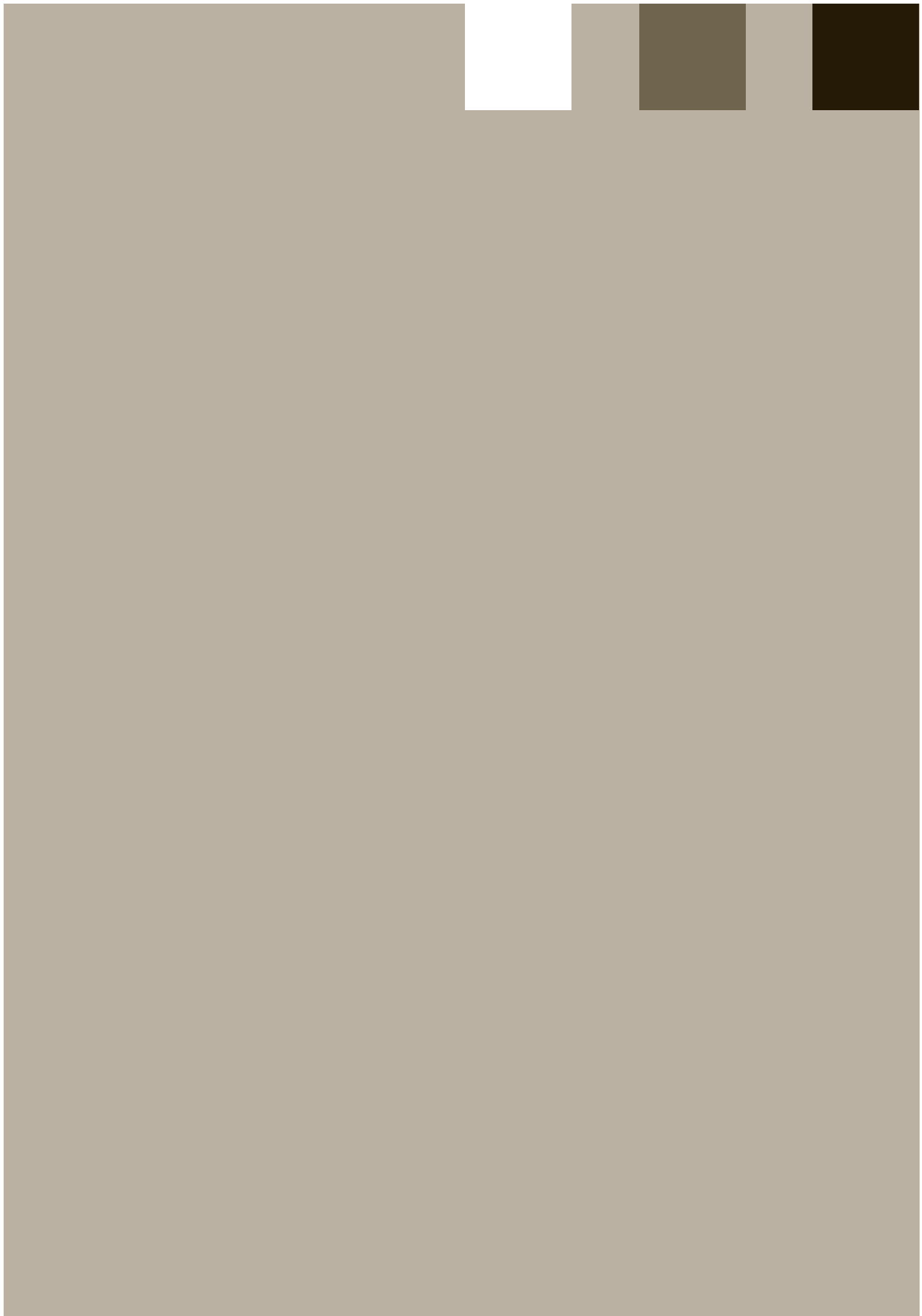




CROWN HEALTH
FINANCING AGENCY

lending, property, advisory

Annual Report 2009



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chair's report

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The CHFA is a mature organisation with a successful track record in providing the District Health Boards with expert lending, property, and financial advisory services. It comprises senior people mostly from a private sector background with a diverse range of skills in general management, banking, finance and property. As a team it is focused on assisting the District Health Boards and other stakeholders meet their financial goals and objectives.

The CHFA has developed an in-depth knowledge of health sector financing. It has a unique position in the health sector as the sole provider of term debt to DHBs. In addition, the CHFA has a solid reputation for the provision of timely, accurate, and independent financial advice to Ministers and officials.

The year in review

In summary for the year under review, the Board set out to first maintain our core business in the most efficient and effective manner, and then second following the elections in November 2008, to give effect to the expectations of the new Government. In particular, emphasis was given to providing the new Minister of Health with advice on the financial condition of the sector and its prospects for long term financial sustainability.

Lending

The lending function is well established with loan application, credit assessment and monitoring procedures similar to those practiced by the corporate banking community. As at 30 June 2009 loans approved by the CHFA Board totalled \$1,609.0m. Actual loans outstanding were \$1,327.0m.

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.

Debt is a more flexible borrowing instrument than equity and facilitates DHB cash flow on a more cost-effective basis. As for other business-like environments, providing access to debt affords the CHFA the opportunity to encourage prudent financial disciplines in the DHBs through the negotiation, supervision and monitoring of the use of debt and debt levels.

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.

The Board is certain that a central agency like the CHFA can offer the sector many advantages and it is pleasing to note that a growing number of DHBs are requesting our strategic advice in these specialist property areas. These advantages include consistency in approach and assurance of compliance with sometimes very complex policy settings and regulatory requirements.

The success of our property unit 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.

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

The Board is very pleased that during the year we were able to resolve the Greenlane Heart Library claims. Only one other significant claim remains.

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 by our inability as a nation to 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.

Governance

The composition of the Board membership underwent significant change in 2008.

Edie Moke completed her term and retired from office in July 2008. We are grateful for her contribution over the six years of her appointment.

