



Minute of Decision

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New Cabinet Expectations: Investment and Asset Management, and Financial Authorities

Portfolio: Finance

On 13 April 2015, following reference from Cabinet Committee on State Sector Reform and Expenditure Control, Cabinet:

Scope and reach of the new investment management circular (to supersede CO (10) 2):

- 1 **noted** the government's existing investment management system¹ is not currently configured in a way that makes it possible to manage investments to achieve measurably improved outcomes;
- 2 **agreed** to issue a new Cabinet Office circular entitled *Investment Management and Asset Performance in the State Services* (the new circular), attached to the submission under SEC (15) 10, which sets out Cabinet's expectations for:
 - 2.1 active stewardship of government resources;
 - 2.2 strong alignment between individual investments and government's long-term priorities;
 - 2.3 the management of investments, being the commitment of capital or balance sheet resources to the delivery of government services with the expectation of receiving future benefits;
 - 2.4 the management of both physical and intangible assets;
 - 2.5 recognising the roles of functional leaders as they relate to the investment management system;
- 3 **agreed** to the release of the new circular, **subject to** paragraph 49 below;

¹ The investment management system means the processes, rules, capabilities, information and behaviours that work together to bring discipline to the way investments are managed throughout their life cycles.

- 4 **agreed** that the new circular:
- 4.1 will be effective from 1 July 2015;
 - 4.2 will supersede CO (10) 2 Capital Asset Management in Departments and Crown Entities: Expectations;
- 5 **agreed** that the new circular will apply to:
- 5.1 all departments (including departmental agencies) as defined by the Public Finance Act 1989 (PFA);
 - 5.2 the following types of Crown entities:
 - 5.2.1 Crown agents;
 - 5.2.2 Autonomous Crown entities;
 - 5.2.3 Independent Crown entities;
 - 5.2.4 Crown entity companies, including Crown Research Institutes;
 - 5.3 companies listed on Schedule 4A of the PFA;
- 6 **noted** that the new circular will not apply to:
- 6.1 school boards of trustees, the education service or organisations named or described in Schedule 4 of the PFA;
 - 6.2 tertiary education institutions, the Reserve Bank of New Zealand, State-owned enterprises, and mixed-ownership model companies;

Objectives of the investment system

- 7 **noted** that the investment management system (the system) means the processes, rules, capabilities, information and behaviours that work together to bring discipline to the way investments are managed throughout their life cycles;
- 8 **agreed** that the objectives of the system are to:
- 8.1 optimise value generated from new investments and existing resources;
 - 8.2 increase the efficiency and effectiveness of the investment management system;
 - 8.3 enable investments to achieve their specific investment objectives;
- 9 **agreed** that to be effective, the system must:
- 9.1 enable Cabinet and agencies to prioritise and coordinate significant investments according to government and State sector long term priorities;
 - 9.2 establish, disclose and then deliver the agreed value from particular investments;
 - 9.3 promote good stewardship of Crown resources;

- 9.4 enable Ministers, agencies, and the corporate centre to exercise their required roles in a flexible and efficient manner;
- 9.5 make systematic use of performance information in corporate centre and agency investment management and decision-making processes;

Definition of investments

- 10 **noted** that investments are defined in broad terms to mean the commitment of capital and balance sheet resources to the delivery of government services with the expectation of receiving future benefits, principally through projects and programmes and portfolios;
- 11 **agreed** that investments includes the following activity, irrespective of funding source² or appropriation type or whether government financial support is by way of a guarantee or indemnity:
 - 11.1 changes (additions or disposals) to asset portfolios;
 - 11.2 changes that result from adopting “on demand” service offerings, also known as services and applications accessed over the internet as opposed to being provided in-house (for example, Infrastructure as a Service);
 - 11.3 any new lease arrangements, or renewals of lease arrangements (for example, property rentals);
- 12 **noted** that the focus of Investment Ministers and the corporate centre will be on:
 - 12.1 capital expenditure, asset disposals, lease arrangements, and “as a service” investments;
 - 12.2 asset performance;
- 13 **agreed** that any decision to extend the investments in scope of the circular beyond those set out in 11 above would require further consultation, and Cabinet’s approval;
- 14 **agreed** that, for the purposes of the new circular, investments will exclude the following activity:
 - 14.1 financial investment functions performed by Crown Financial Institutions (CFIs)³ or the Treasury’s Debt Management Office;
 - 14.2 non-departmental official development assistance;

Role of Investment Ministers

- 15 **agreed** to establish a group of Ministers called Investment Ministers⁴ to work with responsible Ministers to give effect to the objectives of the system;

² Funding sources include baseline, private investment, new funding etc. Appropriation types include expenses or capital expenditure, and departmental or non-departmental.

