Investing for New Zealand

Insights from 2015/16

New Zealand Government

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Foreword

There are always more ideas and opportunities than there are resources, so part of our role as the Government is to use those limited resources wisely to select the investments that together make the biggest difference to New Zealanders' lives.

This Government is investing in the projects that matter, including providing more homes, delivering new schools and hospitals, supporting particular regional challenges such as Auckland's infrastructure and the Canterbury recovery, and continuing to transform public services.

We make these investments not to create assets, but to solve problems and get better outcomes. This year I asked officials to do more to ensure high-quality benefits planning and management – not just to get what we paid for – but to make the most of the opportunities created by our investments.

It is important to make sure our investments deliver on their promised benefits. The public sector should understand the risks of investing public capital and deliver efficiently and without waste. I expect our existing assets to be well looked-after, because careful management of our resources allows us to pursue more ideas and opportunities.

It is good to see that new information is being collated about government's investments and assets, and incentives are now in place to understand how they perform, make sure they are managed effectively, and ensure important services remain available.

Alongside the assets we own, we make use of the assets of others by contracting providers to deliver services on our behalf. Given the scale of some of these contracts, it is important that New Zealand Government Procurement has launched a framework to help government manage its significant service contracts.

In the first of these reports last year, I said I wanted New Zealanders to have better access to investment information. This information is becoming more and more accessible – most recently the new Investor Confidence Ratings have been released alongside the Treasury's regular releases of the investment and capital pipelines, and the Major Projects Performance Report.

This progress is encouraging, but the job is not done. More action and innovation is needed to continue to improve in important areas such as benefits and asset management. I expect active stewardship from the Corporate Centre, so that the investment system delivers the best value for New Zealanders, not just today but for decades to come.

Hon Bill English
Minister of Finance

Introduction

The Government is investing in 508 significant projects, with a combined whole-of-life cost of $87 billion. These investments are being delivered by 53 agencies, across 11 sectors, and 38% of them are being worked on collaboratively. In addition, government uses fixed assets worth $93 billion to provide public services and enable social and economic development.

These investments and assets help enable New Zealanders to move around the country, connect, learn, stay safe, and live healthy lives, and supporting agencies to manage them well is central to the Treasury's work to increase living standards.

Good investment management means using our resources effectively, not only when choosing investments, but in delivering investments to the right scope and standard, and ensuring that the expected value is realised from them throughout their life. To help achieve this, the government has established a set of processes, rules, capabilities, information and behaviours which we refer to collectively as the investment management system.

The system is complex, made up of different agents, such as Ministers, the Corporate Centre[1], boards, monitoring departments and agencies, with a range of roles and responsibilities to ensure the system operates efficiently and effectively.

The system is also dynamic, involving diverse activities spanning multiple years, such as planning for the future, testing ideas, refining proposals, making investment decisions, implementing them, and ensuring ongoing performance.

This report brings together the different perspectives and roles within the system, to reflect on some of our biggest achievements over the last year, individually and collectively. It also offers insight into the challenges we have yet to overcome, and how we will shape our priorities and resources to address them.

This year we have achieved important milestones. We delivered the first stages of the Investor Confidence Rating, which is providing incentives for capability development. The Office of the Auditor General's report found that Gateway reviews can be a useful tool, and identified improvements to the way we review investments. We have started to improve our information in areas like asset performance and benefits management, and will continue to build on this over the next year.

This report is written for members of the public with an interest in government projects, businesses and providers who support government to deliver projects, and those working in the government investment management system.

Struan Little
Deputy Secretary, Budget and Public Services

[1] The Corporate Centre comprises Central Agencies (the Treasury, State Services Commission, and Department of Prime Minister and Cabinet), and the Functional Leads (the Office of the Government Chief Information Officer, New Zealand Government Procurement, and the Government Property Group). It has a stewardship role in leading the improvement of performance across the state sector.

1

Overview of Government's Investments and Assets

Overview of Government's Investments and Assets

Quality information is needed to make good investment decisions. Ministers need to weigh up options across strategies, regions, and sectors to determine which combination of investments offers the greatest benefits to New Zealand as a whole.

After those investments have been delivered, good information on the performance of government's assets helps ensure value is being realised, and informs where to target future investment.

This section of the report looks first at the Government's significant investment portfolio, from four different perspectives:

- what is driving investment
- where the Government is investing
- what sectors the Government is investing in, and
- how the investment portfolio is performing.

It then introduces data on the performance of government's assets, which this year has been collected for the first time across agencies with the biggest fixed asset portfolios.

The Government Investment Portfolio

The government investment portfolio has grown since last year, now comprising 508 investment projects with a whole-of-life cost of $87.3 billion.

The number of projects has grown from 409 to 508, an increase of 24%. The whole-of-life cost (WOLC) has grown from $74.3 billion to $87.3 billion, an increase of 15%.

The portfolio comprises the most significant investment projects that government is delivering – generally, those that are over $15 million, high in risk, and/or strategically important to government priorities[2].

It covers government departments, Crown entities, and companies listed on Schedule 4A of the Public Finance Act (for example, Ōtākaro Limited).

The Treasury collects data on these investments three times per year, and uses this information to analyse and advise on the portfolio.

There has been an ongoing improvement in the quality of reporting from agencies on their investment activity, which has contributed to the large increase in the number of projects in the portfolio.

Diagram 1: What is included in the government investment portfolio?

[2] More information about the scope of this data is available in Cabinet Office Circular CO(15)5, *Investment Management and Asset Performance in the State Services*, available here: www.dpmc.govt.nz/sites/all/files/circulars/coc_15_05_0.pdf

Investment Drivers

We group investments by three main drivers: *Run*, *Grow*, and *Transform*.

Diagram 2 reflects the demand for investment in core services and infrastructure. *Run* investment continues to make up about a third of the whole-of-life cost of the portfolio, while *Grow* investment has increased by over $10 billion, or 182%, since the period covered by our previous report.

Transform investment is the largest portion of expenditure in the investment portfolio, as was the case last year. Government is always looking for new and better ways to deliver its services more effectively and efficiently, and transformational investments are contributing to this outcome. One example of this is Immigration New Zealand's Vision 2015 Programme, which is looked at in detail on the next page.

Diagram 2: Drivers of government investment

Project | WOLC ($b) | ↑ increase from last year (2015) | ↓ decrease from last year (2015)

Run

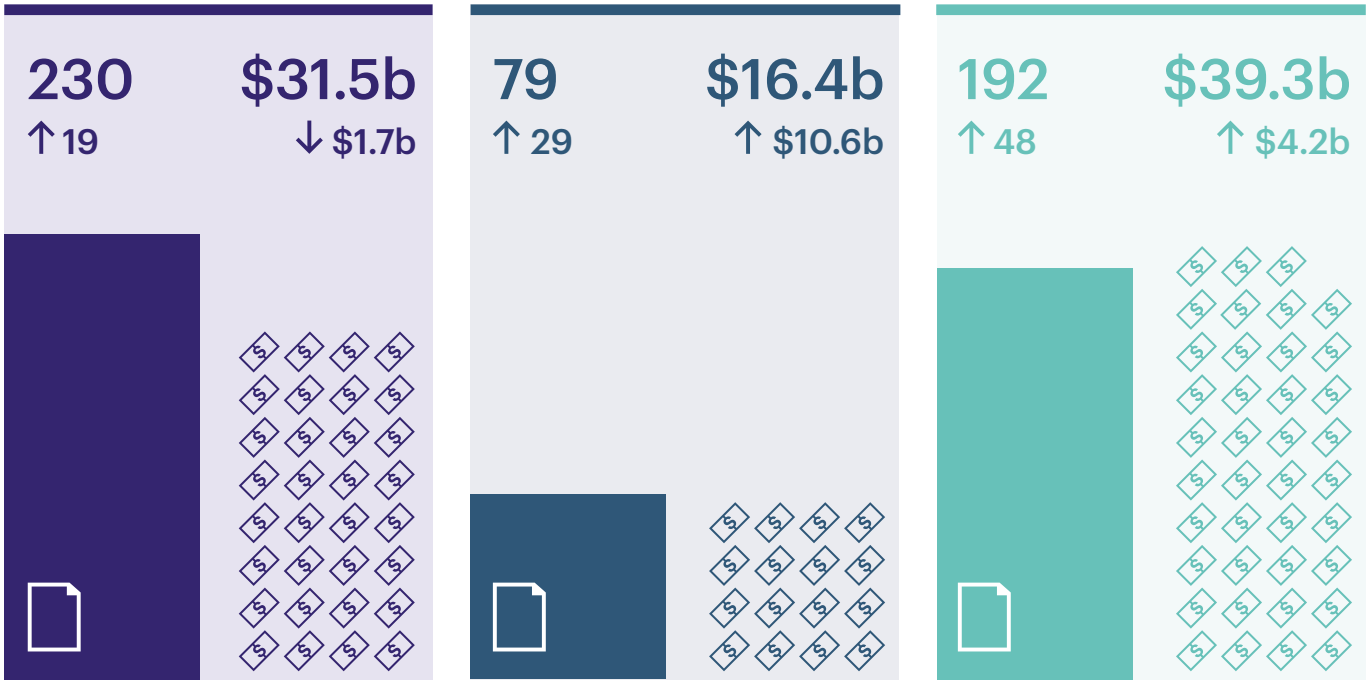
These investments enable government to continue to run core services. Investments in this category include property and equipment maintenance or replacement, and software procurement and enhancement.

Grow

New government policies and agency strategies can grow the scope or quality of public services. This investment extends or enhances existing services; for example, building new education facilities to match growing demand.

Transform

Some initiatives transform and fundamentally change the way services are delivered. These investments typically involve significant business change.



Note: 7 projects ($0.2b) did not provide data on their primary investment driver and are not included above

Case Study: Vision 2015 Programme

Immigration New Zealand, Ministry of Business, Innovation and Employment

The changing immigration context

Immigration is a critical enabler of New Zealand's economic growth, and New Zealand has one of the highest per-capita inflows of migrants in the OECD. Migrants create jobs and build diverse communities – they bring skills and talents that help make local firms more productive and globally competitive.