Philippa Dunphy and June McCabe were appointed to the Board from 1 September 2008 for a term of one year. Both have significant governance experience and financial and banking expertise of value to the CHFA. We welcome them 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 CHFA aims to support the sector-wide outcome for “New Zealanders to lead longer, healthier and more independent lives” It contributes to this outcome through the provision of a range of financial services and expert advice targeted at assisting DHBs to achieve and maintain financial sustainability.

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 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.

The lines of business undertaken by the CHFA are:

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.

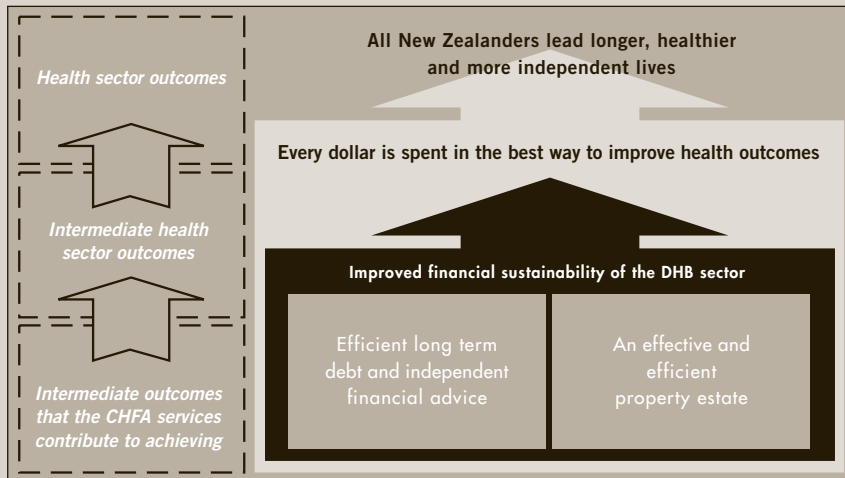
We also have a mandate to provide financial and analytical support to DHBs to assist them achieve the Crown’s objectives for cost effectiveness and value for money.

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 and value for money in the health sector through two intermediate outcomes, and one Government objective:

Figure 1: Hierarchy of outcomes:

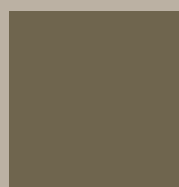


Government Objective:

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

key results for 2008/09

- As at 30 June 2009, CHFA loans outstanding to DHBs totalled \$1,327 million, an increase of \$57million on the previous year.
- Continuation of our strategy to re-structure and diversify DHB long term debt over a ten-year time horizon.
- Provision of treasury policy advice to DHBs on debt structure, interest rate risk management and the use of financial derivatives.
- Continuous improvement to our credit risk assessment criteria and financial performance monitoring practices and associated reporting.
- Providing advice on a range of matters likely to affect the long term financial sustainability of the sector.
- The sale of five properties for \$5.3 m which returned a surplus of \$1.7m to the sector.
- Purchase of the Queen Mary Hospital, Hanmer Springs and preparations for its ultimate disposal.
- Negative property equity as a result of the significant decline in property values and the delays in selling our Claude Road, Epsom and Napier hospital properties.
- Continued growth in the scope of our property advisory services.
- Settlement of the Greenlane Heart Library claims.
- Obtaining approval for a scheme to transfer the Southland Patient Trust Funds to Southland DHB.
- Achieving the highest possible ratings in our external audit with no major issues identified and all outstanding prior year matters resolved.
- Establishment of a constructive dialogue with the new Minister of Health and his officials.



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.

In 2008/09, and in response to the emerging difficult economic times, we changed gears a little and regrouped around our core functions. We parked our goals for a stronger level of participation in sector efficiency projects in favour of ensuring that we delivered our lending, property and financial advisory services in the most effective and efficient manner possible.

2008/09 also provided us with the opportunity to share with the sector and other stakeholders our increasing concerns for the longer term financial sustainability of our public health system.

As "banker" to the DHB sector we have a privileged position and access to a wide range of financial information. Cost growth is at unsustainable levels and given current funding capability it is likely that the sector will have difficulty in balancing the books for the immediate future.

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.

Our project to restructure DHB balance sheets within a 10-year time horizon is also complete but on-going to the extent that we can introduce further efficiencies as new debt is drawn and/or individual loans mature and are rolled over.

That said, during the past year CHFA has continued to implement some significant changes to its lending operations. We have introduced improvements to our credit assessment and reporting frameworks, financial analysis and to the quality of our advice.

The changes reflect a desire to ensure that the lending function not only operates efficiently, but also is positioned as an effective and trusted adviser focused on the longer term financial sustainability of the sector.

Property services

Property sales achieved were up from a modest \$932,000 in 2007/08 to \$5.357 million and generated a surplus for the sector above our original purchase price of \$1.7 million (2007/08 \$532,000).

Nonetheless we are cognisant of the difficulties being experienced in the commercial property market and we are adopting a very cautious approach to all of our property transactions. Significantly only one purchase was completed in the year, that of the Queen Mary Hospital Hanmer Springs. We are hopeful that this property will be disposed of by the end of calendar year 2010.

Disappointingly we have not yet been able to settle the sale of the Napier hospital site. We were successful in our application to the High Court for specific performance of the agreement entered into in August 2006. However, the purchaser has subsequently been successful in their appeal against this decision and the matter remains subject to litigation.

On a more positive note we have continued to expand the range of property services we offer to our DHB clients. More and more, our advice is being sought to ensure adherence to the plethora of regulatory and compliance issues. A project currently being undertaken for Counties Manukau DHB has allowed us to introduce a software package to the sector that may well have wider application in the management of information required to ensure compliance with building ownership, leasing and other regulatory requirements.

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.

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 266 individual former Psychiatric Hospital Patients) and the long-term lease of Tourism & Travel House in Wellington (expiring 2012) remain. Approval is held to transfer the unclaimed Southland patients' Trust funds to a trust managed by the Southland DHB.

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.

During 2008/09 we did not actively pursue participation in any such projects. Rather we continued our engagement with the sector through DHBNZ and other forums to ensure that we maintained a close alignment in pursuing greater DHB collective activity. We did enjoy some success in introducing supply chain management expertise to a number of DHBs seeking to reduce their costs of procurement and contributed our expertise to DHBNZ-led initiatives in areas of common interest.

