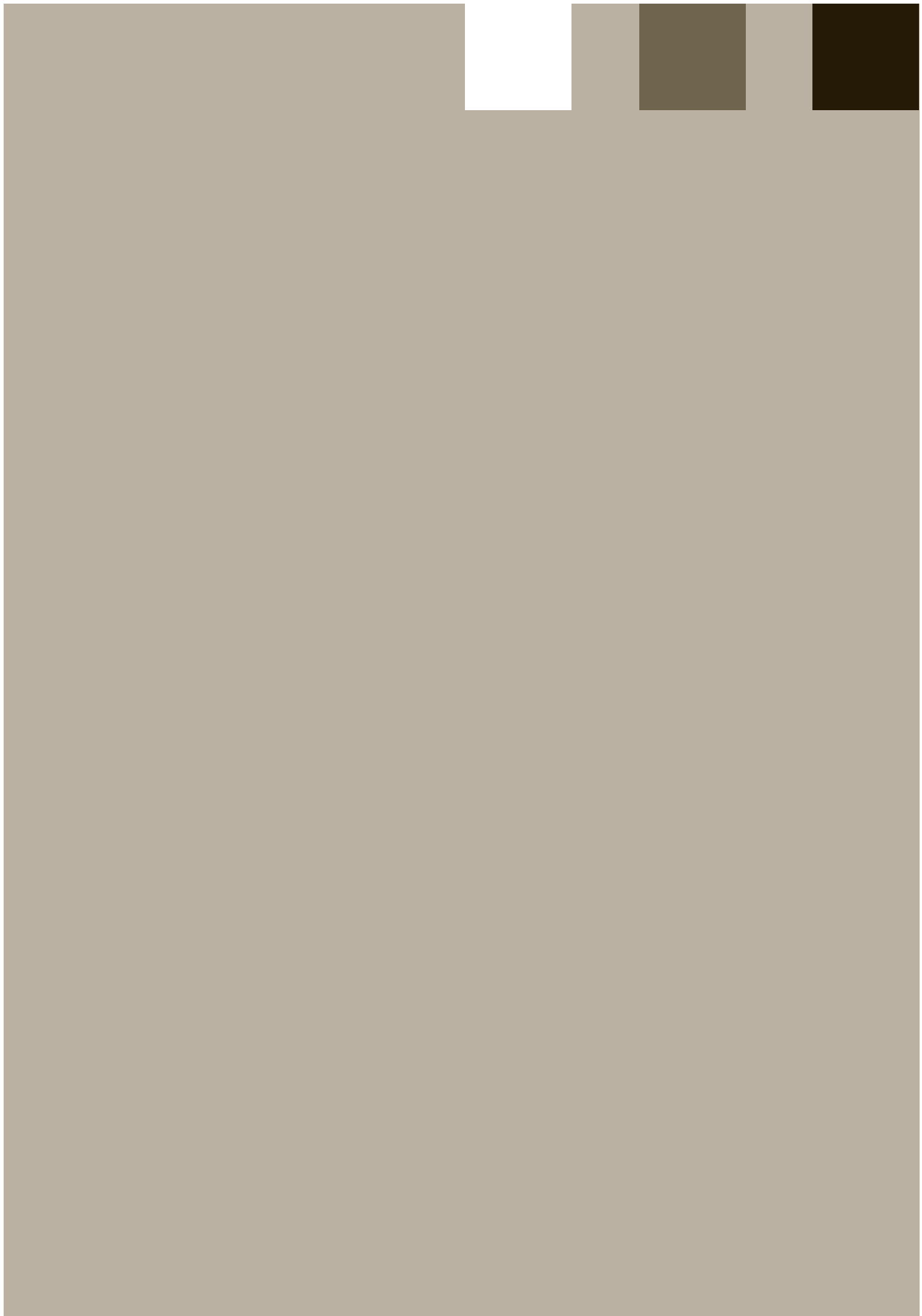




Annual Report 2011



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chair's report

2

The Crown Health Financing Agency ("CHFA") is a mature organisation providing independent advice to the Minister of Health, the Minister of Finance and the National Health Board.

We also provide several lines of business directly to District Health Boards (DHBs). We have an in-depth knowledge of the health sector and can point to a successful track record in providing DHBs with expert lending, property, and financial advisory services in pursuit of their financial goals and objectives. All of what we do is intended to contribute to the financial sustainability and performance of the sector.

The year in review

In 2010/11, the Board gave priority to ensure that our lending, property and residual functions were delivered efficiently and that the quality of our services and advice was maintained.

We encouraged management to work collaboratively with the National Health Board and to provide support for their capital planning and approval processes. Other priorities were those that saw us focus on gaining the approval of Ministers to a settlement offer strategy for the psychiatric patient claims and reducing our financial risk profile by disposing of two of the larger properties from our portfolio of surplus DHB property assets.

Lending

The lending function is well established with loan application, credit assessment and monitoring procedures similar to those practiced by the private sector banks. As at 30 June 2011, loans approved by the CHFA Board totalled \$2,086m. Actual loans outstanding were \$1,616m.

Except for \$50m of private sector bonds issued by one DHB, the CHFA has refinanced all other long term bank debt. The focus is now on the provision of "new debt" for major capital investments.

Property

In 1999, the CHFA was assigned the function of assisting DHBs to dispose of surplus property assets thereby releasing funds for reinvestment in the sector. This year, CHFA has been involved in property transactions which released \$23.1m to the sector.

The Board is particularly pleased with the outcome from the sale of the Napier hospital site. CHFA was able to broker a creative "whole of government" solution involving a number of other agencies and is testimony to the skills of our staff.

Residual

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

A key objective for the Board in 2010/11 was to resolve as many of the psychiatric patient claims as possible. We made significant progress and with approval to go ahead with a settlement offer to all of the claimants we expect to do even better in 2011/12.

Future direction

Post year end, Cabinet has determined that the CHFA will be disestablished. It is expected that all of CHFA’s functions will be transferred to the Ministry of Health. This will occur during the 2011/12 year.

In the meantime, CHFA will continue to perform its role within the sector. The functions will be transferred to the Ministry with minimum disruption to the service levels CHFA currently provides.

The financial statements for the year ended 30 June 2011 have been prepared on a “dissolution” basis rather than a “going concern” basis. While no adjustments have been made in the current year, transfer of CHFA’s assets and liabilities during the 2012 year may result in some revaluation affecting CHFA equity.

Governance

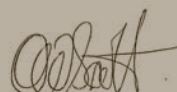
During the year there were significant changes to the composition of the Board.

John Anderson retired from the role of Chair on 31 December 2010 after three years on the Board. We are grateful for his contribution and interest in the activities of this organisation. We wish him well in his future endeavours.

Alastair Scott was appointed Chair effective from 1 January 2011.

Ingrid Collins and Murray Burns joined the Board in December 2010, replacing June McCabe and David Moore who had been on the Board for two and four years respectively.