New Zealand competes internationally for skilled migrants, students and visitors. Immigration New Zealand (INZ) is a global operation that facilitates travel while managing immigration-related risk.

Immigration volumes have increased by 51% since 2011/12, and are expected to rise further, which means growing demand for INZ's services as visa applications increase. INZ also needs to manage changing risk profiles caused by challenges like new and emerging markets, and the rapid changes in people movement globally, which has increased the threat of global terrorism and criminal activity.

Immigration New Zealand needed to transform to respond to changes

The immigration ICT system was designed and built in the early 1990s. It was paper-based, inflexible, and expensive to maintain or change.

This meant INZ could not readily respond to market changes, leading to competitive disadvantages for employers, education providers and tourism operators. Investment was needed in a new system that supported economic growth, while enabling good management of immigration-related risk.

Vision 2015 Programme

INZ established the Vision 2015 Programme, a $119 million technology-enabled business transformation of people, process and systems. Completed in June 2016, it has enabled INZ to improve value by delivering a more flexible, risk-based, customer-focused, consistent and cost-effective service.

Visa processing has been transformed through establishing an end-to-end process that combines standardised business processes, including a new risk triage and verification model, with better technology.

1 in 4 workers is a migrant

One in four of all workers in New Zealand are migrants; in Auckland the figure is 44%

3.3m visitors

3.3m visitors arrived in New Zealand in the year to June 2016, the highest-ever annual total

$10.3b of visitor spending

International visitors spent more than $10.3b in the last financial year

105,000 student visas

More than 105,000 student visas were approved in 2015/16

$3.1b, 30,000 jobs

International education is worth $3.1b to the economy each year and supports 30,000 jobs

$4.8b

Business investor migrants have invested over $4.8b since 2009

The deployment of Immigration ONLINE means customers can apply online for student, work and visitor visas. More than 100,000 online applications have already been received. The introduction of eVisas removes the requirements for a physical passport to be provided for an online visa application, and the need for a visa label to be attached to a passport. The replacement of paper-based medical certificates with eMedical, a new online-based processing system.

The financial benefits target for the programme of $12.3 million per annum by July 2018 is likely to be exceeded. This is made up of savings through the transfer of services to third party providers, as well as direct efficiency savings. As at June 2016, $9.0 million per annum has been realised, and more than $16.8 million per annum is expected to be realised by July 2018.

Ensuring benefits realisation

One of the most challenging aspects of delivering successful investments is ensuring that after a project is delivered, the business continues to focus on managing the realisation of benefits. INZ has developed a range of tools and processes to ensure the new system is working effectively and delivers its expected benefits including:

- applying and adapting business rules to manage risk
- feedback loops to continually enhance underlying business rules and processes.
- customer insights to measure the customer experience consistently to help improve products and services a channel uptake strategy to continue to increase the use of online services
- performance management and reporting to maintain quality and continuously improve the new operating model

Lessons learned

Like any major programme, the Vision 2015 Programme had to deal with unexpected obstacles and challenges that affected delivery. INZ has captured the learnings from Vision 2015 in two reports, which are available at: www.mbie.govt.nz/info-services/immigration/vision-2015-lessons-learned

Lessons learned	Key points
Active, engaged and visible senior leadership	Strong and stable leadership is essential to driving a business transformation project while maintaining business as usual. Leaders must be able to act and deliver beyond their day-to-day roles. This might include new communication channels and additional support and training for leaders, such as governance training.
Transformational change needs to be business led and incorporate people, process and systems	A business transformation programme cannot be completed successfully without strong business ownership and leadership, and broad buy-in from agency staff directly involved. It needs to look beyond technology and automation and consider how people work with new tools.
A targeted operating model must be defined at the outset to provide clarity on the strategic direction and areas for benefit realisation focus	A significant business transformation programme requires a multifaceted approach. People and process considerations are at least as important as technology. This will guide design and also help understand the impact of change.
Strong governance and management structures supported by the right capability and expertise, and a clear and consistent methodology	Success depends on the right governance and management structures. Taking the time up-front to identify and appoint people with the right skills ensures effectiveness and action from the outset. The level and nature of resources needed must also be adjusted to reflect the phases of activity.
Regularly review governance structures to ensure they remain fit-for-purpose and to develop a culture of learning	Governance arrangements were reviewed and fine-tuned throughout the life of the programme. Ensure there is a willingness to seek and take advice and adopt learnings from outside and within the programme.
Partnership with central agencies and actively maintaining confidence of Ministers, staff and key customer groups is essential	Honest and open engagement with Ministers and the Corporate Centre creates the foundation for ongoing support and advice. This is particularly of value when risk management is required.

Investment by Region

55% of the portfolio by number of projects, and 48% by whole-of-life cost, is being delivered to benefit specific areas of New Zealand – in this report this is referred to as 'regional investment'.

Regional investment is typically delivering local infrastructure like roads and schools, and better access to local services such as community health care, compared to investment targeted at the national level, such as a more efficient government IT system to improve public services.

Diagram 3 shows the investment in each region by number of projects and by whole-of-life cost. The two regions with the highest level of investment are Auckland and Canterbury, both of which pose complex regional challenges.

As New Zealand's population continues to grow, demand for this regional infrastructure and services grows with it. 40% of regional investment by whole-of-life cost, or $16.8 billion, continues to be targeted at the Auckland region, which is experiencing significant and rapid population growth.

$12 billion of this investment in the Auckland region is in transport, including the new Western Ring Route, a 48km alternative route around Auckland city that will improve network resilience and travel time reliability. At a total expected cost of $2 billion, this is the biggest project ever undertaken by the New Zealand Transport Agency.

In October 2016, the Treasury published its annual infrastructure *Capital Intentions Plan*, which outlines to the market upcoming infrastructure investment opportunities across central government, local government, and the private sector.

To find out more about estimated infrastructure investment, including break downs by sector, region and year, you can view the report on the government infrastructure website:

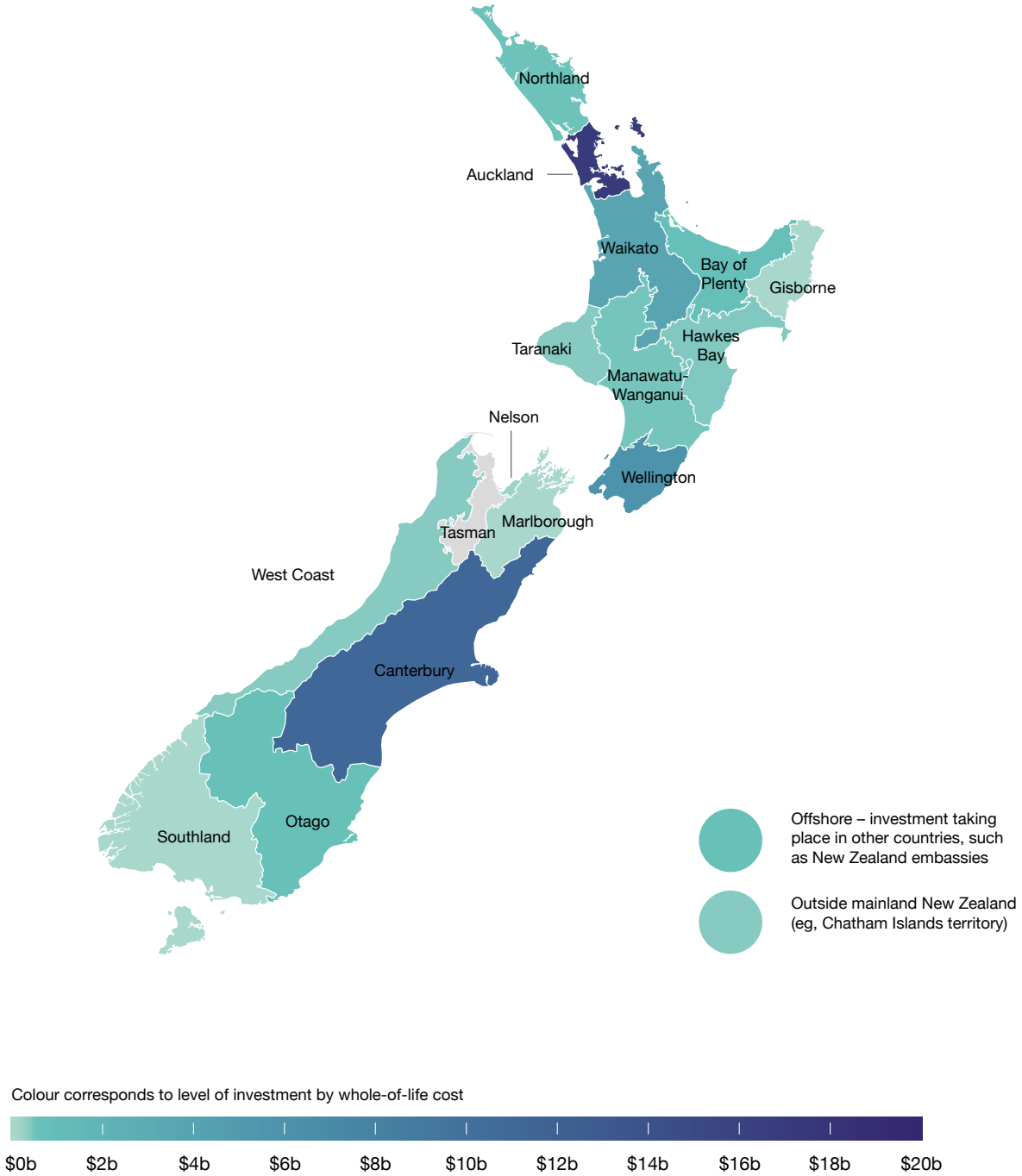
www.infrastructure.govt.nz/plan/evidencebase

Diagram 3: Government investment portfolio by region

Region	Project	WOLC ($b)
Auckland	74	$16.8
Canterbury	61	$11.2
Wellington	39	$5.9
Waikato	26	$3.9
Northland	13	$0.5
Bay of Plenty	10	$0.7
Manawatu-Wanganui	9	$0.4
Hawkes Bay	8	$0.4
West Coast	7	$0.2
Gisborne	5	$0.05
Otago	5	$0.6
Taranaki	5	$0.2
Southland	3	$0.1
Nelson	2	$0.2
Marlborough	1	$0.02
Tasman	0	$0
Offshore	11	$0.6
Outside mainland New Zealand	2	$0.2
Total regional investment	**281**	**$41.9b**