Our performance 2008/09

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 performance did not measure up to our expectations. Given current market conditions, our property function represents the biggest risk to our business.

Our future

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

All of this suggests that there will be increasing opportunities for CHFA, as banker to the sector, to contribute our strategic thinking, advice, and financial and property expertise in a number of areas.

It will also be important for us that our Property function recovers from its negative equity position.

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 2008/09

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 2009, the CHFA had approved loans totalling \$1,609m. \$1,327m of these had been drawn (an increase of \$57m on the previous year). New loans were approved during the year for hospital redevelopments in Rotorua, New Plymouth and Lower Hutt.

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 2009 was 6.25% (6.49% as at June 30, 2008). 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.

The primary recipients of this advice are the Ministers of Health and Finance. CHFA's advice to Ministers 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 (together with suggested ways forward, where appropriate).

CHFA also has an advisory role in the Ministry of Health's capital allocation process. We advise the Ministry's National Capital Committee of the "bankability" of capital requests submitted for funding by DHBs.

Where appropriate, CHFA contributes to initiatives to enhance DHB and/or sector financial sustainability.

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.

Funding is provided 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 with Westpac Banking Corporation.

Property projects

Property disposal

Five sales were achieved during the year. A contract was entered into for the sale of part of the property at Claude Road, Epsom adjacent to the Greenlane hospital but with settlement deferred until approval of a subdivision and issuance of a new title, expected in September 2009. Four properties were landbanked and transferred to the Office of Treaty Settlements (OTS): the Tuakana block alongside the Napier hospital site, the former Jubilee hospital in Whanganui and two leasehold properties in Whanganui.

A contract for the sale of the last remaining leasehold property in Whanganui has been entered into for settlement on 31 July 2009.

Napier hospital site

The unconditional contract for the sale of the former Napier Hospital remains in default. During the year we were successful in our application to the High Court for specific performance of this contract. However, the purchaser has successfully appealed this decision and the matter remains subject to litigation.

Property purchases

During the year, only one property, Queen Mary hospital in Hanmer Springs was purchased by CHFA. The property is now being prepared for sale but with part to be vested in the Department of Conservation for the benefit of Hurunui District Council and the balance to be offered for private sale subject to the provisions of the Ngai Tahu Claims Settlement Act.

Aside from the Queen Mary hospital, CHFA owns the Napier hospital site, balance of the land at Claude Road (on completion of the subdivision, approximately 2240m²), a small section in Taihape and two residential sections and a 1.5ha rural block adjacent to the Jubilee hospital (already sold) in Whanganui.

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 (Sec40 of the Public Works Act).

Other examples of our work in 2008/09 are:

Auckland: Engaged to advise Auckland on property re-development and restoration for Building 5 at the Greenlane site. Services provided included input into meetings with local council, conducting an RFP for refurbishment and long term lease of the building, advising on Statutory obligations, and appearing as an expert witness in the Environment Court.

Waitemata: Engaged to identify and acquire new premises for corporate staff and other units. Also we acted as mediator in the successful resolution of a complex boundary issue with a neighbouring property owner. More recently we have contributed to submissions to the North Shore City Council by Waitemata seeking relief from development levy contributions.

Counties Manukau: Contracted to complete a stocktake of owned and leased properties for the purpose of establishing an electronic database of their estate holdings as an aid to improved property management.

Property equity

Our Property function operates along commercial lines and attracts no Crown funding. As such it is required to break-even. Because of the delays in the sale of Claude Road and the Napier hospital site, property equity is currently negative.

Our expectation is that this position will correct itself once these properties are sold.

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.

Contingent liabilities

The CHFA continues to receive claims in relation to pre-1993 medical misadventure. During the year, the number of active claims has been reduced from 328 to 266. This follows the out-of court and confidential settlement of the Greenlane Heart Library claims.

All of the remaining active claims are those associated with historical allegations of abuse and neglect whilst in the care of psychiatric hospitals. Damages being sought are in the order of \$138.7 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 & Travel House (Wellington) until 2012.

As at 30 June 2009, 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 is the trustee of approximately \$0.62m of unclaimed patient funds accumulated by Southland DHB prior to 1993. Approval has been obtained to transfer the funds to an approved trust scheme managed by Southland DHB. The funds will be transferred in July 2009.

Financial advisory

The CHFA has a medium term objective to work with the sector to promote individual and collaborative initiatives that improve DHB cost effectiveness. This strategy is being advanced collectively with DHBNZ and individually with some DHBs but within the bounds of our existing capability and wherever possible projects that are aligned to our core functions.

In the past year, the CHFA has chosen to focus on the delivery of its core functions and has not engaged directly in any individual DHB or sector efficiency initiatives. However, we have maintained a dialogue with DHBNZ, individual DHBs and a range of expert advisers on potential cost savings opportunities.

Specifically we have:

- Provided advice to some DHBNZ supply chain management and procurement projects and introduced subject matter experts to individual DHBs.
- Shared our thinking with the Ministerial Task Force on the long term financial sustainability of the DHB sector and separately how the capital allocation process might be enhanced.
- Contributed to the development of a DHBNZ paper on the appropriateness of the current funding model as it relates to the ability of DHBs to afford new capital assets.

National Haemophilia Management Group

During 2008/09, 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 2009, investment of funds by the CHFA has returned to the pool an additional \$0.468m.

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.

During the year we confirmed our staffing complement as being eight. We have seven full time staff and have deliberately left one position vacant pending the outcome of the Ministerial Task Force.

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 - 2008/09

During 2008/09 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.
- Establishing a constructive dialogue with the new Minister of Health and his officials.
- 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 – 2009/10

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

For 2009/10 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.

We are cognisant too of the Government's requirements for improved state sector performance generally. We will seek to identify performance improvement actions and other value for money opportunities to ensure CHFA delivers efficient and effective services.

