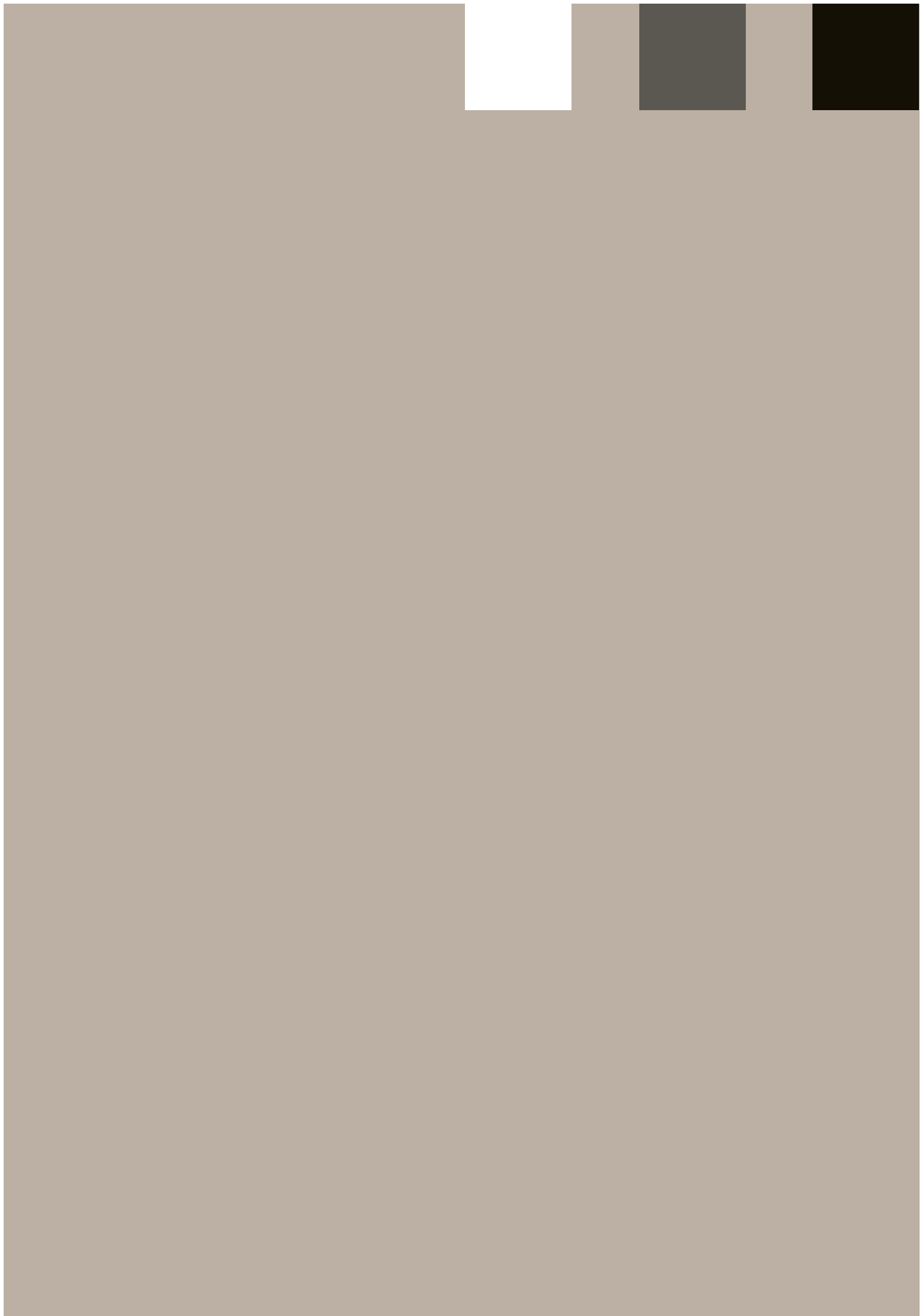




Annual Report 2010



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chair's report

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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, the Minister of Finance and the National Health Board.

We also provide several lines of business directly to District Health Boards (DHBs). 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.

The year in review

In 2009, the Board gave priority to ensure that our lending, property and residual functions were delivered efficiently, and that the quality of our services and advice was maintained. We also encouraged management to work collaboratively with the National Health Board and to provide support for its establishment and implementation of the recommendations of the Ministerial Review Group.

Lending

The lending function is well established with loan application, credit assessment and monitoring procedures similar to those practiced by the private sector banks. As at 30 June 2010 loans approved by the CHFA Board totalled \$1,969m. Actual loans outstanding were \$1,406m.

Except for \$120 million of private sector bonds issued by one DHB, the CHFA has refinanced all other long term bank debt. The focus is now on the provision of "new debt" for major capital investments.

Property

In 1999, the CHFA was assigned the function of assisting DHBs to dispose of surplus property assets thereby releasing funds from under performing assets for reinvestment in the sector. In August 2005, the Property function was expanded to include the provision of other services including advice on acquisition, development, construction and rationalisation of DHB properties. Its success is predicated on an objective to maximise the return to individual DHBs, our understanding of the sector, networks, the ability of staff and our commercial approach.

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 Board is certain that a central agency like the CHFA can offer the sector many advantages, including consistency in approach and assurance of compliance with sometimes very complex policy settings and regulatory requirements.

Residual

The CHFA is the legal successor to the Area Health Boards and when established in 1993 it assumed a number of statutory functions. Most of these "residual functions" have been resolved with just two remaining.

Future direction

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

In New Zealand, our public health system already consumes more than 20% of total Government expenditures. So it is likely too, that DHBs will be further constrained in meeting this demand unless we as a nation create sufficient wealth to direct more of our public revenues to the health system. Difficult choices will have to be made on many fronts.

As “banker to the sector” CHFA is familiar with the financial pressures already being experienced. It is our expectation that this situation will become even more difficult in the months ahead. The Board will ensure that we work closely with the sector to assist in meeting these challenges and to minimise the inherent financial risks.

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 believes that given the CHFA’s independence and specialist core competencies it is well positioned to work with the sector to implement specific initiatives that complement the Agency’s skills and experience and give effect to the Government’s expectations.

Through our sector networks and relationships we often observe new and innovative district initiatives. Many have the potential for regional and even national application but sometimes it is hard to identify the forum by which these initiatives can be brought to the attention of others. As an organisation working across the whole sector we

have the ability to act as the “carrier” of such information and ensure that the learning and knowledge is transferred for the betterment of all.

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.

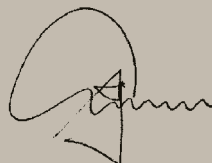
Governance

The composition of the Board membership underwent minor change in 2009.

Kay McKelvie retired from office in August 2009. We are grateful for her contribution and interest in the activities of this organisation. We wish her well in her future endeavours.

Alastair Scott was appointed to the Board in January 2010 for a one-year term. Alastair has local and international banking experience and we welcome him to the Board

The Board joins me in acknowledging the continued commitment and excellent efforts of all our staff.



John Anderson

Chair

Crown Health Financing Agency

crown health financing agency

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The health and disability system outcomes are for all “New Zealanders to lead longer, healthier and more independent lives” and that “New Zealand’s economic growth is supported. CHFA aims to contribute 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.

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

The CHFA is committed to working in partnership with DHBs, the Ministry of Health, Treasury, and other stakeholders to achieve the Government’s objectives for the health sector.

Our responsibilities are grouped into three distinct ‘lines of business’.

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.