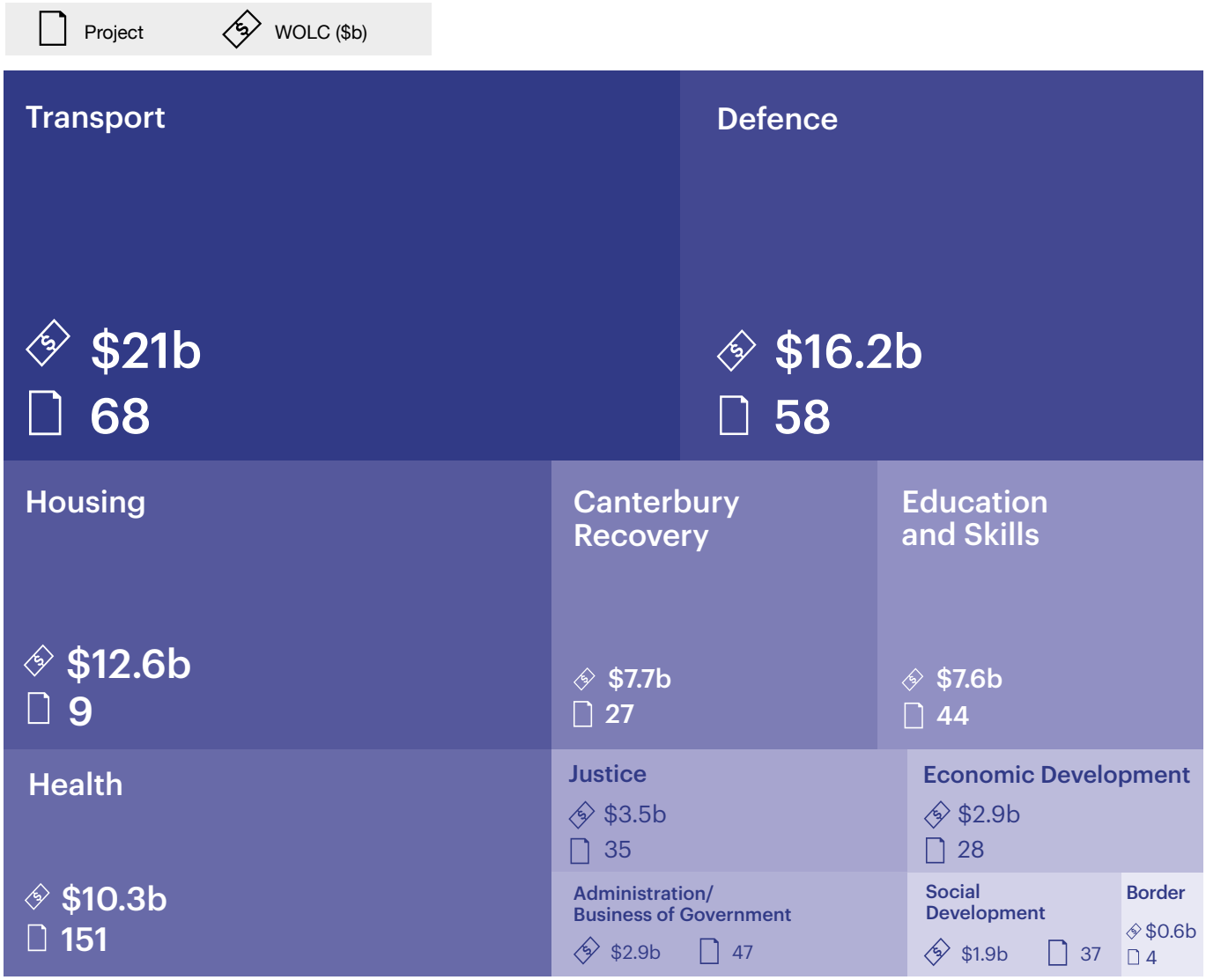
The remaining 227 projects in the portfolio, with a whole-of-life cost of $45.5 billion, is investment targeted at the national level.

Diagram 4: Whole of life cost of investment in each region



Investment Sectors

Diagram 5: Government investment by sector



In the 2014/15 report, Housing was grouped in the Social Development sector, but this year Housing has increased in whole-of-life cost in the portfolio to the extent it is represented as a category in its own right. These projects include upgrades as well as new builds.

Four of the five biggest sectors, Transport, Housing, Health, and Canterbury Recovery, are mostly large construction projects delivering improved infrastructure.

The majority of this spending is regional, such as new hospitals in Christchurch, Dunedin, and Nelson, and improved transport networks in Auckland.

Defence also continues to be one of the largest investment sectors, with a wide range of major capital acquisition projects underway to build the capability required to deliver the Government's Defence strategy.

Investment Performance

Agencies self-assess the performance status of their projects.

This information is used to track the performance of the portfolio, and helps to identify areas where attention may be required.

Agencies use a three-point scale, while the Corporate Centre and Gateway reviews use a five-point scale to assess projects. The Treasury is considering how to get better consistency in assessing project performance.

Data on performance shows that the portfolio continues to perform well based on agencies' self-assessment, with 69% of the portfolio assessed as Green, compared to 58% last year.

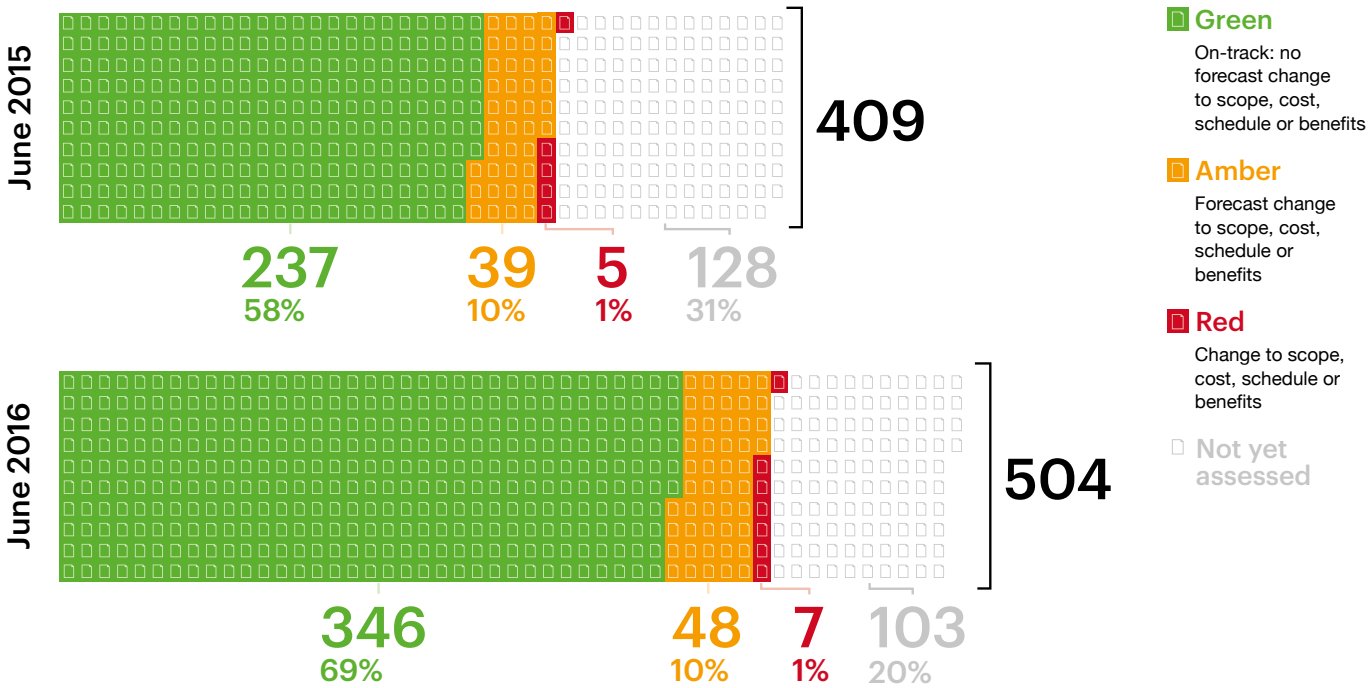
The number of projects not yet assessed has significantly decreased, further reflecting that data is improving.

Some gaps in this information are to be expected, as the majority of those projects that have not yet assessed are early in their lifecycle, so assessment cannot be meaningfully applied.

The largest and most complex of the projects in the portfolio, major projects, receive additional support from the Corporate Centre. These projects are regularly assessed to measure the likelihood of successful delivery. If risks and issues arise, the Corporate Centre works with the agency to address these. More information can be found in the *Major Projects Performance Report*, which is published three times a year on the Treasury website:

www.treasury.govt.nz/statesector/investmentmanagement/publications/

Diagram 6: Agency self-assessment of investment project performance



The Crown Balance Sheet and Asset Management

"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."

– Gabriel Makhlouf, Secretary to the Treasury

Government owns a diverse range of social, financial, and commercial assets which are together worth $292 billion on the Crown balance sheet.[3] Government assets have a financial value, and are used to provide benefits to New Zealanders.