3.0 key results and performance measures

Lending services

Description	Ref	Standard and Performance Measure	Status as at 30 June 2009
Loans administration	1.1	To provide DHBs with cost effective long term funding	Achieved
		DHBs are able to access long term funding for new capital projects	All DHBs have been able to access long term funding for new projects as required. There are no outstanding loan applications or facilities approved but unavailable
		DHB debt is structured to minimise the volatility of interest costs from year to year	DHBs can choose their own debt profiles within a maximum maturity of 10 years for any one loan drawing. Current portfolio spread overall is considered to be consistent with good commercial practice Low volatility evident from average weighted cost of debt approximately 6.25% (6.49% at 30 June 2008)
Independent monitoring of DHB financial performance	1.2	To identify and manage risks to DHB financial performance	Achieved, with positive informal feedback from stakeholders on the form and content of our reports
		The financial sustainability of all DHBs is reviewed monthly	Monthly analysis completed in a timely fashion, with enhanced internal management reporting
		By 31/12/2008, complete annual review of DHB credit worthiness	Annual Credit Review completed and approved by the Board in September 2008
		The risks to sector financial sustainability are highlighted to the CHFA Board and Responsible Ministers at least quarterly	Risks to sector financial sustainability highlighted to the Board and Responsible Ministers quarterly and otherwise by exception or in separate advice
		Action Plans are developed and implemented as necessary	Individual Actions Plans monitored closely and progress reported on in each Quarterly Report

Lending services continued...

Description	Ref Standard and Performance Measure	Status as at 30 June 2009
Provision of independent advice and financial services	1.3 To provide DHBs and other stakeholders with independent financial strategic and policy advice	Achieved
	Fees from financial advisory services are greater than \$10,000	Fees for the year were \$10,000
	Assessment of efficiency gains from individual DHB, regional or national strategic initiatives	No assessment available. A strategic decision was taken to focus on core activities and we have not actively sought to involve ourselves in efficiency projects
	Assessment of our contribution to sector-wide policy initiatives	<p>During the year we have participated in a number of sector wide policy initiatives, including:</p> <ul style="list-style-type: none"> • Development of an improved National Asset Management Plan. • Evaluation of the DHB capital allocation and approval process. • Submissions to the Ministerial Task Force on the long term financial sustainability of the sector. <p>Informal stakeholder feedback has been positive on our contribution</p>

Property advice and disposal services

Description	Ref	Standard and Performance Measure	Status as at 30 June 2009
Property disposal service	1.1	To maximise the value of DHB surplus property sales	Partly achieved
		Total CHFA property sales greater than \$7.0m	Total sales \$5.357m
		Total CHFA property purchases greater than \$14.0m	Total purchases \$13.150m
		Assessment of value for money from individual DHB property transactions	DHB surplus from sales: \$1.7m
Strategic property advice	1.2	To provide DHBs with strategic advice that maximises the value for money from property decisions	Partly achieved
		Advisory fees earned greater than \$150,000	Advisory fees \$143,760
		Assessment of value for money from individual DHB property advisory services projects	Waitemata Arbitration – settlement of dispute with Metlifecare [value added includes Metlifecare cash contribution to solution, avoidance of legal proceedings/costs and any damages]

Financial services

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Description	Ref	Standard and Performance Measure	Status as at 30 June 2009
Efficient Management of residual assets and liabilities	1.1	To effect the settlement of residual medical claims	Achieved
		Number of outstanding medical claims is reduced	Number of active claims has reduced from 328 to 266 [19%]
	1.2	To manage the tenancy risk at Tourism & Travel House	Achieved
		100% of rental space is sub-leased	All rental space is leased until expiry of head lease, September 2012
		Rental income greater than the cost of the head lease	Rental income is \$86,249 per annum (16%) more than the cost of the Head Lease
	1.3	To manage, invest and distribute the Southland patient trust funds	Partly achieved
		Capital funds are increased	Capital funds have increased from \$582,809 to \$619,750 [6.3%]
		By June 2009, patient trust funds distributed	Approval to distribute funds received in July 2009

Organisational capability and development

Description	Ref Standard and Performance Measure	Status as at 30 June 2009
Managing for Outcomes	1.1 By 31 August 2008, internal work and performance plans are agreed with all staff	Achieved All internal work and performance plans completed
Invest in the capability of our people	1.2 By 31 August 2008, staffing complement confirmed	Achieved Staffing complement confirmed at 8 FTEs but with one position held as vacant
	By 31 December 2008 all staff to have signed new employment contracts that reflect current "best practice" and encourage "work/life" balance	Achieved All HR policies reviewed All staff have signed new individual employment contracts
	For the year 30 June 2009, voluntary staff turnover less than 1	Achieved Nil staff turnover for the year
Enhancing our effectiveness	1.3 Internal/external audits reflect that policies, procedures and business systems are appropriate and being complied with	Achieved Audit NZ annual audit carried out in October 2008 was unqualified and rated "very good" (top grading) for both "management control environment" and "financial information systems and controls"

Statement of service performance

	Lending Actual \$000	Lending Budget \$000	Property Actual \$000	Property Budget \$000	Financial Services Actual \$000	Financial Services Budget \$000
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)
2008						
Appropriation	1,044	1,045	0	0	630	629
Other Income	174	127	272	786	204	204
Total Income	1,218	1,172	272	786	834	833
Operating expenditure	584	1,009	1,580	227	2,103	2,908
Surplus/(Deficit)	634	163	(1,308)	559	(1,269)	(2,075)

Note 1:

The deficit in the Financial Services output class relates to costs of specific residual functions and is currently funded from CHFA equity with the agreement of the Ministry of Health.

