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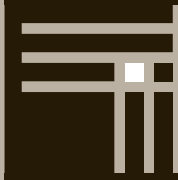


CROWN HEALTH
FINANCING AGENCY
lending, property, advisory

annual report 2006

Presented to the House of Representatives pursuant to Section 44A of the Public Finance Act 1989

report contents

chair's report

THE YEAR IN REVIEW

In the past year (ended 30 June 2006) the Crown Health Financing Agency (CHFA) has made significant progress in diversifying our services and enhancing our contribution to the health sector.

The CHFA has been proactive in maintaining sound working relationships with District Health Boards (DHBs). We have continued to work in partnership with the sector to encourage greater collaboration to improve efficiency, effectiveness and value for public funding.

An example of our contribution includes the financial and insurance coverage benefits secured through the collaborative District Health Boards New Zealand (DHBNZ) 'Value from Insurance' project. The project demonstrated the value from greater DHB cooperation, and has established the foundations for future collaborative projects.

A further highlight for 2005/06 was the introduction of new terms and conditions, and enhanced associated risk management practices for lending to hospital construction projects.

The functional responsibilities for the CHFA continue to include lending, property and financial advisory services which includes managing down the original residual functions assigned in 1993.

During the past year, the Board has continued to support the ongoing diversification of services. A revised Terms of Reference, approved in August 2005, has encouraged expansion of our existing services resulting in a wider range of financial and property advice being provided to DHBs, and an increasing involvement in joint DHB projects.

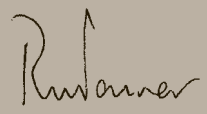
During 2005/06 the CHFA successfully resolved two of its residual responsibilities. The remaining tasks include the ongoing management of the contingent legal claims against the former Area Health Boards (including two active claims), a long term property lease, and the investment of some unclaimed patient trust funds pending a resolution of their future use.

As the residual portfolio is resolved, the CHFA will continue to evolve with greater emphasis on our lending, property and advisory services.

FUTURE DIRECTION

The CHFA has a successful track record in providing expert lending, property, and financial advisory services to the DHB sector – and the Board continues to support the ongoing broadening of these services.

For 2006/07 the Board has placed an emphasis on enhancing existing CHFA services and actively identifying new opportunities to assist the DHB sector to achieve gains in cost effectiveness. This includes developing our networks and relationships across the sector, our performance monitoring and financial analysis, and our capability to deliver expert advice and projects that contribute to the financial sustainability of the DHB sector.



ROSS TANNER

Chair
Crown Health Financing Agency

CHFA Board Members (from left to right): Dame Ann Hercus, Ross Tanner (Chair), Edie Moke, Ian Sliper

the crown health financing agency

The CHFA's objective is to assist DHBs to achieve and maintain financial sustainability through the provision of a range of financial services and expert advice.

Our responsibilities are grouped into three distinct 'lines of business' designed to service the lending and property requirements of DHBs and resolve the Crown's obligations in respect of the residual assets and liabilities of the Area Health Boards that existed prior to July 1993.

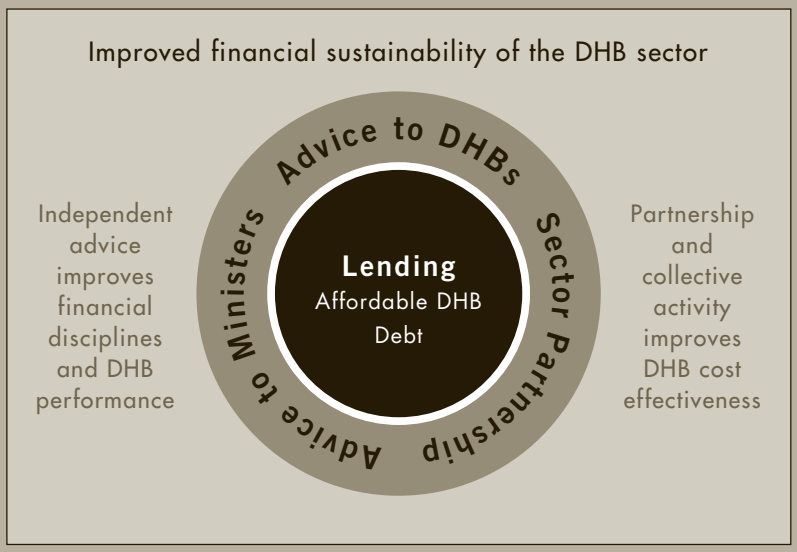
The nature and scope of these functions is covered by a Composite Terms of Reference (most recently updated August 2005).

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

The lines of business undertaken by the CHFA are:

- Lending: we are the lender to the DHB sector and provide a range of loan facilities to refinance existing private sector debt or to finance new capital investment.
- Property: we assist DHBs with the disposal or acquisition of property to meet future service needs. We also offer advice to DHBs to achieve efficient use of their property estate including ownership, management, occupation, construction and use.
- Financial services: we manage a range of residual functions on behalf of the Government, and provide financial, analytical and management support to DHB efficiency projects and collaborative initiatives.

RESULTS WE CONTRIBUTE TO



highlights of 2005/06

- Working in partnership with DHBNZ and DHBs to secure significant cost savings and insurance coverage benefits through the 'Value from Insurance' project
- Implementing our new name as the Crown Health Financing Agency and related identity initiatives to reflect our ongoing role in the New Zealand health sector
- Gaining support and approval for our revised terms of reference encouraging further expansion of our property and financial advisory services
- Developing and implementing new lending terms and conditions and associated risk management for lending to hospital construction projects
- Providing advice to the Ministry of Health's National Capital Committee on a range of individual DHB requests for Crown funding of new capital projects
- Providing advice to DHBs to assist in planning future property requirements
- Supervising the construction and sale of a new community mental health facility for Waitemata – and achieving a significant surplus on the sale
- Working with Te Puni Kokiri and the Office of Treaty Settlements to clear the majority of our property holdings for sale
- Actively marketing Lake Alice and the former Napier Hospital Site for sale
- Successfully resolving two of the residual portfolio responsibilities
- Working in partnership with Otago and Southland DHBs to review opportunities for joint procurement functions across both DHBs
- Assisting the New Zealand Blood Service to renegotiate their lease with Capital & Coast DHB, review the facility leases in Nelson, Christchurch and Dunedin, and to identify and manage the refurbishment of new premises for their North Shore operation.

chief executive's report

STRATEGIC OVERVIEW

The CHFA has continued to work in partnership with DHBs to assist them to achieve their business objectives, and achieve greater financial sustainability.

