



6

THE WIDER CROWN ESTATE

State-owned enterprises and Crown entities.

Introduction

The last three chapters have focused on Ministers and government departments, the “core” Crown. This chapter outlines the accountability requirements for the numerous government organisations outside the “core” Crown, such as State-owned enterprises (SOEs) and Crown entities. There is also a section on Crown entities and departments in the education and health sectors.

State-Owned Enterprises (SOEs)

The State-Owned Enterprises Act 1986 set up SOEs⁶ to improve efficiency in government trading operations, such as telecommunications, postal services, railways, broadcasting, and electricity generation and transmission. In many cases, the establishment of SOEs has been followed by the sale of business assets. A list of SOEs is included with the Crown financial statements each six months.

SOEs have the principal objective of operating as successful businesses. Accountability arrangements for State-owned enterprises focus on Government’s role as owner. All SOEs are registered as public companies and are bound by the provisions of the Companies Act. Chief executives of SOEs are accountable to their respective governing boards and the directors exercise their duties in the same way as public companies.

The board of directors of an SOE is accountable to the Shareholding Ministers for the performance of that SOE. The Ministers are shareholders, not the managers of the SOE. The boards have full responsibility for decisions on resource use, and for pricing and marketing the goods and services they produce. The majority of SOEs operate in deregulated markets and are on equal terms with the private sector.

For most SOEs, the relationship with Government provides no competitive advantages over private sector producers. There are a few exceptions. For example, NZ Post Limited currently has a monopoly over deliveries of the standard letter.

SOEs have the same powers as private sector companies to borrow. SOE borrowing does not have a government guarantee.

As in the case of departments, any new capital investment by the Government in an SOE requires an appropriation by Parliament.

SOEs have the principal objective of operating as successful businesses. Accountability arrangements for State-owned enterprises focus on Government’s role as owner.

State-owned enterprises (SOEs) are owned by the Government but operate as commercial businesses. They have their own boards of directors, which take full responsibility for running the businesses. Each year, SOE Boards of Directors prepare a “Statement of Corporate Intent” (a three-year plan for the SOE) and an Annual Report.

⁶ SOEs are listed in the First Schedule to the State-Owned Enterprises Act 1986.

The role of Ministers is prescribed in the State-Owned Enterprises Act. Each SOE has two shareholding Ministers, the Minister of Finance and one other who generally is the Minister for SOEs. (Having a Minister for SOEs as a separate portfolio allows for consistent application of SOE policy.) The shareholding Ministers are responsible to Parliament and their functions include:

- appointing directors
- setting dividend levels
- monitoring performance
- agreeing to and tabling in the House the SOE's statement of corporate intent and annual report.

The Crown Company Monitoring Advisory Unit (CCMAU) provides the Government with advice that enables the shareholding Ministers to hold boards of SOEs and other Crown companies accountable for their performance in maintaining and enhancing shareholder value, and to meet the other objectives and requirements of the empowering Acts.

Statement of Corporate Intent (SCI)

The *Statement of Corporate Intent* is prepared by the board of directors who must supply it in draft form to the shareholding Ministers no later than one month before the start of each financial year. The responsible Minister for the SOE is required to present the SCI to the House. The SCI covers a three-year period and includes the:

- SOE's objectives
- nature and scope of activities to be undertaken
- ratio of shareholders' funds to total assets
- accounting policies
- performance targets
- dividend policy and proposed distributions
- the board's estimate of the commercial value of the Crown's investment.

Annual Reports

Annual reports are prepared in accordance with the requirements of the Companies Act. The annual report and audited consolidated financial statements of an SOE must be delivered to the shareholding Ministers within three months of balance date. The Responsible Minister for an SOE is required to present the annual report and audited financial statements to the House of Representatives.

Crown Entities

Crown entities are bodies established by law in which the Government has a controlling interest through ownership mechanisms. Crown entities form part of the Crown reporting entity, but are not part of the "core" Crown.



Crown entities (for example, Crown research institutes, Crown Health Enterprises and the New Zealand Tourism Board) are legally separate from the Crown. The Crown has the controlling interest but is not liable for any debts they incur. Crown entities that sell outputs to the Government negotiate purchase agreements. Each year they produce financial statements, a statement of objectives and a statement of service performance.



