

Reference: 20170200

1 August 2017



Thank you for your Official Information Act request, received on 6 June 2017. You requested two documents:

1. *Cabinet paper entitled "Lifting the performance of the Investment Management System" (Treasury) dated 9 March 2017*
2. *February 2017 Investment Panel report (Treasury) dated 8 March 2017"*

Information Being Released

I have decided to release the first document in full. A copy is enclosed with this letter.

Item	Date	Document Description	Decision
1.	9 March 2017	Cabinet Paper: Lifting the Performance of the Investment Management System	Release in full

Information to be Withheld

I have decided to withhold the second document in full, under section 9(2)(g)(i) of the Official Information Act (ie to maintain the effective conduct of public affairs through the free and frank expression of opinions). In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act:

Item	Date	Document Description	Decision
2.	8 March 2017	Investment Panel Report February 2017	Withhold in full

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Liz Innes
Acting Manager, Investment Management & Asset Performance

IN-CONFIDENCE

Office of the Minister of Finance
Chair, Cabinet Committee on State Sector Reform and Expenditure Control

LIFTING THE PERFORMANCE OF THE INVESTMENT MANAGEMENT SYSTEM

Proposal

1. This paper provides the results for Tranche Three of the Investor Confidence Rating, insights drawn from the 20 assessments completed so far, and outlines further initiatives to lift the performance of the investment management system.

Executive Summary

2. This Government is building homes, schools, hospitals and roads as well as lifting public sector productivity to help New Zealanders to move around the country, connect, learn, get jobs, grow businesses, stay safe and live healthy lives.
3. We are working hard to improve the performance of the investment management system so we can choose the right investments, and also make sure these deliver the value we expect for decades to come.
4. We have set new expectations for investment, we're improving the quality and availability of data and information to support good decision-making, and we have put in place resources to support capability building.
5. Most importantly, we have introduced the Investor Confidence Rating (ICR), so we can empower agencies with high performance and incentivise capability building in investment management.
6. I am pleased to say there are two excellent results in this latest tranche, with Housing New Zealand Corporation (HNZC) and the Ministry of Foreign Affairs and Trade (MFAT) both achieving A ratings. I recommend that these agencies, and those that achieved B ratings are rewarded with an increase in their investment approval thresholds, tailored to their circumstances in recognition of these results.
7. Overall, across the 20 ICR assessments completed to date, thirteen agencies have achieved the Cabinet expectation for at least a B rating and seven have achieved a C rating.
8. All agencies have areas in which they can improve and I'm informed that most are already committed to doing so. Ministers can help support this by requesting updates, particularly in common areas of weakness, which include:
 - 8.1. Long-term planning,
 - 8.2. project, programme and portfolio capability, and
 - 8.3. setting asset performance targets

9. I am content that there is now good awareness of the need for sound investment management practices, and that capability building is underway, so I want to shift our focus to measuring, managing, and improving investment performance.
10. To do this I am proposing a number of initiatives, including expanding the ICR to include procurement maturity, enhancing the information collected about benefits, improving asset management, implementing an updated benefits-focused investment review, and strengthening the relationship between Government Investment Ministers and this Committee.
11. Together, these initiatives will mean we get good information about the value achieved through our recent investments. They will also give us insights so we can continue to improve the value we are realising, to make the biggest possible difference to New Zealanders' lives.

Background

12. This Government has 508 significant investments planned or underway, with a combined whole-of-life cost of \$87 billion. We are providing homes, delivering new schools, and building roads - as well as increasing public sector productivity.
13. We make these investments not to simply create assets, but to solve problems and improve outcomes – to help New Zealanders move around the country, connect, learn, get jobs, grow businesses, stay safe and live healthy lives.
14. There will always be more good ideas and opportunities for investment than we have resources to pursue. We need to use public resources wisely, and select investments that together will make the biggest difference for New Zealand.
15. We then need to make sure investments are delivered well, to the right scope and quality, and ensure that we get the value we expect throughout the life of the asset or service. We must also look after our assets, because careful management of our existing resources means we have more to devote to new investment opportunities.
16. To help achieve this, we are supported by processes, rules, capabilities, information and behaviours – which we refer to collectively as the investment management system. This Government set new expectations to optimise the investment management system by way of a Cabinet Office Circular which came into effect on 1 July 2015 (CAB Min (15) 11/7A refers). Our objectives in making these changes were to:
 - 16.1. optimise value generated from new investments and existing resources,
 - 16.2. increase the efficiency and effectiveness of the investment management system, and
 - 16.3. enable investments to achieve their specific investment objectives.
17. In my view the introduction of the ICR is a particular catalyst for real and lasting change. The ICR indicates the level of confidence that we can have in the ability of agencies to realise the expected value from new investments and their existing assets.
18. It not only sets a standard for each agency in terms of the appropriate level of investment performance, it also assesses current performance against these standards and identifies any gaps. Annex 1 provides more details about the basis for the ICR assessment.

19. The ICR also rewards good investment management performance - agencies performing well are given more freedom to make investment decisions, and this is proving effective as an incentive for capability building to lift performance.
20. The Cabinet expects investment-intensive agencies to achieve and maintain a B rating over time, due to the size and criticality of their asset and investment portfolios (CAB-16-MIN-0597 refers).