We have actively strengthened our networks and relationships with senior DHB management to support information sharing, DHB partnerships, and opportunities for improved sector performance.

During 2005/06 we continued our ongoing work programme with DHBNZ – ensuring that we maintain close alignment in pursing greater DHB collective activity. This work has also assisted in raising the awareness of the potential benefits and challenges associated with greater DHB partnership.

This year we have continued to develop our core lending, property and financial services to ensure that they are responsive to the needs of the sector.

Following the successful diversification of our property and financial advisory services in 2004/05 to include a greater range of strategic advice and support, this year we placed an emphasis on increasing the awareness and uptake of our capability in this area.

LENDING SERVICES

During the past year our lending activity has focused on providing debt finance for major capital investments.

We have implemented new lending terms and conditions and established the Lender's Quantity Surveyor process (introduced in 2004/05) as a standard risk management discipline for all major construction projects.

These procedures are to protect loan quality and reflect the fact that the CHFA is predominantly lending to capital projects, now that the private sector debt has largely been refinanced.

In addition, we have continued to introduce greater flexibility into our lending arrangements, ensuring that our financial products meet DHB needs and assist them to manage their interest rate risks and cash flow.

In reviewing our range of financial products, we have begun investigating options for introducing a lease-finance product for DHBs.

We are working with the NZ Debt Management Office (DMO) to investigate opportunities to reduce DHB interest costs through better alignment between DHB borrowing and DMO bond tenders.

PROPERTY SERVICES

Our Terms of Reference were revised in August 2005. The changes supported a broadening of our services to include advice and assistance for property development, leasing, site planning, construction and rationalising the use of sites. This year a range of property advisory projects were completed for DHBs and the New Zealand Blood Service.

This advice complements our well-established disposal services and contributes to assisting the health sector to achieve a more productive property estate.

We pursued a number of opportunities to purchase surplus properties from Auckland, Wairarapa, Otago, Northland and Nelson-Marlborough DHBs.

During the year we worked with the Office of Treaty Settlements and Te Puni Kokiri to complete the clearance of a number of our property holdings through the statutory Maori Protection Mechanism processes.

Of note, the former Napier Hospital site and Lake Alice facilities were successfully cleared and were being actively marketed for sale by the end of the financial year.

FINANCIAL SERVICES

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

When established in 1993, the CHFA assumed a number of statutory functions that were transferred from the former Area Health Boards. A number of these functions continue to be more complex and costly to resolve than was earlier envisaged.

Residual functions that were resolved during the year include the final repayment of the former Area Health Board Debt (originally $700m) and the transfer of the unclaimed Mental Health patient funds to a newly established Trust.

Our remaining residual responsibilities include the management of contingent liability claims (including the Greenlane Heart Library and Psychiatric Hospital Patient claims), the long-term lease of Tourism and Travel House in Wellington (expiring 2012), and the unclaimed Southland patients' Trust funds.

Our financial advisory services focused on encouraging DHB collaboration and improving procurement performance.

Significant projects delivered this year included providing project management for the DHBNZ 'Value from Insurance' project, analysis of the financing options for DHB motor vehicle fleets and the Waikato DHB car parking building, and a review of the procurement functions at Otago and Southland DHBs.

Our continuing alliance with DHBNZ and successful partnership in implementing the DHBNZ 'Value from Insurance' project has secured significant cost savings and improved insurance coverage for the sector. Importantly, the project has also identified wider opportunities for improved information sharing in the sector.

Following the Otago/Southland procurement review, we also submitted a proposal to the Central Region DHBs to review their supply chain functions during 2006/07.

OUR PERFORMANCE 2005/06

We achieved 10 of our 11 key performance indicators for 2005/06.

The exception related to us not reaching an agreement with the Ministry of Health for the future management of the residual claims portfolio.

OUR FUTURE

We have given considerable thought to how we can continue to play an effective role in the health sector.

We believe that working in partnership, strengthening relationships and sharing information across DHBs is essential to achieving improvements in cost effectiveness and financial sustainability.

To date, we have placed an emphasis on enhancing our services and actively identifying opportunities to assist DHBs to achieve gains in cost effectiveness.

We are committed to working closely with DHBs and the wider health sector to identify current priorities, and the challenges and opportunities that the sector faces in achieving its financial objectives.

GRAEME BELL
Chief Executive

1.0 operational review for 2004/05

1.1 lending services

The CHFA has a unique position in the health sector as the sole provider of term debt to DHBs. DHBs access our loans to refinance existing private debt, and to fund hospital infrastructure and other capital assets.

The CHFA applies normally accepted lending criteria – recognising that DHBs are required to operate on a financially sustainable basis whilst delivering a high standard of services.

We assess the affordability of investment proposals, structure term debt facilities to support investments, and provide financial advice to DHBs.

Funding for the CHFA loans is provided to the CHFA by the New Zealand Debt Management Office. This allows the CHFA to lend to DHBs at the most cost effective rate.

Debt finance and our lending criteria and independent financial monitoring ensure that DHBs minimise borrowing levels, and maintain sufficient cash flows to meet their loan requirements. By minimising and repaying debt, the DHB sector can build balance sheet provisions for future asset replacement.

CHFA LOANS PORTFOLIO

The CHFA has progressively refinanced the majority of DHB private sector debt since 2001, and is now predominantly focused on lending for major capital investments.