*Crown entities*⁷ are those bodies that are legally separate from the Crown, other than SOEs:

- in which the Crown owns a majority of the voting shares, or
- for which the Crown has the power to replace the members of the governing body, or where no such body exists, the chief executive of the Crown entity with other people answerable to the Crown, or
- for which the Crown has the right to receive more than fifty percent of their net assets on disestablishment, or
- where the Crown would be expected to assume any residual liabilities on disestablishment, other than pursuant to a guarantee, or
- which Parliament considers to be owned by the Crown and deems to be Crown entities.

Most Crown entities have their own governing legislation.

The Fourth Schedule to the Public Finance Act 1989 lists most Crown entities (or groups of Crown entities). Crown entities can be added to this Schedule by Order in Council, but can be removed only by amending the Public Finance Act.

Organisations covered by the term “Crown entity” are diverse. They range through Crown research institutes, school boards of trustees, Crown health enterprises, business development boards, New Zealand Film Commission, Commissioner for Children, New Zealand Tourism Board, New Zealand Symphony Orchestra Limited, the Human Rights Commission and many others.

Crown entities selling outputs to the Government are required to complete purchase agreements (sometimes called “documents of accountability”) in the same manner as government departments.

Parliament makes appropriations to the Crown, not to the Crown entities themselves. Because they are not part of the legal Crown, Crown entities have the freedom to incur any expenses, but each Crown entity must bear any loss it incurs. Appropriations are however required for the Crown to purchase outputs provided by Crown entities and to invest additional capital in them.

The Crown is not liable for debts incurred by Crown entities, except where specified by legislation, for example the Earthquake and War Damages Act.

⁷ As defined in the “Report of the Finance and Expenditure Committee on the Inquiry into Reporting by the Crown and its Sub-entities to the House of Representatives”, House of Representatives, 1991 and the Government response to that report.

Crown Entity Reporting Requirements

Crown entities are required to prepare annual financial statements in accordance with GAAP. They must forward a complete set of financial statements to the Audit Office within 90 days of the end of each financial year.

Crown entities in which the Crown has a purchase as well as an ownership interest are required to prepare, in addition to the financial statements:

- a statement of objectives specifying the classes of outputs to be produced
- a statement of service performance specifying actual outputs produced.

Crown entities which pose a significant ownership or purchase contracting risk to the Crown must prepare a statement of intent at the start of each financial year.

The responsible Minister for a Crown entity is required to present these statements to the House.

Health and education sector Crown entities comprise a significant portion of all Crown entities. The accountability arrangements operating during 1996 in these two sectors are described below.

Health Sector Crown Entities

Four *Regional Health Authorities (RHAs)* are responsible for assessing the health needs of the populations in their regions and for purchasing services to meet these needs.

RHAs purchase a wide range of health care and disability services in line with service obligations which are negotiated by the Crown. Services purchased include primary health care from general practitioners and pharmacists. RHAs do not provide health services directly, nor do they own any hospitals or other health provision facilities.

RHAs are accountable to the Minister of Health for purchasing health services that will meet the government's health objectives. These objectives are formally agreed in annual funding agreements between the Minister of Health and each of the RHAs.

The four Regional Health Authorities (RHAs) are responsible for "buying" services to meet the health needs of people in their regions. They do not own any hospitals or healthcare facilities, and are accountable to the Minister of Health.

The objectives of RHAs, as defined in the Health and Disability Services Act 1993, are to:

- promote the personal health of people
- promote care and support for those in need of personal health services or disability services
- promote the independence of people with disabilities
- promote and protect the public health
- meet the Crown's objectives in accordance with, and to the extent enabled by, their funding agreements.

Separation of healthcare purchasers and providers allows RHAs to make purchase decisions on the basis of identified health needs. Healthcare services are purchased from a wide range of private and public sector providers.

Twenty-three *Crown Health Enterprises (CHEs)* have been established as Crown companies providing mainly hospital-based services. Some CHEs also provide a range of community services. CHEs are providers (but not the sole providers) of health services purchased by RHAs. CHEs are accountable to their shareholding Ministers: the Minister of Finance and the Minister for Crown Health Enterprises.

Crown Health Enterprise objectives, as defined in the Health and Disability Services Act 1993, are to:

- provide health services or disability services, or both
- assist in meeting the Crown's objectives by providing such services in accordance with the CHEs' statements of intent and any purchase agreements entered into by them
- operate as successful and efficient businesses.