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



Alastair Scott

Chair

Crown Health Financing Agency

crown health financing agency

4

The health and disability system outcomes are for all “New Zealanders to lead longer, healthier and more independent lives” and that “New Zealand’s economic growth is supported. CHFA aims to contribute to these outcomes through the provision of a range of financial services and expert advice targeted at assisting DHBs to achieve and maintain financial sustainability.

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

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

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

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

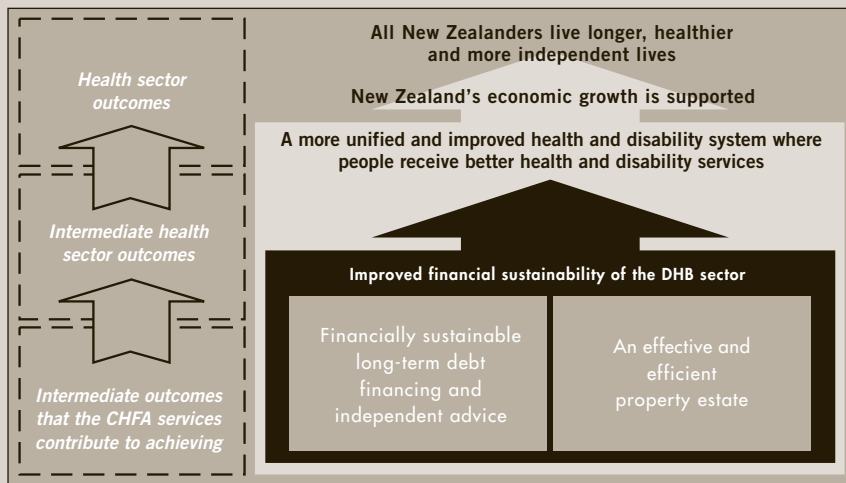
We also have a mandate to provide financial and analytical support to DHBs to assist them achieve the Crown’s objectives for cost effectiveness and value for money.

Property: We assist DHBs with the disposal or acquisition of property to meet future service needs. We also offer advice to DHBs to achieve efficient use of their property estate including ownership, management, occupation and use.

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

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

Figure 1: Hierarchy of outcomes:



Government Objective:

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

key results for 2010/11

- As at 30 June 2011, CHFA loans outstanding to DHBs totalled \$1,616.2m, an increase of \$209.5m on the previous year.
- The weighted average cost of funds on the CHFA loan portfolio as at 30 June 2011 was 5.84 % (6.09% as at 30 June 2010).
- Working with the National Health Board on a range of sector-wide financial policy initiatives
- Contributing to the development of sector asset management plans.
- Working with Health Benefits Limited (HBL) to deliver centralised transactional banking arrangements, cash management and treasury services to all DHBs with estimated savings of \$4.0 million per annum (HBL estimate).
- Completing 11 property transactions which released capital of \$23.1m for reinvestment in more productive health infrastructure assets
- Continued growth in the scope of our property advisory services as evidenced by the increase in our fees and operating revenues from \$218,000 to \$253,000.
- Resolving several of the psychiatric patient claims and gaining approval to go ahead with a settlement offer to all of the claimants in 2011/12.
- Achieving the top Audit New Zealand rating in all of their audit categories; the first and to date only state sector agency to achieve this standard.



chief executive's report

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Strategic overview

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

In 2010/11, we continued to deliver our lending, property and financial advisory services in an effective and efficient manner. Aside from this objective, emphasis was also given to supporting initiatives at the National Health Board to improve the capital allocation and approval processes and to a project sponsored by Health Benefits Limited (HBL) to centralise sector banking services and cash management. HBL has relied heavily on our banking experience to get this project "over the line"; one which is expected to have benefits to the sector in the order of \$4.0m annually (HBL estimate).

In addition we have sought to influence policy settings that will support the long term financial sustainability of the sector. Specifically we have continued to draw attention to what we consider to be the unsustainable levels of both cost growth and capital investment across the sector. As "banker" to the DHB sector we have a privileged position and access to a wide range of financial information. We are pleased that there appears to be an acceptance of our contention that planning for the future needs to be underpinned by a long term revenue signal and the concept of a sustainable capex rate tied to demand and revenue growth.

That said, it is important that we recognise the continued improvement of the sector in its financial results for 2010/11. Financial discipline is evident from an aggregate deficit for the year of \$20.0m (or just 0.16% on total revenues of \$12.9b) and well down on the deficit of \$160.0m posted in 2008/2009.

Lending services

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

New loans approved in the year amounted to \$116.7m. Total loan facilities under management now exceed \$2 billion.

The CHFA offers lending terms out to 10 years. We have an objective to minimise the volatility in borrowing cost over the longer term and we encourage a prudent spread of maturities.

The weighted average cost of funds on the CHFA loan portfolio as at 30 June 2011 was 5.84% (6.09% as at 30 June, 2010).

Property services

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

We completed 11 transactions in the year releasing capital of \$23.1m for investment in more productive health infrastructure assets. Included in these figures is the sale of Napier hospital which settled on 30 September 2011. Earlier on in the year we were able to resolve our contractual dispute with the original purchaser of the site.

2010/11 was notable too for the growth in the number of DHBs accessing our services for property advice. This is evidenced by the uplift in for the year in our property advisory fees and operating revenues.

Overall our property function continues to be very effective in assisting the health sector to achieve an efficient property estate. This expertise is often sought by others in the wider state sector.

Financial services

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

Residual portfolio

When established in 1993, the CHFA assumed a number of statutory functions that were transferred from the former Area Health Boards (AHBs). We have successfully resolved most of these functions. Only management of contingent liabilities (one claim involving 225 individual former psychiatric hospital patients and the long-term lease of Tourism and Travel House in Wellington (expiring 2012) remain.

Financial advisory

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

During 2010/11 we actively sought to assist with the establishment of Health Benefits Limited.

Specifically we have provided resource, our banking knowledge and expertise for their shared banking arrangements initiative.

Our performance 2010/11

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 resolving the Psychiatric Hospital Patient claims. Nonetheless, even in this area we made substantive progress in the year.

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

A particular highlight in the year was the result of our external audit. We achieved the top Audit New Zealand rating in all their audit categories; the first, and to date only state sector agency to achieve this standard.

Our future

As part of a new wave of public sector management reforms, it has been determined that the CHFA will be disestablished in 2011/12. Our functions will be relocated to the Ministry of Health. The disestablishment date has not been determined but it is anticipated that this will be on 30 June 2012 or earlier.

While we will no longer purchase surplus properties, the CHFA will continue to provide its current range of services to DHBs. We will work closely with the Ministry of Health and other officials to ensure an orderly winding-up of the CHFA and the transfer of its assets and liabilities to them.



Graham Bell

Chief Executive

Crown Health Financing Agency

1.0 operational review 2010/11

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 2011, the CHFA had approved loan facilities totalling \$2,086m. \$1,616m of these had been drawn (an increase of \$209.5m on the previous year). New loans were approved during the year for redevelopment at Hamilton hospital and for the re-financing of maturing private sector debt at Auckland DHB.