As at 30 June 2006, the CHFA has approved loans totalling $1,425.0m. Loans actually drawn down amounted to $904.7m, which is an increase of $94.2m on the previous year (figure 1).

This increase in volumes has supported a reduction in our loan administration charge from 0.20% to 0.15% in 2005/06.

At 30 June 2006, the average interest rate paid by DHBs was 6.45%. The CHFA interest rate (including our margin) is 38 basis points below the average private bank benchmark rate – reflecting an estimated saving to DHBs of $3.4m per annum in annual interest costs (Ref figure 2).

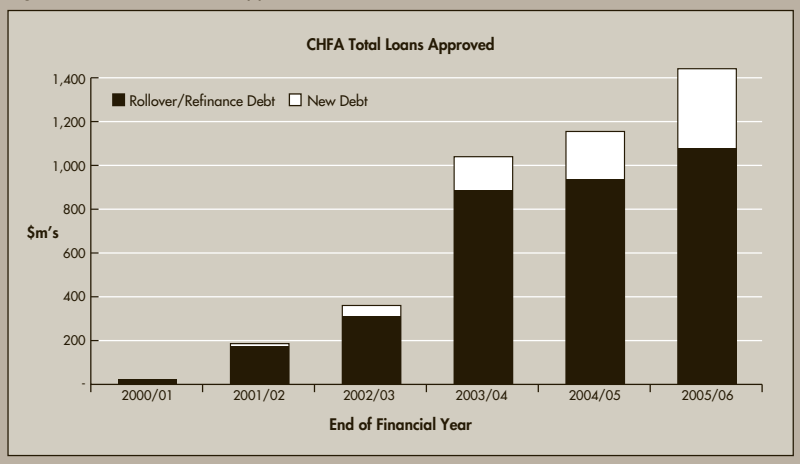
MONITORING AND ADVICE

The CHFA is an independent advisor to the Minister of Health and Minister of Finance on the financial sustainability of the sector. Our objective assessment of DHB financial performance is based on monitoring of DHB results against prudent lending criteria and commonly accepted financial standards.

During 2005/06 we maintained ongoing monitoring of sector trends and the potential opportunities and risks to achieving DHB financial targets. This monitoring programme also informed regular advice to stakeholders and officials.

This year we have continued to enhance the quality of our analysis and advice. Stakeholders have responded positively to the quality, timeliness and usefulness of our advice.

Figure 1: CHFA total loans approved



LENDING PROJECTS

Revised terms and procedures

To support the financing of new capital projects, in 2005/06 the CHFA introduced new lending terms and conditions and instilled the Lenders' Quantity Surveyor process as a standard risk management procedure for all major capital works.

The revised terms, conditions and supporting processes reflect best lending practice. This position was reinforced by Audit NZ's comments that our lending processes and documentation "are first class, tight from a control perspective and reflect a heightened level of maturity of CHFA in this area".

Review of escalation in DHB construction costs

An 'over-heated' construction market delayed some DHB capital projects and introduced significant cost pressures.

During 2005/06 the CHFA commissioned an update of the building cost escalation advice presented to the National Capital Committee in 2004. The purpose of the report was to provide confidence in the level of funding required to complete capital projects.

Financing advice

The CHFA provides regular advice to DHBs on asset ownership and financing structures.

During 2005/06 we provided further analysis and advice to Waikato DHB on the ownership and financing options for the construction of a car park on its Hamilton hospital site.

Approval of new project loans

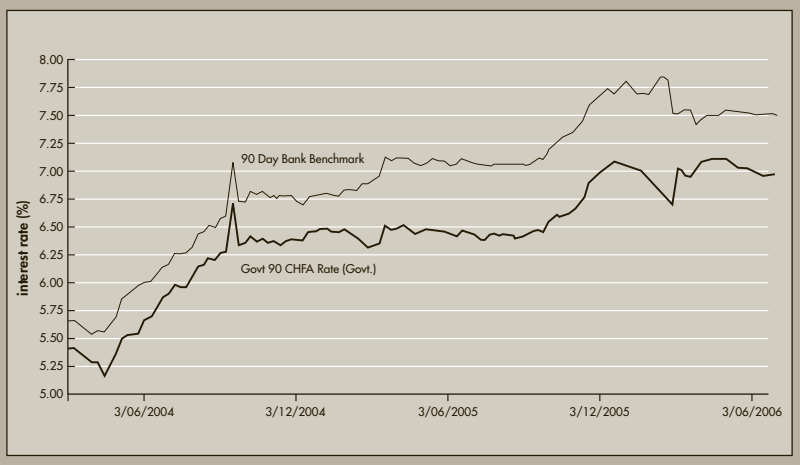
During 2005/06 the CHFA approved new project loans for hospital redevelopments at Counties Manukau (core facilities consolidation) and West Coast (Dementia Unit).

Advice to the Ministry of Health's National Capital Committee

The CHFA advised the National Capital Committee and the Ministry of Health on a range of capital investment proposals and contributed to DHB asset management planning.

Investment proposals reviewed included the Nelson-Marlborough Wairau Hospital, West Coast Dementia Unit, Whanganui Hospital Redevelopment, and Counties Manukau core facilities consolidation.

Figure 2: Cost of finance – 90 day benchmark bank rate compared to CHFA rate



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 to maximise 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.

Funding is providing by way of risk sharing with clients in the disposal process, and income earned from advisory and agency services. Capital funding for property purchases is provided by a revolving line of credit through the Westpac Banking Corporation.

PROPERTY PROJECTS

Property disposal

There were no sales this year. However, we worked with Te Puni Kokiri and the Office of Treaty Settlements to clear all of our properties (with the exception of Wanganui Jubilee Hospital) through the statutory Maori Protection Mechanism process.

By the end of the financial year, both the former Napier Hospital site and Lake Alice were being marketed for sale and attracting significant interest. We have since entered into contracts to sell both properties.

Property purchases

The number of new surplus property transactions slowed during 2005/06.

In the past year we have continued to work with Auckland, Wairarapa, and Otago DHBs on the disposal of properties declared surplus.