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 2009

4.1 Statement of financial performance

for the year ended 30 June 2009

	Note	2009 Actual \$000s	2009 Budget \$000s	2008 Actual \$000s
Income				
Crown Funding		1,751	1,751	1,674
Interest revenue				
- District Health Boards		83,926	87,197	79,944
- Other		280	367	464
Other income		154	165	114
Total Operating Revenue		86,111	89,480	82,196
Expenditure				
Interest expense				
- NZ Debt Management Office advances		83,926	87,197	79,944
Residual asset management (T&T House)	2	686	746	672
Legal expenses – Medical Claims		520	1,357	883
Personnel Costs		976	1,033	811
Adjustment of CHFA share of surplus on property sale previously recognised		38	0	(72)
Board Fees	18	94	96	91
Projects		153	200	129
Depreciation		50	38	55
Other expenses	3	390	551	1,626
Total Operating Expenses		86,833	91,218	84,139
Net Operating surplus (deficit)		(722)	(1,738)	(1,943)

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

4.2 Statement of movements in equity

for the year ended 30 June 2009

	2009 Actual \$000s	2009 Budget \$000s	2008 Actual \$000s
Note			
Net operating surplus (deficit)	(722)	(1,738)	(1,943)
Total recognised revenues and expenses	(722)	(1,738)	(1,943)
Equity at Start of Period	4,586	5,039	6,529
Equity at End of Period	3,864	3,301	4,586

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 2009

	Note	2009 Actual \$000s	2009 Budget \$000s	2008 Actual \$000s
Crown Equity		3,864	3,301	4,586
Current assets				
Cash and bank	5	185,785	241,798	220,421
Debtors	6	18,499	8,132	19,912
Advances to District Health Boards	7	116,987	106,000	106,037
Inventory : Properties held for sale	8	14,401	14,300	2,680
		335,672	370,230	349,050
Non-current assets				
Advances to District Health Boards	7	1,210,101	1,252,000	1,164,421
Property, Plant and Equipment	9	150	155	153
		1,210,251	1,252,155	1,164,574
Total Assets		1,545,923	1,622,385	1,513,624
Current liabilities				
Accounts payable and accruals	10	16,067	8,014	16,255
Property advance from Westpac	14	4,126	15,070	7,621
Advances from NZ Debt Management Office	12	296,893	344,000	320,693
		317,086	367,084	344,569
Non-current liabilities				
Provisions	11	72	0	48
Property advance from Ministry of Health	14	14,800	0	0
Advances from NZ Debt Management Office	12	1,210,101	1,252,000	1,164,421
		1,224,973	1,252,000	1,164,469
Total Liabilities		1,542,059	1,619,084	1,509,038
Net Assets		3,864	3,301	4,586

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 2009

	Note	2009 Actual \$000s	2009 Budget \$000s	2008 Actual \$000s
Cash flows from operating activities				
Cash was provided from:				
Operating income		1,751	1,751	1,674
Interest received:				
- District Health Boards Loan Advances		83,621	86,651	76,316
- Other		270	372	464
CHFA share of surplus on properties sold		0	0	72
Other income		829	715	631
Net GST		47	(3)	38
		86,518	89,486	79,195
Cash was applied to:				
Payments to suppliers and employees		(2,993)	(4,106)	(3,111)
Transfer to Ministry of Health		(625)	(550)	(590)
Interest paid:				
- NZ Debt Management Office		(83,621)	(86,651)	(76,316)
		(87,239)	(91,307)	(80,017)
Net cash flow from operating activities	15	(721)	(1,821)	(822)
Cash flows from investing activities				
Cash was provided from:				
Sale of surplus District Health Board properties		3,717	2,900	504
		3,717	2,900	504
Cash was applied to:				
Properties intended for sale		(14,156)	(12,886)	(3,271)
Fixed assets		(48)	(50)	(15)
		(14,204)	(12,936)	(3,286)
Net cash flow from investing activities		(10,487)	(10,036)	(2,782)

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 2009

Note	2009 Actual \$000s	2009 Budget \$000s	2008 Actual \$000s
Cash flows from financing activities			
Cash was provided from:			
Advance from NZ Debt Management Office	56,630	100,000	154,850
District Health Board principal repayment	91,475	95,850	209,655
Advances from Westpac and Ministry of Health	15,398	12,856	3,347
	163,503	208,706	367,852
Cash was applied to:			
Advances to District Health Boards	(182,855)	(195,850)	(394,363)
Repayments to Westpac	(4,076)	(2,852)	(165)
	(186,931)	(198,702)	(394,528)
Net cash flow from financing activities	(23,428)	10,004	(26,676)
Net increase (decrease) in cash held	(34,636)	(1,853)	(30,280)
Opening cash balances	220,421	243,651	250,701
Closing cash balances	185,785	241,798	220,421
Comprising:			
Cash at bank	613	64	398
Short term deposits	5,266	3,734	5,368
CHFA facility at NZ Debt Management Office	179,906	238,000	214,655
	185,785	241,798	220,421

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 2009 and were approved by the Board on 23 October 2009.

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

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

- NZIAS 1 Presentation of Financial Statements (revised 2007) replaces NZIAS 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 will enable 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 intends to adopt this standard for the year ending 30 June 2010, and will prepare a single statement of comprehensive income.
- Amendment to NZIAS 2 Inventories.* Public benefit entities are now required to measure inventory held for distribution at cost, adjusted where applicable for any loss of service potential. Prior to the amendment, public benefit entities were required to measure inventories held for distribution at the lower cost and current replacement cost. Application of the amendment is mandatory for reporting periods beginning on or after 1 January 2008. CHFA has accordingly adopted the amended standard in the year ending 30 June 2009. The impact of adopting the new standard is minimal.

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 Tourism & Travel 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 project, 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 – 5.4 years (18.6% - 36.0%)

Furniture and fittings

4.6 – 12.8 years (7.8% - 21.6%)

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 \$27,872,000 (2008: \$30,216,000) 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 financial performance

District Health Boards interest revenue and expense:
Interest rate returns were lower than budgeted due to lower levels of advances to DHBs than budgeted.

Other Interest revenue:

Interest rate returns were lower than budgeted due to lower levels of deposits held and lower than budgeted interest rates being attained.

CHFA share of surplus on sale of properties:

CHFA share of surplus on properties sold was lower than budgeted due to a part reversal of revenue accrued in the previous year.

Legal expenses – Medical claims:

Court proceedings did not proceed as budgeted.

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 \$179.9m 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

Value of property purchased was greater than budgeted.

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 Westpac:

The timing of property sales and purchases has resulted in variations in loan repayments.

2. Residual asset management

The cost of \$686,000 represents the full cost of leasing five levels of Tourism & Travel House, 79 Boulcott Street, Wellington.

CHFA is responsible for the lease obligations until expiry of the lease in 2012.

Sub tenant rental received by CHFA is returned to the Crown through the Ministry of Health on a quarterly basis.

