

The Government Investment Strategy

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Prepared by the Treasury

Context

This investment strategy outlines the principles that the Government wants to apply to the selection, decision making and management of the Government's investment portfolio.

The strategy supports the expectations set out in the Cabinet Office circular *CO(15)5 Investment Management and Asset Performance in the State services*, which covers capital expenditure, asset disposals, lease arrangements, "as a service" investments and asset performance.¹

Purpose and Use of the Government Investment Strategy

Owning the right assets, managing them well, funding their maintenance sustainably, and managing risks on the Crown balance sheet, are all critical ingredients to securing the ongoing provision of high-quality, cost-effective public services that New Zealanders value.

The focus of the Government's investment is on activities where the Government has a strong rationale for intervention – to achieve social, economic and environmental objectives that the market cannot deliver alone.

Ministers will use this strategy to guide their approach to the selection, decision making and management of the Government's investment portfolio. In the State sector, Chief Executives, Boards, investment decision makers and asset managers will use the strategy to guide their approach to the selection, decision making and management of their agencies' investment portfolio.

It complements, and is aligned to, the Government's *Fiscal Strategy*.

Principles

The Government (and those with delegated responsibilities) is entrusted by the citizens of New Zealand with the use of taxpayer and Crown owned resources. It will:

1. **Take considered and active stewardship** of taxpayer and Crown resources over a long term investment horizon to:
 - a. optimise the value generated from existing resources and new investments
 - b. increase the efficiency and effectiveness of the investment management system
 - c. enable investments to achieve their intended investment objectives.

¹ <http://www.dPMC.govt.nz/cabinet/circulars>.

2. **Continually assess** whether existing investments and assets align with the Government's objectives and exit from assets, commitments, or projects in development if it no longer makes sense to continue.
3. **Balance investment** across the Government's interests and accountabilities when considering the make-up of the Government investment portfolio.²
4. **Inform decision making** processes with information and evidence as well as analyses of the impacts of investing, not investing, or divesting, in public services.
 - a. The whole of life cost/value of any investment decision will be considered, not only the initial outlay. Value covers not only monetary benefits but also a consideration of non-financial or social benefits.
5. **Consider the relative value** of investment proposals against other proposals, existing investments, options, and forecast future proposals, in order to make decisions that make the best use of the precious resources in our care.
 - a. State ownership and delivery are options, not default positions. Sometimes they will be the appropriate choice; other times there will be better solutions for New Zealanders. Other solutions might include: leasing, contracts for service, regulatory measures, or Public Private Partnership agreements.
 - b. The Government can decide not to invest if the risk is too high, the benefits are too low or too short-term, or better outcomes for New Zealanders would be achieved by investing in something else.
6. **Give preference to** initiatives aligned with the priorities of the Government. Collective and all-of-government approaches will be looked on favourably but must be able to demonstrate long term value and show they have strong stakeholder support and commitment.
7. **Move resources** (including funding, assets and capability) to where they have the greatest overall effect, within the constraints of delegations and existing levers.³
8. **Accept** a level of risk in order to obtain the benefits from investments, but the risks need to be clearly identified and managed. Each decision carries risk, as does doing nothing. The Government is comfortable with a level of managed risk in its portfolio.
 - a. Risk needs to be considered as part of the value proposition for an investment.
 - b. Large, complex, innovative, iterative or novel (unique) investments should have fit for purpose **reviews, stage gates and off-ramps** to assess and potentially exit from the investment. They should also follow good practice approaches. The intent is to limit the exposure of resources at risk.
9. **Expect** agencies, in the first instance, to provide for current and future needs from **within their existing baselines**, and to understand: the **costs of delivering their services**, their medium to long term planning, the impact of moving resources, and the performance of investments under their responsibility.
10. **Inform and constrain** (eg, timing and maximums) its investment decision making and management, at an all-of-government level, through the Government's fiscal strategy and balance sheet targets.
11. **Review, and periodically report on**, the performance of the Government's investment portfolio against the outcomes it wants to achieve, to ensure transparency.

² For example across: sectors, the category of investment (eg, keep the business running, growth, and transformation), risk, priorities, geographic regions, or demographics (including the equity of distribution across groups of New Zealanders).

³ The Government intends to operate this strategy through and with departments, Crown entities, and companies that are part of the State Services, reflecting existing statutory obligations, regulatory requirements or expectations.