Implementing the Circular – progress update

21. Since mid-2015 officials across government have been working together to implement the circular and achieve the system objectives, and I am pleased to report significant progress has been made.
22. This is helping us to think about investment management as a system, and make better use of the Government Investment Ministers forum and the SEC Committee through taking a portfolio view of investments.
23. Some of the key activities over the last 18 months have included:
 - 23.1. In August 2015 the Cabinet agreed to begin publishing data and information on the Government's investment portfolio to increase transparency, improve the quality of forecasting, and so enable the market to respond better on the basis of a good understanding of government investment intentions (SEC-15-MIN-0001 refers).
 - 23.2. In October 2015 a Benefits Management Community of Interest was established to support agencies to build good benefits management practice, so that the benefits from investments can be optimised. The Community now has over 220 members. In March 2017 a new Auckland-based branch of the Benefits Management Community of Interest will be launched. This new branch is led by the Auckland Council supported by the Treasury and the Government Chief Information Office (GCIO).
 - 23.3. In October 2015 The Treasury released a cost benefit analysis tool (CBAX) to help agencies compare investment options. CBAX is a spreadsheet model that helps monetise impacts and analyse expected returns from investments. CBAX has been updated twice, most recently in October 2016 and will be used extensively as part of Budget 2017.
 - 23.4. In November 2015 the first Major Projects Performance Report was publicly released which included reporting on benefits for the first time. The report is produced three times each year, most recently in December 2016.
 - 23.5. In March 2016 the results from Tranche One of the ICR were reported to Cabinet. The results from Tranche Two of the ICR were reported to Cabinet in November 2016 and the Tranche Three results are included in this paper.
 - 23.6. In April 2016 the Treasury published new guidance called – Managing Benefits from Projects and Programmes: Guide for Practitioners. The guide was developed by Inland Revenue, the Ministry of Social Development, the New Zealand Defence Force, the Accident Compensation Corporation, the GCIO and The Treasury.

23.7. In August 2016 the Treasury collected information on asset performance from investment-intensive agencies for the first time. This showed that many agencies had no performance targets for their assets. Where performance measures were set, these were met 61% of the time, though the measures didn't always relate well to the services the assets were intended to support.

24. I think we need to renew our focus on benefits and asset management now that there is good awareness and capability-building is underway, with an emphasis on measuring and improving investment performance. This will make sure the investments we choose deliver the value we expect; for decades to come.

Investor Confidence Ratings – Tranche Three results

25. Tranche Three ICR assessments have been completed. On behalf of the Government Investment Ministers I invite you to approve the results, which are provided in Figure 1 below. More detail on each agency's rating is provided in the agency scorecards shown in Annex 2.

Figure 1: Interim ICR results for Tranche Three (subject to Cabinet approval)

Agency	Recommended rating
Ministry of Business Innovation and Employment (MBIE)	B
Department of Conservation (Conservation)	C
New Zealand Customs Service (Customs)	B
Ministry of Foreign Affairs and Trade (MFAT)	A
Ministry of Health (Health)	C
Housing New Zealand Corporation (HNZC)	A
Department of Internal Affairs (DIA)	C
Ministry of Justice (MOJ)	B
New Zealand Police (Police)	C

26. Officials tell me that Tranche Three agencies put a lot of effort into meeting the ICR requirements in tight timeframes, while concurrently responding to the impact of the Kaikoura earthquake and other work priorities, such as 4 Year plans and PIF assessments. I invite Responsible Ministers to convey my thanks to these agencies for making time for this important work. I understand that each agency has gained considerable performance and planning insights through the ICR work.

Agency results and potential implications for delegations

27. The A ratings for HNZC and MFAT are excellent results. HNZC has the strongest all-round investment management capabilities assessed to date. It consistently delivers the expected benefits and meets its asset performance targets. The MFAT assessment also reveals strong all-round performance, particularly in the management of its offshore property portfolio.

28. Approval thresholds are generally \$15 million for departmental chief executives and \$25 million for Responsible Ministers, however the Cabinet has previously allowed more freedom to agencies with A or B ratings. Specifically, the Cabinet approved new ministerial thresholds of \$50 million for all baseline-funded investments by Inland Revenue, which has an A rating, and \$50 million for all baseline-funded low and medium risk investments in Defence, which has a B rating (SEC-16-MIN-0010 refers).
29. Approval thresholds are tailored to reflect differences in the size and nature of investments likely to be undertaken by each agency, while respecting previous threshold changes approved by Cabinet.
30. I propose the Cabinet agrees to expand the approval thresholds for all baseline-funded low and medium risk investments in recognition of ICR ratings, as outlined below:
 - 30.1. For MFAT, which achieved an A rating, a new approval threshold of \$25 million for the Chief Executive and \$40 million for the Responsible Minister.
 - 30.2. For MBIE, which achieved a B rating, a new approval threshold of \$20 million for the Chief Executive and \$35 million for the Responsible Minister.
 - 30.3. For Customs, which achieved a B rating, a new approval threshold of \$20 million for the Chief Executive and \$35 million for the Responsible Minister.
31. For the MOJ, which achieved a B rating, I propose Cabinet agrees to a new approval threshold of \$25 million for the Chief Executive and \$40 million for the Responsible Minister, respectively, for all baseline-funded property investments with a low or medium risk profile.
32. The Board of HNZC has full authority to make baseline-funded investment decisions, subject to meeting ministerial consultation requirements. At present the consultation threshold is \$30 million. The A rating for HNZC suggests there is scope to renegotiate this consultation threshold with the Responsible Minister. HNZC also requested relaxing the FTE cap they are subject to, however this is outside the agreed implications currently available for ICR results.
33. The corporate centre will also give the respective chief executives of MFAT and HNZC discretion over the use of Gateway as part of their assurance activity for high risk investments.
34. Work has begun on the ICR assessments for the last five investment-intensive agencies in the ICR programme¹. I will report on these results from October 2017.

¹ The last five agencies are: Capital and Coast DHB, Southern DHB, Waikato DHB, the Ministry of Social Development and Otakaro Limited.

What the ICR tells us about the state of the investment system

35. With the completion of Tranche Three, 20 of the 25 investment-intensive agencies have now been assessed. A summary of the results of these assessments is included in Figure 2 below.

Figure 2. ICR results to date



36. The information gathered as part of ICR assessments provides us with useful insights into the state of the investment system, and what we can do to improve performance.
37. So far the ICR process has identified two A rated departments and two A rated Crown entities. What it takes to get an A rating is evidence of robust and integrated investment management practices, and an ongoing focus on delivering the required results.
38. An A rating is not achieved by accident but by design – the agencies that have achieved this rating have all made a strong commitment over an extended period to build their capability.
39. All agencies have some strengths, for example Counties-Manukau DHB and Defence have a long track record of strategic planning that was reflected in the quality of their respective long term investment plans (LTIPs). In the latest tranche DOC also provided a very good quality LTIP.
40. Some agencies have also had success in improving specific areas, for example MFAT and Education have dramatically improved their asset management maturity since this was independently evaluated in 2011.
41. However despite these individual achievements the ICR shows we still have work to do to lift agency as well as investment system performance. Even though there are differences in entity type and purpose, as well as size and location, some common gaps are emerging from assessments, which provide opportunities for system level improvement. The common gaps are:
- 41.1. The quality of agency and sector long term planning.
 - 41.2. Project, programme and portfolio management capabilities.