Potential opportunities were also identified at Northland and Nelson-Marlborough DHBs.

Property advice

Waitemata: During 2005/06, the CHFA supervised the construction and sale of a new community mental health facility for Waitemata DHB – achieving a significant surplus on the sale.

Wairarapa: We also assisted Wairarapa DHB in considering options for new 'down town' premises for community and public health services. The CHFA's recommended option was for a private investor to fund a purpose built facility with a lease back arrangement to the DHB. This work will continue in 2006/07.

NZ Blood Service: The CHFA assisted the NZBS to renegotiate their lease with Capital & Coast DHB, review the facility leases in Nelson, Christchurch and Dunedin, and to identify and manage the refurbishment of new premises for their North Shore operation.

Counties Manukau: Advice was provided to Counties Manukau DHB on the granting of a long-term ground lease of Crown-owned land to a private health care provider.

Bay of Plenty: The CHFA completed an independent due diligence review for Bay of Plenty DHB on a proposed property acquisition.

1.3 financial services

The CHFA offers 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.

Area Health Board debt

The debt of the former Area Health Boards which was transferred to the CHFA in 1993 (originally $700m) has been repaid – with the final payment being made in June 2006.

Residual contingent liabilities

The CHFA continues to receive claims in relation to pre-1993 medical misadventure. During 2005/06 the number of active claims was successfully reduced from seven to three.

The three active claims are the psychiatric patient's claims, the Greenlane Heart Library claims, and a baby swap claim.

Residual 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 2006 100% of the total 2,691sqm lease space has been sublet. 62% of these subleases are aligned with the expiry of our lease.

Patient Trust Funds

Mental Health Patient Trust Funds: The CHFA successfully resolved the responsibility for managing the unclaimed Mental Health Patients' Frozen Interest Funds. During 2005/06 the Public Trust Office established the 'Mental Health and Disability Services Trust' to administer the residual trust funds. The CHFA's remaining responsibility is to meet any future (unlikely) claims against the funds.

Unclaimed Southland Patient Trust Funds: The CHFA is the trustee of approximately $0.5m of unclaimed patient funds accumulated by Southland DHB prior to 1993. During 2005/06 the CHFA worked with Southland DHB and the Public Trust to progress a trust scheme for the funds.

FINANCIAL ADVISORY

In the past year, the CHFA has provided a range of financial, analytical and project management support to a range of initiatives.

DHBNZ 'Value from Insurance' project

During 2005/06 the CHFA provided project management support to the DHBNZ 'Value from Insurance' project which successfully formed a collective insurance agreement covering 20 DHBs, and resulted in estimated savings of 40% over 2004/05 premiums and substantial quality and coverage gains.

Lease financing

The CHFA has investigated opportunities to introduce a lease financing product for DHBs – offering an alternative and competitive source of finance. This work contributes to ensuring DHBs have access to cost effective finance, and is supported by our ongoing involvement with the private banking sector.

The findings will inform further evaluation and possible implementation in 2006/07.

Procurement and supply chain management

Southland and Otago DHBs: During 2005/06 the CHFA were involved in a joint Otago/Southland study to assess opportunities for a joint procurement function across both DHBs. The CHFA will continue to offer strategic advice on the plans to implement a joint procurement approach.

Central Region DHBs: Based on the principles of the Southland/Otago review, we also developed a proposal for the Central Region DHBs to investigate opportunities for improved supply chain management across the six DHBs. The project aims to identify opportunities for immediate savings for 2006/07, and later, efficiency gains through a collective supply chain management strategy.

Vehicle procurement, financing, and management

The CHFA worked in partnership with four DHBs to coordinate a review of opportunities for improved vehicle fleet procurement, financing, management and disposal.

The findings, which were presented to the DHB CEOs for their consideration, identified opportunities for improved vehicle/demand specification, contracting, information collection and monitoring, and price referencing.

National Haemophilia Management Group

During 2005/06 the CHFA commenced negotiations with the National Haemophilia Management Group (NHMG) for the management of funding transactions between the NHMG and the 21 DHBs.

The CHFA is positive about the opportunity to facilitate this collaborative initiative across the sector and plans to implement the arrangement in 2006/07.

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 management, banking, finance, claims, and property management.

Our team includes nine full-time staff. During the year we successfully recruited two additional staff and reappointed to the Executive Coordinator position.

The additional staff provided greater capacity to contribute to sector initiatives, and supports the planned transfer of our accounting services back in-house.

During 2005/06 we have worked to bring the accounting function back in-house to provide greater staffing flexibility and to allow existing staff to focus on the needs of our clients. We are on target to achieve this in 2006.

This move is part of a plan to become self-contained, with the potential to offer our 'back-office' administrative services to the wider group of health Crown Entities who find access to such support difficult.

The year in review - 2005/06

During 2005/06 the CHFA focused on capability building by way of:

- Expanding our networks and strengthening our relationships with the DHB sector
- Providing high quality advice and services to DHBs that meet their expectations and contributes constructively to achieving their financial goals
- Assisting DHBs to facilitate collaborative projects that contribute to achieving a cost effective and efficient health sector
- Promoting our capability and seeking support to expand the range of services offered to the wider public health sector
- Introducing the new planning and 'managing for results' requirements of the Crown Entities Act 2004 (which came into effect during 2005).

Priorities for next year – 2006/07

In the medium term, we will continue to develop our capability to 'manage for results' and the required implications for planning, management, and monitoring.

CHFA capability development is an ongoing priority. In 2006/07 we will:

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

In 2006/07 we will continue to focus on our contribution to the financial sustainability of the sector through the provision of our specialist services and expert advice.