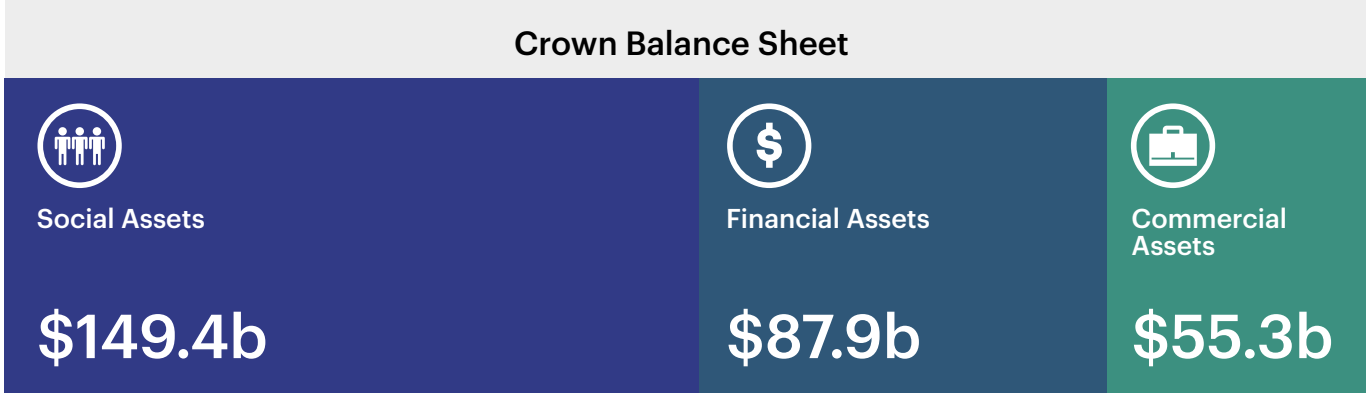
The Crown Balance Sheet is made up of three distinct government asset portfolios: social, financial, and commercial.

The social asset portfolio has typically been the largest, and is held to support the delivery of core public services and to achieve government outcomes.

This portfolio includes assets such as state highways, housing stock, and the conservation estate. These assets are typically created by the government investment projects discussed in the previous section, and as a result are the focus of the investment management system.

Financial assets, such as the New Zealand superannuation fund, and commercial assets, such as state-owned enterprises, have different governance arrangements, and so are not covered in this report.

Diagram 7: The asset portfolios on the Crown Balance Sheet



[3] More detailed information is available about the make-up of the Crown Balance Sheet in the Financial Statements of Government 2015/16 www.treasury.govt.nz/government/financialstatements/yearend/jun16

Why is asset management important?

Good management of government assets contributes to the continuity of key services, by ensuring the assets perform well and deliver the expected benefits over their useful lives, and that financial provision is made for decision makers to replace the assets.

Good management means:

- appropriate proactive maintenance to help manage costs and sustain performance
- risks of service reduction, interruption or failure are well-managed
- early and considered investment proposals are made for when assets need replacing
- smart investment choices based on past learnings
- accurate and transparent reporting about government's assets
- at a consolidated level, better indication of the performance of the government balance sheet.

Exploring how well the government manages its assets

In July 2015 the Government introduced a requirement for agencies to report on the performance of the assets each agency operates.[4] From the year ending 30 June 2017, agencies will report through their individual annual financial reports.

To help agencies progress towards implementing this in their annual reports next year, the Treasury has worked with investment-intensive agencies[5] – those with the largest and/or most critical investment and asset portfolios – to collect asset performance information for the 2015/16 financial year.

Of the government's social assets, the Treasury collected data on physical assets (plant, property and equipment), intangible assets (such as software information systems), and specialised military equipment, which together make up the majority of social assets.

What is asset performance information?

Asset performance typically covers:

1 the condition of assets

2 the extent to which they provide what an agency needs to deliver its services in an effective way (fitness for purpose)

3 the extent to which the assets are available (or used).

More sophisticated indicators combine financial and non-financial information to reveal the cost-effectiveness of different asset strategies.

Measures are developed and used by agencies to assess how they are performing in these areas. Each of these measures should have a target so agencies know the level of performance that is expected. For example, an agency could measure the availability of a critical business system by looking at the percentage of time it is available to users. Critical systems like email would generally have higher targets for the percentage of time they need to be available.

What information has been collected?

The Treasury collected data from 24[6] investment-intensive agencies this year. These agencies have reported 279 measures, reflecting that these agencies have a large number and range of ways of measuring how their assets are performing. This is partly because most agencies manage multiple asset portfolios, and the performance of these portfolios is measured in three key areas (condition, utilisation and functionality).

[4] Cabinet Office Circular CO(15)5, *Investment Management and Asset Performance in the State Services*, available here: www.dpmc.govt.nz/sites/all/files/circulars/coc_15_05_0.pdf

[5] Detailed criteria and a list of investment-intensive agencies are available here: www.treasury.govt.nz/statesector/investment-intensive-agencies

[6] One investment-intensive agency (Ōtākaro Ltd.) was not asked to provide data to avoid diverting resources from the establishment of this entity.

Of the 279 measures, 68% had a formal target for the 2015/16 financial year, and 61% of these targets were met. Overall this means asset performance targets were met for 42% of measures. We would hope to see an improvement on this in the 2016/17 reporting.

What does this tell us about government's asset management?

This is the first collection of asset performance information. Initial findings suggest:

We have a large range of asset measures

Agencies have 3–4 measures for each asset portfolio, covering the main aspects of asset performance. In some cases agencies watch individual assets more closely (for example critical business information systems).

The quality of information is variable

Many agencies do not yet have suitable performance targets across all their asset portfolios.

Most agencies have asset types in common

Every investment-intensive agency manages both property and ICT networks. There is scope to normalise measures and targets for these portfolios.

Some agencies and sectors have specialised asset portfolios

For example, clinical equipment (District Health Boards), roads and infrastructure (New Zealand Transport Agency), and military equipment (New Zealand Defence Force). In these cases there is scope to focus on the target level of performance.

It will be a significant task for most agencies to report in their 2016/17 annual reports on results against meaningful targets across the full array of asset performance indicators. The Treasury is developing a library of asset performance measures to assist agencies, and is working with communities of practice to help improve the quality of reporting.

Improving government's asset management

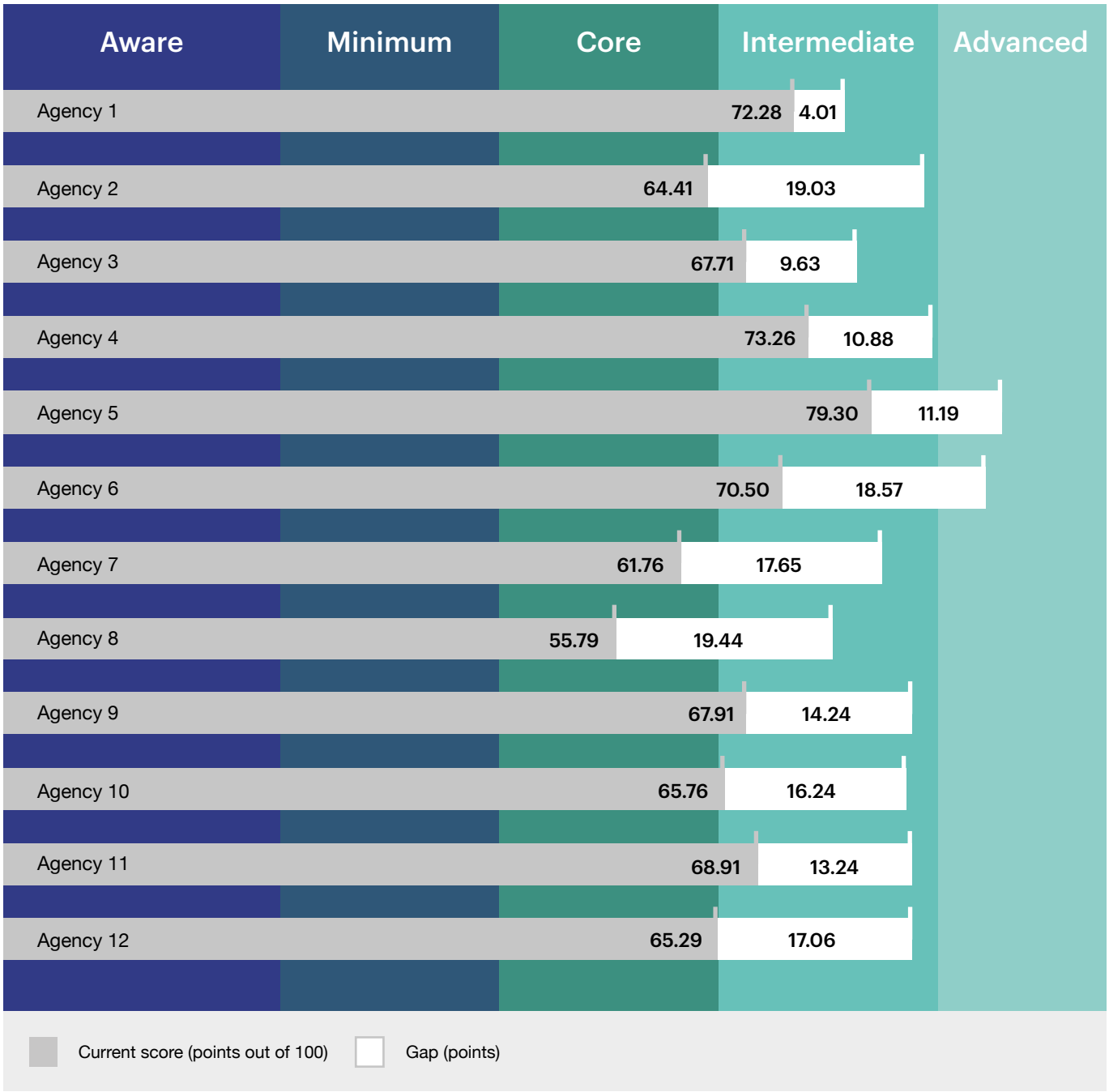
The annual reporting requirement can help bring about changes in asset performance practices, but isn't enough to improve asset management on its own.

To maintain and lift asset management practice, each agency's capability (people, processes and information) should be appropriate for the scale and complexity of their activities, and the criticality of the services they deliver.

For this reason, asset management maturity is assessed as part of Investor Confidence Ratings (ICR), which are applied to investment-intensive agencies. More information is available about the ICR on page 30. Analysis suggests that agencies with an ICR (11 of the 24 agencies reported on here) are much more likely to have measures and targets in place than those who have not yet had an ICR assessment.

Information from this process (shown in Diagram 8) suggests that agencies have a reasonable foundation of asset management, however most have further work to do to demonstrate an appropriate level of maturity to ensure future performance.