41.3. asset performance targets – because we have yet to see all agencies set (let alone achieve) meaningful performance targets.

Long Term Investment Plans (LTIPs)

- 42. The LTIP has a planning horizon of at least 10 years and does not have fiscal constraints. This allows agencies to consider alternative investment scenarios that may provide more affordable and effective ways to meet the Government’s objectives over time.
- 43. Agencies use the LTIP to explain why they need to invest capital resources and what impact they expect this to have on future asset and service performance. The graph below shows the range and average assessment findings for the 20 investment-intensive agencies.



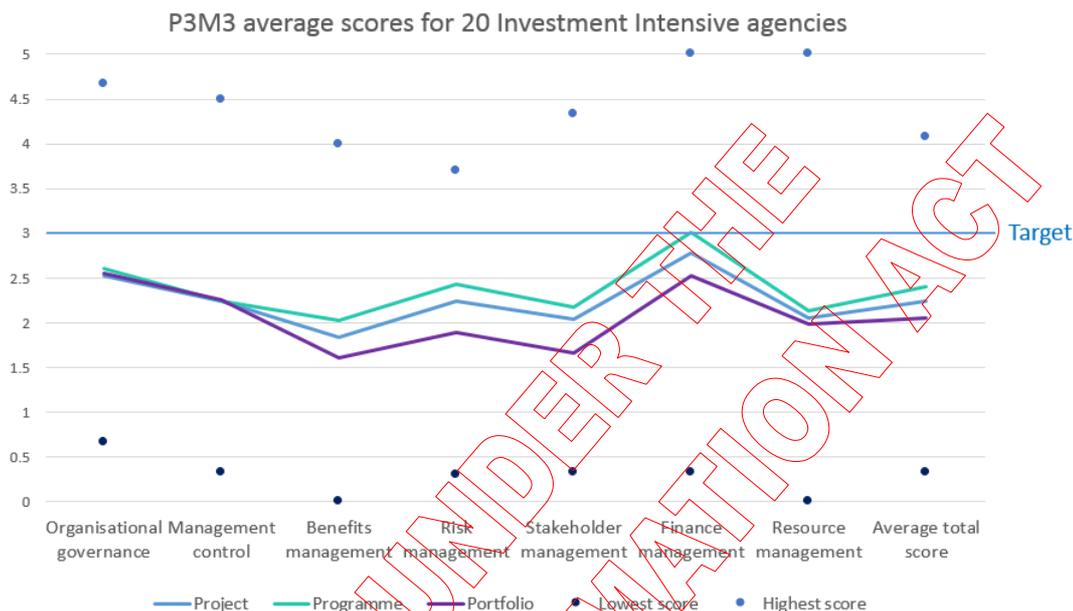
- 44. While most agencies can explain their investment intentions with status-quo assumptions about the future, only a few agencies have done the depth of thinking and analysis to explain whether the course they are on is likely to deliver the outcomes the Government wants, or identify alternatives worth exploring.
- 45. This constrains our options as investors. Issues in service delivery that are not well anticipated must be solved under urgency and pressure, so our choices are taken away by burning platforms.
- 46. As a result of the ICR, many agencies have already committed to improving aspects of their LTIPs. Ministers can support this important management process by asking for information on the long term impacts of agency investment intentions, so we can understand as much as possible in advance.
- 47. This will help us have well informed discussion about trade-offs early, to avoid wasted effort and make sure we can choose to invest in innovation that will deliver value over decades, rather than simply servicing the immediate.

P3M3 management capability

- 46. The ICR assesses the specific capabilities agencies need to successfully deliver the investments we want using the P3M3 (project, programme, portfolio management) methodology. International evidence² shows that higher maturity in these areas improves results – i.e. agencies are better able to deliver the outcomes Ministers want and minimise avoidable costs.

² For example <http://www.pmi.org/learning/thought-leadership/pulse/the-high-cost-of-low-performance-2014>.

47. The ICR assessments show that in many cases there is a significant gap between the current and target levels of project, programme and portfolio maturity (as shown in the graph below). The main capability gaps are in the way agencies manage benefits, stakeholders, and resources.



48. Embedding new practices can take time, though I understand most agencies have already committed to improving their P3M3 maturity. As Ministers, we can support this by ensuring agencies have an effective improvement plan and by asking for regular updates on investment capability and performance.

Asset performance targets

49. The ICR tests both current asset management maturity and actual asset performance over the last two years. The maturity assessment is independent and is based on the frameworks and guidance that have been developed and used in NZ over the last 30 years.³ Actual performance is assessed by comparing how well agencies met targets agreed by Ministers, Boards or leadership teams.
50. While some agencies have lifted their asset management maturity considerably in recent years, the ICR shows most agencies still have some way to go to achieve the appropriate level of management maturity for the scale and complexity of their asset portfolios.
51. In fact a few agencies have a considerable gap between the current and appropriate levels of maturity and this appears to be affecting their ability to set and achieve asset performance targets. Analysis of agency reporting on their 2015/16 asset performance tells a similar story, which raises questions for me about whether agencies are making the most effective use of their resources.
52. Improvement starts with setting specific and measurable performance targets on the condition, utilisation and fitness-for-purpose of each agency's key asset portfolios. The next steps involve measuring and managing performance to meet these targets. Ministers can help by asking Boards or Chief Executives to provide evidence that the asset performance they are achieving is appropriate for their agency.

³ International Infrastructure Management Manual 2015.