3.0 financial performance

for the year ended 30 June 2006

3.1 statement of financial performance

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Actual $000s	2006 Budget $000s	2005 Actual $000s
Income				
Crown Funding		1,674	1,671	1,600
Interest revenue				
- District Health Boards		55,473	-	50,778
- Other		449	196	458
Gain on sale of properties		-	525	-
Other income		432	534	464
Total Operating Revenue		**58,028**	**2,926**	**53,300**
Expenditure				
Interest expense				
- Area Health Board debt		2,075	2,075	2,380
- NZ Debt Management Office advances		55,473	-	50,778
Residual asset management		550	586	593
Cash flow swap amortisation	9	3,042	3,042	3,042
Surplus property disposal	2	334	248	277
Other expenses	3	2,425	3,035	1,795
Total Operating Expenses		**63,899**	**8,986**	**58,865**
Net operating (deficit)		**(5,871)**	**(6,060)**	**(5,565)**

The Statement of Accounting Policies and Notes form an integral part of, and should be read in conjunction with, these Financial Statements.

3.2 statement of movements in equity

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Actual $000s	2006 Budget $000s	2005 Actual $000s
Net operating (deficit)		(5,871)	(6,060)	(5,565)
Total recognised revenues and expenses		(5,871)	(6,060)	(5,565)
Funds transferred to Ministry of Health	4	(424)	(528)	(442)
Equity at start of period		**12,402**	**12,803**	**18,409**
Equity at end of period		**6,107**	**6,215**	**12,402**

The Statement of Accounting Policies and Notes form an integral part of, and should be read in conjunction with, these Financial Statements.

3.3 statement of financial position

AS AT 30 JUNE 2006

	Note	2006 Actual $000s	2006 Budget $000s	2005 Actual $000s
Crown equity		**6,107**	**6,215**	**12,402**
Current assets				
Cash and bank	5	316,445	6,283	233,082
Debtors	6	6,606	-	5,366
Advances to District Health Boards	7	209,873	-	333,135
Properties intended for sale	8	5,737	2,318	5,498
Swap mismatch account	9	-	-	25,423
		538,661	**8,601**	**602,504**
Non-current assets				
Advances to DHBs	7	694,814	1,172,951	477,382
Fixed assets	10	227	169	164
		695,041	**1,173,120**	**477,546**
Total assets		**1,233,702**	**1,181,721**	**1,080,050**
Current liabilities				
Accounts payable and accruals	11	7,376	505	6,450
Area Health Board Debt	12	-	-	20,010
Advances from Westpac				
- Property transactions	15	5,478	2,050	1,071
Advances from NZ Debt Management Office	13	519,927	-	562,735
		532,781	**2,555**	**590,266**
Non-current liabilities				
Advances from NZ Debt Management Office	13	694,814	1,172,951	477,382
		694,814	**1,172,951**	**477,382**
Total liabilities		**1,227,595**	**1,175,506**	**1,067,648**
Net assets		**6,107**	**6,215**	**12,402**

The Statement of Accounting Policies and Notes form an integral part of, and should be read in conjunction with, these Financial Statements.

3.4 statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Actual $000s	2006 Budget $000s	2005 Actual $000s
Cash flows from operating activities				
Cash was provided from:				
Operating income		1,674	1,671	1,600
Interest received				
- DHB loan advances		54,257	-	49,868
- Area Health Board		2,372	2,372	2,647
- Other		450	196	457
Properties intended for sale		-	525	-
Other income		475	608	669
Net GST		(26)	10	(26)
		59,202	**5,382**	**55,215**
Cash was applied to:				
Payments to suppliers and employees		(3,230)	(3,801)	(2,668)
Transfer to Ministry of Health		(392)	(515)	(486)
Interest paid				
- Area Health Board		(2,372)	(2,372)	(2,393)
- to NZ Debt Management Office		(54,257)	-	(49,868)
		(60,251)	**(6,688)**	**(55,415)**
Net cash flow from operating activities	16	**(1,049)**	**(1,306)**	**(200)**
Cash flows from investing activities				
Cash was provided from:				
Sale of surplus District Health Board properties		-	25,625	-
Cash was applied to:				
Properties intended for sale		(361)	(4,556)	(920)
Fixed assets		(87)	(103)	(52)
		(448)	**(4,659)**	**(972)**
Net cash flow from investing activities		**(448)**	**20,966**	**(972)**

The Statement of Accounting Policies and Notes form an integral part of, and should be read in conjunction with, these Financial Statements.

3.4 statement of **cash flows**

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Actual $000s	2006 Budget $000s	2005 Actual $000s
Cash flows from financing activities				
Cash was provided from:				
Advance from NZ Debt Management Office		174,624	-	76,046
District Health Board principal repayment		642,928	291,914	768,838
Area Health Board Swap mismatch		20,010	20,010	-
Advances from Westpac		4,406	2,350	65
		841,968	314,274	844,949
Cash was applied to:				
Loans from District Health Boards		(737,098)	(291,914)	(719,560)
Area Health Board Debt		(20,010)	(20,010)	(254)
Repayment to Westpac		-	(19,772)	-
		(757,108)	(331,696)	(719,814)
Net cash flow from financing activities		84,860	(17,422)	125,135
Net increase (decrease) in cash held		83,363	2,238	123,963
Opening cash balances		233,082	4,045	109,119
Closing cash balances		316,445	6,283	233,082
Comprising:				
Cash at bank		310,282	2,540	229,977
Short term deposits		6,163	3,743	3,105
		316,445	6,283	233,082

The Statement of Accounting Policies and Notes form an integral part of, and should be read in conjunction with, these Financial Statements.

3.5 statement of accounting policies

STATUTORY BASE

The Crown Health Financing Agency (CHFA), formerly The Residual Health Management Unit (RHMU), 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 (DHBs) 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.

MEASUREMENT SYSTEM

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

BUDGET FIGURES

The budget figures are those approved by the Board at the beginning of the financial year.

The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Board for the preparation of the financial statements.

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.

REVENUE RECOGNITION

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

COMPARATIVE FIGURES

To ensure consistency with the current period, comparative figures have been reclassified where appropriate.