CHFA offers treasury risk management advice to DHBs, and encourages a commercially appropriate diversification of debt maturities over the available 10-year horizon. CHFA's loan maturity profile as at 30 June 2011 is shown in figure 1.

A key objective of such a profile is to deliver stable interest costs to the sector from year to year - effectively, the sector will be funded at around the 10-year rolling average of the 10-year government bond rate. CHFA's average lending rate as at 30 June 2011 was 5.84% (6.09% as at 30 June 2010). This compares favourably with the rolling average bond rate, as shown in Figure 2 (with the bond rate increased by 0.15%, to reflect CHFA's administrative margin on its lending).

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

CHFA also provides advice to the National Health Board on certain financial policy settings, and to that Board's Capital Investment Committee on the affordability of DHB capital projects.

Figure 1: CHFA Loan Maturity Profile (30-Jun-11)

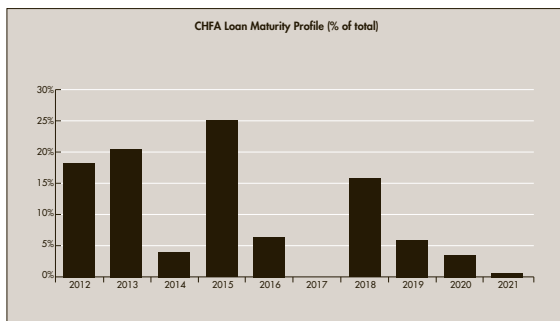
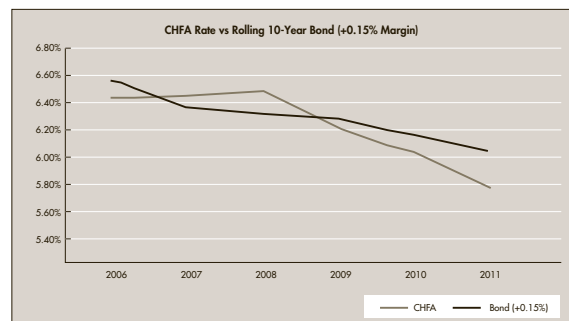


Figure 2: Comparison of Historic Lending Rates



1.2 property services

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

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

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

Our Property function operates along commercial lines and attracts no Crown funding. 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 and/or loans from the Ministry of Health.

Property transactions

Property disposal

Ten sales were achieved during the year being the part sale of the Queen Mary Hospital, two residential properties in Kew Road, Invercargill, the house and section and balance of land at Claude Road, Epsom, the former Napier Hospital and four surplus properties in Nelson that we sold on behalf of the Nelson Marlborough DHB.

Property purchases

During the year one further property was purchased: approximately 5.7ha of vacant land in Kew Road, Invercargill from Southern DHB. The properties are now being prepared for private sale after compliance with all relevant statutory obligations.

Property portfolio

At balance date CHFA owned the following properties

Purchased from	Date	Property
Capital & Coast DHB	June 2010	Kenepuru Lot 8, , Porirua
Canterbury DHB	October 2008	Queen Mary Hospital Site, Hanmer
Whanganui DHB	March 2004	Balance of land at former Jubilee Hospital, Marton
Whanganui DHB	March 2004	Section, Kuku Street, Taihape
Southern DHB	April 2010	Residential Property, 194 Dee Street, Invercargill
Southern DHB	June 2011	Land, 70 Kew Road, Invercargill

Key properties in our portfolio are discussed below.

Lot 8, Kenepuru, Porirua hospital

Property was purchased from Capital & Coast DHB on 30th June 2010 by way of Ministerial Transfer. CHFA has completed the statutory clearance processes and the sale of the land is pending finalisation of the settlement deed with Ngati Toa.

Queen Mary hospital site

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

Property advice

The DHB property estate is complex. A growing number of DHBs have sought access to our property advisory services to ensure adherence with the plethora of compliance and regulatory regimes that they have to contend with. In addition, a number of DHB's and other health Crown Entities have sought our assistance to either identify and negotiate leases of new office premises or negotiate lease renewals of existing premises. As a consequence, our property advisory fees and operating revenues continue to grow with fees increasing from \$218,000 in 2009/10 to \$253,000.

Examples of our property advisory work in 2010/11 are:

Southern: Engaged to manage the statutory clearance process around the disposal of surplus land at Wakari Hospital.

Nelson Marlborough: Continued providing advice and assistance to the Golden Bay Integrated Community Health Centre project team on funding and construction/refurbishment of the proposed new premises.

Counties Manukau: Contracted to undertake a number of lease renewal negotiations and to acquire a lease of premises for Community Mental Health Services.

Ministry of Health: Participated in the evaluation of the Ministry's RFP for Integrated Family Health Care consortia of expertise.

Health & Disability Commission: Contracted to assist with lease renewal negotiations including an assessment of their current requirements and identification of possible alternative locations. Negotiations with current landlord resulted in rental savings of \$1.1m over six year term.

Health Quality & Safety Commission: Engaged to identify suitable premises for the new organisation, project manage the fit out, procure some assets and project manage the relocation from their temporary premises.

1.3 financial services

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

Residual portfolio

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

Contingent liabilities

The CHFA continues to manage medical misadventure claims in relation to pre-1993 incidents. During the year, further plaintiffs either discontinued their claims or reached a settlement with CHFA. As a consequence, the number of active claims has been reduced from 247 to 225.

The claims are associated with allegations of historical abuse and neglect whilst in care at psychiatric hospitals. Damages being sought are in the order of \$120m.

Ministers' have approved CHFA's settlement strategy and an offer to plaintiffs is pending.

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 2011, 100% of the total 2,691sqm lease space has been sublet out to the expiry date of the residual lease.

Financial advisory

The CHFA has a medium term objective to work with the sector to promote individual and collaborative initiatives that enhance DHB and/or sector financial sustainability. Our interests in doing so remain, but have

largely been overtaken by the establishment of the new shared services agency, Health Benefits Ltd. (HBL).

In 2010/11, the CHFA continued to focus primarily on the delivery of its core functions, and chose not to lead any individual or sector wide efficiency projects.

DHB shared banking proposal

We have, however, assisted HBL with the development of their "DHB shared banking" proposal, including agreeing in principle to act as a central cash manager in the arrangement. This proposal is currently with DHBs for consideration / approval.

DHB asset management planning

During 2010/11, CHFA agreed to provide the NHB with assistance in the compilation and development of DHB Asset Management Plans. Such activity is considered complementary to our financial monitoring role – in particular, our advice on long-term financial sustainability issues and assessment of Capital Business Cases presented to CIC.

National Haemophilia Management Group

During 2010/11, 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 2011, investment of funds by the CHFA has returned to the pool an additional \$0.291m

2.0 maintaining and developing organisational capability

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

Our staffing complement is unchanged at eight and all positions are filled. We did carry one position as vacant for sometime in the expectation that we might be required to provide additional support for the capital process at the National Health Board. This has occurred and we are providing support for asset management planning and the development of a sector long term capital plan.