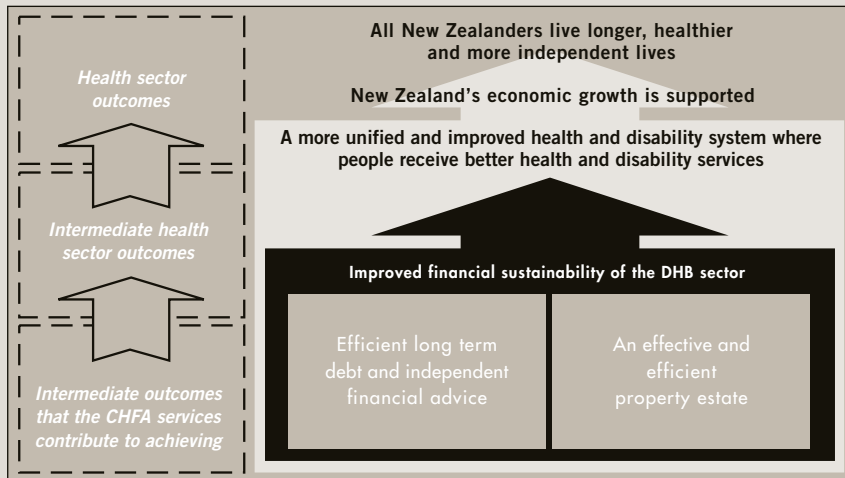
We also have a mandate to provide financial and analytical support to DHBs to assist them achieve the Crown’s objectives for cost effectiveness and value for money.

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

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:

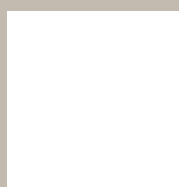


Government Objective:

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

key results for 2009/10

- Consequent upon the Ministerial Review Group report, being confirmed in our current role
- As at 30 June 2010, CHFA loans outstanding to DHBs totalled \$1,407 million, an increase of \$80.0 million on the previous year
- The weighted average cost of funds on the CHFA loan portfolio as at 30 June 2010 was 6.09% (6.25% as at 30 June 2009).
- Worked with the National Health Board on a range of sector-wide financial policy initiatives
- Contributed to the establishment of the National Health Board Capital Investment Committee and the development of their capital allocation and approval processes
- Completed six property transactions which released capital of \$3.8 million for reinvestment in more productive health infrastructure assets
- Continued growth in the scope of our property advisory services
- Increase in property advisory fees and operating revenues from \$144,000 to \$218,000
- Transferring the Southland Patient Trust Funds (\$0.62m) to Southern DHB
- Achieved the highest possible ratings in our external audit with no major issues identified and all outstanding prior year matters resolved
- Achieved a Good or Very Good rating for the level of satisfaction with the quality of our services or advice, from all of the DHBs or stakeholders surveyed



chief executive's report

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Strategic Overview

The CHFA provides a range of lending, property and financial advisory services intended to support DHBs in achieving their business objectives and financial sustainability. We are also responsible for resolving certain "residual" matters left over from Area Health Board days.

In 2009/10, aside from ensuring that we delivered our lending, property and financial advisory services in the most effective and efficient manner possible, we have focused our efforts on assisting with the establishment of the National Health Board. We have sought to position ourselves as a trusted adviser to their newly formed Capital Investment Committee and to contribute to policy debate around the long term financial sustainability of the DHB sector.

Specifically we have continued to draw attention to what we consider to be the unsustainable levels of both cost growth and capital investment across the sector. As "banker" to the DHB sector we have a privileged position and access to a wide range of financial information. It is our contention that new ways of delivering health care need to be developed and implemented if our public health system is going to be able to live within its likely future revenues.

That said, it is important that we recognise the achievements of the sector in 2009/10. Financial discipline is much improved with an aggregate deficit for the year of \$99.3 million or only 0.8% on total revenues of \$12.4 billion.

Lending Services

With the originally assigned task of refinancing all of the DHB private sector debt largely completed, (only bonds issued by Auckland DHB are outstanding) the lending function is now primarily engaged in providing debt finance for major capital projects.

New loans approved in the year amounted to \$360.7 million. Approvals subsequent to balance date have seen total loan facilities under management exceed \$2 billion for the first time.

The CHFA offers lending terms out to 10 years.

We have an objective to minimise the volatility in borrowing cost over the longer term and we encourage a prudent spread of maturities.

The weighted average cost of funds on the CHFA loan portfolio as at 30 June 2010 was 6.09% (6.25% as at 30 June 2009).

Property Services

Given the well publicised difficulties being experienced in the commercial property market we have adopted a very cautious approach to all of our property transactions.

Nonetheless six transactions were completed in the year releasing capital of \$3.8 million for investment in more productive assets. In July 2010, we completed the transfer of part of the former Queen Mary hospital site to the Department of Conservation.

Regrettably we have not been able to resolve our contractual dispute with the original purchaser of the Napier hospital site. Litigation is on-going. We are unlikely to reach any agreement in the near future. On a more positive note the property was remarketed in April-June 2010 and we are now in negotiations with another party.

2009/10 was notable too for the growth in the number of DHBs accessing our services for property advice. This is evidenced by the significant uplift for the year in our property advisory fees and operating revenues.

Overall our property function continues to be very effective in assisting the health sector to achieve an efficient property estate and in releasing capital for reinvestment in more productive health infrastructure. This expertise is often sought by others in the wider state sector.

Financial Services

CHFA financial services include the original 'residual functions' and the provision of financial advice and project assistance to DHBs.

Residual Portfolio

When established in 1993, the CHFA assumed a number of statutory functions that were transferred from the former Area Health Boards (AHBs). We have successfully resolved most of these functions. Only management of contingent liabilities (one claim involving 247 individual former Psychiatric Hospital Patients) and the long-term lease of Tourism and Travel House in Wellington (expiring 2012) remain. Unclaimed Southland patients' trust funds amounting to \$0.6m were transferred to a trust managed by the Southern DHB in August 2009.

Financial Advisory

Our financial advisory services are focused on individual DHBs and collective effort that improves cost effectiveness at a local, regional or national level. A number of our financial advisory services are directly related to our lending activities. Several DHBs have requested that we review their Treasury policies.

During 2009/10 we did not actively pursue participation in any efficiency projects. However we did support establishment of the shared services agency, Health Benefits Ltd and we are working with them on a project designed to improve cash management across the sector.

Our Performance 2009/10

We measure our performance in a number of ways. These are summarised elsewhere in this report.

Suffice to say here that we achieved or exceeded our targets in all areas except for those which relate to our Property function where for reasons mostly outside of our control budgeted expectations were not met. We are hopeful that this will correct itself in 2010/11.

It is pleasing to note from a random survey of DHB clients and other stakeholders the high level of satisfaction with the services and advice we provide.

Our Future

2009/10 was an important year for the CHFA. At times, and following on from the Ministerial Review Group report and subsequent Cabinet decisions, there was considerable uncertainty surrounding our future. In my view being confirmed in our current role was the achievement in the year. It is testimony to the quality of the services we provide and affirmation that our independent voice is valued.

The DHBs are facing significant financial challenges. Looking ahead, revenue growth is most unlikely to be at the levels we have seen in the recent past. This at a time when demand for our public health services continues unabated and the ability to contain costs to within affordable levels is already stretched. Forecast capital spending too, is budgeted to exceed the available funding by a considerable margin.

We will continue to support and assist DHBs in responding to these challenges. As the sector strives for long term financial sustainability, opportunity exists for the CHFA to contribute our strategic thinking, advice and expertise in a number of areas.

Otherwise we will continue to place an emphasis on enhancing our services and, consistent with our core competencies and capability, actively identifying opportunities to assist DHBs to achieve gains in cost effectiveness.

CHFA is an efficient organisation with a reputation for providing sound advice, solving problems and keeping our house in order. We are committed to working closely with DHBs and the wider health sector to assist them in achieving their financial goals and objectives.



Graeme Bell
Chief Executive

1.0 operational review 2009/10

1.1 lending services

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

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

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

CHFA Loans Portfolio

As at 30 June 2010, the CHFA had approved loan facilities totalling \$1,969.0 million. \$1,407.0 million of these had been drawn (an increase of \$80.0 million on the previous year). New loans were approved during the year for redevelopments at North Shore, Middlemore, Hamilton, and Wairau hospitals.

CHFA offers treasury risk management advice to DHBs, and encourages a commercially appropriate diversification of debt maturities over the available 10-year horizon. The weighted average cost of funds on the CHFA loan portfolio as at 30 June 2010 was 6.09% (6.25% as at 30 June 2009). This is consistent with our objective to minimise the volatility in DHB borrowing costs over the longer term.