³ Includes Guardians of New Zealand Superannuation, Government Superannuation Fund Authority, National Provident Fund, Earthquake Commission and Accident Compensation Corporation.

⁴ Minister of Finance, Associate Ministers of Finance, Minister for State Owned Enterprises, Minister of Internal Affairs.

- 16 **noted** that as a group, Investment Ministers have no approval authority in relation to individual investments;
- 17 **noted** that the Investment Ministers group supersedes the ICT Ministers group;
- 18 **agreed** that the role of Investment Ministers includes:
- 18.1 understanding the direction and array of potential investments available;
 - 18.2 supporting investment decision-making processes that create the best value investment portfolio, including divestment as well as investment, and targeting resources to their best effect;
 - 18.3 scrutinising investments in development with a view to increase their likelihood of success;
 - 18.4 reviewing the performance of investments against expectations, including reviews of progress, benefits, the performance of assets, the measurement and performance of the investment system, and the investment portfolio in relation to current and future needs;
 - 18.5 better understanding the Crown's financial risk and contingent liabilities;
 - 18.6 seeking savings, and efficiencies from within the government investment system;
 - 18.7 developing an investment strategy to guide investment management across the system;
 - 18.8 reviewing agency investor confidence ratings and making recommendations to Cabinet on any changes in agency ratings;
 - 18.9 resolving sequencing and timing issues in relation to significant investments, including the Public Private Partnership programme;
- 19 note that the Treasury will provide administrative support to the Investment Ministers group;

System leadership role

- 20 **directed** the Treasury to lead the government's investment management system and take responsibility for developing and maintaining the integrity of the system as a whole;
- 21 **agreed** that in this system leadership role, the Treasury will:
- 21.1 oversee the performance of investments and assets;
 - 21.2 share investment information with agencies;
 - 21.3 develop and contribute to a network of investment and asset management excellence across the system;
 - 21.4 ensure all investment management guidance materials are consistent with and support the objectives of the system;
 - 21.5 review the effectiveness and efficiency of the system rules and processes;

- 21.6 administer the investor confidence rating;
 - 21.7 determine the level of monitoring and investment reviews (e.g. Gateway reviews);
 - 21.8 determine whether investments or asset portfolios are significant for the purposes of this circular;
 - 21.9 periodically commission independent assessments of investment management capabilities and practices in agencies;
 - 21.10 report on the performance of the system;
 - 21.11 provide advice on the performance of functional leaders operating within the system;
- 22 **noted** that advice on the performance of functional leaders within the system refers to the Treasury's role in preparing purchase advice to Finance Ministers on departmental appropriations;

Investor confidence rating

- 23 **agreed** to reinforce the objectives of the system by using performance indicators and information to determine an investor confidence rating for each agency or sector;
- 24 **agreed** that the level of investor confidence may affect each agency or sector in one or more of the following ways:
- 24.1 the ability to spend depreciation funding accumulated on a department's balance sheet;
 - 24.2 the level of authority to make different types of investment decisions funded from departmental baselines or balance sheets (these could vary according to the type, scale, risk or value of transactions, and cover different periods of time);
 - 24.3 the retention of proceeds from asset disposals by departments;
 - 24.4 the level of authority to make different types of investment decisions relating to assets on the Crown account;
 - 24.5 the level of assistance available to the agency for improvement;
 - 24.6 the level of corporate centre support for agency proposals for new funding;
 - 24.7 the level of corporate centre or monitoring department assurance activity;
 - 24.8 the level of project, programme or portfolio reporting by agencies and the corporate centre;
 - 24.9 the assurance requirements an agency is to fulfil;
 - 24.10 whether agencies are recharged for additional interventions or support;
 - 24.11 any other changes to the investment management system adopted by Cabinet in future;

- 25 **agreed** that the level of investor confidence for an agency or sector will not directly affect the extent of any capital withdrawal to reduce the level of net assets held by a department;
- 26 **agreed** that the investor confidence rating and any consequential impacts will apply from when the investor confidence assessments have been undertaken and the results have been agreed by Cabinet, after prior consideration by Investment Ministers;
- 27 **agreed** that until agency investor confidence ratings are agreed the standard expectations and general approval authorities contained in the new circular will continue to apply;
- 28 **noted** that Cabinet may reallocate funds from asset disposals by a department to other parts of the State Services, consistent with its investment strategy, notwithstanding the investor confidence rating of a department;