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 participates 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 - 2010/11

During 2010/11 the CHFA focused on capability building by way of:

- Enhancing our core services within an intent to assist DHBs in their pursuit of a cost effective health sector that provides value for money.
- Continuing to develop a constructive dialogue with the Minister of Health and his officials.
- Assisting the National Health Board to give effect to improvements in capital management planning.
- 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 – 2011/12

In August 2011 Cabinet approved the disestablishment of CHFA.

For 2011/12 our priorities will be to:

- Work positively and pro-actively with the Change Management Group to ensure a speedy and effective transfer of duties to the organisations taking over CHFA functions.
- Engage with CHFA staff to ensure involvement in the change process and provide support for them during the transition phase.
- Work to retain the expertise of CHFA staff within the health sector.
- As far as possible ensure that our planned outcomes for 2011/12 are achieved.

3.0 statement of service performance

Lending services

Description	Ref Standard and Performance Measure	Status as at 30 June 2011
Lending	1.1 Low & stable interest costs. <i>As at 30 June 2011, the average interest rate on the CHFA portfolio is approximately equal to the long-term average of the 10-year government bond rate (plus 0.15%, to reflect CHFA's Administrative Margin).</i>	Achieved. Averages as at 30 June 2011 were 5.84% (CHFA) and 6.10% (bond+0.15%).
	1.2 Independent credit risk assessment and monitoring of DHB financial performance. <i>Risks to sector financial sustainability are highlighted to the CHFA Board and the Responsible Ministers. Action plans are developed and implemented as necessary.</i>	Achieved. Written & verbal communication has been maintained with the Minister's office, Treasury and Ministry/NHB officials, in addition to regular Quarterly Reporting. Actions relating to "at risk" DHBs are outlined in Quarterly Reports to Responsible Ministers.
Financial advice	1.3 CHFA Output is valued by recipients. <i>As indicated by formal stakeholder feedback annually, including the Minister of Health and otherwise for specific initiatives and contributions to sector wide policy initiatives.</i>	Not achieved. <i>In light of the decision to disestablish CHFA no formal feedback has been sought this year.</i>

Property advice and disposal services

Description Measure	Ref Standard and Performance	Status as at 30 June 2011
<p>Property disposal service</p>	<p>1.1 Total amount of capital released to the DHB sector from sale of unproductive assets.</p> <p><i>By 30 June 2011, CHFA will:</i></p> <ul style="list-style-type: none"> • <i>Complete four property disposal transactions.</i> • <i>Release \$23,000,000 in capital.</i> 	<p>Achieved.</p> <p>Eleven property transactions completed for Canterbury, Auckland (2), Southern (3), Nelson Marlborough (4) and Hawkes Bay.</p> <p>Achieved.</p> <p>Capital released \$23.1m.</p>
<p>Property advice</p>	<p>1.2 CHFA advice contributes to the quality of property decisions, minimises risk and improves value for money.</p> <p><i>For the year ended 30 June 2011, CHFA property advisory fees will increase from \$174,000 to \$278,000.</i></p> <p><i>(Actual revenue for the year ended 30 June 2010 was \$217,877 against budget of \$174,000)</i></p> <p><i>For completed assignments client satisfaction rating is no less than 60% "Good or better."</i></p>	<p>Not Achieved.</p> <p>Advisory fees and client revenues for the year increased from \$217,877 in 2010 to \$253,450 in 2011.</p> <p>Achieved.</p> <p>Ratings good or better – 100%.</p>

Financial services

Description Measure	Ref Standard and Performance	Status as at 30 June 2011
Resolution of residual AHB responsibilities	1.1 Number of medical claims resolved and Crown contingent liability exposure reduced. By 30 June 2011: <ul style="list-style-type: none"> • <i>Total number of active claims reduced from 255 to less than 200.</i> • <i>Contingent liability exposure as assessed by Crown Law Office is reduced from \$26.8m to \$21.4m.</i> 	Not achieved. Number of active psychiatric claims 225. Achieved. Assessed contingent liability of \$6.041m (amended in line with CHFA's Global Settlement Strategy).
Property advice	1.2 Property Leases. <i>Rental recovery exceeds cost of head lease.</i>	Achieved. Rental recovery exceeds cost of head lease by \$68,910 per annum.

Organisational capability and development

Description	Ref Standard and Performance Measure	Status as at 30 June 2011
Managing for outcomes	1.1 The Statement of Intent and Statement of Service Performance clearly state CHFA's services, outcomes, performance measures and standards as assessed by independent review.	Achieved. Service performance information and associated systems and controls rated "Very Good" by Audit NZ.
Invest in the capability of our people	1.2 Staff are positive about career opportunities, professional growth and job satisfaction as determined by periodic survey. Voluntary, unplanned turnover is no greater than one person per year.	Achieved. Survey carried out in October 2010 provided positive feedback. Not achieved Staff turnover was three.
Enhancing our effectiveness	1.3 Internal/external audits reflect that policies, procedures and business systems are appropriate and being complied with at audit or following spot checks.	Achieved. Management control environment and financial information systems and controls both rated "Very Good" by Audit NZ. Internal Audit identified no compliance issues.

Cost of service statement

	Lending Actual	Lending Budget	Property Actual	Property Budget	Financial Services Actual	Financial Services Budget
	\$000	\$000	\$000	\$000	\$000	\$000
2011						
Appropriation	950	850	0	0	850	850
Interest income from DHBs	90,709	101,709	0	0	0	0
Other Income	83	56	612	1,259	93	68
Total Income	91,742	102,615	612	1,259	943	918
Interest charge from NZDMO	90,709	101,709	0	0	0	0
Operating expenditure	937	974	202	279	1,694	2,530
Total Expenditure	91,646	102,683	202	279	1,694	2,530
Surplus/(Deficit)	96	(68)	410	980	(751)	(1,612)
2010						
Appropriation	874	874	0	0	826	826
Interest income from DHBs	84,273	87,766	0	0	0	0
Other Income	66	86	251	538	94	90
Total Income	85,213	88,726	251	538	920	916
Interest charge from NZDMO	84,273	87,766	0	0	0	0
Operating expenditure	852	1,007	265	206	1,288	2,507
Total Expenditure	85,125	88,773	265	206	1,288	2,507
Surplus/(Deficit)	88	(47)	(14)	332	(368)	(1,591)

Note 1:

Financial Services budgeted deficit

CHFA is currently running planned deficits approved by the Ministry of Health in order to reduce CHFA equity and working capital down to an agreed level. To achieve this CHFA is currently funding residual function expenditure from equity.

Note 2:

Major Budget Variation

Financial Services operating expenditure

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

Property Division - other income

Property Division income was lower than budgeted due to revenue from CHFA share of surplus on disposal of properties being not recovered as budgeted.