Monitoring And Advice

As lender, CHFA is responsible for monitoring and advising on the financial sustainability of the DHB sector, in line with good commercial practice. KPMG conducted an independent review of our lending and monitoring practices in January 2010 and confirmed that our processes were consistent with good commercial practice.

The primary recipients of our advice are the Ministers of Health and Finance. Our advice highlights those DHBs identified as being financially "at risk", comments on the remediation plans being developed / implemented at those DHBs, and identifies long-term trends considered likely to undermine the financial sustainability of the sector as a whole.

CHFA also provides advice to the National Health Board on certain financial policy settings and to that Board's Capital Investment Committee on the affordability of DHB capital projects. Building on our submission to the Ministerial Review Group in June 2009, and in the interests of informing longer term planning we actively promoted to the National Health Board the concepts of developing a longer term revenue projection, a sustainable rate of capital investment and the desirability of DHBs being required to provision for and contribute more of their own cash to part fund their future capital investments.

1.2 property services

CHFA assists DHBs and other health sector clients with the disposal of surplus property assets, and offers property advice to maximise the use of existing land holdings and to plan future property needs.

The CHFA property disposal service is focused on the efficient disposal of surplus properties with the intent of maximising the return to the health sector.

We also offer advice covering the acquisition, development (including physical works and subdivisions), leasing, site planning, construction and use of property holdings.

Our Property function operates along commercial lines. Unlike our Lending and Residual Functions there is no Crown Appropriation for operating costs. Funding is provided by way of risk sharing with clients in the disposal process, and income earned from advisory and agency services. Capital for property purchases is provided by a revolving line of credit with Westpac Banking Corporation and/or loans from the Ministry of Health.

Property Transactions

Property disposal

Two sales were achieved during the year being the last remaining leasehold property in Whanganui and a residential property in Grey Street, Kawakawa which we sold on behalf of Northland DHB.

Property purchases

During the year four properties were purchased: Lot 8, Kenepuru Hospital, from Capital Coast DHB and 156 Kew Road, Invercargill, 164 Kew Road Invercargill and 194 Dee Street, Invercargill all previously owned by Southern DHB. These properties are now being prepared for private sale after compliance with all relevant statutory obligations.

Property Portfolio

At balance date CHFA owned the following properties

Purchased from	Date	Property
Auckland DHB	June 2007	Residential Property, Claude Road, Epsom
Hawkes Bay DHB	October 2003	Napier Hospital Site
Capital & Coast DHB	June 2010	Lot 8, Kenepuru, Porirua
Canterbury DHB	October 2008	Queen Mary Hospital Site, Hanmer
Whanganui DHB	March 2004	Former Jubilee Hospital Land, Marton
Whanganui DHB	March 2004	Section, Kuku Street Taihape
Southern DHB	April 2010	Residential Property 156 Kew Road, Invercargill
Southern DHB	April 2010	Residential Property 164 Kew Road, Invercargill
Southern DHB	April 2010	Residential Property 194 Dee Street, Invercargill

Key properties in our portfolio are discussed below.

Claude Road

Part of the Claude Road property is sold subject only to issuance of new titles. We expect this sale to be finalised by the end of calendar 2010.

Balance of the land will be actively promoted for sale once titles are issued.

Napier hospital site

The 2006 unconditional contract for the sale of the former Napier Hospital has been cancelled. Litigation to pursue damages from the original purchaser is being progressed.

During the year we remarketed the property by way of public tender. The tender resulted in multiple offers and we are currently in negotiation with the preferred party.

Lot 8, Kenepuru, Porirua hospital

Property was purchased from Capital & Coast DHB on 30th June 2010 by way of Ministerial Transfer. CHFA is tasked with completing the statutory clearance processes and preparing the land for sale.

Queen Mary hospital site

During the year, the Queen Mary hospital site was subdivided and in accordance with the Transfer Agreement, the northern lot was transferred to the Department of Conservation and subsequently vested in the Hurunui District Council as reserve. The balance of land (approx 9 ha) is now being prepared for sale.

Property Advice

The DHB property estate is complex. A growing number of DHBs have sought access to our property advisory services to ensure adherence with the plethora of compliance and regulatory regimes that they have to contend with. In particular we have been asked by many DHBs to provide advice on their statutory obligations in respect of the "offer back" processes (S40 of the Public Works Act).

As a consequence, we have seen a substantial increase in our property advisory fees and operating revenues, from \$144,000 in 2008/09 to \$218,000 this year. The rates charged to DHBs are competitive with commercial property consultant rates. Rates and staffing levels are consistent with the previous year.

Other examples of our property advisory work in 2009/10 are:

Waitemata: Engaged to identify and lease corporate office accommodation adjacent to the main hospital campus to allow current accommodation to be converted to clinical space.

Counties Manukau: Contracted to undertake lease renewal negotiations and to identify and obtain new leased premises for Community Mental Health.

Wairarapa: Instructed to complete the statutory clearance process on the former Masterton Hospital site. In conjunction with the Ministry of Health, we are also advising Wairarapa on the commercial aspects of establishing an Integrated Family Health Centre on its campus.

Nelson Marlborough: Engaged to assist their project team manage the disposal of a portfolio of surplus properties. We are also providing advice and assistance to the Golden Bay Integrated Community Health Centre on funding and construction/ refurbishment of their new premises.

1.3 financial services

The CHFA is mandated to provide financial and analytical support to DHB initiatives, efficiency projects, and the development and implementation of collaborative initiatives. The scope of our financial services also includes ongoing management of the 'residual portfolio'.

Residual Portfolio

The CHFA is responsible for managing a range of residual functions that were assigned to us in 1993.

Contingent Liabilities

The CHFA continues to manage medical misadventure claims in relation to pre-1993 incidents. During the year, some plaintiffs discontinued their claims and as a consequence, the number of active claims has been reduced from 266 to 247.

The claims are associated with allegations of historical abuse and neglect whilst in care at psychiatric hospitals. Damages being sought are in the order of \$130.4 million.

Claims are currently the subject of substantive litigation and are unlikely to be satisfactorily resolved in the near term.

Property Lease

The CHFA is responsible for the residual lease of five floors of Tourism and Travel House (Wellington) until 2012.

As at 30 June 2010, 100% of the total 2,691sqm lease space has been sublet out to the expiry date of the residual lease.

Patient Trust Funds

Unclaimed Southland Patient Trust Funds: The CHFA was the trustee of approximately \$0.62m of unclaimed patient funds accumulated by Southern DHB prior to 1993. During the year approval was received under section 11 of the Health Sectors (Transfers) Act 1993 to transfer the funds to Southern DHB. The transfer was effected in August 2009.

Financial Advisory

The CHFA has a medium term objective to work with the sector to promote individual and collaborative initiatives that enhance DHB and/or sector financial sustainability. Our interests in doing so remain, but have largely been overtaken by the establishment of the new shared services agency, Health Benefits Ltd (HBL).

In 2009/10, the CHFA chose to focus primarily on the delivery of its core functions. We have not led any individual or sector wide efficiency projects.

However the establishment of the National Health Board and Health Benefits Limited did provide us with the opportunity to contribute our thinking on a number of long term financial policy settings to the NHB. We have also assisted HBL to assess the potential benefits of collective banking, treasury arrangements and cash management across the sector. To the extent that the sector can operate as "one system", there is potential for CHFA to have a central role in the delivery of more efficient management of the sector's cash balances and short term borrowing requirements.

We will continue to maintain a dialogue with sector participants, and a range of expert advisors on potential cost saving opportunities for the sector.

National Haemophilia Management Group

During 2009/10, the CHFA continued to provide cash management arrangements for the National Haemophilia Management Group (NHMG). These arrangements provide for the collection, disbursement and accounting of the funding of haemophilia services provided by DHBs.

The centralisation of cash management for this service through the CHFA has meant that from time to time substantial funds are available for investment pending reimbursement of the costs incurred by the six DHB providers. In the year to 30 June 2010, investment of funds by the CHFA has returned to the pool an additional \$0.184m.

2.0 maintaining and developing organisational capability

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

Our budgeted fulltime staffing complement remains at eight. We have carried one position as vacant throughout the year in the expectation that we might be required to provide additional support for the National Health Board and their Capital Investment Committee. This is now likely to occur. It also gives the organisation the chance to refresh itself and broaden our scope and influence.