Next steps to improve the performance of the Investment Management System

Planning for the next generation of ICR assessments

53. Within 12 months the second round of assessments will begin, and these will show us the impact of agency capability building. The information and insights we are getting through the ICR will increasingly be used to inform other government assessment or performance improvement processes such as the PIF and budget management.
54. The adaptive ICR approach takes account of lessons learned and emerging priorities. Government Investment Ministers have decided to make changes to the mix of elements and their weights for the second round of ICR assessments to:
 - 54.1. signal the relative importance of benefits management and organisational change management, and
 - 54.2. recognise the importance of procurement to investment management by adding a new element to the ICR, an assessment of procurement maturity⁴
55. These changes are shown in Annex 1 to this paper. The overall effect of the changes on ICR scores is likely to be neutral but there may be a small effect on the ICR scores for some agencies depending on how the changes relate to their areas of relative strength.
56. Planning for the next round of ICR assessments is underway and agencies know when their next ICR assessment will take place. At this stage I expect the second round of ICR assessments to be completed by July 2019.

Improving benefits management information

57. Benefits management is important to ensure expected benefits are worthwhile and valued, realistic and optimally realised. Following a pilot with 6 agencies in October last year, this month agencies will be providing enhanced information on benefits as part of the Treasury's regular data collection about all significant⁵ investments that are planned or underway.
58. This initiative is intended to encourage agencies to create higher-quality benefits information. This is useful so they understand the difference they are making, what drives success and what might be causing any gap between what was expected and what was delivered. This understanding will help them improve benefits management and position them well for a higher ICR rating in future.
59. It will also provide an opportunity for greater analysis across the whole investment portfolio, so we can better understand how investments are performing. This can be used to identify opportunities and risks and inform future initiatives to improve investment system performance.
60. As this is the first such data collection, I expect officials to work on improving the quality of the data so the subsequent data collection in June 2017 is more complete and accurate. This will then form the baseline for analysis, and be included in the public annual report on investment management later this year.

⁴ The procurement maturity assessment is based on the method used by the NZ Government Procurement and Property Group, tailored to the investment management system context.

⁵ This is defined in the Cabinet Circular *Investment Management and Asset Performance* CO(15)5 as importance in terms of likely impact or consequences, those with high risk, and those that expect whole-of-life costs of over \$15 million (however funded).

Improving asset management information

61. Asset management information is important because it helps us make the most of what we already have. It helps ensure we get the benefits we expected over the life of an asset, so we don't waste resources through early replacement when these could be used to pursue other investment opportunities.
62. Asset information will be collected again from investment-intensive agencies in this financial year, and all other agencies covered by CO(15)⁶ are expected to provide this information in their annual reports from 2018.
63. This information will help agencies understand and manage their asset portfolios better, and will help identify any opportunities or risks in asset management across the system.
64. I expect the data collected this year to show improvements. I expect Ministers to ensure measures are in place for all critical assets – and not just any measures – measures that have appropriate relevance to the services that they support. I have asked officials to check on progress in May and report to Government Investment Ministers on this in June.

Introducing an updated benefits management review

65. The Treasury is introducing an updated Investment Review, *Operational and Benefits Realisation Review* to complement existing Gateway Reviews and 'close the loop' between what was proposed in the business case and what was actually delivered.
66. The updated review focuses on the effectiveness of handover to business operations, ongoing service delivery and contract management, and progress towards benefits realisation. It provides information that will benefit both the agency and wider system (through knowledge sharing).
67. It will give agencies independent feedback and advice on the effectiveness of their procurement, contract management and benefits processes. This can help them improve the outcomes of the investment being reviewed, and build capability in their organisation – which could help them achieve a higher ICR rating in future.
68. The review will be short sharp and cost effective. There will be a New Zealand public sector representative on the review team. This provides them an opportunity to learn by looking at another agency's project and systems in detail, and contribute to developing advice with experts.
69. The review will also provide the corporate centre with information to complement that of the ICR in terms of the effectiveness of benefits delivery against business cases and the quality of procurement processes and commercial arrangements.
70. The review is currently in design, and there is already demand for it. The New Zealand Defence Force and the Department of Corrections have expressed interest and the Treasury is currently seeking a suitable project to pilot the new review in the second half of 2017.

⁶ This includes all departments and departmental agencies, Crown agents, Autonomous Crown entities, Independent Crown entities, Crown entity companies including Crown Research Institutes, and schedule 4A companies as defined in the Public Finance Act 1989.

Strengthening the ties between Government Investment Ministers and this Committee

71. I want the Government Investment Ministers to maintain a forward agenda for investment discussions at SEC, including upcoming investment decisions, updates on major projects, and investment system improvements. I propose we direct the Treasury to create such an agenda in consultation with agencies.
72. I expect the Government Investment Ministers to keep an eye on the major projects and refer them to this Committee when we think a wider discussion of challenges and how to manage them would be beneficial.
73. I want this to meet this Committee's need for sufficient information to discuss and understand a projects progress without creating an unnecessary burden. Unless a Cabinet paper is already underway, I propose that we review these projects by way of an oral item, along with brief supporting material.
74. At the request of Government Investment Ministers the following projects provided updates to this Committee in March:
 - 74.1. Lincoln Hub (Tertiary Education Commission)
 - 74.2. Maori Land Service (Te Puni Kokiri).
 - 74.3. National Bowel Screening Programme (Ministry of Health).
 - 74.4. Police Human Resources Management Information System (Police).
 - 74.5. Frigate Systems Upgrade (New Zealand Defence Force).
75. Government Investment Ministers have also requested that Statistics NZ provide an update for this Committee on the 2018 Census project.
76. I want this Committee to help us manage investment performance over time, starting by receiving report-backs on realisation of investment benefits. There has been a requirement⁷ for nearly seven years for agencies to report back to Cabinet on the actual level of benefits achieved compared with those outlined in any Cabinet-approved investment, however this is rarely done in practice.
77. The Government Investment Ministers want to make sure this obligation is met. There has been an increasing awareness of the importance of benefits management across the public sector, and investment in building capability in this space. I'm pleased to hear that agencies with strengths in benefits management are already sharing their expertise with others.
78. The ICR assessments also suggest agencies have sufficient maturity in this space to start providing benefits reports, so the time is right to push harder for these report backs, while seeking improvement rather than perfection.
79. I propose we direct the Treasury to consult with agencies to find the best way to implement this – exploring aspects such as whether portfolio level benefit reporting would be better, how to make use of the data agencies are already producing, and preferred timing to fit with other requirements.