4.0 financial performance

for the year ended 30 June 2011

4.1 Statement of comprehensive income

for the year ended 30 June 2011

	Note	2011 Actual \$000s	2011 Budget \$000s	2010 Actual \$000s
Income				
Crown Funding		1,800	1,700	1,700
Interest revenue				
- District Health Boards		90,709	101,709	84,273
- Other		509	116	183
CHFA share of surplus on sale of properties		16	977	0
Other income		264	290	228
Total operating revenue		93,298	104,792	86,384
Expenditure				
Interest expense				
- NZ Debt Management Office advances		90,709	101,709	84,273
Residual asset management (T&T House)	2	697	759	686
Legal expenses – Medical Claims		378	1,057	66
Personnel Costs		1,034	1,046	948
Board Fees	18	84	96	92
Projects		136	250	147
Depreciation		58	59	62
Other expenses	3	447	516	404
Total operating expenses		93,543	105,492	86,678
Net operating surplus (deficit) and Total comprehensive income (deficit)		(245)	(700)	(294)

4.2 Statement of movements in equity

for the year ended 30 June 2011

	Note	2011 Actual \$000s	2011 Budget \$000s	2010 Actual \$000s
Net operating surplus (deficit)		(245)	(700)	(294)
Total recognised revenues and expenses		(245)	(700)	(294)
Equity at start of period		3,570	2,752	3,864
Equity at end of period		3,325	2,052	3,570

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 2011

		2011 Actual \$000s	2011 Budget \$000s	2010 Actual \$000s
	Note			
Crown equity		3,325	2,052	3,570
Current assets				
Cash and bank	4	163,731	132,783	170,482
Debtors	5	30,127	17,437	17,600
Advances to District Health Boards	6	287,671	249,079	151,333
Inventory: Properties held for sale	7	7,731	3,500	11,733
Prepayment: Westpac facility fee		15	0	0
		489,275	402,799	351,148
Non-current assets				
Advances to District Health Boards	6	1,328,496	1,418,956	1,255,375
Property, Plant and Equipment	8	68	104	109
		1,328,564	1,419,060	1,255,484
Total assets		1,817,839	1,821,859	1,606,632
Current liabilities				
Accounts payable and accruals	9	25,407	17,480	20,823
Employee Entitlements	10	55	50	46
Property advance	14	8,325	3,844	20,148
Advances from NZ Debt Management Office	12	437,311	379,357	306,574
		471,098	400,731	347,591
Non-current liabilities				
Provisions	11	120	120	96
Property Advance from Ministry of Health	14	14,800	0	0
Advances from NZ Debt Management Office	12	1,328,496	1,418,956	1,255,375
		1,343,416	1,419,076	1,255,471
Total liabilities		1,814,514	1,819,807	1,603,062
Net assets		3,325	2,052	3,570

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 2011

Note	2011 Actual \$000s	2011 Budget \$000s	2010 Actual \$000s
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Operating income	1,800	1,700	1,700
<i>Interest received:</i>			
District Health Boards Loan Advances	89,160	100,617	83,770
Other	507	116	162
CHFA share of surplus on properties sold	0	477	0
Other income	896	895	840
	92,363	103,805	86,472
<i>Cash was applied to:</i>			
Payments to suppliers and employees	(2,694)	(3,620)	(2,350)
Transfer to Ministry of Health	(701)	(606)	(631)
Interest paid – NZ Debt Management Office	(89,160)	(100,617)	(83,770)
Net GST	(691)	1	630
	(93,246)	(104,842)	(86,121)
Net cash flow from operating activities	15	(1,037)	351
Cash flows from investing activities			
<i>Cash was provided from:</i>			
Sale of surplus District Health Board properties	3,085	23,275	9,000
	3,085	23,275	9,000
<i>Cash was applied to:</i>			
Properties intended for sale	(6,311)	(9,726)	(1,602)
Fixed assets	(17)	(43)	(22)
	(6,328)	(9,769)	(1,624)
Net cash flow from investing activities	(3,243)	13,506	7,376

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 2011

Note	2011 Actual \$000s	2011 Budget \$000s	2010 Actual \$000s
Cash flows from financing activities			
<i>Cash was provided from:</i>			
Advance from NZ Debt Management Office	205,059	202,756	54,954
District Health Board principal repayment	161,533	250	173,350
Advances from Westpac and Ministry of Health	6,211	4,221	1,635
	372,803	207,227	229,939
<i>Cash was applied to:</i>			
Advances to District Health Boards	(372,192)	(243,356)	(252,970)
Repayments to Westpac and Ministry of Health	(3,236)	(18,998)	0
	(375,428)	(262,354)	(252,970)
Net cash flow from financing activities	(2,625)	(55,127)	(23,031)
Net increase (decrease) in cash held	(6,751)	(42,658)	(15,303)
Opening cash balances	170,482	175,441	185,785
Closing cash balances	163,731	132,783	170,482
Comprising:			
Cash at bank	411	436	440
Short term deposits	13,679	2,069	14,801
CHFA facility at NZ Debt Management Office	149,641	130,278	155,241
	163,731	132,783	170,482

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

4.5 Statement of 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 2011 and were approved by the Board on 28 October 2011.

Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004 which require compliance 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.

Disestablishment

Subsequent to balance date, on 1 August 2011 the decision was made by Cabinet to disestablish the Crown Health Financing Agency and transfer its functions to the Ministry of Health. It is anticipated that this transfer will be effective from 1 July 2012, subject to the progress of legislation.

The pending dissolution of the CHFA requires the financial statements to be prepared on a dissolution basis, not the normal going concern basis. However, the expectations set out in the CHFA Statements of Intent for 2011 and 2012 are still expected to be delivered. Accordingly the assets and liabilities of the CHFA continue to be relevant in reporting to stakeholders as it is expected that all assets and liabilities will be transferred to the Ministry of Health.

For that reason, while the financial statements have been prepared on a dissolution basis, no adjustments have been made to the financial statements as a result of the dissolution basis of preparation.

Accounting policies

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

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

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

Judgement and estimations

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

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

CHFA have judged that there is no significant risk of material adjustment in the next year notwithstanding the disestablishment of CHFA announced since balance date.

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 has been amended for reporting periods beginning on or after 1 January 2011 and permits the reconciliation of opening/closing balances for the components of equity to be shown in the notes rather than on the face of the statement. The CHFA will adopt this amendment for the year ending 30 June 2012 and has determined that the impact of adopting the new standard is minimal.
- NZIAS 24 Related Party Disclosures (revised 2009) replaces NZIAS 24 Related Party Disclosures (issued 2003) and is effective for reporting periods beginning on or after 1 January 2011. The revised standard will change disclosure requirements for government-related entities including information required to be disclosed about any related party transactions with Ministers of the Crown. The CHFA will adopt these changes for the year ending 30 June 2012 and has not yet determined the impact of adopting the new standard.
- NZIFRS 7 Financial Instruments Disclosures has been amended effective for reporting periods beginning on or after 1 January 2011 in that some information in regard to credit risk is no longer required to be disclosed. CHFA will adopt the new standard for the year ended 30 June 2012 and has determined that the effect of the new standard is minimal.
- NZIFRS 9 Financial Instruments, a new standard released 2009 to ultimately (over a period of three years) replace NZIAS 39. This standard is effective for reporting periods beginning on or after 1 January 2013. Given the impending

4.6 Significant accounting policies

dissolution of CHFA, this new standard will not be adopted.