TAXATION

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

INVESTMENTS

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

FIXED ASSETS

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

DEPRECIATION

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

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

Leasehold improvements
2.8 – 12.8 years (7.8% – 36.0%)

Computer equipment
2.1 – 3.5 years (28.8% – 48.0%)

Office equipment
2.8 – 5.4 years (18.6% – 36.0%)

Furniture and fittings
4.6 – 12.8 years (7.8% – 21.6%)

ACCOUNTS RECEIVABLE

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

STATEMENT OF CASH FLOWS

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

Cash flows derived from:

Operating activities includes cash received from all income sources of CHFA and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets and money market investments.

Financing activities comprise the change in equity and debt capital structure of CHFA.

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 DHBs, debtors, creditors and loans. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

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

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

CHFA establishes counterparty limits for each counterparty based on external credit ratings.

CHFA has entered into financial instruments which give rise to off-balance sheet exposures in order to reduce risks arising from carrying out its ongoing business. These instruments include a cash flow swap with the New Zealand Debt Management Office (NZDMO) to facilitate the management of the repayment of Area Health Board debt and to hedge the associated interest rate exposure.

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

OPERATING LEASES

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease expenses are recognised on a systematic basis over the period of the lease.

PROPERTIES INTENDED FOR SALE

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

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used last year.

3.6 notes to the financial statements

1. MAJOR BUDGET VARIATIONS

Statement of financial performance

Income and expenditure: Interest revenue and expenditure: DHB interest income and the corresponding NZDMO interest expense were not budgeted for as the amounts offset each other.

Gain on sales of properties: Anticipated sales of properties have not occurred within budgeted timeframes as a result of unforeseen delays in obtaining the required Crown Land clearance.

Other expenses: Delays in legal proceedings resulted in less than anticipated legal fees being incurred in the current year.

Statement of financial position

Cash and Bank: The NZDMO CHFA Facility of $310.1m was greater than budgeted for. The funds represent temporary repayment from DHBs. The timing and amounts of the repayments is dependant on DHB's surplus cash flow.

Properties intended for sale: Anticipated property sales did not occur in the current year due to delays in obtaining Crown Land clearance.

Accounts payable and debtors: These accounts include interest payable and receivable in respect of the DHB loans which were not budgeted for.

Advances to District Health Boards and advances from NZDMO- current and non-current portion: The facilities were not fully drawn down at balance date. The current portion was not budgeted for separately as the term of the loans were not known at the time of setting the budget.

Statement of cash flows

Interest received from DHBs and interest paid to NZ Debt Management Office: DHB interest received and the corresponding NZ Debt Management Office interest paid were not budgeted for as the amounts offset each other.

Properties intended for sale and sale of surplus DHB properties: Anticipated sales of properties owned by CHFA have not occurred within budgeted timeframes. The purchase and sale of DHB surplus property did not occur as anticipated due to DHBs yet to declare property surplus or opting to use alternative disposal options.

Advance from NZ Debt Management Office: The movement in the NZDMO advance of $174.6m was not budgeted for as the repayment of debt is dependant on the cash position of DHBs.

Advance from Westpac increased as a result of the refinancing of a property loan previously funded from CHFA equity.

2. SURPLUS PROPERTY DISPOSAL EXPENSES

These expenses were funded by an operating loan.

3.6 notes to the **financial statements** (continued)

3. OTHER EXPENSES

	2006 Actual $000s	2005 Actual $000s
Other expenses include:		
Audit fees	22	21
Depreciation		
Leasehold improvements	10	8
Furniture & fittings	6	7
Office equipment	2	4
Computer equipment	26	25
Total depreciation for the year	**44**	**44**
Board fees	80	75
Board expenses	27	29
Rental and leasing costs	459	459
(Note: Rental and leasing costs are included under residual asset management)		
Board members earned the following fees during the 2006 year:		
Ross Tanner (Chair)	32	30
Dame Ann Hercus	16	15
Ian Sliper	16	15
Edie Moke	16	15

4. FUNDS TRANSFERRED TO THE MINISTRY OF HEALTH

CHFA receives rental income on behalf of the Crown in respect of its lease obligations of five floors of Tourism and Travel House. These funds are returned to the Ministry on a quarterly basis. CHFA receives appropriations for the full cost of leasing the five floors.

3.6 notes to the financial statements (continued)

5. CASH AND BANK

	2006 Actual $000s	2005 Actual $000s
Westpac cheque accounts	228	250
Westpac debt account	0	72
	228	322
On call deposits:		
Westpac on call	110	55
Short term deposits:		
ASB/Westpac deposits	6,053	3,105
NZ Debt Management Office - CHFA facility	310,054	229,600
Total cash and bank	**316,445**	**233,082**

Interest rates receivable on deposits range from 7.25% to 7.47%

The $310.1m (2005: $229.6m) facility relates to appropriation drawdown to fund cash advance facilities to DHBs and then temporarily repaid by them. These facilities were able 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.

6. DEBTORS

	2006 Actual $000s	2005 Actual $000s
Interest receivable	6,462	5,247
Other	144	119
	6,606	5,366

3.6 notes to the **financial statements** (continued)

7. ADVANCES TO DISTRICT HEALTH BOARDS

The following loans made to District Health Boards have interest rates that vary between 5.77% and 7.25% per annum.

	2006 Actual $000s	2005 Actual $000s
Current		
CHFA advances	209,873	333,135
	209,873	333,135
Non current		
CHFA advances	694,814	477,382
Total advances	904,687	810,517
Repayable as follows:		
Less than one year	209,873	333,135
One to two years	338,119	147,513
Two to five years	356,695	329,869
Beyond five years	-	-
	904,687	810,517

8. PROPERTIES INTENDED FOR SALE

	2006 Actual $000s	2005 Actual $000s
Cost	5,225	5,225
Costs attributed to properties	808	551
Income received from properties	(296)	(278)
Total properties intended for sale	5,737	5,498

3.6 notes to the financial statements (continued)

9. CASH FLOW SWAP

On 2 August 1993 the CHFA entered into a cash flow swap agreement with the New Zealand Debt Management Office to hedge all future cash flows relating to the Area Health Board debt assumed and loan advances made to Crown Health Enterprises.