⁷ This is a requirement of the Cabinet Circular *Investment Management and Asset Performance* CO(15)5 which came into effect in July 2015, and was also a requirement of the Circular that preceded this, which dates from 2010.

Consultation

80. At the time CO(15)5 was agreed by the Cabinet, the policy it contained, including the requirement to report back to Cabinet on benefits realisation was widely consulted, including with:

80.1. The corporate centre,

80.2. Public Service departments,

80.3. Non-Public Service departments,

80.4. Crown Agents,

80.5. Autonomous Crown entities,

80.6. Independent Crown entities, and

80.7. Public Finance Act Schedule 4A Companies.

81. The ICR assessments have been consulted with all nine agencies in Tranche Three, and the corporate centre. Government Investment Ministers reviewed the Tranche Three ICR results at their meeting on 13 February 2017.

82. This paper has been consulted with investment-intensive agencies and the corporate centre. Feedback indicates those parties support the direction of travel of this paper.

Financial Implications

84. There are no immediate fiscal implications but changes increasing approval thresholds for investment decision-making, and Ministerial consultation thresholds are proposed as set out in paragraph 30 and 31.

Legislative Implications

85. There are no legislative implications.

Regulatory Impact Analysis

86. Regulatory impact analysis requirements do not apply.

Human Rights, Gender Implications, Disability Perspective

87. There are no human rights, gender or disability implications associated with this paper.

Publicity

88. The Minister of Finance will determine the timing of the public release of the Tranche Three ICR results.

Recommendations

The Minister of Finance recommends that the Cabinet Committee on State Sector Reform and Expenditure Control:

Results from Investor Confidence Rating Tranche Three

1. **note** that Government Investment Ministers recommend you approve the following ICR ratings for the nine agencies in Tranche Three;
2. **approve** the following ICR ratings for the agencies in Tranche Three;
 - 2.1. The Ministry of Foreign Affairs and Trade and Housing New Zealand Corporation are rated “A”;
 - 2.2. The New Zealand Customs Service, the Ministry of Business, Innovation and Employment, and the Ministry of Justice are rated “B”;
 - 2.3. The Department of Conservation, the Ministry of Health, the Department of Internal Affairs and the New Zealand Police are rated “C”;
3. **note** that Cabinet has previously agreed that all investment-intensive agencies achieve at least a “B” rating over time;
4. **note** that in recognition of a high ICR rating agencies are typically offered an increase in approval thresholds subject to meeting minimum corporate centre requirements for all projects, while the general approval thresholds continue to apply for agencies with a “C” rating;
5. **note** that for all baseline-funded investments that are low or medium risk, current approval thresholds are \$15 million for the Chief Executive and \$25 million for the Responsible Minister (in whole of life cost terms);
6. **agree** the following changes to investment approval thresholds for agencies who have received high ICR ratings, which will come into effect from 1 May 2017:

Agency	ICR rating	Scope of changes	New Approval threshold (Whole-of-life-cost)
The Ministry of Foreign Affairs and Trade	A	For all baseline-funded low and medium risk investments	Minister: \$40 million Chief Executive: \$25 million
Ministry of Business Innovation and Employment	B	For all baseline-funded low and medium risk investments	Minister: \$35 million Chief Executive: \$20 million
NZ Customs Service	B	For all baseline-funded low and medium risk investments	Minister: \$35 million Chief Executive: \$20 million
Ministry of Justice	B	For baseline-funded property investments with low or medium risk	Minister: \$40 million Chief Executive: \$25 million

7. **note** that Housing New Zealand Corporation will work with Ministers and the corporate centre to renegotiate the ministerial consultation threshold for major baseline-funded investment proposals, which currently stands at \$30 million;
8. **note** that all investment-intensive agencies have agreed to take specific actions to improve key aspects of their investment performance over the next two years ahead of their next ICR assessment;
9. **direct** the Treasury to report back to Government Investment Ministers on progress agencies are making toward improving their investment performance halfway between their first and second ICR assessments;
10. **note** that the ICR is to be amended to give relatively more weight to benefits delivery performance, and the level of both organisational change management maturity and procurement maturity (with the addition of MBIEs Procurement Capability Index) and that any further changes will be agreed with Government Investment Ministers;

Ongoing initiatives to lift the performance of the Investment Management System

11. **direct** the Treasury to consult with agencies and develop a forward agenda for investment discussions at this Committee to be agreed by Government Investment Ministers, made up of updates in four areas:
 - 11.1. upcoming investment decisions,
 - 11.2. major projects,
 - 11.3. realising investment benefits, and
 - 11.4. investment system improvement.
12. **note** that there has been a requirement for agencies to report back to Cabinet on the actual level of benefits achieved compared with those outlined in any Cabinet-approved investment since 2010; and
13. **direct** the Treasury to consult with agencies and provide advice to Government Investment Ministers about implementing this obligation by June 2017.

Hon Steven Joyce
Minister of Finance

Annex 1: Design of the Investor Confidence Rating

1. The ICR comprises a mix of elements or types of information with given weights as shown in figure 3 below.
2. Government Investment Ministers oversee the design and operation of the ICR and consider changes to the mix of elements and their weights. Weights can reflect experience with the methodology or changes in investment system emphasis over time.
3. By design, the ICR:
 - 3.1. Provides a rounded view of an agency's past and prospective investment performance. Lead indicators give insights to future performance whereas lag indicators are based on evidence of performance against agreed targets over the last two years.
 - 3.2. Uses information and expertise from independent parties (to test the most important lead indicators), the agency and the corporate centre, and
 - 3.3. Reinforces government's investment objectives by placing a high weighting on delivery of expected benefits.