Revenue

Operations

CHFA is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose of CHFA meeting its objectives as specified in the Statement of Intent.

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

Interest

Interest income is recognised using the effective interest rate method.

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Taxation

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

Financial instruments

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

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

CHFA has designated financial assets and liabilities as follows:

Financial assets

- *Cash and Cash Equivalents.*

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

- *Loans and Receivables*

Loans to DHBs and other receivables are designated as loans and receivables (i.e. non derivative financial

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

Financial liabilities

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

Property, plant & equipment

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

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

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

The carrying amounts of property, plant and equipment are reviewed at least annually to

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

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

Leasehold improvements

6.2 – 10.3 years (9.7 % - 16.1%)

Computer Equipment

2.1 – 2.8 years (36.0% - 48.0%)

Office Equipment

2.8 – 13.9 years (7.2% - 36.0%)

Furniture and Fittings

3.3 – 11.9 years (8.4% - 30.0%)

Inventory - properties intended for sale

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

Inventories are valued at cost, adjusted where applicable for any loss of service potential. Any write

down from cost is recognised in the Statement of Financial Performance.

Employee entitlements

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

Operating leases

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

Other liabilities and provisions

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

Contingent assets and contingent liabilities

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

CHFA has recorded no contingent assets.

Contingent liabilities of \$6,041,000 (2010:

\$26,116,000) 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.

4.7 Notes to the financial statements

1. Major budget variations

Statement of comprehensive income

District Health Boards interest revenue and expense:

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

CHFA share of surplus on sale of properties:

CHFA share of surplus on properties sold was lower than budgeted due to the share of surplus on sale not recovered as budgeted.

Legal expenses – Medical claims:

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

Statement of financial position

Cash and Bank:

The NZDMO CHFA Facility of \$149.6m 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.

Debtors and Accounts payable and accruals:

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 less than budgeted due to the timing of rollovers.

Inventory and Property advances

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

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

The facilities were not fully drawn down at balance date.

Statement of cash flows

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

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

Sale of surplus DHB properties and properties intended for sale:

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

DHB principal repayment:

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

Repayments to Ministry of Health and Westpac:

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

2. Residual asset management

The cost of \$697,000 represents the full cost of leasing five levels of Tourism and Travel House, 79 Boulcott Street, Wellington until expiry of the lease in 2012.

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

3. Other expenses

	2011 Actual \$000s	2010 Actual \$000s
Other expenses include:		
Audit fees for financial statements audit (Audit NZ)	25	24
Audit fees for additional review (Audit NZ)	9	0
Property related costs	87	74
Recruitment costs	38	0
CHFA lease rental	66	64
Board expenses	22	18
Legal Fees	16	51
IT support	27	29
Printing	17	21
Travel	37	29
Other Expenses	103	94
	447	404

4. Cash and bank

	2011 Actual \$000s	2010 Actual \$000s
Westpac cheque accounts	411	440
Short term deposits maturing three months or less from date of acquisition		
ASB deposit	11,679	14,436
ANZ National Bank deposit	2,000	365
NZ Debt Management Office – CHFA facility	149,641	155,241
Total cash and cash equivalents	163,731	170,482

Interest rates receivable on deposits range from 3.15% to 4.65%

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

The \$149.6m (2010: \$155.2m) facility relates to

appropriation drawdown to fund cash advance facilities to DHBs and then temporarily repaid by them. These facilities are available to be redrawn by the DHBs and the amounts in this account are specifically allocated to individual DHBs. No interest is earned by CHFA on the balance in this account. Carrying value is deemed to be fair value.

5. Debtors

	2011 Actual \$000s	2010 Actual \$000s
Interest receivable	16,194	14,642
Sale of property receivables	13,805	3,391
Other	128	67
	30,127	18,100
Less provision for impairment	0	(500)
	30,127	17,600

All receivables are recognized at their nominal value.

As at 30 June 2011 and 2010, all receivables have been assessed for impairment and appropriate provisions applied, as detailed below.

	2011 Gross \$000s	2011 Impairment \$000s	2011 Net \$000s	2010 Gross \$000s	2010 Impairment \$000s	2010 Net \$000s
Interest receivable						
Not past due	16,194	0	16,194	14,642	0	14,642
	16,194	0	16,194	14,642	0	14,642
Sale of property receivables						
Not past due	13,805	0	13,805	3,391	(500)	2,891
Past due > 90 days	0	0	0	0	0	0
	13,805	0	13,805	3,391	(500)	2,891
Other						
Not past due	32	0	32	54	0	54
Past due 1-30 days	96	0	96	13	0	13
Past due 31-60 days	0	0	0	0	0	0
Past due 61-90 days	0	0	0	0	0	0
Past due > 90 days	0	0	0	0	0	0
	128	0	128	67	0	67

CHFA have reviewed the property receivables on a property by property basis. No provision for impairment has been made.

A provision of \$500,000 was made in 2008 as a result of the declining property market in regard to the holding the Claude Road, Auckland property. This property was sold during the year and the provision written off.

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

	2011 Actual \$000s	2010 Actual \$000s
Balance at 1 July	500	16,188
Adjustment to provisions made during the year	0	(15,688)
Receivables written off during period	(500)	0
Balance at 30 June	0	500

6. Advances to District Health Boards

	2011 Actual \$000s	2010 Actual \$000s
Current		
CHFA advances	287,671	151,333
Non current		
CHFA advances	1,328,496	1,255,375
Total advances	1,616,167	1,406,708

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

Maturity analysis and effective interest rates	2011 Actual Loans \$000s	2011 Weighted Average Effective Interest rate	2010 Actual Loans \$000s	2010 Weighted Average Effective Interest rate
Less than one year	287,671	5.37%	151,333	4.88%
One to two years	331,626	5.89%	208,579	6.34%
Three to five years	572,212	6.06%	743,542	6.06%
Beyond five years	424,658	5.83%	303,254	6.08%
	1,616,167	5.84%	1,406,708	6.09%

The fair value of the total advances of \$1,616,167 is \$1,711,973 (2010: \$1,406,708 is \$1,489,188)

The fair value is measured at amortized cost using the effective interest rate method and is based on the present value of each scheduled cash flow (principal and interest) calculated at government bond rates.

The fair value includes accrued interest of \$16,168,000.

Loans to DHBS are unsecured.

7. Inventories – properties held for sale

The carrying value of inventories of \$7,731m (2010 \$11,733m) is measured at cost.

There are six properties currently held by CHFA: Queen Mary Hospital, Hanmer Springs; Lot 8 Kenepuru hospital site, former Jubilee Hospital Land; two residential properties in Invercargill and a section at Kuku Street, Taihape.