3. Other expenses

	2009 Actual \$000s	2008 Actual \$000s
Other expenses include:		
Audit fees for financial statements audit (Audit NZ)	25	23
Audit fees for NZ IFRS transition (Audit NZ)	0	5
Property related costs	71	86
Write down of inventory	0	500
Reversal of previously recognised CHFA share of surplus on sale of properties	0	750
CHFA lease rental	61	55
Board expenses	31	13
Legal Fees	21	75
Printing	24	24
Other Expenses	157	95
	390	1,626

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 & 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.

5. Cash and bank

	2009 Actual \$000s	2008 Actual \$000s
Westpac cheque accounts	613	398
Short term deposits maturing three months or less from date of acquisition		
- ASB deposit	2,913	0
- National Bank of NZ deposit	2,353	3,370
- Westpac deposit	0	1,998
NZ Debt Management Office – CHFA facility	179,906	214,655
Total cash and cash equivalents	185,785	220,421

Interest rates receivable on deposits range from 3.50% to 4.35%. The carrying value of short term deposits with maturity dates of three months or less approximates their fair value.

The \$179.9m (2008: \$214.7m) 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.

6. Debtors

	2009 Actual \$000s	2008 Actual \$000s
Interest receivable	14,129	13,814
Sale of property receivables	20,511	22,709
Other	47	115
	34,687	36,638
Less provision for impairment	(16,188)	(16,726)
	18,499	19,912

All receivables are recognized at their nominal value.

As at 30 June 2009 and 2008, all receivables have been assessed for impairment and appropriate provisions applied, as detailed below.

	2009 Gross \$000s	2009 Impairment \$000s	2009 Net \$000s	2008 Gross \$000s	2008 Impairment \$000s	2008 Net \$000s
Interest receivable						
Not past due	14,129	0	14,129	13,814	0	13,814
	14,129	0	14,129	13,814	0	13,814
Sale of property receivables						
Not past due	2,011	(500)	1,511	4,209	(500)	3,709
Past due > 90 days	18,500	(15,688)	2,812	18,500	(16,226)	2,274
	20,511	(16,188)	4,323	22,709	(16,726)	5,983
Other						
Not past due	34	0	34	10	0	10
Past due 1-30 days	7	0	7	9	0	9
Past due 31-60 days	1	0	1	2	0	2
Past due 61-90 days	5	0	5	94	0	94
Past due > 90 days						
	47	0	47	115	0	115

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

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 previous year of \$0.5m has been retained in respect of this property.

Settlement of the unconditional contract for sale of the former Napier Hospital (\$20m) was not made on due date and is now subject to legal action to enforce the agreement. Due to the uncertainty of final settlement, an adjustment has been made to the provision reducing the debtor value to the original cost plus holding costs of the property (\$2.812m).

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

	2009 Actual \$000s	2008 Actual \$000s
Balance at 1 July	16,726	0
Adjustment to provisions made during the year	(538)	16,726
Receivables written off during period	0	0
Balance at 30 June	16,188	16,726

7. Advances to District Health Boards

	2009 Actual \$000s	2008 Actual \$000s
Current		
CHFA advances	116,987	106,037
Non current		
CHFA advances	1,210,101	1,164,421
Total advances	1,327,088	1,270,458

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

Maturity analysis and effective interest rates	2009 Actual Loans \$000s	2009 Weighted Average Effective Interest rate	2008 Actual Loans \$000s	2008 Weighted Average Effective Interest rate
Less than one year	116,987	5.281%	106,037	6.810%
One to two years	98,946	6.011%	106,550	6.760%
Three to five years	494,159	6.314%	492,574	6.394%
Beyond five years	616,996	6.377%	565,297	6.519%
	1,327,088	6.247%	1,270,458	6.490%

The fair value of the total advances of \$1,327,088 is \$1,390,757 (2008: \$1,270,458 is \$1,268,472). 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.

Loans to DHBS are unsecured.

8. Inventories – properties held for sale

The carrying value of inventories of \$14.401m (2008 \$2.680m) is measured at cost.

There are five properties currently held by CHFA: Queen Mary Hospital, Hanmer Springs; Claude Road, Epsom; former Jubilee Hospital Land; one ground lease, Whanganui; and a section at Kuku Street, Taihape.

No inventories are pledged as security for liabilities.

9. Property, plant and equipment

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
2008					
2008	Leasehold Improv. \$000s	Furniture & Fittings \$000s	Office Equipment \$000s	Computer Equipment \$000s	Total \$000s
Cost					
Balance 1 July 2007	164	86	28	145	423
Additions	0	0	1	14	15
Disposals	0	(2)	(8)	(77)	(87)
Balance 30 June 2008	164	84	21	82	351
Accumulated depreciation and impairment losses					
Balance 1 July 2007	55	30	16	129	230
Depreciation	21	9	5	20	55
Eliminate on disposals	0	(2)	(8)	(77)	(87)
Balance 30 June 2008	76	37	13	72	198
Carrying amount 30 June 2008	88	47	8	10	153

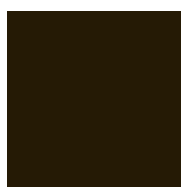
10. Accounts payable and accruals

	2009 Actual \$000s	2008 Actual \$000s
Creditors	190	173
Accruals		
- NZ Debt Management Office Interest	14,115	13,810
- Property transactions	1,435	1,816
- Leave Entitlements	45	37
- Other	282	419
	16,067	16,255

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 \$45,000 is the total of CHFA's employee benefit liabilities and is classified as current liabilities.



11. Provisions

	2009 Actual \$000s	2008 Actual \$000s
Non current provisions are represented by		
Lease make-good	72	48
Total non-current portion	72	48
Total provisions	72	48

Movement in provision is as follows:

	Lease make-good	Total
2008		
Balance 1 July 2007:	24	24
Additional provisions made	24	24
Balance 30 June 2008	48	48
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 (August 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.