Figure 3: Current and proposed mix of ICR elements, weightings and bases for assessment

ICR Element	Indicator type	Weight for Round 1	Weight for Round 2	Assessment basis
1 Asset management maturity	Lead	20	15	Score obtained by agency self-assessment against Treasury maturity model reviewed by independent assessor
2 P3M3 management maturity	Lead	15	15	Score against P3M3 maturity model facilitated by independent assessor
3 Quality of Long Term Investment Plan (LTIP)	Lead	10	10	Corporate centre assessment based on criteria set out in published Treasury LTIP guidance
4 Procurement capability index	Lead		5	Score obtained by agency self-assessment against published NZ Government Procurement maturity tool, followed by expert panel review
5 Organisational change management maturity	Lead	5	10	Score obtained by agency self-assessment against Treasury-approved change management maturity model followed by moderation process
Total for Lead indicators		50	55	
Assessment approach				
6 Benefits delivery performance	Lag	20	20	Examines evidence to determine whether actual benefits from significant investments that attained "in-service" status over a given period delivered investor-approved benefits
7 Project delivery performance	Lag	15	10	Examines evidence to determine whether actual performance of investments that attained "in-service" status over a given period met investor-approved performance
8 Asset performance	Lag	10	10	Examines evidence to determine whether actual performance over the given period met agreed asset performance targets
9 System performance (compliance)	Lag	5	5	Corporate centre assessment based on transparency, compliance with key system performance expectations over recent past and performance against long term capital plan over a given period.
Total for Lag indicators		50	45	
Totals		100	100	

Annex 2: Individual Agency ICR Scorecards for Tranche Three

Agency interim result: Ministry of Business Innovation and Employment

Investor Confidence Rating:	B
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Elements Score

	Element	Element Score	ICR Weighting
Lead Indicators	1 Asset Management Maturity (AMM)	17	20
	2 Project, Programme and Portfolio Management Maturity (P3M3)	12	15
	3 Quality of Long Term Investment Plan (LTIP)	4	10
	4 Organisational Change Management Maturity	3	5
Lag Indicators	5 Benefits delivery performance	12	20
	6 Project delivery performance	9	15
	7 Asset performance	10	10
	8 System performance	3	5
Total Score		70	100

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

Scope of Investor Confidence Rating Assessment

- Customer-facing information systems
 - Corporate information systems
 - Leased property
- Excludes MBIE functional leadership roles

Treasury Comment

The evidence shows this is a well performing organisation with maturing investment management processes.

MBIE has strong asset management practices and consistently meets its asset performance targets. It also delivers projects to scope and on budget, and its self-assessment shows strengths in organisational change management maturity.

There is room for improvement in two main areas of MBIE's investment management performance.

The first is in the quality of MBIE's long term investment planning. This would be enhanced if it revealed the impact of a broader range of possible future scenarios on MBIEs asset base, services and partner agencies.

The second area for improvement is continuing the work to lift P3M3 portfolio and project capability. That effort should translate into improved benefits and project delivery results in future.

Recommended Implications

The Ministry intends to strengthen its P3M3 capability and benefits management. It also intends to enhance its LTIP in the next 12 months.

In recognition of the rating, Cabinet is asked to agree to expand the levels of ministerial and chief executive decision making authority to \$35m WOLC and \$20m WOLC respectively, for medium or low risk baseline-funded investments, with effect from 1 May 2017.

Agency interim result: Department of Conservation

Investor Confidence Rating: **C**

Elements Score

	Element	Element Score	ICR Weighting
Lead Indicators	1 Asset Management Maturity (AMM)	15	20
	2 Project, Programme and Portfolio Management Maturity (P3M3)	6	15
	3 Quality of Long Term Investment Plan (LTIP)	8	10
	4 Organisational Change Management Maturity	3	5
Lag Indicators	5 Benefits delivery performance	8	20
	6 Project delivery performance	12	15
	7 Asset performance	6	10
	8 System performance	3	5
Total Score		61	100

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

Scope of Investor Confidence Rating Assessment

- Natural Heritage Portfolio
- Recreation, Tourism and Historic Portfolio
- Capability Portfolio (ICT, Property, Fleet, Infrastructure assets)

Treasury Comment

Cabinet has an expectation that investment-intensive agencies achieve at least a B. The assessment recognises gains made in recent years and signals the need for further improvements.

The evidence shows Conservation has strengths in long term planning and in delivering projects to scope and on budget. Its self-assessment shows strengths in organisational change management maturity.

Although the AMM score appears satisfactory there is a material gap between current and appropriate maturity. This needs addressing to ensure Conservation can meet its own asset performance targets across all its portfolios. In some cases the targets need to be made more specific.

There are also gaps in aspects of the department's P3M3 management (particularly benefits management, stakeholder management and resource management) that may affect future investment performance.

Some key performance information is limited or not yet available: in particular there are gaps in the evidence available to show that expected investment benefits have been realised (as distinct from project delivery to time, cost and scope requirements).

Potential Implications

Conservation intends to focus its improvement actions on lifting the level of AMM and P3M3 maturity across its three main asset portfolios to bring more consistency to its investment management processes, and on securing the expected benefits from its investments.

Based on a C rating there would be no change to the general approval thresholds or other requirements set out in Cabinet Office circular CO(15)5.

Agency interim result: NZ Customs Service

Investor Confidence Rating: **B**

Elements Score

	Element	Element Score	ICR Weighting
Lead Indicators	1 Asset Management Maturity (AMM)	19	20
	2 Project, Programme and Portfolio Management Maturity (P3M3)	12	15
	3 Quality of Long Term Investment Plan (LTIP)	2	10
	4 Organisational Change Management Maturity	3	5
Lag Indicators	5 Benefits delivery performance	20	20
	6 Project delivery performance	9	15
	7 Asset performance	8	10
	8 System performance	4	5
Total Score		77	100

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

Scope of Investor Confidence Rating Assessment

- Customer-facing information systems
- Corporate information systems
- Leased property, equipment, vehicles

Treasury Comment

The evidence shows Custom's has mature investment management processes that underpin strong investment performance. This rating affirms the organisational and process changes made in recent years.

Custom's asset management practices are appropriate for the scale and complexity of its assets. Customs regularly meets its asset performance targets. It also delivers project benefits and delivers projects to scope and on budget - sometimes trading away timeliness without compromising quality.

There is room for improvement in two main areas of Customs' investment management performance, given the key role Customs plays at the border and amongst peer agencies.