No inventories are pledged as security for liabilities.

8. Property, plant and equipment

2011	Leasehold Improv. \$000s	Furniture & Fittings \$000s	Office Equipment \$000s	Computer Equipment \$000s	Total \$000s
Cost					
Balance 1 July 2010	164	84	40	131	419
Additions	0	0	0	16	16
Disposals	0	(2)	0	(43)	(45)
Balance 30 June 2011	164	82	40	104	390
Accumulated depreciation and impairment losses					
Balance 1 July 2010	118	58	30	104	310
Depreciation	21	8	5	24	58
Eliminate on disposals	0	(2)	0	(44)	(46)
Balance 30 June 2011	139	64	35	84	322
Carrying amount 30 June 2011	25	18	5	20	68
2010	Leasehold Improv. \$000s	Furniture & Fittings \$000s	Office Equipment \$000s	Computer Equipment \$000s	Total \$000s
Cost					
Balance 1 July 2009	164	86	39	109	398
Additions	0	0	1	22	23
Disposals	0	(2)	0	0	(2)
Balance 30 June 2010	164	84	40	131	419
Accumulated depreciation and impairment losses					
Balance 1 July 2009	97	46	21	84	248
Depreciation	21	12	9	20	62
Eliminate on disposals	0	0	0	0	0
Balance 30 June 2010	118	58	30	104	310
Carrying amount 30 June 2010	46	26	10	27	109

9. Accounts payable and accruals

	2011 Actual \$000s	2010 Actual \$000s
Creditors	150	117
Accruals		
- NZ Debt Management Office Interest	16,167	14,619
- Property transactions	8,393	5,146
- GST	6	696
- Other	691	245
	25,407	20,823

All payables are recognised 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.

10. Employee entitlements

	2011 Actual \$000s	2010 Actual \$000s
Annual Leave	55	46
	55	46

The leave entitlement accrual of \$55,000 is the total of CHFA's employee benefit liabilities and is classified as current liabilities. Accordingly, no discounting has been made for expected future payments.



11. Provisions

	2011 Actual \$000s	2010 Actual \$000s
Non current provisions are represented by		
Lease make-good	120	96
Total provisions	120	96

Movement in provision is as follows:

	Lease make-good \$000s	Total \$000s
2011		
Balance 1 July 2010:	96	72
Additional provisions made	24	24
Balance 30 June 2011	120	96
2010		
Balance 1 July 2009:	72	72
Additional provisions made	24	24
Balance 30 June 2010	96	96

Lease make-good

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

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

	2011 Actual \$000s	2010 Actual \$000s
Current		
Advances from DMO	287,671	151,333
NZ Debt Management Office Facility	149,640	155,241
	437,311	306,574
Non Current		
Advances from DMO	1,328,496	1,255,375
Total advances	1,765,807	1,561,949

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

	2011 Actual Loans \$000s	2011 Weighted Average Effective Interest rate	2010 Actual Loans \$000s	2010 Weighted Average Effective Interest rate
Less than one year	287,671	5.37%	151,333	4.88%
One to two years	331,626	5.89%	208,579	6.34%
Three to five years	572,212	6.06%	743,542	6.09%
Beyond five years	424,658	5.83%	303,254	6.08%
	1,616,167	5.84%	1,406,708	6.09%
NZ Debt Management Office Facility	149,640	Nil interest	155,241	Nil interest
Total advances	1,765,807		1,561,949	

The \$149.6m (2010: \$155.2m) facility relates to appropriation drawn down to fund cash advance facilities to DHBs and temporarily repaid by them. These facilities are available to be redrawn by the DHBs and the amounts in this account are specifically allocated to individual DHBs. No interest is payable by CHFA on the balance in this account.

The fair value of the total advances of \$1,616,167 is \$1,711,973 (2010: \$1,406,708 is \$1,489,188).

The fair value is measured at amortized cost using the effective interest rate method and is based on the present value of each scheduled cash flow (principal and interest) calculated at government bond rates. The fair value includes accrued interest of \$16,168,199.

Advances from DMO are unsecured.

13. Loan facilities

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

	2011 Actual \$000s	2010 Actual \$000s
Repaid Loan Facility	149,641	155,241
Undrawn Loan Facility	320,245	407,445
Total	469,886	562,686

At 30 June 2011, DHB's have undrawn loan facilities of \$469.9 m with CHFA (2010:\$562.7m).

CHFA has the equivalent undrawn loan facilities with NZDMO.

14. Property transactions advances to CHFA

	2011 Actual \$000s	2010 Actual \$000s
Current		
Westpac Loan Facility	4,825	5,348
Ministry of Health loan advances	3,500	14,800
	8,325	20,148
Non current		
Ministry of Health loan advances	14,800	0
Total	23,125	20,148

Westpac loan facility

The facility with Westpac is in place to finance the purchase of DHB surplus property. The facility is capped at \$10.0m, is unsecured and has a maturity date of 31 October 2012, or such later date as the lender may from time to time agree. As at balance date, \$4.825m (2010: \$5.35m) was drawn down.

Ministry of Health loan advances

Facilities totaling \$18.3m have been provided by the Ministry of Health for the purchase of two properties. The loans are interest free

Property purchased	Value	Maturity date
Queen Mary Hospital, Hanmer Springs	\$14.8m	26 October 2012
Lot 8, Kenepuru, Porirua	\$3.5m	30 June 2012

15. Reconciliation of operating cash flows with net operating surplus

	2011 Actual \$000s	2010 Actual \$000s
Net Operating Deficit	(245)	(294)
Add (less)		
Non cash items		
Depreciation	58	62
Total non-cash items	58	62
Add (less)		
Movements in working capital items		
Decrease (increase) in debtors	(63)	(61)
Increase (decrease) in accounts payable	(633)	644
Total movements in working capital items	(696)	583
Net cash flow from operating activities	(883)	351

16. Commitments and contingencies

Commitments	2011 Actual \$000s	2010 Actual \$000s
Non cancellable lease operating commitments		
Term Classification of Commitments:		
Less than one year	580	580
One to two years	145	580
Two to five years	0	145
	725	1,305

Total future minimum sublease payments to be received under non-cancellable subleases for office space at the balance sheet date are \$811k (2010: \$1.471m).

Contingencies

Contingent Assets - CHFA has no contingent assets.

Contingent Liabilities - There was a small contingent liability at 30 June 2011 of some \$30,000 relating to a property matter. This has since been resolved.

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:

	2011 Actual \$000s	2010 Actual \$000s
Medical claims	6,041	26,116
Total contingent liabilities	6,041	26,116

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 September 2012. This space is sublet to tenants including CHFA and all sub-lease rentals recovered is returned to the Ministry of Health. CHFA rental expense for the year 30 June 2011 was \$66,130 (2010: \$64,115).

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.