Updating the capital-intensive agencies

- 29 **agreed** to rename the capital-intensive agencies to investment intensive agencies for the purposes of the investment management system;
- 30 **agreed** to introduce a three tier system, with Tiers 1 and 2 being investment-intensive, and Tier 3 being non-investment-intensive;
- 31 **agreed** that the following agencies are investment-intensive agencies:

Tier 1	Tier 2
Ministry of Education	Canterbury Earthquake Recovery Authority
New Zealand Defence Force	Department of Conservation
Department of Corrections	Department of Internal Affairs
Ministry of Social Development	Ministry of Business, Innovation, and Employment
Inland Revenue Department	Ministry of Foreign Affairs and Trade
Accident Compensation Corporation	Ministry of Justice
Housing NZ Corporation	Ministry for Primary Industries
NZ Transport Agency	New Zealand Customs Service
Ministry of Health	New Zealand Police
Auckland DHB	Tertiary Education Commission (for Tertiary Education Institutions)
Canterbury DHB	Counties-Manukau DHB
	Waitemata DHB
	Waikato DHB
	Capital and Coast DHB
	Southern DHB
	Northland DHB

- 32 **noted** that the Treasury will consult further with the following agencies to confirm their investment intensive status:
- 32.1 Department of Internal Affairs;
- 32.2 Ministry of Business, Innovation, and Employment;
- 32.3 Ministry for Primary Industries;

32.4 Canterbury Earthquake Recovery Authority;

32.5 The Tertiary Education Commission (for Tertiary Education Institutions);

33 **delegated** to Investment Ministers the power to make changes to the list of investment-intensive agencies;

Authority to approve investments

34 **noted** that the general approval thresholds for investments are set out in paragraph 35 below and that these are the same as the thresholds for capital investments under the existing circular CO (10) 2;

35 **agreed** that Cabinet's approval is required for all investment or asset disposals set out in the table below:

Table 1: Investments that require Cabinet approval		
Type/owner of proposal	All departments	All other agencies covered by this circular
All investments that require new Crown funding	✓	✓
All PPP proposals, even if funded from baselines and balance sheets	✓	✓
All departmental investments with a WOLC over \$25 million, even if funded from baselines and balance sheets	✓	
Proposals to dispose of assets held on the Crown account	✓	✓
All proposals to dispose of departmental assets with a carrying value of \$25 million or more	✓	
All high risk ⁵ or high value investments, irrespective of the scale and funding source	✓	✓ ⁶

36 **agreed** that the approval of the responsible Minister is required for the following investments and asset disposals:

Table 2: Investments that require the approval of the responsible Minister		
Type/owner of proposal	All Departments	All other agencies covered by this circular
All departmental investments with a WOLC of between \$15 million and \$25 million, if funded from baselines and balance sheets	✓	
All proposals to dispose of departmental assets with a carrying value of between \$15 million and \$25 million	✓	

37 **agreed** that the general approval thresholds set out in tables above may be adjusted on the basis of an agency's investor confidence rating;

⁵ The investment risk profile is determined by The Treasury based on its risk profile assessment methodology (RPA).

⁶ As for footnote 5 above.

- 38 **agreed** that Cabinet will consider and may approve any recommendations from Investment Ministers for changes in general approval thresholds based on the Investor Confidence Rating for any agency;

Expectations relating to reporting on investment performance

- 39 **directed** the Treasury in consultation with the rest of the corporate centre to report annually on the performance of all significant investments that have obtained or will require Cabinet approval, including the status of all current significant investment intentions and a summary of benefits achieved from investments that have been completed;