The first is in the comprehensiveness of Customs' long term investment plan. The LTIP will be enhanced once Customs better integrates relevant material from its 4YP, other related work on its asset management strategy, and the border sector strategy to reveal the potential impacts of investment choices on Custom's performance.

The second area for improvement is the delivery of investments to agreed time expectations. This should be achievable given Customs relative strength in P3M3 maturity.

Potential Implications

Customs' intends to focus its improvement action on enhancing the timeliness of project delivery in line with investor requirements. It intends to update its LTIP to reflect the border sector strategy. In recognition of the rating, Cabinet is asked to agree to expand the levels of ministerial and chief executive decision making authority to \$35m WOLC and \$20m WOLC respectively, for medium or low risk baseline-funded investments, with effect from 1 May 2017.

Agency interim result: Ministry of Foreign Affairs and Trade

Investor Confidence Rating:

A

Elements Score

	Element	Element Score	ICR Weighting
Lead Indicators	1 Asset Management Maturity (AMM)	18	20
	2 Project, Programme and Portfolio Management Maturity (P3M3)	12	15
	3 Quality of Long Term Investment Plan (LTIP)	4	10
	4 Organisational Change Management Maturity	3	5
Lag Indicators	5 Benefits delivery performance	16	20
	6 Project delivery performance	15	15
	7 Asset performance	10	10
	8 System performance	3	5
Total Score		81	100

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

Scope of Investor Confidence Rating Assessment

- Owned and leased property
- Corporate information systems

Treasury Comment

The evidence shows this is a well performing organisation with mature investment management processes.

MFAT has made significant progress in lifting its AMM practices compared with the levels evident in 2011. This strength flows through to evidence that shows MFAT consistently meets its asset performance targets.

There is a similarly strong relationship between the level of P3M3 maturity and the actual performance on individual investments.

There are three main areas of focus from an improvement perspective: One of these is in the quality of MFAT's long term investment planning. The current LTIP is basic but provides an excellent basis for examining the value proposition and impacts of alternative business and investment scenarios.

The other areas for improvement in the medium term are on the delivery of a formal change management framework, and making sure that all investment proposals meet corporate centre process and quality requirements.

Recommended Implications

MFAT intends to action selected ICR-related improvements (eg AMM and P3M3) within its overall Enterprise Performance Management programme.

In recognition of the rating, Cabinet is asked to agree to expand the levels of ministerial and chief executive decision making authority to \$40m WOLC and \$25m WOLC respectively, for medium or low risk baseline-funded investments, with effect from 1 May 2017. The chief executive will have discretion over using Gateway reviews as part of an assurance plan for individual investments.

Agency interim result: Ministry of Health

Investor Confidence Rating: **C**

Elements Score

	Element	Element Score	ICR Weighting
Lead Indicators	1 Asset Management Maturity (AMM)	14	20
	2 Project, Programme and Portfolio Management Maturity (P3M3)	9	15
	3 Quality of Long Term Investment Plan (LTIP)	4	10
	4 Organisational Change Management Maturity (OCM)	4	5
Lag Indicators	5 Benefits delivery performance	8	20
	6 Project delivery performance	12	15
	7 Asset performance	8	10
	8 System performance	3	5
Total Score		62	100

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

Scope of Investor Confidence Rating Assessment

- MoH owned or leased assets (Property, ICT)
- Critical Projects managed by MOH on behalf of individual DHBs

Treasury Comment

The evidence shows the Ministry has further work to do to achieve the Cabinet expected level of a "B" rating for investment-intensive agencies.

The Ministry has some good foundations on which to leverage performance in the next two years, particularly its level of OCM maturity. The evidence also shows the Ministry tends to deliver projects according to cost and scope expectations.

One of the main areas for improvement is around delivering expected benefits from its investments. This is best achieved by lifting the level of P3M3 maturity which is well below the appropriate level of maturity.

Although the AMM score appears satisfactory there is a 22 point gap between current and appropriate maturity. The gap in AMM is significant and needs addressing to ensure the Ministry can continue to meet its own asset performance targets.

Given its sector leadership role, there are two other areas for improvement: the first is in the quality of the Ministry's long term investment plan especially the cost effectiveness of options for implementing the Health Strategy. The second lies in ensuring sector investment management practices are consistent with wider system norms and expectations.

Recommended Implications

The Ministry intends to focus its improvement activity on strategic planning, asset management, and P3M3 capability (leading to improved benefits reporting).

Based on a C rating there would be no change to the general approval thresholds or other requirements set out in Cabinet Office circular CO(15)5.

Agency interim result: Housing NZ Corporation

Investor Confidence Rating: **A**

Elements Score

	Element	Element Score	ICR Weighting
Lead Indicators	1 Asset Management Maturity (AMM)	17	20
	2 Project, Programme and Portfolio Management Maturity (P3M3)	15	15
	3 Quality of Long Term Investment Plan (LTIP)	6	10
	4 Organisational Change Management Maturity	4	5
Lag Indicators	5 Benefits delivery performance	20	20
	6 Project delivery performance	12	15
	7 Asset performance	10	10
	8 System performance	3	5
Total Score		87	100
Total Score		Rating	
81		A	
66		B	
51		C	
26		D	
0		E	

Scope of Investor Confidence Rating Assessment

- Housing portfolio
- Corporate information systems

Treasury Comment

The evidence shows Housing NZ has strong investment performance grounded in mature investment management processes.

Housing NZ has intermediate level asset management practices and consistently meets its asset performance targets. It has work to do to lift its practices to the appropriate level (advanced).

Its P3M3 maturity is at the appropriate level for an organisation of this scale and complexity and this maturity means it often delivers projects benefits within the agreed budget.

Its self-assessment shows strengths in organisational change management maturity.

The main area of improvement focus appears to be in planning, at both the asset class level (eg ICT) and in quality of scenario and procurement analysis within Housing NZ's overall LTIP.

Proposed ICR Implications

Housing NZ intends to focus its improvement actions on the quality of its asset plans for both property and ICT.

Housing NZ is prepared to help lift the performance of other agencies by sharing its areas of expertise.