CHFA's obligations under the Cash flow Swap Agreement were repaid on 20 and 29 June 2001.

The swap mismatch account represents the difference between the cash inflows and outflows under the cash flow swap agreement up to 30 June 2006.

Swap Mismatch Account

All Area Health Board debt has now been repaid and the balance in this account at 30 June 2006 is $0 (2005: $25.42m).

The difference between the actual cash flows and the present value of the cash flows is the amount amortised on a straight-line basis over the life of the swap. The balance at 30 June 2006 is $0 and an expense of $3.04m has been recognised in the Statement of Financial Performance for the year ended 30 June 2006 (2005: expense $3.04m).

The balance in the swap mismatch account has been cleared to nil as all swap payments were received from the New Zealand Debt Management Office in June 2006.

10. PROPERTY, PLANT AND EQUIPMENT

	Cost $000	Accumulated Depreciation $000	Depreciation $000	Net Book Value $000
2006				
Leasehold improvements	161	33	10	128
Furniture and fittings	77	21	6	56
Office equipment	16	14	2	2
Computer equipment	144	103	26	41
Total	**398**	**171**	**44**	**227**
2005				
Leasehold improvements	85	23	8	62
Furniture and fittings	79	15	7	64
Office equipment	15	12	4	3
Computer equipment	112	77	25	35
Total	**291**	**127**	**44**	**164**

3.6 notes to the **financial statements** (continued)

11. ACCOUNTS PAYABLE AND ACCRUALS

	2006 Actual $000s	2005 Actual $000s
Creditors	357	340
Accruals		
- NZ Debt Management Office Interest	6,459	5,243
- Leave Entitlements	35	34
- Other	525	833
	7,376	6,450

12. AREA HEALTH BOARD DEBT

Area Health Board debt is term debt that was raised by the Area Health Boards prior to their disestablishment on 30 June 1993. All Area Health Board debt has now been repaid.

	2006 Actual $000s	2005 Actual $000s
Principal Outstanding	-	20,010
Less: Current Portion	-	20,010
Term portion	-	-

These liabilities were assumed by CHFA on 1 July 1993. Maturity dates for this debt ranged up to 1 June 2006. Coupon interest rates range from 11.85% to 15.00% per annum.

Repayable as follows:

Less than one year	-	20,010
One to two years	-	-
	-	20,010

3.6 notes to the financial statements (continued)

13. ADVANCES FROM NZ DEBT MANAGEMENT OFFICE

The following advances from NZ Debt Management office have interest rates that vary between 5.77% and 7.25% per annum.

	2006 Actual $000s	2005 Actual $000s
Current		
Advances to CHFA Existing Debt	209,873	333,135
NZ Debt Management Office - CHFA Facility	310,054	229,600
	519,927	562,735
Non current		
Advances to CHFA Existing Debt	694,814	477,382
Total advances	1,214,741	1,040,117
Repayable as follows:		
One to two years	338,119	147,513
Two to five years	356,695	329,869
Beyond five years	-	-
	694,814	477,382

The $310.1m (2005: $229.6m) facility relates to appropriation drawn down to fund cash advance facilities to DHBs and them temporarily repaid by them. These facilities were able 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.

3.6 notes to the **financial statements** (continued)

14. LOAN FACILITIES

	2006 Actual $000s	2005 Actual $000s
Repaid Loan Facility	310,054	229,600
Undrawn Loan Facility	170,292	34,410
	480,346	**264,010**

At 30 June 2006, DHB's have undrawn loan facilities of $480.35 m with CHFA (2005: 264.01m).

CHFA has the equivalent undrawn loan facilities with NZDMO.

The budgeted NZDMO & DHB loans have not been apportioned between current and non-current assets and liabilities. This information was not available during the budget preparation.

15. ADVANCES FROM WESTPAC – PROPERTY TRANSACTIONS

The facility with Westpac is in place to finance the purchase of DHB surplus property. The facility is capped at $15.0m, is unsecured and has a maturity date of 31 October 2009, or such later date as the lender may from time to time agree. As at balance date, $5.48m (2005: $1.07m) was drawn.

3.6 notes to the financial statements (continued)

16. RECONCILIATION OF OPERATING CASH FLOWS WITH NET OPERATING SURPLUS

	2006 Actual $000s	2005 Actual $000s
Net Operating Deficit	(5,871)	(5,565)
Add (less)		
Non cash items		
Amortisation of cash flow swap	3,042	3,042
Depreciation	44	44
Total non-cash items	**3,086**	**3,086**
Add (less)		
Movements in working capital items		
Decrease (increase) in debtors	(1,182)	(750)
Increase (decrease) in accounts payable	546	382
Decrease (increase) in swap mismatch account	2,372	2,647
Total movements in working capital items	1,736	**2,279**
Net cash flow from operating activities	**(1,049)**	**(200)**

3.6 notes to the **financial statements** (continued)

17. COMMITMENTS AND CONTINGENCIES

	2006 Actual $000s	2005 Actual $000s
Commitments		
Non Cancellable Lease Operating Commitments	2,869	3,328
Term Classification of Commitments:		
Less than one year	459	459
One to two years	459	459
Two to five years	1,377	1,377
Over five years	574	1,033
	2869	3328
Other Non Cancellable Contracts	13	2
Term Classification of Commitments		
Less than one year	5	2
One to two years	5	-
Two to five years	3	-
	13	2

Contingencies

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.

Quantifiable contingent liabilities are as follows:

	2006 Actual $000s	2005 Actual $000s
Medical	17,769	9,786
Total contingent liabilities	17,769	9,786

3.6 notes to the financial statements (continued)

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 at a rate greater than the current cost of CHFA's lease. The cost of the lease is apportioned and all sub-lease rental recovered is returned to the Ministry of Health. CHFA rental expense for the year 30 June 2006 was $34,429 (2005: $34,429).