12. Advances from NZ Debt Management Office, Treasury

	2009 Actual \$000s	2008 Actual \$000s
Current		
Advances to CHFA Existing Debt	116,987	106,037
NZ Debt Management Office Facility	179,906	214,655
	296,893	320,692
Non Current		
Advances to CHFA Existing Debt	1,210,101	1,164,421
Total advances	1,506,994	1,485,113

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

	2009 Actual Loans \$000s	2009 Weighted Average Effective Interest rate	2008 Actual Loans \$000s	2008 Weighted Average Effective Interest rate
Less than one year	116,987	5.281%	106,037	6.810%
One to two years	98,946	6.011%	106,550	6.760%
Three to five years	494,159	6.314%	492,574	6.394%
Beyond five years	616,996	6.377%	565,297	6.519%
	1,327,088	6.247%	1,270,458	6.490%
NZ Debt Management Office Facility	179,906	Nil interest	214,655	Nil interest
Total advances	1,506,994		1,485,113	

The \$179.9m (2008: \$214.7m) 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 to CHFA on the balance in this account.

The fair value of the advances of \$1,327,088 is \$1,390,757 (2008: \$1,270,458 is \$1,268,472).

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.

Advances from DMO are unsecured.

13. Loan facilities

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

	2009 Actual \$000s	2008 Actual \$000s
Repaid Loan Facility	179,906	214,655
Undrawn Loan Facility	101,719	59,900
Total	281,625	274,555

At 30 June 2009, DHB's have undrawn loan facilities of \$281.6 m with CHFA (2008: \$274.5m).

CHFA has the equivalent undrawn loan facilities with NZDMO.

14. Property advances to CHFA and transactions

Westpac

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 30 October 2009, or such later date as the lender may from time to time agree. As at balance date, \$4.13m (2008: \$7.62m) was drawn down.

Ministry of Health

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.

15. Reconciliation of operating cash flows with net operating surplus

	2009 Actual \$000s	2008 Actual \$000s
Net Operating Deficit	(722)	(1,943)
Add (less)		
Non cash items		
Write down of inventory	0	500
Depreciation	50	55
Total non-cash items	50	555
Add (less)		
Movements in working capital items		
Decrease (increase) in debtors	(228)	(2,939)
Increase (decrease) in accounts payable	179	3,505
Total movements in working capital items	(49)	566
Net cash flow from operating activities	(721)	(822)

16. Commitments and contingencies

Commitments	2009 Actual \$000s	2008 Actual \$000s
Non Cancellable Lease Operating Commitments		
Term Classification of Commitments:		
Less than one year	551	551
One to two years	551	551
Two to five years	643	1193
Over five years	0	0
	1,745	2,295

Total future minimum sublease payments to be received under non-cancellable subleases for office space at the balance sheet date are \$2,016,942 (2008: \$2,156,542).

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:

	2009 Actual \$000s	2008 Actual \$000s
Medical claims	27,872	30,216
Total contingent liabilities	27,872	30,216

Accommodation lease

CHFA has a lease obligation in respect of 2,691 square metres of office accommodation in Tourism & 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 2009 was \$60,888 (2008: \$55,472).

17. 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.

There were related party transactions with one member of the Board, who was also Chair of Waitemata DHB.

The value of revenue received from Waitemata DHB was as follows:

- Revenue from Property advisory services \$35,880 (2008 \$15,119).
- Loan interest paid by Waitemata DHB to CHFA \$10,915,378 (2008 \$11,714,993).

Key Management personnel compensation

	2009 Actual \$000s	2008 Actual \$000s
Salaries and other short-term employee benefits	706	666
Post-employment benefits	0	0
Other long-term benefits	0	0
Termination benefits	0	0
Total key management personnel compensation	706	666

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

The values of balances with Waitemata DHB are as follows:

- Debtors balances at 30 June 2009 \$5,650 (2008 \$17,605).
- Loan balances 30 June 2009 \$165,796,000 (2008 \$65,796,000).

There were no other related party transactions.

Waiver

The Chair, following due advice to the Board, granted to one member of the Board a notice of permission to act despite being interested in a matter under Section 68 of the Crown Entities Act 2004.

This waiver was in regard to the board member also being a member of the National Capital Committee (NCC). Permission was granted to the member to act on any business case and or other DHB business previously or currently dealt with by the NCC.

The waiver was in force for the period 11 November 2008 to 29 February 2009.

18. Board member remuneration

Board members earned the following fees during the year:	2009 Actual \$000s	2008 Actual \$000s
Ross Tanner	2	32
John Anderson (Chair)	31	11
Edie Moke	3	16
Kay McKelvie	16	16
David Moore	16	16
June McCabe	13	0
Philippa Dunphy	13	0
Total	94	91

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.

19. Employee remuneration

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

Total remunerations and benefits \$000s	Number of employees 2009	Number of employees 2008
241-243	1	
231-240		1
171-180	1	1
161-170	1	
151-160		1

20. 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 position.

21. 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	2009 Actual \$000s	2008 Actual \$000s
Loans and Receivables			
Cash and Bank	5	185,785	220,421
Debtors	6	18,499	19,912
Advances to District Health Boards	7	1,327,088	1,270,458
Total Loans and Receivables		1,531,372	1,510,791

	note	2009 Actual \$000s	2008 Actual \$000s
Financial Liabilities measured at amortized cost			
Accounts payable and accruals	10	16,067	16,255
Property advances	14	18,926	7,621
Advances from NZ DMO	12	1,506,994	1,485,113
Financial Liabilities		1,541,987	1,508,989

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 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 \$6,000 (2008 \$11,000) 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 - CHFA debtors consist largely of District Health Boards and Government Agencies where there is very limited credit risk. Credit risk is covered by the continued holding of the property asset.

In respect of the private sector purchaser of CHFA property, the value of the receivable has been written down to the fair value of the collateral, land and buildings CHFA holds against this debt.

Other debtors held are deemed to be immaterial.

A breakdown of debtors by entity type is as follows.

	2009 Actual \$000s	2008 Actual \$000s
Loans and Receivables		
District Health Boards	14,522	14,200
Private sector purchasers of CHFA held property	3,952	2,274
Government Agencies	8	3,430
Other	17	8
Total	18,499	19,912

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 7 and Note 12 respectively. The advances and borrowings are back to back and present no liquidity risk.