Diagram 8: Gap between current and target levels of asset management maturity



Case Study:
Christchurch Horizontal Infrastructure Programme, Canterbury Earthquake Recovery Authority/ Department of the Prime Minister and Cabinet

The Canterbury earthquakes of 2010 and 2011 caused widespread damage throughout greater Christchurch impacting essential services networks of roading, bridges and retaining walls, fresh water, wastewater and stormwater assets – collectively referred to as horizontal infrastructure.

SCIRT team excavating a large trench in Chester Street West for the installation of the central city's largest underground pump station

Following the September 2010 and February 2011 earthquakes some areas of Christchurch had no access to fresh drinking water. Residents were left without working toilets, and sewage flowed down some streets posing a significant health and safety risk. Hundreds of kilometres of underground pipes carrying fresh water, stormwater or wastewater needed repair or replacement as did bridges, retaining walls and more than a million square metres of road. The total cost of repairs and rebuilding was $2.7 billion, of which the Government has funded $1.7 billion and the Christchurch City Council $1.0 billion.

The Government - through the Canterbury Earthquake Recovery Authority and the NZ Transport Agency - and Christchurch City Council established an alliance in September 2011, called the Stronger Christchurch Infrastructure Rebuild Team (SCIRT). The alliance secured the services of five major civil contractors to manage and carry out the repair and rebuild programme of work.

The work channelled through SCIRT will account for around $1.9 billion of the total cost of repairs and rebuilding. This work consists of more than 720 projects, making it one of the largest and most complex programmes of its kind ever carried out in New Zealand.

"The size of the task involved in restoring the horizontal infrastructure in Christchurch meant that traditional approaches would not deliver a timely and affordable outcome," says David Adamson, General Manager, City Services, Christchurch City Council. "Setting up an eight way alliance contract after the February earthquake showed vision, courage and a high level of commitment to an enormous task by both the public and private sector."

The SCIRT alliance was created with a well-defined purpose to meet the needs of a post-disaster rebuild. A cooperative model, the alliance combines the skills and efforts of planners, designers, contractors and asset owners to deliver the work based on assessment against agreed guidelines and what is cost effective.

The SCIRT alliance overcame a number of challenges, particularly in the early stages of its existence. The alliance was established with urgency, which meant securing the necessary resources, identifying the amount of work and identifying and managing funding partners differing expectations needed to happen quickly. Cooperation and collaboration from all the alliance partners was critical to ensure best-for-rebuild outcomes were achieved, and decisions were made at pace.

"The alliance model requires close collaboration between the Government, Council and the construction companies," says Rob Rouse, Manager, Horizontal Infrastructure, Department of the Prime Minister and Cabinet. "All the parties involved have a shared interest in the programme and have worked together to resolve challenges and support each other."

As the programme progressed, innovations and improvements based on engineering and asset management principles helped ensure it was delivering value for money to investors.

Priority was given to critical defects that impacted on the networks' performance, serviceability and functionality over the repair of general asset damage where this created no risks or issues, and carrying out the work would have no added value to the network.

"We have used modern materials, new technology and the latest construction techniques to build Christchurch's underground pipes more resilient than before," says Ian Campbell, Executive General Manager, SCIRT. "Christchurch people can be confident the underground services will cope better with any future earthquakes."

Diagram 9: What the programme has achieved (as at October 2016)

	Network Total	Damage Total	% of Damage Repaired/Replaced
Waste water	1773km 164 pump stations	583km of pipe 75 pump stations	91% 93%
Storm water	941km of pipe 35 pump stations	59km of pipe 5 pump stations	91% 74%
Fresh water	3,403km of pipe 177 pump stations and reservoirs	97km of pipe 22 pump stations and reservoirs	99% 81%
Roading	11,670,000m² of road 303 bridges/culverts 1,867 retaining walls	1,384,236m² of road 144 bridges/ culverts 164 retaining walls	95% 99% 91%

- Restored essential services necessary for healthy and safe communities.
- Provided the foundation for the wider rebuild, growth and development in Christchurch.
- A more resilient, stronger and sustainable network for Christchurch, and for Christchurch City Council to maintain and manage.
- Smarter solutions and cost efficiencies through innovative designs and methods.
- Relocation of underground pipes where possible, away from poor ground conditions, providing increased network resilience for future seismic events.
- Value-for-money for both the New Zealand tax payer and Christchurch rate payer.

The repair and rebuild work has been very disruptive, and often lengthy, to communities and road users. Throughout its programme SCIRT has worked hard to keep affected residents and communities up to speed by providing relevant, timely and accurate information about projects including notices in letterboxes, newsletters, advertising and road signage.

With SCIRT expecting to largely complete construction works by the end of December 2016, the Government is working closely with SCIRT and Christchurch City Council to ensure a smooth transfer of data, information and processes from SCIRT to Christchurch City Council.

Christchurch City Council and the NZ Transport Agency will continue to improve and maintain these networks as part of their ongoing programmes of work.

"The rebuild governance and alliance programme management arrangements have introduced a new way of working for the NZ Transport Agency as a funding partner," says Janice Brass, Planning & Investment Manager at NZ Transport Agency. "The benefits have included faster decision-making, active financial management of the budget and a shared vision for the earthquake response."

2

Perspectives on Investment Management

Perspectives on Investment Management

Investment system performance relies on those with accountability for setting rules, processes and information flows. Effective alignment between these roles helps to shape capabilities and behaviours to improve performance.

Alongside the Treasury, those with critical roles in the investment system include:

- The State Services Commission
- New Zealand Government Procurement
- Government Chief Information Officer.

This section provides insights and perspectives from each of these areas.

State Services Commission

Peter Martin, Assistant Commissioner at the State Services Commission

The State Services Commission (SSC) advises Ministers on the performance of the State Services and its shape and future direction, standards of conduct and integrity and development of senior leaders. The Commission's executive management practice undertakes Chief Executive recruitment, appointment, induction and performance support, but other initiatives and interventions delivered by SSC such as the Performance Improvement Framework, Continuous Improvement and leadership development work programmes are also aimed at supporting Chief Executives and agencies to deliver strong performance for Ministers and for all New Zealanders, now and into the future.

More information on the Commission's services can be found here: www.ssc.govt.nz/our-work

How does the SSC contribute to investment/the investment system?

The SSC has an ongoing role in advancing the Government's Better Public Services reform agenda. An amendment to the State Sector Act in 2013 created the State Services Commissioner's role of Head of State Services, broadening his mandate to encompass reviewing and advising on sector, and system-wide performance as well as on individual agencies.

Other amendments to the Act extended the responsibilities of Public Service Chief Executives to be responsive on matters relating to the collective interests of government, including system-wide opportunities and connections, and introduced a range of "stewardship" obligations that require chief executives to focus on their departments' longer-term sustainability, organisational health, and capability. Good stewardship of a department includes positioning it to meet medium- and long-term objectives as well as ensuring that appropriate infrastructure, management systems, and succession planning are in place to enable it to do so.

In setting performance expectations for Chief Executives, the Commissioner places a strong emphasis on their stewardship responsibilities, as leaders in the system and leaders of their individual agencies. Investment decision-making, programme delivery and securing the benefits, whether improved financial sustainability, better service performance, or commonly both, is a key feature of good stewardship. SSC works closely with other central agencies and functional leads to monitor major investments, often with a focus on leadership capability, governance and organisational change implications.

What do you think the biggest improvements/achievements were for the system from a stewardship perspective in the 2015/16 year?

A few things stand out for me. First, it was good to get the results from the first tranche of Investor Confidence Ratings for investment intensive agencies. On the whole, these results indicated that investment management practices in these agencies were of a good standard, reflecting the considerable effort made by agency leaders, supported by central agencies and functional leads, to improve this aspect of performance.

Second, it was encouraging to see the good progress being made by several agencies undertaking ICT-enabled transformational change and doing this whilst maintaining high level of service performance for their customers and users.

Third, there is increasing evidence of agencies learning from one another, sharing their practical experience of delivering change and working together to consider wider sector and system opportunities that may emerge from individual investments. Central agencies and functional leads are well-placed to initiate and support these endeavours, as we are able to look across the investment portfolio and identify themes and connections. At the same time, a range of communities of practice are emerging from within the system as agencies increasingly recognise that others are grappling with similar challenges.

What do you see as the main challenge going forward?

I'd highlight three things. The first is not a new challenge, and is the constant reminder that there is no substitute for thorough and robust investment planning and if necessary pushing back on pressure to move forward at pace in order to do this. While good planning can seem costly in terms of time and other resources – with little tangible product – it sets the foundation for well-informed investment decision-making and execution and will almost certainly lead to better and faster delivery when decisions are made.

A second challenge is to keep moving towards planning and managing investments at the sector and system level, not just within individual agencies. This is not to suggest there won't continue to be a case for agencies undertaking investments for their own benefit, nor to underestimate the challenges of planning and delivering investments across more than one agency. At the same time, there's a lot in the old adage "a problem shared is a problem halved" and a range of potential upsides – for the system, customers and providers – from more cross-agency collaboration.

My third challenge would be to those of us in central agencies and other system-wide leadership roles operating monitoring and other performance assurance processes to think about how we can evolve these, to keep abreast with a changing environment (including greater system maturity), to reduce unnecessary clutter and to make better use of the information generated to apply our collective efforts where they can add most value.

New Zealand Government Procurement and Property

John Ivil, General Manager, New Zealand Government Procurement and Property

New Zealand Government Procurement and Property (NZGPP) is responsible for improving procurement outcomes across government. It supports agencies to get results from their procurement activities through a range of initiatives, such as procurement capability reviews and providing agencies with access to a pool of commercial experts.

Procurement includes all aspects of the acquisition and delivery of goods or services, spanning the whole contract life cycle from the identification of needs to the end of a service contract, or the end of the useful life and subsequent disposal of an asset.

Agencies and suppliers can find more information about the tools and services New Zealand Government Procurement offers on its website:
www.procurement.govt.nz/procurement

How does procurement contribute to investment/the investment system?

Government procures the goods and services it needs to deliver investment objectives, so successful outcomes depend on good procurement.

NZGPP provides a framework, the *Government Rules of Sourcing*[7], which gives confidence to all participants – purchasers, suppliers and providers – about how to engage. The framework is based on identifying value and opportunities for all parties, and provides a level of assurance that investment decisions will be completed in a fair and equitable manner.