18 EMPLOYEES' REMUNERATION

Total remunerations and benefits	Number of employees	
$000	2006	2005
200-210	1	-
190-200	-	-
180-190	-	1
170-180	-	-
160-170	-	-
150-160	-	-
140-150	-	-
130-140	1	-
120-130	-	1
110-120	-	-
100-110	-	1

The Chief Executive of CHFA is in the bracket of 200-210 above. There was no compensation or other benefits paid or payable to persons who ceased to be board members or employees in relation to that cessation.

19. INDEMNITIES AND INSURANCE COVER FOR BOARD MEMBERS AND EMPLOYEES

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.

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

20. FINANCIAL INSTRUMENTS

CHFA has a policy for providing risk management for interest rates and the concentration of credit. All expenditure is in New Zealand dollars and CHFA is not exposed to any foreign currency risk.

Interest Rate Risk

Interest rate risk on the AHB term borrowing is hedged by a cash flow swap with the New Zealand Debt Management Office. Advances to District Health Boards have rates that match the associated New Zealand Debt Management Office advances to CHFA.

3.6 notes to the **financial statements** (continued)

Credit Risk

Credit risk is the risk that a third party will default on its obligations to CHFA, causing CHFA to incur a loss. In the normal course of its business, CHFA incurs credit risk from trade debtors including DHBs, and transactions with financial institutions and the New Zealand Debt Management Office.

Financial instruments that potentially subject CHFA to credit risk consist principally of cash, short-term investments, advances to District Health Boards and various transactions with the New Zealand Debt Management Office and the Crown.

CHFA places its cash and short-term investments with high credit quality financial institutions and limits the amount of exposure to any one financial institution.

Credit risk with respect to advances to District Health Boards are reviewed monthly in compliance with borrowing arrangements.

The New Zealand Debt Management Office is a Crown agency with a high quality credit rating.

All CHFA's financial instruments, including advances to District Health Boards as at 30 June 2006, are recorded at cost.

A fair value valuation has been carried out on advances to District Health Boards. Advances made with a face value of $904,687,000 are valued at $901,935,816.

21. RELATED PARTY INFORMATION

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.

There were no related party transactions with the members of the Board.

There were no other related party transactions.

22. NZIFRS IMPACT

At the time of reporting, the adoption period for reporting under NZIFRS, will be for the year ended 30 June 2008.

Significant accounting policy changes have been addressed and a full review on accounting policies and determinations made in relation to NZIFRS adoption has been carried out. The estimated effect on CHFA's financial statements of NZIFRS adoption at the time of preparing this report is not expected to be significant.

This review will be subject to audit assurance.

3.6 notes to the financial statements (continued)

23. TRUST FUNDS

CHFA has responsibility for the management of mental patients frozen interest funds and Southland DHB patient interest funds. These funds are held in trust pending the preparation of a scheme, under section 11 of the Health Sectors (Transfers) Act 1993, on behalf of the patients.

The mental patients frozen interest funds were transferred during the year into a trust administered by the Public Trust under Section 11 of the Health Sectors (Transfers) Act 1993.

The Southland DHB Patient Interest Funds continue to be held in trust by CHFA.

Trust funds on hand at 30 June 2006 are as follows:

	2006 Actual $000s	2005 Actual $000s
Mental patients' frozen funds		
Liquid assets		
ASB money market deposit – all regions excluding Auckland	-	3,065
ASB money market deposit – Auckland	-	1,064
Total sums held	-	**4,129**
Represented by:		
Balance at beginning of year	4,129	3,866
Add:		
Interest revenue from money market deposits	228	264
	4,357	4,130
Less:		
Payments to patients	1	1
Transfer to Public Trust	4,356	-
Total mental patients' frozen funds	-	**4,129**

3.6 notes to the **financial statements** (continued)

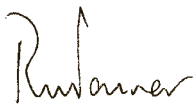
	2006 Actual $000s	2005 Actual $000s
Southland patients' frozen funds		
Liquid assets		
ASB Money Market Deposit	496	461
	496	**461**
Represented by		
Balance at beginning of year	461	432
Add:		
Interest revenue from money market deposits	35	29
	496	**461**
Less:		
Payments to patients	-	-
Total Southland patients' frozen funds	**496**	**461**

3.7 statement of **responsibility**

The Board and management of the CHFA accept responsibility for the preparation of the annual financial statements and the judgements 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; and

In the opinion of the Board and management of the CHFA, the financial statements for the year ended 30 June 2006, fairly reflect the financial position, cash flows and operations of the CHFA.



ROSS TANNER
Chair
Date: 26 October 2006

GRAEME BELL
Chief Executive
Date: 26 October 2006

3.8 audit report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

to the readers of the Crown Health Financing Agency's financial statements

FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of the Crown Health Financing Agency. The Auditor General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Crown Health Financing Agency, on his behalf, for the year ended 30 June 2006.

UNQUALIFIED OPINION

In our opinion the financial statements of the Crown Health Financing Agency on pages 14 to 35:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Crown Health Financing Agency's financial position as at 30 June 2006; and
  - the results of its operations and cash flows for the year ended on that date.

The audit was completed on 26 October 2006, 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 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. 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. 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;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

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

We evaluated the overall adequacy of the presentation of information in the financial statements. 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 financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Crown Health Financing Agency as at 30 June 2006. They must also fairly reflect the results of its operations and cash flows for the year ended on that date. The Board's responsibilities arise from the Public Finance Act 1989 and the New Zealand Health and Disability Act 2000.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

INDEPENDENCE

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

In addition to the audit we performed an assurance assignment over the Crown Health Financing Agency's compliance with its own lending processes and procedures, which is compatible with those independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the Crown Health Financing Agency.

S B LUCY
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 the Crown Health Financing Agency for the year ended 30 June 2006 included on the Crown Health Financing Agency's web site. The Board is responsible for the maintenance and integrity of the Crown Health Financing Agency's web site. We have not been engaged to report on the integrity of the Crown Health Financing Agency's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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/from these 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 and related audit report dated 26 October 2006 to confirm the information included in the audited financial statements presented on this web site.

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

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