CHFA has enjoyed nil staff turnover during the year.

We have access to a number of other "expert advisers" who we call upon as needs dictate. This enables us to cope with workload peaks and provides us with greater capacity to contribute to sector initiatives.

Good Employer Strategy

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

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

- a) Leadership accountability and culture
- b) Recruitment selection and induction
- c) Employee development, promotion and exit
- d) Flexibility and work design
- e) Remuneration, recognition and conditions
- f) Harassment and bullying prevention
- g) Safe and healthy environment

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

All staff complete Personal Development Plans and Performance Plans which are directly linked to our outcomes.

Both plans are monitored closely.

The year in review - 2009/10

During 2009/10 the CHFA focused on capability building by way of:

- Enhancing our core services within an intent to assist DHBs in their pursuit of a cost effective health sector that provides value for money.
- Continuing to develop a constructive dialogue with the Minister of Health and his officials.
- Assisting the National Health Board to give effect to the recommendations of the MRG.
- Expanding our wider health sector networks and broadening our relationships with the DHB sector.
- Introducing further improvements to our planning and 'managing for results' processes.
- Providing staff with learning opportunities for personal development aligned to our business objectives.

Priorities for next year – 2010/11

CHFA capability development is an ongoing priority and underpins our ability to be effective in all that we do.

For 2010/11 our priorities will be to:

- 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 and other stakeholders.
- Retain commercial expertise to deliver effective property solutions and advice that meet DHB service and business needs.
- Broaden our health sector networks and relationships with others engaged in providing similar services to DHBs.
- Contribute positively to the development of the longer term sector capital investment plans and the required changes to the associated policy settings.

We are cognisant too of the Government's requirements for improved state sector performance within a very challenging fiscal environment. We will seek to identify performance improvement actions and other value for money opportunities to ensure CHFA delivers efficient and effective services while remaining within budgetary restraints.

3.0 key results and performance measures

Lending services

Description	Ref	Standard and Performance Measure	Status as at 30 June 2010
Lending	1.1	Efficient loan facility processing <i>By 30 June 2010, all approved facilities are documented and available to be drawn.</i>	Achieved. All approved loans documented and available to be drawn.
	1.2	Independent credit risk assessment and monitoring of DHB financial performance <i>CHFA credit risk assessment and financial monitoring processes are judged to be consistent with commercial best practice, as assessed periodically by independent review</i> <i>Risks to sector financial sustainability are highlighted to the CHFA Board and the responsible ministers at least quarterly.</i> <i>Action plans are developed and implemented as necessary</i>	Achieved. An independent review was completed in January 2010, by KPMG. Lending processes were judged to be consistent with commercial best practice. Written and verbal commentary provided on a quarterly basis and otherwise as necessary to the CHFA Board, Ministers, Treasury/Ministry/NHBBU officials and the Ministerial Review Group. CHFA's actions relating to "at risk" DHBs have been outlined in each Quarterly Report.
Financial Advice	1.3	CHFA Output is valued by recipients <i>Level of stakeholder satisfaction with our advice is measured periodically.</i>	Achieved. <i>Informal feedback from a range of key stakeholders has been positive.</i> <i>Formal feedback (by way of short form questionnaire achieved a 100% "Good" or "Very Good" rating.</i>

Property advice and disposal services

Description Measure	Ref Standard and Performance	Status as at 30 June 2010
Property disposal service	1.1 Total amount of capital released to the DHB sector from sale of unproductive assets. <i>By 30 June, CHFA will:</i> <ul style="list-style-type: none"> • Complete two property disposal transactions. • Release \$2,000,000 in capital. 	Achieved. Six property transactions completed for Northland, Whanganui, Capital & Coast and Southland (3) DHBs. Achieved. Capital released \$3.8m.
Property advice	1.2 CHFA advice contributes to the quality of property decisions, minimises risk and improves value for money. <i>For the year ended 30 June 2010, CHFA property advisory fees and client revenues will increase from \$120,000 to \$174,000.</i> <i>For completed assignments client satisfaction rating is no less than "Good".</i>	Achieved. Advisory fees and client revenues \$217,877. Achieved. Feedback from five surveys was: 'very good' (4) and 'good' (1).

Financial services

Description Measure	Ref Standard and Performance	Status as at 30 June 2010
Resolution of residual AHB responsibilities	1.1 Number of medical claims resolved and Crown contingent liability exposure reduced. By 30 June 2010: <ul style="list-style-type: none"> • <i>Total number of active claims reduced from 266 to less than 246.</i> • <i>Contingent liability exposure as assessed by Crown Law Office is reduced from \$28.2m to \$26.2m.</i> 	Not achieved. Number of active psychiatric claims 247. Achieved. Assessed of contingent liability \$26.1m.
Property advice	1.2 Property Leases <i>Rental recovery exceeds cost of head lease.</i>	Achieved. Rental recovery exceeded cost of head lease by \$49,739 per annum.

Organisational capability and development

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Description	Ref Standard and Performance Measure	Status as at 30 June 2010
<p>Managing for Outcomes</p>	<p>1.1 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>	<p>Achieved.</p> <p>Service performance information and associated systems and controls rated "Very Good" by Audit NZ.</p> <p>Achieved.</p>
<p>Invest in the capability of our people</p>	<p>1.2 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>	<p>Not Achieved.</p> <p>Next survey planned for September 2010.</p> <p>Achieved.</p>
<p>Enhancing our effectiveness</p>	<p>1.3 Internal/external audits reflect that policies, procedures and business systems are appropriate and being complied with at audit or following spot checks.</p>	<p>Achieved.</p> <p>Management control environment and financial information systems and controls both rated "Very Good" by Audit NZ.</p> <p>Internal Audit identified no compliance issues.</p>

Statement of service performance

	Lending Actual	Lending Budget	Property Actual	Property Budget	Financial Services Actual	Financial Services Budget
	\$000	\$000	\$000	\$000	\$000	\$000
2010						
Appropriation	874	874	0	0	826	826
Other Income	66	86	251	538	94	90
Total Income	940	960	251	538	920	916
Operating expenditure	852	1,007	265	206	1,288	2,507
Surplus/(Deficit)	88	(47)	(14)	332	(368)	(1,591)
2009						
Appropriation	951	951	0	0	800	800
Other Income	39	46	112	217	245	270
Total Income	990	997	112	217	1,045	1,070
Operating expenditure	738	892	304	372	1,827	2,758
Surplus/(Deficit)	252	105	(192)	(155)	(782)	(1,688)

Note 1:

Financial Services budgeted deficit

CHFA is currently running planned deficits approved by the Ministry of Health in order to reduce CHFA equity and working capital down to an agreed level.

To achieve this CHFA is currently funding residual function expenditure from equity.

Note 2:

Major Budget Variation

Financial Services operating expenditure was lower than budgeted as a result of reduced expenditure on medical claims legal costs.