Crown Health Enterprises (CHEs) provide mainly hospital-based services, with some providing community services.

The Board of every New Zealand state and integrated school is a Crown entity. The boards of trustees allocate resources (sometimes including salaries) and prepare annual financial and service performance reports.

The Ministry of Education manages school funding on behalf of the Crown and negotiates with individual schools.

The *Ministry of Health* is the government department that manages the Minister of Health's funding agreement with the RHAs for the purchase of personal and public health and disability services from both primary providers (for example, general practitioners) and secondary providers (hospitals). Contracts are also managed on behalf of the Minister of Health with a range of entities such as the Health and Disability Commissioner and the Health Research Council. The Ministry of Health is also responsible for:

- providing policy advice on health and disability services and preventive healthcare
- monitoring service delivery from RHAs.

Education Sector Crown Entities

Schools

The New Zealand state school sector is made up of almost 2,700 state and integrated schools. The boards of trustees for all these are Crown entities. (Integrated schools are private schools that have integrated into the state school system but retain their private ownership, for example, church schools.)

Each school has a written charter setting out its aims, objectives and purposes. The charter is intended to link school, community and Government goals.

State schools are managed by boards of trustees elected by parents of students enrolled at the school. Each board of trustees allocates resources provided for the school's operational activities and prepares annual financial and service performance reports.

All boards of trustees are responsible for paying management and administrative salaries

and operating expenses. Individual boards of trustees may choose to pay teachers' salaries with funding provided to the board by the Ministry of Education on Government's behalf, or to have teachers' salaries directly administered by the Ministry of Education.

The land and buildings used by public schools are departmental assets of the Ministry of Education. Individual boards of trustees have occupancy agreements with the Ministry of Education.

The *Ministry of Education* is a government department that manages school funding on behalf of the Crown, and manages contracts (the charters) with individual schools on behalf of the Minister of Education. The amount allocated to each board is based on a formula using factors such as roll size, and the social and economic needs of the local community.

The Ministry of Education:

- manages contracts on behalf of the Government with service providers
- provides policy advice on all aspects of education
- co-ordinates implementation of education policy
- advises on optimum use of resources allocated to education
- owns and manages school property
- develops guidelines on all aspects of education, including national curriculum requirements.

Other bodies in the education sector provide specialised services to the Government.

The *Education Review Office* is a government department that reviews the management performance of all schools, including private schools, and early childhood centres. The Office also comments on the performance of overall aspects of the primary and secondary education sectors.

The *New Zealand Qualifications Authority* is responsible for:

- developing and maintaining a framework for national qualifications
- setting and reviewing standards relating to qualifications
- ensuring New Zealand qualifications meet overseas standards
- administering national secondary and some tertiary qualifications.

Tertiary Education

Tertiary education institutions include universities, polytechnics, wananga (Maori colleges) and colleges of education. These institutions bid for resources on the basis of numbers of expected equivalent full-time students each year. The Ministry of Education is responsible for managing the purchase of outputs from tertiary institutions and for monitoring their performance.



The Education Review Office scrutinises school management performance.

The New Zealand Qualifications Authority is responsible for the school curriculum and qualifications framework.

The tertiary education institutions (also Crown Entities) bid for funding based on the number of students they expect will enrol each year and an annual statement of objectives. The Ministry of Education manages and monitors the contracts for their outputs.

Each tertiary institution is governed by a council which has a written charter setting out the institution's goals and objectives.

As Crown entities providing outputs for the Crown, tertiary education institutions are required to prepare statements of objectives each year with information about the classes of outputs to be produced. These statements of objectives form the basis for funding. They include information about specific types of courses or programmes and expected numbers of equivalent full-time students.

Statements of objectives are submitted to the Ministry of Education in August each year. Proposed output prices are reviewed by the Ministry and considered by the Minister of Education. The institutions are advised of their approved funding allocations for the following year by the end of October each year.

Reporting

Schools and tertiary education institutions have the same reporting requirements as other Crown entities but have a 31 December balance date to coincide with the academic year. However, because of the large number (about 2700), of individual schools the Minister of Education presents to the House of Representatives a consolidated report on the performance of the schools sector.

Crown Reporting

The government agencies and departments covered in this chapter and preceding chapters all form part of the Crown reporting entity - the whole estate for which the Crown financial statements are prepared. Chapter Seven explains government reporting requirements.