In recognition of the rating, Housing NZ and the corporate centre will (a) seek to renegotiate the Ministerial consultation threshold for major baseline-funded investment proposals. This is currently set at \$30m capex. Housing NZ will continue to meet other corporate centre reporting and project assurance requirements, and (b) agree Housing NZ will have discretion to apply Gateway/other investment reviews as part of the suite of assurance activity according to the risk and value profile of new investments from 1 May 2017.

Agency interim result: Department of Internal Affairs

Investor Confidence Rating: **C**

Elements Score

	Element	Element Score	ICR Weighting
Lead Indicators	1 Asset Management Maturity (AMM)	14	20
	2 Project, Programme and Portfolio Management Maturity (P3M3)	12	15
	3 Quality of Long Term Investment Plan (LTIP)	2	10
	4 Organisational Change Management Maturity	3	5
Lag Indicators	5 Benefits delivery performance	8	20
	6 Project delivery performance	9	15
	7 Asset performance	8	10
	8 System performance	2	5
Total Score		58	100

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

Scope of Investor Confidence Rating Assessment

- Customer-facing information systems
- Corporate information systems
- Leased property

Excludes GCIO functional leadership role

Treasury Comment

Cabinet has an expectation that investment-intensive agencies achieve at least a B. This assessment recognises gains made in recent years and highlights the need to continue on that improvement path.

Although the AMM score appears satisfactory there is a material gap between current and appropriate maturity. This is significant and needs addressing to ensure the department can continue to meet its own asset performance targets.

The evidence shows DIA has some strengths in P3M3 capability, and in delivering projects to scope and on budget. The main P3M3 gaps (ie benefits management, stakeholder management and resource management) appear to be impacting on benefits performance. The department's self-assessment shows strengths in organisational change management maturity.

Given current maturity in these key areas, there is still some way to go for the agency to demonstrate effective long term planning. Compared with expectations, there are clear gaps in aspects of the department's long term plan, and in aspects of system performance. Plans and business cases need to better reflect the impacts of investment intentions on stakeholders.

Potential Implications

DIA intends to focus its ICR improvement action on lifting its asset management maturity, and its benefits delivery performance. It also intends to work with the corporate centre to lift the quality of its LTIP in the next 12 months. Together these areas of focus will better align internal planning and other investment management processes. Based on a C rating there will be no change to the general approval thresholds or other requirements set out in Cabinet Office circular CO(15)5.

Agency interim result: Ministry of Justice

Investor Confidence Rating:

B

Elements Score

	Element	Element Score	ICR Weighting
Lead Indicators	1 Asset Management Maturity (AMM)	17	20
	2 Project, Programme and Portfolio Management Maturity (P3M3)	9	15
	3 Quality of Long Term Investment Plan (LTIP)	4	10
	4 Organisational Change Management Maturity	4	5
Lag Indicators	5 Benefits delivery performance	12	20
	6 Project delivery performance	9	15
	7 Asset performance	10	10
	8 System performance	3	5
Total Score		68	100

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

Scope of Investor Confidence Rating Assessment

- Owned and leased property
- Corporate information systems

Treasury Comment

The assessment recognises gains made in recent years and highlights the scope for further improvements in some areas.

The evidence shows the Ministry has some core strengths in asset management maturity and the way it manages change. These enable it to consistently meet its asset performance targets and reset these over time.

On the other hand the evidence shows there is scope to improve the Ministry's P3M3 maturity, particularly the way it manages its overall portfolio of investments. Gaps in P3M3 maturity appear to impact on the actual performance of individual investments, as evidenced by the scores for benefits and project delivery performance.

The Ministry's long term plan reflects a "modest reform" approach. It can be enhanced by examining alternative scenarios, and the impact of these on its assets and stakeholders. There is a similar issue across all the other justice sector LTIPs and we see scope for the Ministry as sector lead to leverage LTIP improvements across the wider justice sector.

Potential Implications

The Ministry intends to strengthen its P3M3 capability and benefits management. It also intends to strengthen its investment management framework, enhance its own LTIP, particularly future scenarios, and ensure its LTIP reveals the reciprocal impact of any overlapping justice sector investment intentions.

In recognition of the rating, and compared with the general thresholds in CO(15)5, Cabinet is asked to agree to expand the levels of ministerial and chief executive decision making authority to \$40m WOLC and \$25m WOLC respectively, for medium or low risk baseline-funded property investments, with effect from 1 May 2017.

Agency interim result: NZ Police

Investor Confidence Rating: **C**

Elements Score

	Element	Element Score	ICR Weighting
Lead Indicators	1 Asset Management Maturity (AMM)	15	20
	2 Project, Programme and Portfolio Management Maturity (P3M3)	9	15
	3 Quality of Long Term Investment Plan (LTIP)	2	10
	4 Organisational Change Management Maturity	3	5
Lag Indicators	5 Benefits delivery performance	16	20
	6 Project delivery performance	6	15
	7 Asset performance	2	10
	8 System performance	3	5
Total Score		56	100

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

Scope of Investor Confidence Rating Assessment

- Business facing information systems
- Corporate information systems
- Owned and leased property

Treasury Comment

The assessment recognises gains made in recent years and highlights the need for further improvements. The evidence shows Police has further work to do to achieve Cabinet's expected level of a "B" rating for investment-intensive agencies.

Police has some good foundations on which to leverage performance on the next two years. The evidence shows Police tends to deliver the expected benefits from its investments, although this appears to come at the expense of agreed time, cost and scope expectations.

The AMM score masks a significant capability gap and needs addressing to ensure Police can meet its own asset performance targets and support its investment strategy.

Another area for improvement is around the level of organisational change management maturity given the changes signalled in Police strategy.

There needs to be a better understanding of how Police's investment intentions translate into measurable changes in asset and service performance over time. Setting targets (and managing their achievement) will help lift asset and investment performance as well as the levels of AMM and P3M3 maturity.

Potential Implications

In response to the ICR, and working with the corporate centre, Police intends to improve the quality of its planning (to inform its LTIP and related asset management plans), change management (to deliver Policing 2020) and key aspects of its P3M3 maturity (to bring more consistency to its investment management processes). Based on a C rating there would be no change to the general approval thresholds or other requirements set out in Cabinet Office circular CO(15)5.