4.0 financial performance

for the year ended 30 June 2010

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4.1 Statement of comprehensive income

for the year ended 30 June 2010

	Note	2010 Actual \$000s	2010 Budget \$000s	2009 Actual \$000s
Income				
Crown Funding		1,700	1,700	1,751
Interest revenue				
- District Health Boards		84,273	87,766	83,926
- Other		183	168	280
CHFA share of surplus on sale of properties		0	361	0
Other income		228	185	154
Total Operating Revenue		86,384	90,180	86,111
Expenditure				
Interest expense				
- NZ Debt Management Office advances		84,273	87,766	83,926
Residual asset management (T&T House)	2	686	804	686
Legal expenses – Medical Claims		66	1,080	520
Personnel Costs		948	982	976
Adjustment of CHFA share of surplus on property sale previously recognised		0	0	38
Board Fees	17	92	96	94
Projects		147	250	153
Depreciation		62	45	50
Other expenses	3	404	463	390
Total Operating Expenses		86,678	91,486	86,833
Net Operating surplus (deficit) and Total comprehensive income (deficit)		(294)	(1,306)	(722)

4.2 Statement of movements in equity

for the year ended 30 June 2010

	Note	2010 Actual \$000s	2010 Budget \$000s	2009 Actual \$000s
Net operating surplus (deficit)		(294)	(1,306)	(722)
Total recognised revenues and expenses		(294)	(1,306)	(722)
Equity at Start of Period		3,864	3,461	4,586
Equity at End of Period		3,570	2,155	3,864

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

4.3 Statement of financial position

as at 30 June 2010

	Note	2010 Actual \$000s	2010 Budget \$000s	2009 Actual \$000s
Crown Equity		3,570	2,155	3,864
Current assets				
Cash and bank	4	170,482	174,167	185,785
Debtors	5	17,600	18,049	18,499
Advances to District Health Boards	6	151,333	117,728	116,987
Inventory : Properties held for sale	7	11,733	4,179	14,401
		351,148	314,123	335,672
Non-current assets				
Advances to District Health Boards	6	1,255,375	1,324,542	1,210,101
Property, Plant and Equipment	8	109	140	150
		1,255,484	1,324,682	1,210,251
Total Assets		1,606,632	1,638,805	1,545,923
Current liabilities				
Accounts payable and accruals	9	20,869	15,854	16,067
Property advance	13	20,148	6,787	4,126
Advances from NZ Debt Management Office	11	306,574	289,371	296,893
		347,591	312,012	317,086
Non-current liabilities				
Provisions	10	96	96	72
Property Advance from MOH		0	0	14,800
Advances from NZ Debt Management Office	11	1,255,375	1,324,542	1,210,101
		1,255,471	1,324,638	1,224,973
Total Liabilities		1,603,062	1,636,650	1,542,059
Net Assets		3,570	2,155	3,864

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

4.4 Statement of cash flows

for the year ended 30 June 2010

	Note	2010 Actual \$000s	2010 Budget \$000s	2009 Actual \$000s
Cash flows from operating activities				
Cash was provided from:				
Operating income		1,700	1,700	1,751
Interest received:				
District Health Boards Loan Advances		83,770	87,089	83,621
Other		162	168	270
CHFA share of surplus on properties sold		0	(139)	0
Other income		840	831	829
Net GST		630	(2)	47
		87,102	89,647	86,518
Cash was applied to:				
Payments to suppliers and employees		(2,350)	(3,669)	(2,993)
Transfer to Ministry of Health		(631)	(645)	(625)
Interest paid – NZ Debt Management Office		(83,770)	(87,089)	(83,621)
		(86,751)	(91,403)	(87,239)
Net cash flow from operating activities	14	351	(1,755)	(721)
Cash flows from investing activities				
Cash was provided from:				
Sale of surplus District Health Board properties		9,000	16,669	3,717
		9,000	16,669	3,717
Cash was applied to:				
Properties intended for sale		(1,602)	(3,638)	(14,156)
Fixed assets		(22)	(45)	(48)
		(1,624)	(3,683)	(14,204)
Net cash flow from investing activities		7,376	12,986	(10,487)

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

4.4 Statement of cash flows continued...

for the year ended 30 June 2010

Note	2010 Actual \$000s	2010 Budget \$000s	2009 Actual \$000s
Cash flows from financing activities			
Cash was provided from:			
Advance from NZ Debt Management Office	54,954	78,400	56,630
District Health Board principal repayment	173,350	14,750	91,475
Advances from Westpac and Ministry of Health	1,635	3,638	15,398
	229,939	96,788	165,503
Cash was applied to:			
Advances to District Health Boards	(252,970)	(97,050)	(182,855)
Repayments to Westpac and Ministry of Health	0	(16,306)	(4,076)
	(252,970)	(113,356)	(186,931)
Net cash flow from financing activities	(23,031)	(16,568)	(21,428)
Net increase (decrease) in cash held	(15,303)	(5,337)	(34,636)
Opening cash balances	185,785	179,504	220,421
Closing cash balances	170,482	174,167	185,785
Comprising:			
Cash at bank	440	441	613
Short term deposits	14,801	2,083	5,266
CHFA facility at NZ Debt Management Office	155,241	171,643	179,906
	170,482	174,167	185,785

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

4.5 Summary of significant accounting policies

Statutory Base

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

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

These financial statements have been prepared in accordance with section 41 of the Public Finance Act 1989, section 67 of the New Zealand Health and Disability Act 2000 and section 198 (3)(b) of the Crown Entities Act 2004.

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

The financial statements for CHFA are for the year ended 30 June 2010 and were approved by the Board on 29 October 2010.

Statement of Compliance

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

Accounting Policies

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

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

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

Judgement and Estimations

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

CHFA have judged that there is no significant risk of material adjustment in the next year.

Standards, amendments and interpretations issued and adopted by CHFA in the current year are:

- NZIAS 1 Presentation of Financial Statements (revised 2007) replaces NZ IAS 1 Presentation of Financial Statements (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income enables readers to analyse changes in equity resulting from non-owner changes separately from transactions with the Crown in its capacity as "owner". The revised standard gives CHFA the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The CHFA has adopted this standard for the year ending 30 June 2010, and has prepared a single statement of comprehensive income.

Standards, amendments and interpretations issued and have been early adopted are

- NZIAS 24 Related Party Disclosures (revised 2009) replaces NZIAS 24 Related Party Disclosures (issued 2003) and is effective for reporting periods beginning on or after 1 January 2011. The revised standard simplifies some of the disclosure requirements and also clarifies the definition of a related party. The CHFA has adopted this standard for the year ending 30 June 2010 and has determined that the impact of adopting the new standard is minimal.

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

- NZIFRS 9 Financial Instruments, a new standard released 2009 to ultimately (over a period of three years) replace NZIAS 39. This standard is effective for reporting periods beginning on or after 1 January 2013. CHFA will adopt the new standard for the year ended 30 June 2015 and has not yet determined the effect of the new standard.

Revenue

Operations

Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and it is probable that the economic benefits of the transaction will flow to CHFA. Rental income received from sub-tenants of T&T House is received by CHFA as an Agent of the Ministry of Health and is not recognised as revenue.

Interest

Interest income is accrued using the effective interest rate method.

Goods and Services Tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Taxation

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

Financial Instruments

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

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

CHFA has designated financial assets and liabilities as follows:

Financial Assets

- *Cash and Cash Equivalents*

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

- *Loans and Receivables*

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

Financial Liabilities

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

Property, Plant & Equipment

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

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

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

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

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

Leasehold improvements

6.2 – 10.3 years (9.7 % - 16.1%)

Computer Equipment

2.1 – 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%)

Inventory - Properties Intended For Sale

Properties intended for sale are assets purchased from DHBs. CHFA account for these assets as inventories as they are held for sale in the ordinary course of business.

Inventories are valued at cost, adjusted where applicable for any loss of service potential. Any write down from cost is recognised in the Statement of Financial Performance.

Employee Entitlements

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

Operating Leases

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

Other Liabilities and Provisions

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

Contingent Assets and Contingent Liabilities

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

CHFA has recorded no contingent assets.

Contingent Liabilities of \$26,116,000 (2009: \$27,872.00) in respect of potential legal claims have been disclosed.

Changes in Accounting Policies

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

Comparatives

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

Budget Figures

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

Cost Allocation

CHFA has determined the cost of outputs using the cost allocation system outlined below.

Direct costs are charged directly to outputs. Personnel costs are charged on the basis of an estimate of actual time incurred and indirect costs are charged to outputs based on full time equivalents employed in each output class.

There have been no changes to the cost allocation methodology since the date of the last audited financial statements.

4.6 Notes to the financial statements

1. Major Budget Variations

Statement of Comprehensive Income

District Health Boards interest revenue and expense:

Interest rate returns were lower than budgeted due to lower levels of advances to DHBs than budgeted.

CHFA share of surplus on sale of properties:

CHFA share of surplus on properties sold was lower than budgeted due to a delay in completing a property sale beyond budgeted timelines.

Legal expenses – Medical claims:

Legal expenses on medical claims are under budget due to the cessation of investigative work and court hearings.

Personnel expenses

Lower number of staff employed during the year resulted in savings to budget

Other expenses

Savings to budget were achieved over a broad range of overheads.