The *Government Rules of Sourcing* provide a foundation for good practice, underpinned by the five procurement principles:

1 Plan and manage for great results

2 Be fair to all suppliers

3 Get the right supplier

4 Get the best deal for everyone

5 Play by the rules

Guidance for agencies undertaking procurement is available here:
www.procurement.govt.nz/procurement/for-agencies/key-guidance-for-agencies/the-new-government-rules-of-sourcing

[7] www.procurement.govt.nz/procurement/for-agencies/key-guidance-for-agencies/the-new-government-rules-of-sourcing

Why is this important in helping government realise value from its investments?

Procurement (if done well) provides all parties with early and robust understanding of upcoming opportunities.

This is important because it enables those of us within government to identify common needs across agencies, and collaborate where this makes sense for efficient and effective outcomes.

It also provides the market with good notice, which is important because informed participants, with confidence about the way we will engage them, are well-placed to act and think innovatively, make pre-sales investments, and deliver in a way that benefits everyone.

What do you think the biggest improvements/achievements were for the system from a procurement perspective in the 2015/16 year?

In my view it's the genuine and increasingly early dialogue between the Corporate Centre and agencies on a wide number of factors – including procurement – that impact on the quality of new investment, and realising the benefits from current investments.

All parties are contributing earlier in the investment process which provides greater opportunities for sustainable success.

What do you see as the top challenge for government in procurement?

Capability and capacity remain the biggest barriers to procurement contributing to system improvement – we don't have enough skilled and experienced people to go around.

On a positive side, it is the recognition of the value that good procurement can add to investment that is putting the most strain on current government procurement resources. It is probably a good problem to have – if there is such a thing.

What is/are your team's key focus area(s) for the 2016/17 year?

Our key focus is on the capability development of both agencies and individuals. NZGPP has established a 'Procurement Capability Index' (PCI) which will be used to measure agency procurement capability.

The Procurement Capability Index enables agencies to self-assess their procurement effectiveness and identify where further support may be required. The Procurement Capability Index has been successfully piloted with 27 agencies and will be rolled out to agencies covered by the Government Rules of Sourcing in 2016/17[8].

The Procurement Capability Index will also help us to target the investment and support we provide to where it can make the most difference.

What are the key tools and resources you offer agencies who are undertaking procurement?

Apart from Procurement Capability Index, we are also implementing the Significant Service Contracts framework[9]. This will provide much needed transparency around key service contracts – so we can be sure that critical public services provided by third parties are well-managed. This will help ensure effective service performance: realising expected benefits; and managing any risk of service failure.

The Commercial Pool continues to provide procurement resources on a cost recovery basis, targeting high risk/ high value commercial activities where agencies require assistance from professionals with intimate knowledge of how to apply the Government Rules of Sourcing.

NZGPP will continue to invest resource in supporting agencies to improve their procurement capability – in particular moving from a tactical to a strategic approach to procurement.

Our goal continues to be about improving performance, not enforcing compliance. We want to incentivise people to do the right thing – and most people do. We think this is more impactful than chasing the few who don't.

[8] www.procurement.govt.nz/procurement/for-agencies/procurement-capability-index

[9] www.procurement.govt.nz/procurement/for-agencies/key-guidance-for-agencies/significant-service-contracts-framework

The Office of the Government Chief Information Officer

Colin MacDonald, Government Chief Information Officer and Chief Executive of the Department of Internal Affairs

The Government Chief Information Officer (GCIO) is the functional leader for government ICT. The GCIO's role is to work with public and private sector organisations to transform government ICT to support better public services for New Zealanders. This includes leading the Government ICT Strategy and driving investment in ICT systems and digital platforms that enable New Zealanders to interact with government anytime, anywhere.

What impact/opportunities does ICT hold for government investment?

ICT is a key enabler for digital government. Citizens expect us to make it easy for them to deal with government, and technology is key to making that happen. There are opportunities to be smart about how we invest in common digital services and ICT platforms and capabilities, to lift the quality of the citizen experience and achieve economies of scale. This approach will free up agency resources to focus on delivering their core services. We have a goal to improve information sharing, which will help agencies be more responsive to the needs of New Zealanders.

Why is ICT important to helping government realise better value from its investments and assets?

ICT underpins everything we do and is a critical catalyst for business transformation. The commercial and technology shared capabilities we've put in place fundamentally change the way government consumes, procures and invests in technology. By making it easier for agencies to buy in the services they need, rather than investing in or building assets, they can be more agile and innovative and focus on really transforming the way they deliver services.

What do you think the GCIO's biggest achievements were from an investment management perspective in the 2015/16 year?

In late 2015, we revised the Government ICT Strategy to be more adaptable, flexible and enduring[10]. It guides our investment priorities in five focus areas and there's an integrated programme of work that supports delivery of the strategy. This is designed to be responsive to new opportunities and initiatives can be re-prioritised quickly to ensure the programme of work continues to represent the best mix of investments to deliver the outcomes of the ICT Strategy.

The GCIO has established a Partnership Framework, which involves 55 senior leaders across 21 agencies working together to drive transformation across the public sector. We're working on a system-wide view of investment in service, technology and information and have a strategic investment group supporting this work. It's a big step forward in terms of collaborative leadership across the system.

Two other significant achievements include developing the Telecommunications as a Service (TaaS) shared capability and establishing government as one customer with global suppliers like Oracle and Microsoft.

[10] The Government ICT Strategy is available on the Government ICT website: www.ict.govt.nz/strategy-and-action-plan/strategy/

TaaS, which we developed in partnership with nine agencies, moves asset ownership and investment risk to vendors and gives government more flexibility and choice. Our software framework agreements with global suppliers give government buying power as one customer and all agencies access to the same terms and conditions.

What do you see as the top challenge for government in successfully managing ICT investments and how will you be addressing this challenge?

One of our top challenges is in achieving outcomes for the whole system when agencies are all at different stages on the journey. Our model is "centrally led, collaboratively delivered" which means we work across agency boundaries to understand the needs and then try to make it easy for agencies to co-design and adopt shared services and engage in specific initiatives when they're ready.

We've had excellent support through the Partnership Framework for driving a common set of priorities, and widespread input into the Government ICT Strategy. Continued collaboration is key.

What are your teams' key focus areas for the 2016/17 year?

We have five key focus areas as outlined in the Government's ICT Strategy.

Government ICT Strategy Focus areas

- Digital Services
- Information
- Technology
- Investment
- Leadership

First, we are committed to making things easier for individuals and businesses through digital services.

Second, we want government to use information more to inform decisions, drive operational change, shape policy development, and share data more readily across agencies and with the public.

Our third focus area is technology and implementing initiatives which will create the platform for better public services.

Fourth, our investment strategy will focus on ensuring investments are targeted at fewer initiatives with more impact.

Last, our focus in the leadership area will be on building the skills and capability in the information, technology and digital workforce of government.

In addition to these focus areas is system-wide assurance that ICT risks are being identified and well managed by agencies and that benefits of ICT investments are being delivered.

What are the key tools and resources you offer agencies that are undertaking ICT investments? How do agencies access these?

We offer information and advice to agencies on the range of ICT capabilities and services available to them, the supply market, as well as frameworks, guidance and resources to help agencies with assurance, planning and privacy. There's a wealth of information on: www.ict.govt.nz

We're here to help and agencies can talk to our relationship managers and capability managers who can provide more details and point them in the right direction.

3

Lifting Performance in the Investment Management System

Lifting Performance in the Investment Management System

To get the most value from government's investments and assets, we need to make sure the system that manages them is working effectively. While the system settings are broadly in place, the more complex aspects of the system, like behaviours and capabilities, continue to evolve.

Over the last year, the Corporate Centre has been working with agencies to deliver a range of initiatives to help improve performance in investment and asset management.

This section looks at just a few of these initiatives:

- The Investor Confidence Rating
- Managing investment benefits
- The Major Projects Performance Report
- Investment reviews.

The Investor Confidence Rating

"Establishing how agencies are managing investment and assets is critical to ensuring taxpayer money is being used as effectively as possible"

– Hon Bill English, Minister of Finance

What is the ICR?

The ICR assesses the performance of agencies in investment and asset management.

It is an indication of the level of confidence that investors – Ministers – can have in an agency's ability to deliver investment results as promised. This helps inform decisions about where and how to invest public funds.

This evidence-based assessment is conducted every two years for investment-intensive agencies.

The Corporate Centre in conjunction with independent experts considers eight 'elements' of agency investment and asset performance, such as long-term planning and asset management. It assesses these against an appropriate target level of performance for each agency.

Diagram 10 shows the eight elements that agencies are assessed on. Four of the elements are lag indicators, which mean they look at past performance, and four are lead indicators, which means they are forward looking.