Trust funds on hand at 30 June 2009 are as follows:

Financial liabilities measured at amortized cost	2009 Actual \$000s	2008 Actual \$000s
Southland patients' frozen funds		
Liquid assets		
National Bank of NZ Market Deposit (2008: ASB Money Market Deposit)	620	583
Represented by		
Balance at beginning of year	583	535
Add:		
Interest revenue from money market deposits	37	48
	620	583
Less:		
Payments to patients	0	0
Total Southland patients' frozen funds	620	583

Subsequent to balance date, approval has been received from the Attorney-General under Section 11 of the Health Sector (Transfers) Act 1993 to distribute the fund. The balance of the fund was transferred in July 2009.

22. 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.

23. Trust funds

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

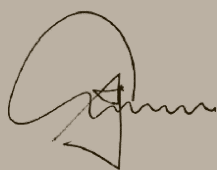
4.7 Statement of responsibility

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 2009, fairly reflect the financial position, cash flows and operations of the CHFA.

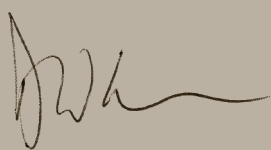
Signed on behalf of the Board



John Anderson

Chair

Date: 23rd October 2009



David Moore

Board Member

Date: 23rd October 2009

audit report

To the readers of Crown Health Financing Agency's financial statements and statement of service performance for the year ended 30 June 2009

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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. The audit covers the financial statements and statement of service performance included in the annual report of CHFA for the year ended 30 June 2009.

Unqualified Opinion

In our opinion:

The financial statements of CHFA on pages 19 to 44:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - CHFA's financial position as at 30 June 2009; 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 18:

- 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 23 October 2009, 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;
- 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.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

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 2009 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 Institute of Chartered Accountants of New Zealand.

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
Christchurch, New Zealand

Matters Relating to the Electronic Presentation of the Audited Financial Statements and Statement of Service Performance

This audit report relates to the financial statements and statement of service performance of Crown Health Financing Agency for the year ended 30 June 2009 included on the Crown Health Financing Agency's website. The Crown Health Financing Agency's Board is responsible for the maintenance and integrity of the 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 and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. 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 statement of service performance and related audit report dated 23 October 2009 to confirm the information included in the audited financial statements and statement of service performance 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

Philippa Dunphy

June McCabe

Postal Address

Level 2, Tourism & Travel House,

79 Boulcott Street, WELLINGTON

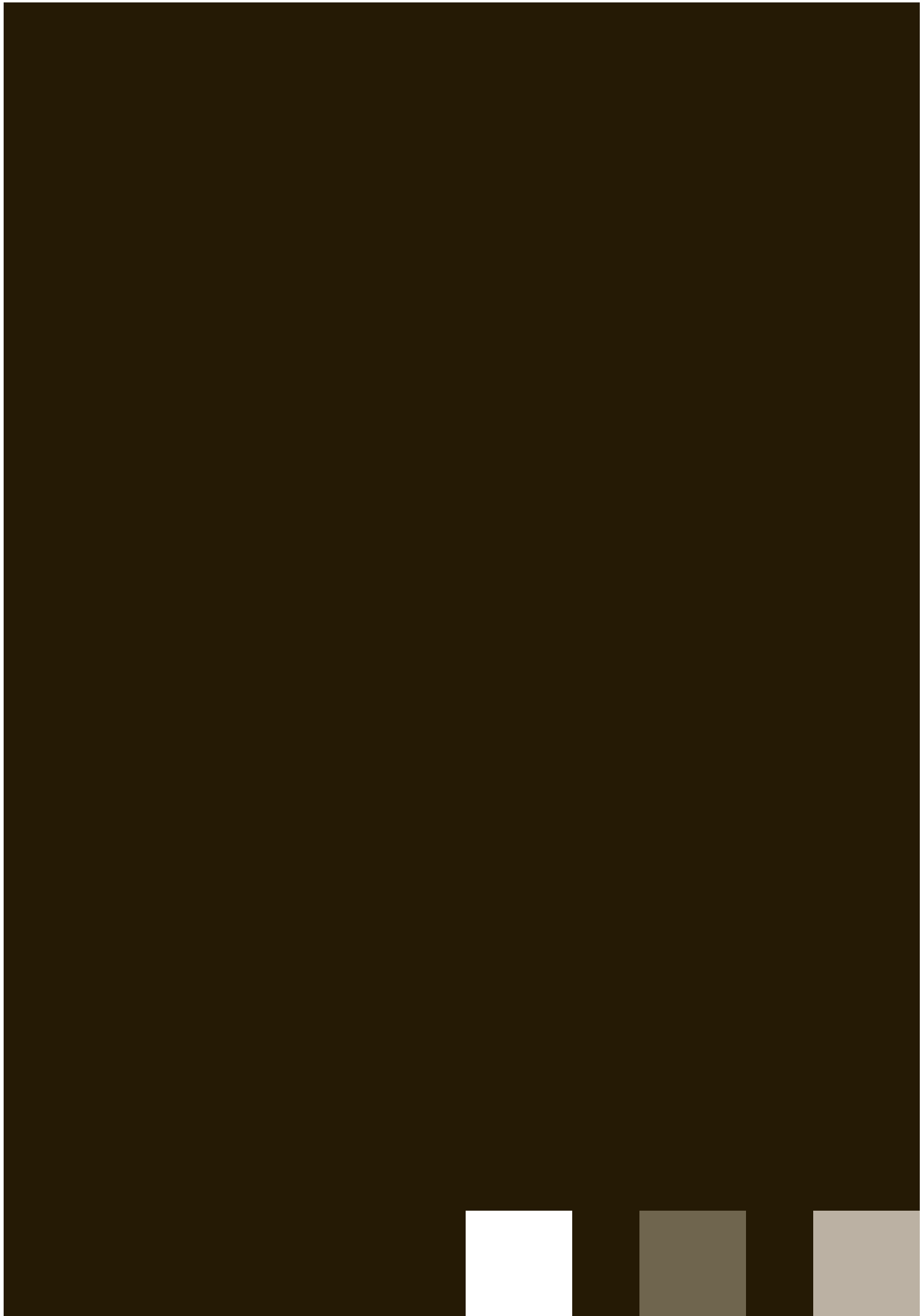
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Auditor

Audit New Zealand on behalf of the Auditor-General



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