Statement of financial position

Cash and Bank:

The NZDMO CHFA Facility of \$155.2m was less than budgeted for. The funds represent temporary repayment from DHBs. The timing and amounts of the repayments is dependent on DHBs surplus cash flow.

Accounts payable and debtors:

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

Interest accrued on DHB loans and DMO advances was greater than budgeted due to the timing of rollovers.

Property advances

Budgeted sale of property was not completed within budgeted timelines, and the loan was not paid down.

Advances to District Health Boards and advances from NZDMO- current and non-current portion

The facilities were not fully drawn down at balance date.

Statement of cash flows

Interest received from DHBs and interest paid to NZ Debt Management Office:

Cash from DHB interest received and the corresponding NZ Debt Management Office interest paid were lower than budgeted due to a lower level of advances made to DHBs.

Sale of surplus DHB properties and properties intended for sale:

The timing of property sales and purchases has resulted in variations from actual to budget:

DHB principal repayment:

Movement in DHB principal repayment is very variable due to the cash position of DHBs and the timing of DHB loan rollovers.

Repayments to Ministry of Health and Westpac:

There were no repayments to advances due to delays in settling properties budgeted to be sold.

2. Residual Asset Management

The cost of \$686,000 represents the full cost of leasing five levels of Tourism and Travel House, 79 Boulcott Street, Wellington until expiry of the lease in 2012.

CHFA receives appropriations for the full cost of leasing the five floors. Sub tenant rental received by CHFA is returned to the Crown through the Ministry of Health on a quarterly basis.

3. Other expenses

	2010 Actual \$000s	2009 Actual \$000s
Other expenses include:		
Audit fees for financial statements audit (Audit NZ)	24	25
Property related costs	74	71
CHFA lease rental	64	61
Board expenses	18	31
Legal Fees	51	21
Printing	21	24
Other Expenses	152	157
	404	390

4. Cash and bank

	2010 Actual \$000s	2009 Actual \$000s
Westpac cheque accounts	440	613
Short term deposits maturing three months or less from date of acquisition		
ASB deposit	14,436	2,913
National Bank of NZ deposit	365	2,353
NZ Debt Management Office – CHFA facility	155,241	179,906
Total cash and cash equivalents	170,482	185,785

Interest rates receivable on deposits range from 3.40% to 4.55%

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

The \$155.2m (2009: \$179.9m) facility relates to appropriation drawdown to fund cash advance facilities to DHBs and then temporarily repaid by them. These facilities are available to be redrawn by the DHBs and the amounts in this account are specifically allocated to individual DHBs. No interest is earned by CHFA on the balance in this account. Carrying value is deemed to be fair value.

5. Debtors

	2010 Actual \$000s	2009 Actual \$000s
Interest receivable	14,642	14,129
Sale of property receivables	3,391	20,511
Other	67	47
	18,100	34,687
Less provision for impairment	(500)	(16,188)
	17,600	18,499

All receivables are recognized at their nominal value.

As at 30 June 2010 and 2009, all receivables have been assessed for impairment and appropriate provisions applied, as detailed below.

	2010 Gross \$000s	2010 Impairment \$000s	2010 Net \$000s	2009 Gross \$000s	2009 Impairment \$000s	2009 Net \$000s
Interest receivable						
Not past due	14,642	0	14,642	14,129	0	14,129
	14,642	0	14,642	14,129	0	14,129
Sale of property receivables						
Not past due	3,391	(500)	2,891	2,011	(500)	1,511
Past due > 90 days	0	0	0	18,500	(15,688)	2,812
	3,391	(500)	2,891	20,511	(16,188)	4,323
Other						
Not past due	54	0	54	34	0	34
Past due 1-30 days	13	0	13	7	0	7
Past due 31-60 days	0	0	0	1	0	1
Past due 61-90 days	0	0	0	5	0	5
Past due > 90 days	0	0	0	0	0	0
	67	0	67	47	0	47

CHFA have reviewed the property receivables on a property by property basis and have provided for impairment on one property.

The declining property market has resulted in the anticipated proceeds of sale being less than the purchase cost and cost of holding the Claude Road, Auckland property. The provision made in the 2008 year of \$0.5m has been retained in respect of this property.

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

	2010 Actual \$000s	2009 Actual \$000s
Balance at 1 July	16,188	16,726
Adjustment to provisions made during the year	(15,688)	(538)
Receivables written off during period	0	0
Balance at 30 June	500	16,188

Post balance date adjusting event

Settlement of the unconditional contract for sale of the former Napier Hospital (\$20m) was not made. The contract has been cancelled and litigation to pursue damages is being progressed. The debt recorded in the previous years has been reversed and the provision amended accordingly.

6. Advances to District Health Boards

	2010 Actual \$000s	2009 Actual \$000s
Current		
CHFA advances	151,333	116,987
Non current		
CHFA advances	1,255,375	1,210,101
Total advances	1,406,708	1,327,088

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

Maturity analysis and effective interest rates	2010 Actual Loans \$000s	2010 Weighted Average Effective Interest rate	2009 Actual Loans \$000s	2009 Weighted Average Effective Interest rate
Less than one year	151,333	4.88%	116,987	5.281%
One to two years	208,579	6.34%	98,946	6.011%
Three to five years	743,542	6.06%	494,159	6.314%
Beyond five years	303,254	6.08%	616,996	6.377%
	1,406,708	6.09%	1,327,088	6.247%

The fair value of the total advances of \$1,406,708 is \$1,489,188 (2009: \$1,327,088 is \$1,390,757)

The fair value is measured at amortized cost using the effective interest rate method and is based on the

present value of each scheduled cash flow (principal and interest) calculated at government bond rates.

The fair value includes accrued interest of \$14,619,000.

Loans to DHBS are unsecured.

7. Inventories – Properties Held For Sale

The carrying value of inventories of \$11,733m (2009 \$14.401m) is measured at cost.

There are nine properties currently held by CHFA:
Queen Mary Hospital, Hanmer Springs;
The former Napier Hospital site, Claude Road, Epsom;

Former Jubilee Hospital Land; Lot 8 Kenepuru; three residential properties in Invercargill and a section at Kuku Street, Taihape.

No inventories are pledged as security for liabilities.

8. Property, plant and equipment

2010	Leasehold Improv. \$000s	Furniture & Fittings \$000s	Office Equipment \$000s	Computer Equipment \$000s	Total \$000s
Cost					
Balance 1 July 2009	164	86	39	109	398
Additions	0	0	1	22	23
Disposals	0	(2)	0	0	(2)
Balance 30 June 2010	164	84	40	131	419
Accumulated depreciation and impairment losses					
Balance 1 July 2009	97	46	21	84	248
Depreciation	21	12	9	20	62
Eliminate on disposals	0	0	0	0	0
Balance 30 June 2010	118	58	30	104	310
Carrying amount 30 June 2010	46	26	10	27	109
2009					
	Leasehold Improv. \$000s	Furniture & Fittings \$000s	Office Equipment \$000s	Computer Equipment \$000s	Total \$000s
Cost					
Balance 1 July 2008	164	84	21	82	351
Additions	0	3	19	27	49
Disposals	0	(1)	(1)	0	(2)
Balance 30 June 2009	164	86	39	109	398
Accumulated depreciation and impairment losses					
Balance 1 July 2008	76	37	13	72	198
Depreciation	21	9	8	12	50
Eliminate on disposals	0	0	0	0	0
Balance 30 June 2009	97	46	21	84	248
Carrying amount 30 June 2009	67	40	18	25	150

9. Accounts payable and accruals

	2010 Actual \$000s	2009 Actual \$000s
Creditors	117	190
Accruals		
- NZ Debt Management Office Interest	14,619	14,115
- Property transactions	5,146	1,435
- Leave Entitlements	46	45
- GST	696	65
- Other	245	217
	20,869	16,067

All payables are recognized at their nominal value.

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

The leave entitlement accrual of \$46,000 is the total of CHFA's employee benefit liabilities and is classified as current liabilities.