Diagram 10: The eight elements of the ICR assessment

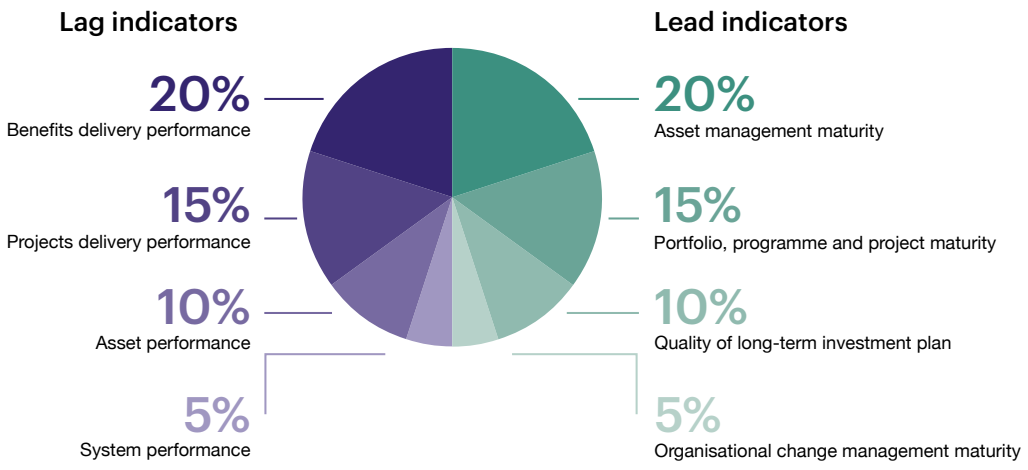


Diagram 11: The implications of ICR scores

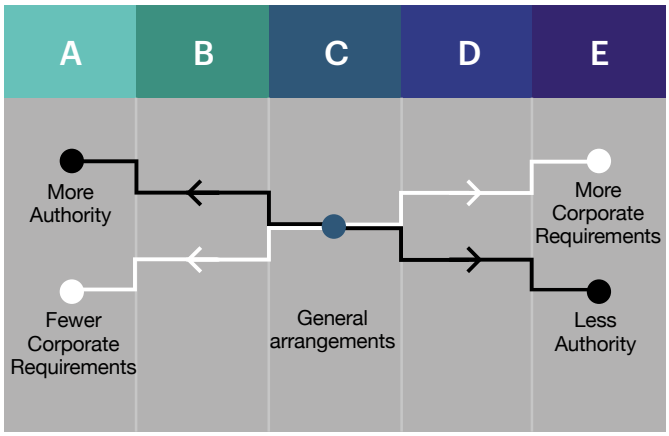


Diagram 12: Results from Tranche One

Agency ICR Result	
Inland Revenue Department	A
Accident Compensation Corporation	B
Defence (NZDF and Ministry of Defence combined)	B
NZTA	B
Department of Corrections	C
Ministry of Education	C

Implications of the ICR

The ICR provides a basis for us to tailor system settings based on agency performance. Agencies will experience different investment arrangements depending on their result.

This generally means that agencies that receive a very good rating can expect greater autonomy, such as a higher threshold for needing Cabinet to approve an investment, and reduced monitoring and reporting requirements. Agencies that do not rate as well are likely to receive less flexibility, but also more support to help lift their performance.

Results

To manage the large number of agencies being assessed, the ICR has been split into stages, called 'tranches'.

The results from Tranche One, which covered six agencies, were made public in July 2016.

The results of Tranche Two, which covers five DHBs, will be published in December 2016 on the Treasury website: www.treasury.govt.nz/statesector/investmentmanagement/review/icr/results

Why is the ICR a valuable tool in the investment system?

The ICR is designed to lift agencies' investment management capability and performance. It does this by:

- Providing greater transparency to Ministers and the public about how government is performing in investment and asset management.
- Incentivising good investment management performance through the implications attached to each rating. System settings – like expenditure thresholds for Cabinet approval, and monitoring and reporting requirements – can be tailored based on agency performance in the ICR. This means more flexibility for those that achieve higher than a C, and more support for those lower than a C.
- Identifying where agencies can best target improvement activity, and identifying for the Corporate Centre where it needs to target support, especially where gaps are common across agencies.

Lifting agency performance

The ICR results provide agencies with good information about where best to focus their efforts to improve performance.

The Corporate Centre has seen improving agency capability and performance since the ICR has been introduced. It also anticipates that agencies will improve even more over time as they embed new practices, for example, around long term investment planning.

To date, the most common areas identified for improvement are in managing benefits and reporting asset performance. Support for agencies to raise their capability in benefits management has increased this year through updated guidance documents, a community of practice, and benefits realisation plan templates (more information is available on page 33). A library of asset performance measures is also under development, including the best examples from across a range of agencies (more info on asset performance information is available on page 14–17).

Agency perspective: Department of Corrections

During 2015/16 the Department of Corrections actively contributed to the design of the Investor Confidence Rating, and was assessed in tranche one. The opportunity to obtain greater autonomy, higher financial delegations and reduced monitoring and reporting requirements was a good incentive to focus the Department on scoring well now and in the future.

"The Department recognises the importance of the assessment and the need to improve in the areas it identified such as Portfolio, Programme, and Project Management Maturity Model (P3M3), Benefits Realisation and the Long Term Investment Plan.

We found the blend of the lead and lag indicators particularly useful, the lead indicators provide a strong connection between our current capability and future performance. The assessment also did identify areas in which the Department is performing well, including strong leadership helping deliver its projects to a high standard.

We are currently undertaking a work programme to embed our practices and structures more consistently, and to capture benefit data more routinely, to ensure that the Department's rating improves in the next assessment completed in December 2017. This work is being done with assistance from an expert consulting firm with P3M3 methodology expertise, with a focus on our property investment portfolio and associated asset management planning practices."

Managing Investment Benefits

When the Government invests, it commits resources now so that it can realise benefits in the future.

Benefits go beyond the physical assets or services that investment projects deliver: they are the reason for investing, the "measurable gain from an investment which is perceived to be advantageous by a stakeholder"[11]. This includes everything from more efficient and effective public services, to greater social cohesion in New Zealand.

What is benefits management?

The process of managing benefits is defined as the practice of identification, analysis, planning, realisation and reporting of benefits.

To ensure the benefits of an investment are realised, good benefits management is essential throughout the life of an investment. This starts with developing a benefits realisation plan as part of the Business Case, and continues with managing projects well to ensure benefits are on-track. Managing benefits continues after an investment project is complete and in operation.

International benchmarks show that benefits management is an area of low maturity,[12] and this includes the New Zealand state sector. The tranche one ICR results showed an average Portfolio, Programme, and Project Management Maturity Model (P3M3) benefits management maturity score of only 1.7 out of 5, and only 54% of benefits being delivered. We also have very limited data on the benefits performance of the government investment portfolio.

Improving benefits management

This year the Corporate Centre has worked with agencies to develop a range of initiatives to improve management of benefits across the state sector.

The Investor Confidence Rating

The ICR assesses both benefits management capability and benefits performance of the investment-intensive agencies. The Corporate Centre is using this information to identify areas of weakness, and provide feedback and support to agencies to help them improve.

Improving our guidance

In April 2016, the Treasury released updated benefits guidance, developed with the GCIO and a number of agencies. This is supported by a set of templates supported by a set of templates and examples, for government agencies (and any organisation) to implement or improve benefits management for their investment projects.

Getting better data

The Corporate Centre is focusing on collecting more comprehensive data on the performance of benefits from the investment portfolio, to enable better performance analysis and transparency.[13] It is expected that this report will next year include benefits data for major investment projects, and the following year for all significant investments.

Community of interest

In 2015 a community of interest for benefits management was established by the Treasury and GCIO, which has grown to almost 180 members. The group meets every six weeks to connect, discuss trends and listen to speakers from the public and private sectors, including engagements with international benefits management experts.

[11] www.treasury.govt.nz/statesector/investmentmanagement/plan/benefits/guidance

[12] www.pmi.org/learning/thought-leadership/pulse

[13] www.treasury.govt.nz/statesector/investmentmanagement/think/governmentprojectportfolio

Case Study:
Benefits Management Framework, Ministry of Defence/New Zealand Defence Force

The New Zealand Defence Force and Ministry of Defence (Defence) play a critical role in ensuring the security of New Zealand, its citizens, and wider national interests. To achieve these outcomes investment in new and refreshed capabilities is needed.

Defence delivers a wide range of significant projects, from replacements of major military platforms, introduction of sophisticated corporate and military information technologies and investments in estate infrastructure.

For Defence to be able to deliver and demonstrate the value of these significant investments, it was essential to be able to describe how Defence will consistently design, manage and deliver benefits.

In 2015 Defence commenced implementation of a new Benefits Management Framework (BMF). The BMF is largely a suite of integrated processes aimed at ensuring benefits expected from Defence investments are agreed, understood, and ultimately realised.

The implementation to date has involved changes to systems, processes and culture. The changes are impacting multiple areas of the organisation including executive leaders, project teams and business users.

Governance boards, project teams and business units throughout Defence now have a common framework to follow. The BMF has standardised previously ad-hoc practices to deliver a more consistent set of benefits planning documents, supported by realistic and meaningful measures.

It has made it easier to define, monitor and manage benefits and deliver consolidated information to support executive decision making. The BMF is being progressively applied to all significant Defence projects, including the current fifteen Treasury Monitored projects.

Implementing the new framework

The BMF was designed in 2014, based on best practice, existing internal processes, stakeholder feedback, and lessons learned from other organisations. It was approved in December 2014 for implementation across the Defence Force.

In 2015, the BMF was piloted, refined, and tailored to confirm its suitability, before being rolled out to all small/medium scale military capability projects and piloted for large scale projects. In January 2016, Defence commenced roll-out to all large scale projects.

Expected benefits

- Improved confidence and assurance that benefits are being effectively managed through adoption rates, quality of plans, and increased maturity scores.
- Increased levels of benefits realisation, delivering over 80% of planned benefits.
- Improved reputation for effective benefits management.

Challenges

The main challenge identified as a risk to the successful implementation of the BMF has been user adoption of the new processes. If user adoption is limited, the benefits of the BMF will not be realised. In order to mitigate this risk, activities were undertaken on a number of fronts including; gaining Chief Executive mandate, the development of simple integrated processes, placing emphasis on benefit ownership by business owners, ensuring adequate support resources were in place, leveraging technology to enable information collation, regularly engaging stakeholders and users, and securing ongoing leadership buy-in and support through portfolio level reporting to relevant governance groups.

Top Tips

Ensure the processes are fit for purpose	The BMF should be evaluated during design and implementation to ensure it is simple, well integrated with existing business practices, and fit for purpose. Continue to consider enhancements based on user feedback and lessons learned.
Ensure benefits are owned by the business	Ensure project benefit plans are signed off by the business units receiving the benefits. This will help improve quality of measures and ensure the benefits will continue to be managed and reported post project closure.
Ensure transition is adequately resourced	Provide additional resources to help users adopt the new processes, create examples for others to follow, and work through or make clear decisions on how to deal with projects already in “in-flight”.
Utilise relevant technology to support the process	The Defence Planview system was configured to support the process and capture benefits planning information. This allows projects to generate reports with greater ease and enables effective coordination/oversight from the centre, including portfolio level reporting to governance groups.
Invest in change	Governance boards, the Programme Management Office, and project teams are regularly engaged to ensure benefits management practices are supported, owned, and can be accommodated into existing processes.
Foster a benefits culture	Governance boards are provided with a quarterly benefits dashboard to highlight progress, successes, and areas where assistance is required. Tailored guidelines are also provided to support understanding and foster a culture where benefits take a more central role in decision making.
Recognise some projects may need to revise their scope, schedules, and/or funding levels	Adoption of the BMF places greater focus on project schedules and budgets to ensure they meet benefit realisation timelines. Adjustment may be necessary to address areas of risk.