Expectations relating to the operation of the system

- 40 **noted** that the new circular contains specific expectations of departmental chief executives and boards that are required to give effect to the system objectives, including:
- 40.1 the quality of long term investment plans, especially information on the performance of current and future investments;
 - 40.2 reporting on investment performance, especially the level of actual benefits achieved compared with those expected from any significant investment;
 - 40.3 planning and reporting on asset performance;
 - 40.4 investment management practices;
 - 40.5 investment assurance practices;
- 41 **agreed** that departmental chief executives need to ensure that their department:
- 41.1 provides the corporate centre with long term investment plans appropriate to their investment-intensive tier with relevant, high quality information on the performance of current and future investments;
 - 41.2 provides the Treasury with information on the actual level of benefits achieved compared with those outlined in any significant investment, and on relevant asset performance indicators;
 - 41.3 demonstrates a level of asset management practice and performance that is appropriate to the scale of assets under their management and the criticality of those assets to the delivery of key public services;
 - 41.4 identifies as early as possible all significant investment intentions in multi-year investment plans and in corporate centre reporting processes;
 - 41.5 develops all significant investment proposals in accordance with published Treasury business case guidance;
 - 41.6 adopts and applies corporate centre investment assurance and business case guidance;
 - 41.7 accumulates sufficient depreciation funding to appropriately provide for the replacement of those assets needed to underpin future service needs;

- 42 **noted** that for most departments the Four-year plan will satisfy the information requirements of long term investment plans;
- 43 **agreed** that boards of Crown entities and companies need to treat the circular as an expression of government policy and take appropriate steps to:
- 43.1 provide the corporate centre with long term investment plans with relevant, high quality information on the performance of current and future investments;
 - 43.2 provide the Treasury with information on the actual level of benefits achieved compared with those outlined in any significant investment, and on relevant asset performance indicators;
 - 43.3 demonstrate a level of asset management practice and performance that is appropriate to the scale of assets under their management and the criticality of those assets to the delivery of key public services;
 - 43.4 ensure their agencies adopt and apply corporate centre investment assurance and business case guidance;
- 44 **noted** that the draft circular referred to in paragraph 2 above, sets out the Cabinet-approved roles of functional leaders;

Expectations relating to reporting on investment performance

- 45 **agreed** that unless otherwise agreed by Cabinet, agencies must report to Cabinet (via the responsible Minister) on the actual level of benefits achieved compared with those outlined in any Cabinet-approved investment within 12 months after the in-service date of the Cabinet-approved investment;
- 46 **agreed** that agencies must post on the Public Sector Intranet copies of:
- 46.1 any Cabinet-approved business cases within 30 days of obtaining approval, taking account of grounds for withholding information under the Official Information Act;
 - 46.2 any benefits realisation reports generated in respect of Cabinet-approved business cases;

Expectations relating to reporting on investment performance

- 47 **noted** that the Treasury will develop an annual report on the performance of all significant investments that require Cabinet approval;

Implementation of new investment management circular

- 48 **noted** that the Treasury has developed an implementation plan to support the requirements of the new circular from 1 July 2015;

Delegated authority to act

- 49 **authorised** the Investment Ministers to:
- 49.1 make final decisions on the contents of the new circular to take effect on 1 July 2015, provided these are consistent with the circular attached to the submission under SEC (15) 10;

- 49.2 approve the final selection of investment intensive agencies;
- 49.3 approve changes to the list of Tier 1 and Tier 2 investment-intensive agencies;
- 49.4 make administrative changes over time to maintain the currency of the circular, provided these are consistent with the intent of the draft circular attached to the submission under SEC (15) 10;

Scope and reach of the new financial management circular (to replace CO (11) 6)

- 50 **noted** that the Treasury has prepared a new Cabinet Office circular entitled Proposals with Financial Implications and Financial Authorities to supersede Cabinet Office circular CO (11) 6 Guidelines and Requirements for Proposals with Financial Implications;
- 51 **noted** that the key changes to the new circular referred to above relate to the 2013 amendments to the Public Finance Act 1989 and to Cabinet-approved rule changes relating to Four-year plans and the capital charge regime;
- 52 **noted** that the new circular referred to above confirms the same approval authorities apply to publicity expenses, compensation or damages in settlement of claims and ex gratia payments as those set out in CO (11) 6;
- 53 **noted** that departments are familiar with the changes set out in the new circular referred to above, which are already in operation;
- 54 **agreed** to the issue of the new Cabinet Office circular, Proposals with Financial Implications and Financial Authorities, which will supersede CO (11) 6: Guidelines and Requirements for Proposals with Financial Implications.

Secretary of the Cabinet

Reference: CAB (15) 11/7, SEC Min (15) 5/1

Secretary's notes:

1. *This minute replaces SEC Min (15) 5/1. Cabinet amended paragraphs 5, 6 and 14.*
 2. *This minute has been distributed to all Ministers and Chief Executives for their information.*
 3. *The new circulars referred to in this minute will be issued as soon as possible when they have been finalised.*
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