10. Provisions

	2010 Actual \$000s	2009 Actual \$000s
Non current provisions are represented by		
Lease make-good	96	72
Total non-current portion	96	72
Total provisions	96	72

Movement in provision is as follows:

	Lease make-good \$000s	Total \$000s
2010		
Balance 1 July 2009:	72	72
Additional provisions made	24	24
Balance 30 June 2010	96	96
2009		
Balance 1 July 2008:	48	48
Additional provisions made	24	24
Balance 30 June 2009	72	72

Lease make-good

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

11. Advances from NZ Debt Management Office (DMO), Treasury

	2010 Actual \$000s	2009 Actual \$000s
Current		
Advances from DMO	151,333	116,987
NZ Debt Management Office Facility	155,241	179,906
	306,574	296,893
Non Current		
Advances from DMO	1,255,375	1,210,101
Total advances	1,561,949	1,506,994

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

	2010 Actual Loans \$000s	2010 Weighted Average Effective Interest rate	2009 Actual Loans \$000s	2009 Weighted Average Effective Interest rate
Less than one year	151,333	4.88%	116,987	5.281%
One to two years	208,579	6.34%	98,946	6.011%
Three to five years	743,542	6.09%	494,159	6.314%
Beyond five years	303,254	6.08%	616,996	6.377%
	1,406,708	6.09%	1,327,088	6.247%
NZ Debt Management Office Facility	155,241	Nil interest	179,906	Nil interest
Total advances	1,561,949		1,506,994	

The \$155.2m (2009: \$179.9m) facility relates to appropriation drawn down to fund cash advance facilities to DHBs and temporarily repaid by them. These facilities are available to be redrawn by the DHBs and the amounts in this account are specifically allocated to individual DHBs. No interest is payable by CHFA on the balance in this account.

The fair value of the total advances of \$1,406,708 is \$1,489,188 (2009: \$1,327,088 is \$1,390,757).

The fair value is measured at amortized cost using the effective interest rate method and is based on the present value of each scheduled cash flow (principal and interest) calculated at government bond rates. The fair value includes accrued interest of \$14,619,000.

Advances from DMO are unsecured.

12. Loan facilities

Undrawn loan facilities for advances to DHBs and borrowings from DMO are as follows:

	2010 Actual \$000s	2009 Actual \$000s
Repaid Loan Facility	155,241	179,906
Undrawn Loan Facility	407,445	101,719
Total	562,686	281,625

At 30 June 2010, DHBs have undrawn loan facilities of \$562.7m with CHFA (2009: \$281.6m). CHFA has the equivalent undrawn loan facilities with NZDMO.

13. Property transactions advances to CHFA

	2010 Actual \$000s	2009 Actual \$000s
Westpac Loan Facility	5,348	4,126
Ministry of Health loan advances	14,800	14,800
Total	20,148	18,926

Westpac Loan Facility

The facility with Westpac is in place to finance the purchase of DHB surplus property. The facility is capped at \$10.0m, is unsecured and has a maturity date of 31 October 2012, or such later date as the lender may from time to time agree. As at balance date, \$5.35m (2009: \$4.13m) was drawn down.

Ministry of Health Loan Advance

A facility of \$14.8m has been provided by the Ministry of Health for the purchase of the Queen Mary Hospital, Hanmer Springs. The loan is interest free and has a maturity date of 31 October 2010. As at balance date the full \$14.8m was drawn down.

14. Reconciliation of operating cash flows with net operating surplus

	2010 Actual \$000s	2009 Actual \$000s
Net Operating Deficit	(294)	(722)
Add (less)		
Non cash items		
Depreciation	62	50
Total non-cash items	62	50
Add (less)		
Movements in working capital items		
Decrease (increase) in debtors	(61)	(228)
Increase (decrease) in accounts payable	644	179
Total movements in working capital items	583	(49)
Net cash flow from operating activities	351	(721)

15. Commitments and contingencies

Commitments	2010 Actual \$000s	2009 Actual \$000s
Non Cancellable Lease Operating Commitments		
Term Classification of Commitments:		
Less than one year	580	551
One to two years	580	551
Two to five years	145	643
Over five years	0	0
	1,305	1,745

Total future minimum sublease payments to be received under non-cancellable subleases for office space at the balance sheet date are \$1.471m (2009: \$2.017m)

Contingencies*Contingent Assets*

CHFA has no contingent assets.

Contingent Liabilities

CHFA has been notified of contingent liabilities for potential legal claims plus associated legal fees in respect of the actions of the former Area Health Boards.

CHFA is defending those claims that have resulted in litigation and will defend any of the others that result in litigation. It does not accept liability for the claims and no provision has been made in the financial statements. The liability for funding any future settlement rests with the Crown. Quantifiable contingent liabilities are as follows:

	2010 Actual \$000s	2009 Actual \$000s
Medical claims	26,116	27,872
Total contingent liabilities	26,116	27,872

Accommodation lease

CHFA has a lease obligation in respect of 2,691 square metres of office accommodation in Tourism and Travel House, Wellington. The lease expires in

2012. This space is sublet to tenants including CHFA and all sub-lease rentals recovered is returned to the Ministry of Health. CHFA rental expense for the year 30 June 2010 was \$64,155 (2009: \$60,888).

16. Related party transactions and key management personnel**Related party transactions**

CHFA is a wholly owned entity of the Crown. The Government significantly influences CHFA's role as well as being its major source of revenue.

The Board has entered into a number of transactions with government departments and crown agencies

on an arms length basis. Where those parties are acting in the course of their normal dealings with CHFA, related party disclosures have not been made for transactions of this nature.

CHFA has no related party transactions to report in the current year.

Key Management personnel compensation	2010 Actual \$000s	2009 Actual \$000s
Salaries and other short-term employee benefits	696	706
Post-employment benefits	0	0
Other long-term benefits	0	0
Termination benefits	0	0
Total key management personnel compensation	696	706

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

17. Board member remuneration

Board members earned the following fees during the year:	2010 Actual \$000s	2009 Actual \$000s
Ross Tanner	0	2
John Anderson (Chair)	32	31
Edie Moke	0	3
Kay McKelvie	4	16
David Moore	16	16
June McCabe	16	13
Philippa Dunphy	16	13
Alastair Scott	8	0
Total	92	94

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

Under individual employment contracts, CHFA indemnifies employees for any act done or omitted by the employee in good faith in pursuance or intended pursuance of the functions, duties or powers of the employer or the employee.

18. Employee remuneration

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

Total remunerations and benefits \$000s	Number of employees 2010	Number of employees 2009
260-270	1	-
250-260	-	1
180-190	1	1
170-180	-	1
160-170	1	-
100-110	1	-

There was no movement in salaries or benefits during the year and movements between bands relate only to timing of cash payments

19. Superannuation scheme

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

20. Financial instruments risks

Categories of financial assets and liabilities.

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

	Note	2010 Actual \$000s	2009 Actual \$000s
Loans and Receivables			
Cash and Bank	4	170,482	185,785
Debtors	5	17,600	18,499
Advances to District Health Boards	6	1,406,708	1,327,088
Total Loans and Receivables		1,594,790	1,531,372

	Note	2010 Actual \$000s	2009 Actual \$000s
Financial Liabilities measured at amortized cost			
Accounts payable and accruals	9	20,869	16,067
Property advances	13	20,148	18,926
Advances from NZ Debt Management Office	11	1,561,949	1,506,994
Financial Liabilities		1,602,966	1,541,987

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

Market Risk

Interest rate risk

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

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

Advances from Westpac are drawn in respect of funding CHFA cost of purchase of surplus DHB properties and subsequent holding costs. The cost of interest is included in the calculation of surplus/deficit of the property on sale and accordingly there is exposure to CHFA in respect of interest rate risk on these advances. The cost/benefit to CHFA of a 1% movement in interest rates at the current level of borrowing, would be a \$8,000 (2009 \$6,000) effect on revenue and equity. This analysis assumes a CHFA share of surplus on sale of property of 15%.

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

Currency risk

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

Credit Risk

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

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

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

Cash and Bank

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

Debtors

- Interest receivables

There is very limited credit risk as debtors consist of District Health Boards and Trading Banks.

- Sale of property receivables

Credit risk is covered by the continued holding of the property asset. In respect of one property, the value of the receivable has been written down to the fair value of the land CHFA holds against this debt.

- Other receivables

Other debtors are deemed to be immaterial.

A breakdown of debtors by entity type is as follows:

	2010 Actual \$000s	2009 Actual \$000s
Loans and Receivables		
District Health Boards	14,656	14,522
Private sector purchasers of CHFA held property	2,891	3,952
Government Agencies	0	8
Other	53	17
Total	17,600	18,499

Advances to District Health Boards

Advances to District Health Boards are reviewed monthly in compliance with borrowing arrangements. The advances are unsecured.

Liquidity Risk

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

CHFA is funded quarterly by appropriation from the Ministry of Health. CHFA holds sufficient equity to fund short term cash requirements. Equity funds are placed on short term deposits with a spread of maturity dates to ensure even cash flow.

The maturity profiles of CHFA's advances and borrowings are disclosed in Note 6 and Note 11 respectively. The advances and borrowings are back to back and present no liquidity risk.

22. Trust funds

The Southland Patients Unclaimed Trust Funds have been held in trust by CHFA pending an appropriate scheme being prepared by the Public Trust Office.

21. Capital management

The CHFA's capital is its equity, which comprises accumulated funds and other reserves. Equity is represented by net assets.

The CHFA is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives.

The CHFA manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure the CHFA effectively achieves its objectives and purpose, whilst remaining a going concern.

During the year approval was received for transfer of the funds to Southland DHB, under section 11 of the Health Sectors (Transfers) Act 1993. The transfer occurred in August 2009.

Movements in the trust fund for the year ended 30 June 2010 are as follows:

Financial liabilities measured at amortized cost	2010 Actual \$000s	2009 Actual \$000s
Southland patients' frozen funds		
Liquid assets		
(2009: ASB Money Market Deposit)	0	620
Represented by		
Balance at beginning of year	620	583
Add:		
Interest revenue from money market deposits	3	37
	623	620
Less:		
Payment to Southland DHB	(623)	0
Total Southland patients' frozen funds	0	620

23. Subsequent events

There have been no subsequent events following balance date other than the event disclosed in note 5.

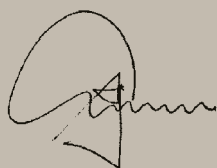
4.7 Statement of responsibility

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

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

In the opinion of the Board and management of the CHFA, the financial statements for the year ended 30 June 2010, fairly reflect the financial position, cash flows and operations of the CHFA.

Signed on behalf of the Board



John Anderson

Chair

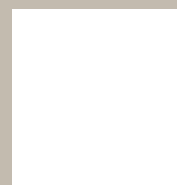
Date: 29th October 2010



Alastair Scott

Board Member

Date: 29th October 2010



audit report

To the readers of Crown Health Financing Agency's financial statements and statement of service performance for the year ended 30 June 2010

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The Auditor-General is the auditor of Crown Health Financing Agency (CHFA). The Auditor General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf. The audit covers the financial statements and statement of service performance included in the annual report of CHFA for the year ended 30 June 2010.

Unqualified opinion

In our opinion:

- The financial statements of the CHFA on pages 18 to 45:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - CHFA's financial position as at 30 June 2010; and
 - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of CHFA on pages 13 to 17:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects for each class of outputs:
 - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
 - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 29 October 2010, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of CHFA as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, CHFA's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in CHFA.



A.P. Burns

Audit New Zealand

On behalf of the Auditor-General Wellington,
New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of Crown Health Financing Agency for the year ended 30 June 2010 included on the Crown Health Financing Agency's website. Crown Health Financing Agency's Board is responsible for the maintenance and integrity of Crown Health Financing Agency's website. We have not been engaged to report on the integrity of the Crown Health Financing Agency's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements as well as the related audit report dated 29 October 2010 to confirm the information included in the audited financial statements presented on this website.

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

appendix 1: directory

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Board Members

John Anderson (Chair)

David Moore

Kay McKelvie (until August 2009)

Philippa Dunphy

June McCabe

Alastair Scott (From January 2010)

Postal Address

Level 2, Tourism & Travel House,

79 Boulcott Street, WELLINGTON

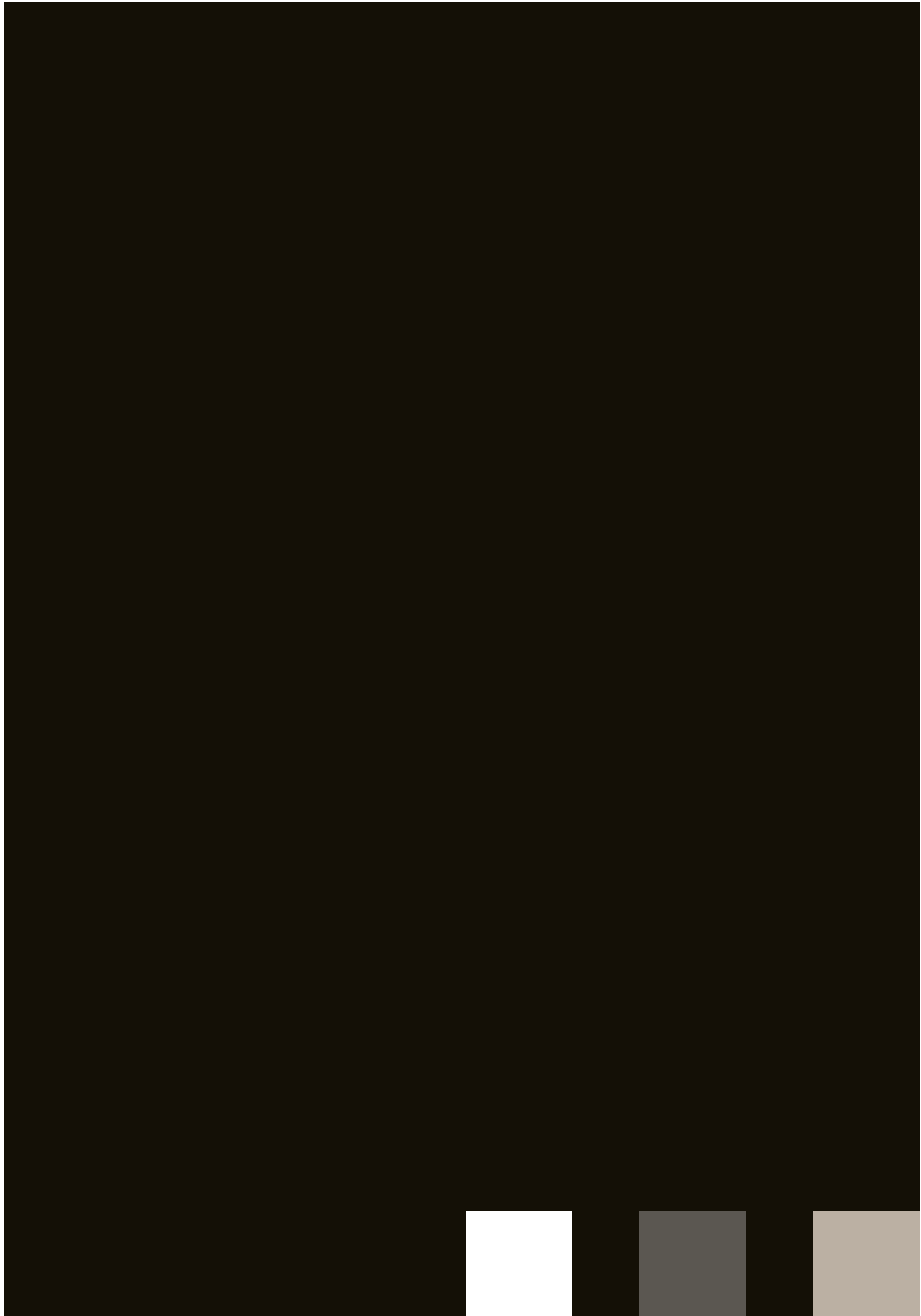
P.O. Box 5358, Lambton Quay, WELLINGTON

Telephone: (04) 472 3310, Facsimile: (04) 472 3311

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Auditor

Audit New Zealand on behalf of the Auditor-General



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