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

Key Management personnel compensation	2011 Actual \$000s	2010 Actual \$000s
Salaries and other short-term employee benefits	698	696
Total key management personnel compensation	698	696

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

18. Board member remuneration

Board members earned the following fees during the year:	2011 Actual \$000s	2010 Actual \$000s
John Anderson (retired - Chair to Dec 2010)	16	32
Murray Burns (Appointed Dec 2010)	8	0
Ingrid Collins (Appointed Dec 2010)	8	0
Kay McKelvie (Retired Sept 2009)	0	4
David Moore (Retired Sept 2010)	4	16
June McCabe (Retired Dec 2010)	8	16
Philippa Dunphy	16	16
Alastair Scott (Chair from Jan 2011)	24	8
Total	84	92

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 2011	Number of employees 2010
260-270	0	1
250-260	1	0
180-190	1	1
160-170	1	1
100-110	1	1

Movements between bands relate only to timing of cash payments

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 performance.

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	2011 Actual \$000s	2010 Actual \$000s
Loans and Receivables			
Cash and Bank	4	163,731	170,482
Debtors	5	30,127	17,600
Advances to District Health Boards	6	1,616,167	1,406,708
Total Loans and Receivables		1,810,025	1,594,790

	Note	2011 Actual \$000s	2010 Actual \$000s
Financial Liabilities measured at amortized cost			
Accounts payable and accruals	9	25,407	20,823
Employee Liabilities	10	55	46
Property advances	14	23,125	20,148
Advances from NZ Debt Management Office	12	1,616,167	1,561,949
Financial Liabilities		1,664,754	1,602,966

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

Market risk

Interest rate risk

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

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

Advances from Westpac are drawn in respect of funding CHFA cost of purchase of surplus DHB properties and subsequent holding costs. The cost of interest is included in the calculation of surplus/deficit of the property on sale and accordingly there is exposure to CHFA in respect of interest rate risk on these advances. The cost/benefit to CHFA of a 1% movement in interest rates at the current level of borrowing, would be an \$7,000 (2010 \$8,000) 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.

CHFA's 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. CHFA's investment policy requires risk to be spread over more than one institution.

Debtors

- Interest receivables.
There is very limited credit risk as debtors consist of District Health Boards and Trading Banks.
- Sale of property receivables.
Credit risk is covered by the continued holding of the property asset.
- Other receivables.
Other debtors are deemed to be immaterial.

A breakdown of debtors by entity type is as follows.

	2011 Actual \$000s	2010 Actual \$000s
Loans and Receivables		
District Health Boards	16,224	14,656
Private sector purchasers of CHFA held property	13,805	2,891
Government Agencies	67	0
Other	31	53
Total	30,127	17,600

Advances to District Health Boards

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

The advances are unsecured.

Liquidity risk

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

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

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

22. 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. Subsequent events

Subsequent to balance date, on 1 August 2011 the decision was made by Cabinet to disestablish the Crown Health Financing Agency and transfer its functions to the Ministry of Health. It is anticipated that this transfer will be effective from 1 July 2012, subject to the progress of legislation.

The pending dissolution of the CHFA requires the financial statements to be prepared on a dissolution basis, not the normal going-concern basis. However, the expectations set out in the CHFA Statements of Intent for 2011 and 2012 are still expected to be delivered. Accordingly the assets and liabilities of the CHFA continue to be relevant in reporting to stakeholders.

For that reason, while the financial statements have been prepared on a dissolution basis, no adjustments have been made to the financial statements as a result of the dissolution basis of preparation.

An estimate of the costs associated with the disestablishment of the CHFA and the transfer of its functions to the Ministry cannot be made at this time. Any costs incurred as a result will be able to be met from the existing resources of the CHFA.

There were no other significant events after the balance date that would have led to an amended view of the values of assets or liabilities at the date of the balance sheet.

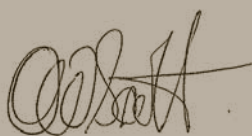
4.7 Statement of responsibility

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 2011, fairly reflect the financial position, cash flows and operations of the CHFA.

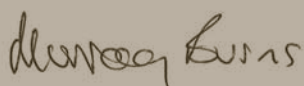
Signed on behalf of the Board



Alastair Scott

Chair

Date: 28th October 2011



Murray Burns

Board Member

Date: 28th October 2011

independent auditor's report

To the readers of Crown Health Financing Agency's financial statements and statement of service performance for the year ended 30 June 2011

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The Auditor-General is the auditor of Crown Health Financing Agency (the Agency). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the Agency on her behalf.

We have audited:

- the financial statements of the Agency on pages 19 to 44, that comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of movements in equity and statement of cash flows for the year ended on that date, the statement of accounting policies and notes to the financial statements that include other explanatory information; and
- the statement of service performance of the Agency on pages 13 to 17.

Opinion

In our opinion:

- the financial statements of the Agency on pages 19 to 44, that are prepared on a dissolution basis:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Agency's:
 - financial position as at 30 June 2011; and
 - financial performance and cash flows for the year ended on that date.
- the statement of service performance of the Agency on pages 13 to 17:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects, for each class of outputs for the year ended 30 June 2011, the Agency's
 - service performance compared with the forecasts in the statement of forecast service performance for the financial year; and

- actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Emphasis of matter – the financial statements are appropriately prepared on a dissolution basis

Without modifying our opinion, we draw your attention to the accounting policy on page 24 about the financial statements being prepared on a dissolution basis because of the Government's decision to transfer the functions of the Agency to the Ministry of Health. Legislation to implement these changes has not yet been enacted, but it is anticipated that the transfer will be effective from 1 July 2012. We consider the dissolution basis of preparation of the financial statements and the related disclosures to be appropriate to the Agency's circumstances.

Our audit was completed on 28 October 2011.

This 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 our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

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.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Agency's preparation of the financial statements and statement of service performance that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Agency's financial position, financial performance and cash flows; and
- fairly reflect its service performance.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Board's responsibilities arise from the Crown Entities Act 2004.

Responsibilities of the Auditor

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

Independence

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

In addition to the audit we have carried out an internal control review assignment during the year. This additional assurance arrangement is compatible with those independence requirements. Other than the audit, we have no relationship with or interests in the Agency.



A P Burns

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand

audit new zealand

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

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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 (the Agency) for the year ended 30 June 2011 included on the Agency's website. The Agency's Board is responsible for the maintenance and integrity of the Agency's website. We have not been engaged to report on the integrity of the 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 as well as the related audit report dated 28 October 2011 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.

**A P Burns**

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand

appendix 1: directory

Board Members

Alastair Scott (Chair)

Ingrid Collins

Murray Burns

Philippa Dunphy

Postal Address

Level 2, Tourism & Travel House,

79 Boulcott Street, WELLINGTON

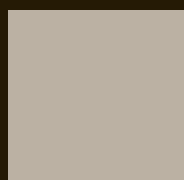
P.O. Box 5358, Lambton Quay, WELLINGTON

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Auditor

Audit New Zealand on behalf of the Auditor-General



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