Better Business Case Clinics

For a project to successfully deliver its benefits, it needs to be positioned well from the start. Government uses a framework called the Better Business Case approach to ensure investment proposals are robust and well-planned, and that decision makers have the information they need to invest with confidence.

To support the development of high-quality business cases, the Treasury has introduced Better Business Case Clinics for investment intensive agencies. These sessions bring together an agency developing a business case with representatives from across the Corporate Centre with expertise in areas such as ICT, procurement, and project management. The aim is to provide clear, actionable feedback.

Better Business Case Clinics are available to investment-intensive agencies (subject to availability). To find out more about clinics and how to request one, visit the Treasury website: www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc/clinics

In the 2015/16 year, 34 clinics were held for 20 investment projects.

Over the past year, three major Defence projects have been through the Business Case Clinic process.

"With planned capability investments valued at close to $20 billion over the next 15 years, the Ministry of Defence and New Zealand Defence Force are core users of the Better Business Cases model."

The Clinics have provided an opportunity to bring experts from across government into one room to provide frank advice and test and refine thinking around capability investments. Defence is committed to becoming an international exemplar in capability management, and this is a welcome innovation to continue to enhance.

Vice Chief of Defence Force Air Vice-Marshal Kevin Short and *Chief of Navy Rear Admiral* John Martin with the Maritime Sustainment Capability project team, following signature of a contract with Hyundai Heavy Industries to deliver a new replenishment tanker for the Royal New Zealand Navy. The Maritime Sustainment Capability Project Implementation Business Case was one of the first Defence projects to utilise the Business Case Clinic process.

Investment Reviews

Good investment management does not stop with the decision to invest, but continues throughout the life of a project. To ensure our investments are on-track to deliver their benefits, we undertake investment reviews at all stages of the investment, to provide an independent assessment of how it is performing, and recommend areas to focus on for improvement.

The Gateway process

In 2008 the government introduced Gateway, an independent and confidential peer review process, to support agencies to deliver their most complex projects.

Gateway reviews look at investment projects at critical points in their lifecycle to assess the likelihood of successful delivery. Over 200 Gateway reviews have been conducted on over 92 projects across 41 agencies.

Over the course of one week, a review team conducts interviews with key stakeholders and project personnel, and reviews key documents. The output of the assessment is a Review Report for the project Senior Responsible Owner (SRO), which assesses confidence in the project's likelihood of success, along with practical recommendations to give the project the best chance of success.

As well as providing advice and recommendations to the SROs of individual projects, Gateway gives insight into system challenges to delivering successful projects. Every fifty reviews, the Gateway Unit produces a Lessons Learned report, the most recent one in 2015. The top three most common issues it identified were governance capability, sourcing strategy and management, and use of the Better Business Cases framework. To read these reports, visit: www.treasury.govt.nz/statesector/investmentmanagement/review/gateway/lessons

Office of the Auditor General Review of Gateway

In 2016 the Office of the Auditor General reviewed the Gateway process.[14] The review found that Gateway has delivered benefits for individual investment projects, including helping project sponsors to work through issues, and providing specific actions that have directly affected a project's success.

The review did identify some limitations of Gateway. In particular, it recognised that Gateway is very much a fixed-format approach, and may not always be the best approach for all projects at all stages in their lifecycle. The Treasury supports this view and is exploring other types of Investment Reviews to address this limitation. These reviews may be more flexible in terms of scope, team size and duration, and/or might focus on a specific project issue.

78% of Senior Responsible Owners strongly agree, and the other 22% agree, that Gateway was beneficial and will impact positively on the outcome of the project.

"The review has helped put a spotlight on particular issues requiring attention. We can use the report to create visibility and leverage for faster action and resolution. The review will also help ensure the programme continues to get the level of support it needs from the wider organisation."

Carol Slappendel, Senior Responsible Owner
Deputy Government Statistician and Deputy Chief Executive Operations, Statistics New Zealand

[14] The Office of the Auditor General's Report is available online here: www.oag.govt.nz/2016/gateway

Major Projects Portfolio

Last year, the Treasury published the Major Projects Performance Report for the first time. The report provides an overview to Ministers on the Major Projects Portfolio, which is comprised of the largest and most complex of the Government's investments. These reports are available on the Treasury website:
www.treasury.govt.nz/statesector/investmentmanagement/publications/majorprojects

In the last year there have been changes to the make-up of the Major Projects Portfolio, and the reporting on its performance.

Changes to the major projects portfolio

The Major Projects Portfolio is intended to comprise all governments' major investments, not just those monitored by the Treasury. This year is has expanded to include projects monitored by the Ministry of Health and the Ministry of Transport.

This gives Ministers and the public a more complete picture of how the portfolio is performing, and encourages growing collaboration between the different providers of assurance in the investment system.

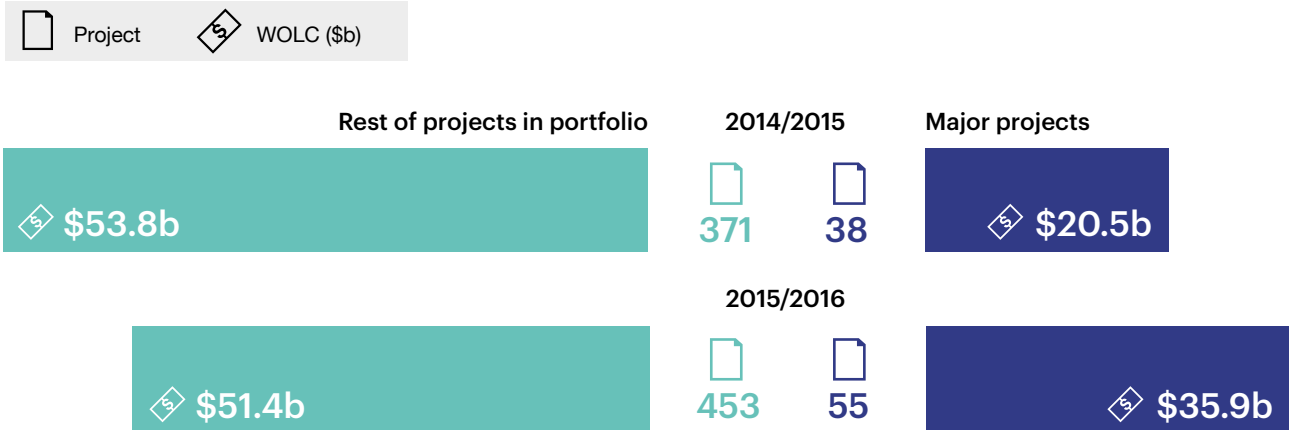
Changes to major projects portfolio reporting

To streamline processes and more effective use of resources, there will now be one full report at the end of each financial year.

An interim report will be produced in March and November each year to provide an update on key changes in the performance of the major projects portfolio. Both the full report and interim reports will continue to be publicly released.

Last year, this report included the monitoring delivery confidence assessment of each project in the major projects portfolio. This information is now released as a matter of course closer to the time of assessment, and so it has not been included in this report.

Diagram 13: Change in the make-up of the major projects portfolio in the last year



Where to Go for More Information

Further information and resources:

Government Chief Information Office

Web www.ict.govt.nz/
Email gcio@dia.govt.nz

New Zealand Government Procurement and Property

Web www.procurement.govt.nz/procurement
Email procurement@mbie.govt.nz

State Services Commission

Web www.ssc.govt.nz/our-work
Email commission@ssc.govt.nz

The Treasury

Web www.treasury.govt.nz/statesector/investmentmanagement
Email InvestmentManagement@treasury.govt.nz

Glossary

CO(15)5	Sets out the Cabinet's expectations around Investment Management and Asset Performance in the State Services. The full circular is available at: www.dpmc.govt.nz/cabinet/circulars/co15/5
Corporate centre	The State Services Commission, the Treasury and the Department of the Prime Minister and Cabinet, the Government Chief Information Office and New Zealand Government Procurement and Property work together to provide leadership for the State sector and to monitor, influence, and improve performance.
Crown balance sheet	What the government owns and owes. A statement of assets, liabilities and net worth, also known as the Statement of Financial Position.
ICR	The Investor Confidence Rating is a rating based on evidence that reflects the level of confidence in the agency or sector in which investments may be made.
Investment-intensive agency	These are agencies that manage large or service-critical portfolios, programmes or projects. Investment-intensive agencies are listed at: www.treasury.govt.nz/statesector/investment-intensive-agencies
Investment management system	The processes, rules, capabilities, information and behaviours that work together to bring discipline to the way investments are managed throughout their life cycles.
Investment Ministers	A group of Ministers designated to give effect to the objectives of the investment system. The current members of the group are: the Minister of Finance and the Associate Finance Ministers, and the Minister responsible for the Department of Internal Affairs.
Investment project	The following activity, irrespective of funding source or appropriation type or the form of government financial support: › changes (additions or disposals) to asset portfolios › changes that result from adopting "on demand" service offerings (for example, Infrastructure as a Service) › any new lease arrangements, or renewals of lease arrangements (for example, property rentals).
P3M3	The Portfolio, Programme and Project Management Maturity Model is a reference guide for structured best practice. The maturity scales are used as part of assessing Investor Confidence Ratings.
Significant investments	Those investments with a high degree of importance of an investment issue, proposal, or decision in terms of its likely impact on, and likely consequences for: › the Crown or the agency or sector, customers or clients, or the capacity of State services agencies to perform their functions › the government's fiscal strategy › the government's investment strategy.
Whole-of-life cost (WOLC)	The present value of total cash costs of an investment over its life cycle, calculated using the WOLC guidance and the relevant Public Sector Discount Rate. For more detail about how this is calculated see: www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis