THE TREASURY
Kaitohutohu Kaupapa Rawa

Guidance on the Investor Confidence Rating

Overview

Version 6

April 2018

New Zealand Government

ISBN: 978-1-98-853483-1 (Online)

The Treasury URL at April 2018 for this document is
https://treasury.govt.nz/publications/guide/guidance-icr-overview

Contents

About This Guidance

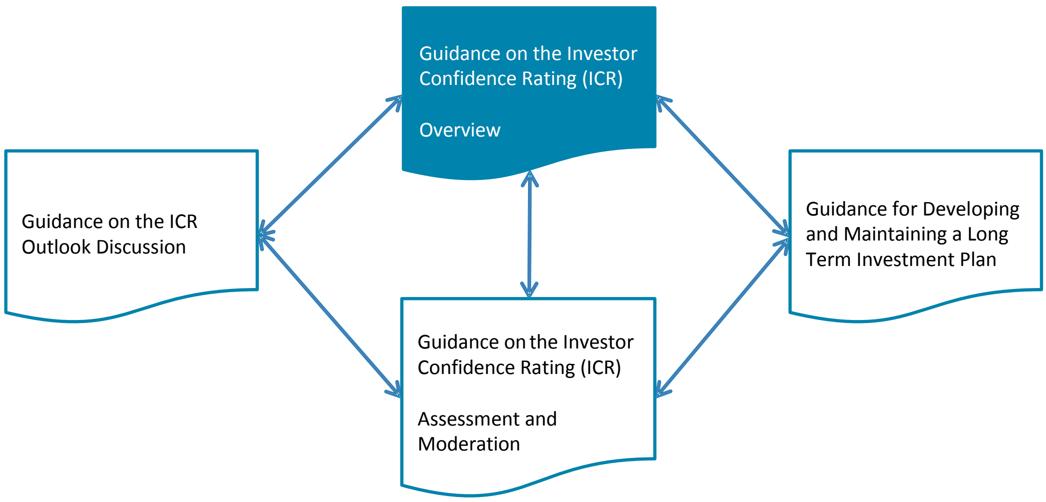
This document is the main source of information on the Investor Confidence Rating (ICR), including the design, purposes, scope, and operational aspects of the ICR.

It replaces Version 5 which was released in June 2017. The main change in this version is described in the table below.

Version	What’s changed?
5	Outlook Indicator section updated to reflect Outlook Discussion mid-cycle review.

As the figure below illustrates, this document is a companion to more detailed operational guidance on ICR assessment and moderation processes[1], Long Term Investment Plans[2] and the ICR Outlook Discussion[3].

Guidance relevant to ICR



This guidance document:

- sets out the way in which the ICR will operate from 1 August 2017[4].
- should be read by staff in State Services agencies including staff in monitoring departments and the corporate centre who have an interest in improving an agency’s investment management performance, and
- has been written by the Investment Management and Asset Performance team in the Treasury.

---

1 http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr/information/assessment

2 http://www.treasury.govt.nz/statesector/investmentmanagement/think/ltip/guidance

3 http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr/information/outlook

4 Version 4 of the guidance operates until that date

Questions and feedback

General enquiries about the information contained in this guidance, not addressed in this guidance or in supplementary material (below) can be directed to investmentmanagement@treasury.govt.nz

Any agency-specific questions should be addressed to the relevant Treasury Vote team.

Further information

Supplementary material on the ICR and answers to topical questions (FAQs) can be found on the Treasury website at: http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr

About the Investor Confidence Rating

Investment context

Definition of investments

For the purposes of the system and the ICR, “investments” means

> The commitment of capital or balance sheet resources to the delivery of government services with the expectation of receiving future benefits. Resources are typically committed through projects or programmes or portfolios.
>
> Investment activity covers:
>
> 1 changes (additions or disposals) to asset portfolios
>
> 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), and
>
> 3 any new lease arrangements, or renewals of lease arrangements (for example, property rentals).
>
> *Source: Cabinet Office Circular CO(15)5*

Investment-intensive agencies

Investment-intensive agencies are agencies that manage large or service-critical portfolios, programmes or projects and these are divided into two tiers. The list of Tier 1 and Tier 2 agencies is approved by Government Investment Ministers.

Assets, investments and the Government financial statements

As at June 2016, investment-intensive agencies accounted for approximately 65% of the Crown’s property, plant and equipment balance sheet, with assets worth approximately $87.5 billion.

As at March 2016 the Government is investing in 688 significant investments with a combined whole-of-life cost of $101 billion. These figures indicate that the quality, quantity, composition and performance of these assets and investments have significant implications for New Zealand’s economic performance, public services and resilience.

About the ICR

Government policy on investment management and asset performance

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

That means that the quality of investment management is vital to maintaining New Zealanders' living standards now and in the future and it explains why the Government is committed to ensuring investment management and asset performance practices remain fit-for-purpose.

In April 2015, Cabinet agreed to adopt new policy settings and issue a new Cabinet Office circular CO(15)5 entitled *Investment Management and Asset Performance in the State Services*.[5]

The circular applies to all departments, Crown agents, Autonomous Crown entities, Independent Crown entities and Crown entity companies (including Crown Research Institutes), and companies listed on Schedule 4A of the Public Finance Act. It sets out Cabinet's expectations relating to the investment management system in the State services, that is the processes, rules, capabilities, information and behaviours that work together to bring discipline to the way investments are managed throughout their life cycles.

The objectives of the investment management system (the system) are to:

- optimise value generated from new investments and existing resources
- increase the efficiency and effectiveness of the investment management system, and
- enable investments to achieve their specific investment objectives.

Purpose of the Investor Confidence Rating (ICR)

Cabinet agreed to reinforce the objectives of the system by using performance indicators and information to determine the ICR for each agency or sector.

The ICR is a rating of an agency's investment management environment. It is an indicator of the confidence that investors (eg, Cabinet, responsible Ministers, or Government Investment Ministers) have in an agency's capacity and capability to realise a promised investment result if funding were committed.

The main purpose is to provide an incentive mechanism that rewards good investment management performance and proactively addresses gaps in investment management performance.

It is also a means of:

- promoting good investment management practice across the State Services, particularly in investment-intensive agencies, and
- enhancing the degree of objectivity and rigour in the investment management system over time.

---

5 Available from the Cabinet Office website: http://www.dpmc.govt.nz/cabinet/circulars

Expected impact of the ICR

In line with the policy set out in the circular, the focus of the ICR is on capital expenditure, asset disposals, lease arrangements, and “as a service” investments and asset performance.

Across the system, the ICR is expected to lead to systematic:

- use of performance information in both agency and corporate centre investment management and decision-making processes
- focus on delivery of the agreed value from particular investments, and
- improvements in the stewardship of Crown resources.

The ICR may affect each agency or sector in one or more ways, including (for departments) access to balance sheet resources and levels of authority to make investment decisions, and (for all agencies) levels of investment-related reporting and assurance activity. Potential implications of the ICR are set out in Annex 2.

The ICR may affect the level of corporate centre scrutiny of, or assistance to, each agency.

Over time the ICR is expected to improve key aspects of investment management maturity and investment performance as a means of delivering best value for money.

Design of the ICR

Similarity to credit ratings in financial markets

Credit ratings are widely used in financial markets because they: give market participants confidence in the borrower’s credit worthiness; represent independent judgements based on relevant evidence from a variety of sources; are forward looking, durable, relevant, improvement-oriented, standardised (ie, comparable across companies or sovereigns); and can be used to inform decisions by investors and regulators. The ICR design reflects many of the characteristics of credit ratings.

Focus on delivery of target levels of performance

The target levels of performance will differ between tiers and between agencies. Those targets or standards will be based on a variety of factors including the nature of the assets under management, criticality of services supported by the assets, level of benefits expected from investments and levels of asset performance agreed with responsible Ministers or Boards.

What is important to the ICR is the extent of the gap, if any, between actual performance and the target or standard performance for each of the 9 elements. The smaller the gap between actual and target performance for a given element, the higher the score for that element.

That means targets have to be expressed in terms that are measurable and appropriate to the agency. A high level of asset management maturity may be appropriate for an infrastructure provider but a core level of maturity may be appropriate for an agency that is not investment-intensive. In both cases, if the actual performance matches the target performance the score for that element will be the same for each agency.

Potentially any agency could achieve an “A” rating or a “D” rating. To get an “A” rating, agencies need to score highly on the most valued elements (as reflected in the weightings for each element), but need not score highly on all elements. Conversely a series of low scores on the most valued elements could result in a "D" rating.

Focus on improvement actions

The ICR process will reveal where the agency (acting alone or in conjunction with the corporate centre) needs to focus its improvement efforts. The focus will vary from agency to agency depending on the size of the gap for each element and a judgement about the benefits to the agency or the corporate centre from the improvement actions, relative to the effort involved in closing the performance gap.

Potentially, completed improvement actions are reflected in the ICR through updates to the Outlook discussion.

Focus on quality information

The rating needs to be based on quality information and repeatable analytical processes to be fit for purpose (ie, produce a reliable and durable assessment to underpin the level of confidence). Unreliable or incomplete information for an element will affect the score for that element and that could affect the overall rating.

Elements of the ICR

The ICR for each agency or sector uses a generic set of information that is tailored to the management of investments and assets in that agency or sector. The ICR is made up of 9 elements (5 lead indicators and 4 lag indicators).

Lead performance indicators

International evidence indicates a strong connection between agency capability and future performance. For example the Project Management Institute says in its 2015 report:

> *Our research continues to show that when organizations invest in development and training for professional project managers, they achieve superior project performance, execute strategic initiatives more successfully and become high performers[6].*

Accordingly the ICR takes account of the level of maturity in each agency (or sector) of three key investment management capabilities being:

- asset management (the activity that ensures that physical and intangible assets are optimally structured in the best long term interests of the organisation)
- portfolio, programme and project management (NZP3M[7]) (the activity that results in the delivery of successful investments), and
- organisational change management (the activity that delivers incremental or transformational change).

---

6 Project Management Institute The Pulse of the Profession 2015, p10.

7 The Treasury uses an averaging approach to produce its ICR NZP3M results, and so these results (not being the lowest result per "perspective" or "thread") are not comparable to other global non-ICR P3M3 results. Agencies can easily calculate a certified P3M3 result for portfolio, programme and project management, using the lowest thread and perspective scores, which are comparable to global P3M3 results.

The other lead indicators include the quality of the agency's long term investment plan and an agency's ability to procure service-critical goods and services and manage suppliers and providers.

Lag performance indicators

The lag indicators take account of information provided by the agency on:

- the performance of significant investments against investment objectives (with a particular focus on project delivery and benefits realised), and
- the agency's asset performance over time against asset performance expectations set out in the agency's approved long term investment plan or equivalent service performance commitments with responsible Ministers or Boards.

The lag indicators also take account of information from various sources on the extent to which the agency has appropriately applied the expectations set out in the circular, any relevant directions issued under s107 of the Crown Entities Act (if relevant), and any other relevant Cabinet-endorsed standards or norms (including corporate centre standards).

Weights attributed to each element

The weights reflect the relative importance of each element to the system. The weights signal that from a system perspective the most important element is around the delivery of expected investment benefits (worth 20% of the total score). The emphasis on lead indicators (55% weighting vs 45% weighting for lag indicators) also highlights the importance of an agency's capability in determining future asset and investment performance.

Table 2: Weights associated with each element in the ICR

Element		**Indicator type**	**Weight (%)**
1	Asset management maturity	Lead	15
2	NZP3M management maturity	Lead	15
3	Quality of Long Term Investment Plan	Lead	10
4	Procurement capability index	Lead	5
5	Organisational change management maturity	Lead	10
Total for lead indicators			**55**
6	Benefits delivery performance	Lag	20
7	Project delivery performance	Lag	10
8	Asset performance	Lag	10
89	System performance	Lag	5
Total for lag indicators			**45**

Bringing it all together

Key investment-related capabilities (people, information and processes) underpin and influence the quality of strategic thinking and long term planning. They also underpin the quality of tactical and operational decision making.

Quality investment plans provide the rationale for allocating resources over time to deliver targeted outcomes and government priorities. They also reveal key information about the main investment choices that the agency and government are likely to face over the planning horizon that can be used as a basis for strategic discussion at an all of government level.

Plans (and system expectations) also provide the basis for performance reporting, monitoring and assessment at three levels – for individual investments, asset portfolios and system effectiveness.

Figure 1 below illustrates how the elements work together to arrive at the ICR.

Figure 1: ICR overview diagram

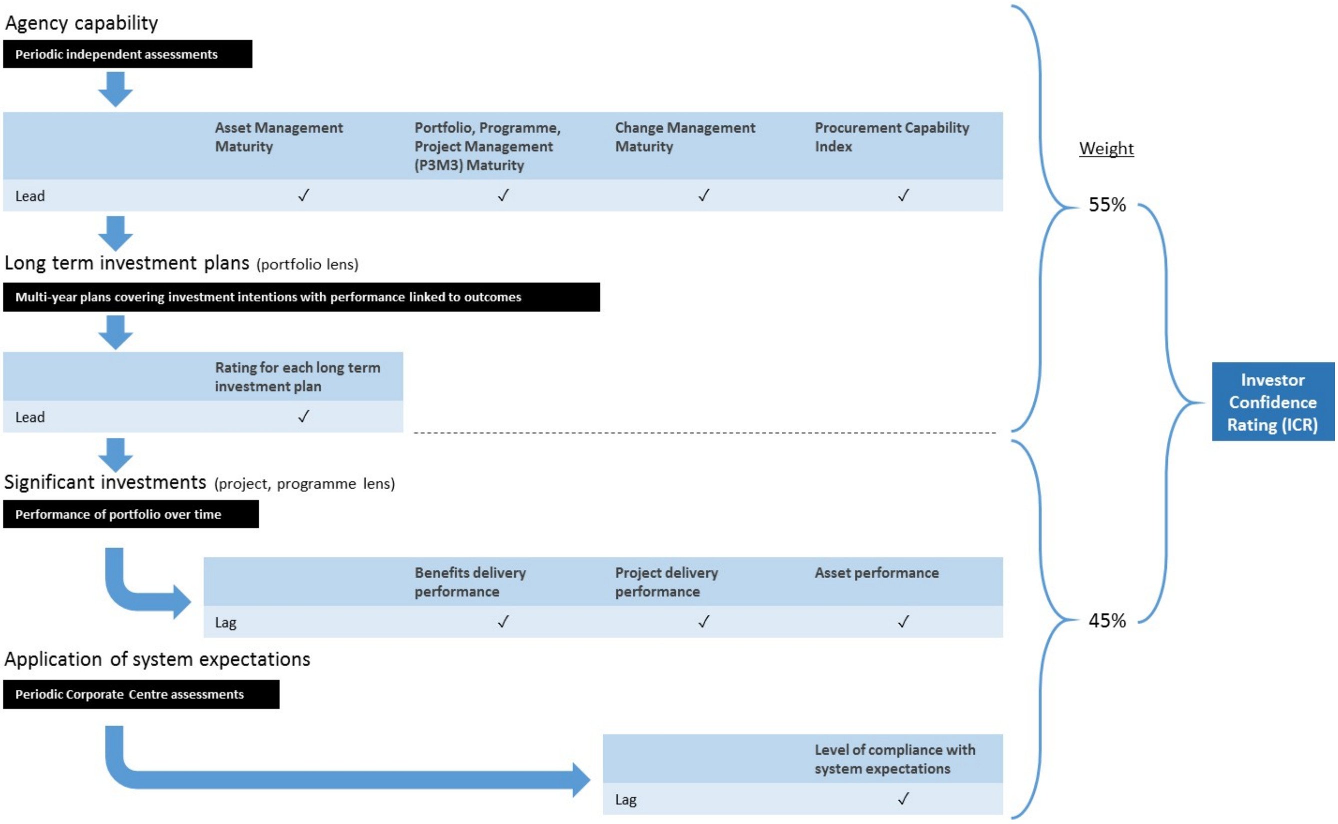


Figure 2 below shows the total points score required to attain A, B, C, D, or E ratings

Figure 2: ICR rating brackets

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

Operational Aspects of the Investor Confidence Rating

Operation of the ICR

The ICR operates on a two-year return cycle (called a round), with a light-touch mid-cycle review between formal assessments. That means each investment-intensive agency is formally assessed once every two years unless otherwise agreed with Government Investment Ministers.

Agency assessments are conducted in tranches for logistical and resourcing purposes. This approach gives agencies and the corporate centre time to adjust to any changes in ICR methodology in an orderly manner. The forward programme of ICR assessments is on the Treasury website at:
http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr/information

The Treasury administers the ICR according to the system objectives, the approved ICR design and published guidance materials. The Treasury works closely with agencies to identify the specific information required to inform each agency's ICR.

Cabinet makes final decisions on the rating and implications of that rating for an agency or sector taking account of recommendations from Government Investment Ministers.

The Treasury, in consultation with Government Investment Ministers and other stakeholders periodically reviews and refreshes the ICR methodology to ensure the ICR supports best investment management practice and promote continuous improvement. Approved changes may occur between tranches in a round. These changes and potential implications are communicated to agencies in a timely manner and published in the latest version of ICR guidance.

While an ICR may be performed in whole or part for any of the agencies covered by the circular, it is primarily targeted at the list of investment-intensive agencies approved from time to time by Government Investment Ministers acting under delegated authority from Cabinet.

Assessing each element

Lead indicators

Element		**Indicator type**	**Weight (%)**
1	Asset management maturity	Lead	15
2	NZP3M management maturity	Lead	15
3	Quality of Long Term Investment Plan	Lead	10
4	Procurement capability index	Lead	5
5	Organisational change management maturity	Lead	10
Total for lead indicators			**55**

Maturity assessments

Based on the weights given to each element, 45% of the overall ICR is affected by assessments of three types of management maturity that are particularly relevant to investment and asset management. For the purposes of the ICR, each of the maturity assessments needs to be:

- complementary, with minimum overlap in lines of enquiry
- authoritative (ie, generally accepted as credible, mature)
- fit for purpose (ie, relevant to investment management and asset performance in central government, capable of being applied in a variety of conditions)
- repeatable over time (ie, consistent, durable, able to be moderated)
- amenable to both self-assessments and independent assessments, and
- supported in the market (ie, sufficient supply of suitably skilled practitioners).

For NZP3M (Portfolio, Programme and Project), the supplier will conduct a facilitated diagnostic NZP3M assessment with the agency. This will be used to determine the agency's current level of maturity. The target level of maturity, in consultation with the agency and supplier, will be set by the Treasury.

For Asset Management Maturity, current and target levels will be determined by the independent assessor with input from the agency.

For the Organisational Change Management maturity assessment the agency will determine their current and target level of maturity via a self-assessment and this will be reviewed by a government panel of organisational change management expert assessors.

For the Procurement Capability Index, the agency will determine their current level of maturity by completing the PCI self-assessment tool. The expected capability level is set by the NZ Government Procurement and Property (NZGPP) in consultation with the agency.

The gap, if any, between the current and target levels of maturity will be used in the ICR.

Asset management maturity

The methodology to be used for ICR purposes is grounded in the International Infrastructure Management Manual (IIMM) 2015 published by the Institute of Public Works Engineering Australasia and the New Zealand Asset Management Support (the NAMS group). This manual is widely used in infrastructure organisations in local and central government. In 2011/12, the Treasury commissioned GHD Ltd to use the methodology to assess the target and current levels of asset management maturity in 15 capital-intensive agencies and recommend relevant improvement actions. Since the release of the updated IIMM 2015 which better aligns with ISO 55000 series, the Treasury updated the AMM tool to reflect the updated methodology and maturity statements in manual.

The model is available on the Treasury website at http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr/information/assetmgmt

NZP3M (Portfolio, programme and project) management maturity

The NZP3M model was derived from the P3M3 model of the UK Office of Government Commerce in 2005. The latest version (v3.0) is published and maintained by a joint venture company, Axelos which manages the UK Government's best practices portfolio in concert with the UK Cabinet Office.

The method is highly relevant to investment activity in central government which is increasingly focused on the management of programmes and portfolios and has been used in central government since 2007/08. The methodology is useful for benchmarking and capability improvement planning. As a proprietary product it is usually delivered through facilitated diagnostic assessment or full independent assessments.

The Treasury uses an averaging approach to produce its ICR NZP3M results, and so these results (not being the lowest result per "perspective" or "thread") are not comparable to other global non-ICR P3M3 results. Agencies can easily calculate a certified P3M3 result for portfolio, programme and project management, using the lowest thread and perspective scores, which are comparable to global P3M3 results.

Organisational change management maturity

Managing organisational change is very challenging: achieving the desired effects even more so. The Treasury considers the ICR needs to give particular attention to this aspect of investment management.

The Treasury has developed its own self-assessment methodology for agencies to assess their organisational change management maturity. Agency self-assessments will be reviewed by a government team of organisational change management expert assessors.

Procurement Capability Index

An agency's ability to procure service-critical goods and services, manage suppliers and providers, and work with markets and sectors is an essential part of good investment and asset management.

The Procurement Capability Index (PCI) allows agencies to evaluate their procurement capability via a self-assessment tool. This tool is based on the agency's view of its procurement capability across the agency as a whole. It allows an agency to assess current agency procurement capability, identify areas where additional focus may be required and put in place procurement capability improvement plans for their agency.

The PCI is managed and run by NZ Government Procurement and Property (NZGPP) with input from the ICR team at the moderation stage.

The quality of investment plans

Investment-intensive agencies are required to have a current long term investment plan (LTIP). Guidance on the LTIP and the assessment criteria is available on the Treasury website at http://www.treasury.govt.nz/statesector/investmentmanagement/think/ltip/guidance

Plans will be assessed against the general requirements in the circular. The target level of performance (quality) is the same for all investment-intensive agencies at Excellent.

The Treasury will lead the assessment of long term investment plans, working closely with each agency, the corporate centre and the relevant monitoring department (ICR assessment partners).

Lag indicators

Element		Indicator type	Weight (%)
6	Benefits delivery performance	Lag	20
7	Project delivery performance	Lag	10
8	Asset performance	Lag	10
9	System performance	Lag	5
Total for lag indicators			**45**

Performance of a portfolio of investments

In relation to benefits and project delivery performance, the Treasury will work with each agency and relevant ICR assessment partners to determine a suitable sample or portfolio of significant and possibly some non-significant investments that have attained "in-service" status in the last two years.

The benefits performance assessment will be based on evidence of the extent to which actual benefits met the expected business case benefits from those investments as set out in relevant business cases (or in agreed changes to business cases).

The project delivery performance assessment will be similarly based on the extent to which the investment met the schedule, scope and cost statements in the relevant business cases (or in agreed changes to business cases).

As with the assessment of LTIPs, the Treasury will lead the assessment of individual investments, working closely with each agency and relevant ICR assessment partners.

Asset performance

Again for this element, the Treasury will work with each agency to agree the significant asset portfolios and weightings (as consistent with those agreed with the Asset Management Maturity assessor), the level of reporting (significant asset, asset class, or asset portfolio), the relevant measures of performance and performance targets.

The asset performance measures must cover functionality (fitness for purpose), condition and utilisation indicators over the last two financial years.

The performance targets will be those which have been explicitly agreed with the approving authority. It is best practice to have performance targets agreed with the responsible Minister or Board but executive level sign-off will also be accepted.

System performance

For this element the Treasury will consult with the relevant ICR assessment partners to ascertain the extent to which the agency has met the system objectives over the period since the last ICR (for the initial round of ICRs this will look back over the last 12 months).

In addition to adherence to the objectives in paragraph 14 and 15 of the circular, particular attention will be paid to demonstrated compliance with rules and expectations in the circular.

The target level of performance (compliance) is the same for all agencies in a tier.

Potential ICR implications for an agency

Implications determined by Cabinet

The circular identifies 10 potential implications of the ICR. The actual implications will be determined by Cabinet at the same time as it determines the ICR, taking account of recommendations from Government Investment Ministers.

Actual implications may vary from agency to agency, taking account of differences in agency balance sheets, baselines, information in the agency's long term investment plan and the risk profile assessment for individual investments (projects or programmes).

Given these differences the potential implications of the ICR can only be expressed in general or in-principle terms as shown in Table 4 (for departments) and Table 5 (for Crown entities and Schedule 4A companies) in Annex 2.

Implications may affect decision rights and compliance costs

For departments, the ICR could have a bearing on its ability to make investment decisions (even if these can be funded from baselines), the level of investment-related reporting or assurance arrangements and access to or costs of corporate assistance.

For Crown entities and Schedule 4A companies in scope of the circular, the implications are limited to the level of investment-related reporting or assurance arrangements and access to/costs of corporate assistance, as shown in Annex 2.

The more limited set of implications for these agencies reflects the fact that Boards generally have statutory authority to make investment decisions funded from agency revenue streams and balance sheets, and to respond to responsible Ministers or shareholding Ministers rather than Cabinet.

Outlook discussion

ICR assessments are repeated every 2 years. Between cycles, there is a light-touch review of the progress the agency is making towards improving key aspects of its investment performance.

The purpose of the Outlook Discussion is to keep the momentum for improvement through and beyond the two year cycle. The discussion helps inform stakeholders about the improvement path the agency is on and whether they need to take any actions to help the agency make the progress it is striving for.

The main feature of the approach is a discussion between the agency and the corporate centre and the timely exchange of information. This includes a letter from the agency ICR sponsor outlining its progress across all elements of the ICR, corporate centre commentary on the agency's system performance and other supporting information. Following the discussion and exchange of relevant information the corporate centre will provide feedback to the agency on its improvement actions and possible actions arising from the mid-cycle review. That feedback may be used to inform other discussions, for example, on chief executive performance, PIF reviews etc).

More information can be found in the Outlook Discussion Guidance[8].

Update or review cycles

Formal review cycle

The ICR is reviewed on a two-yearly cycle. Targets for those elements of the ICR that involve maturity assessments are reviewed on the same cycle.

This cycle strikes a balance between the desire for up to date and reliable information (usually available on an annual basis) and the cost of procuring some of the rating information and the time it takes to effect performance improvements.

Effective date for ICR

The rating would take effect immediately following Cabinet agreement to the ICR and any particular agency implications (ie, within a month of any Cabinet decision).

The agency will have been fully involved in the review process leading up to the Cabinet decision and will have had time to anticipate any implications of any change in ICR. An immediate response is required to alleviate any risks revealed through the ICR.

Impact of current performance on the ICR

The ICR considers performance from a whole-of-agency perspective or portfolio perspective over 12 months to two years, rather than responding to the performance of individual assets or investments within that period.

---

8 http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr/information/outlook-indicator [9]

Any significant divergence from expected outturn (at a project or programme or asset level) would be reflected in the Outlook discussion and in the next formal review. That means that from time to time there could be anomalies between specific results reported to Cabinet or in Treasury benefits reports, and the agency ICR.

Roles in the ICR process

The Treasury

The Treasury has several roles connected with its system lead role. It particular, it:

- coordinates the ICR process in consultation with Government Investment Ministers, agencies, monitoring departments, and the corporate centre
- maintains agency ICR scorecards, and facilitates the Outlook discussion
- makes recommendations to Government Investment Ministers on agency ICRs and implications and the design of the ICR
- procures independent maturity assessments (via a Treasury master services panel contract of suppliers) to inform two of the nine elements in the ICR
- works with the agency and relevant ICR assessment partners to assess seven other elements in the ICR, and
- reviews the effectiveness of the ICR in consultation with agencies, the corporate centre and monitoring departments, and reports to Government Investment Ministers on any changes that may be required.

Monitoring departments and the Corporate Centre

In addition to its usual monitoring activity, monitoring departments and the corporate centre have various roles in the rating of 7 of the 9 elements (ie all but the maturity assessments which require specialist expertise).

The main role is as assessment partners working with the Treasury to assess the quality of the agency's long term investment plans and level of compliance with system objectives.

Other roles include:

- providing information on target and actual levels of asset performance and/or investment results agreed with responsible Ministers
- contributing to the agency's Outlook discussion and potential responses to the this discussion, and
- shaping the particular implications arising from the agency's ICR.

Handling disputes

In the first instance the agency and the Treasury should attempt to resolve any disputes over the information used to determine the current or target levels in the agency scorecard, or the assessments by third parties or the basis for any corporate centre assessments of certain elements.

The Treasury will refer any unresolved disputes over agency scorecards or ICR implications to Government Investment Ministers for resolution.

Alignment with other processes

Connection between an agency’s ICR and the Risk Profile Assessment (RPA) for an individual investment

The ICR rates the agency from an investment management perspective, and may have implications for investment reporting and assurance. The RPA is an assessment of the inherent risk characteristics of an investment proposal.

When multiple agencies are involved in a single project or programme the risk profile is likely to be higher as a result of the extra complexity. The most likely response is that governance, assurance and reporting implications would be shaped by the RPA and the ICR for the lead agency.

Connection between an agency’s ICR and its LTIP

As discussed above the quality of an agency's LTIP will be assessed against agreed criteria and the results will have a bearing on the agency’s ICR.

There is a relationship between information used to support the LTIP and information used in other elements of the ICR (eg agency intentions in respect of improvement actions, or current and target levels of asset or investment performance).

Connection between the ICR and an agency’s Performance Improvement Framework (PIF) review

A PIF is *a* review of an agency's fitness-for-purpose today and for the future. It looks at the current state of an agency, then how well placed it is to deal with the issues that confront it in the medium-term future. It looks at the areas where the agency needs to do the most work to make itself fit-for-purpose.

The expectation is agencies will supply their ICR to the Lead Reviewers as relevant evidence for PIF Reviews and PIF Follow-up Reviews, in particular for the critical areas of *Leadership and Direction* and *Financial and Resource Management*. Neither the overall PIF findings nor the rating of individual elements of the PIF are taken into account in the ICR process.

Gaps in the information required to inform the ICR

If there are no qualifying activities to assess performance (ie no significant investments in a period) then the element is removed from the ICR scorecard.

If there is partial data, the assessor makes an assessment based on the evidence available. Agencies are incentivised to make the necessary data improvement actions.

Publishing ICR results

The intention is that agency ICR results will be published on the Treasury website within 90 days of being confirmed by Cabinet.

Glossary and Acronyms

Agency/Agencies refers to those departments, Crown entities and Schedule 4A companies that are in scope of the Cabinet Office circular CO(15)5.

Circular or **CO (15) 5** both refer to the Cabinet circular CO (15) 5 *Investment Management and Asset Performance in the State Services*, effective from 1 July 2015.

Corporate centre refers collectively to The Treasury, the State Services Commission, the Department of Prime Minister and Cabinet, and the three functional leads (for Property, Procurement and ICT).

Four Year Plans or **4YPs** provide a snap-shot in time of a department's medium term planning. More information can be found on the SSC website http://www.ssc.govt.nz/four-year-plans

Functional Leads refers to the three functional leaders of Property, Procurement and ICT. Further information can be found at http://www.ssc.govt.nz/bps-functional-leadership

Government Investment Ministers means the group of Ministers designated to give effect to the investment objectives of the system, and whose role is described in the Circular and at http://www.treasury.govt.nz/statesector/investmentmanagement/think/ministersgroup

ICR assessment partners refers to the corporate centre and the relevant monitoring department (in relation to Crown entities and Schedule 4A companies) who have assessment roles for elements of the ICR and for the Outlook discussion.

Investment-intensive agencies are agencies that manage large or service-critical portfolios, programmes or projects. The list of Tier 1 and Tier 2 agencies is approved by Government Investment Ministers.

Investments are defined in the Circular. Investments means the commitment of capital or balance sheet resources to the delivery of government services with the expectation of receiving future benefits. Resources are typically committed through projects or programmes or portfolios.

LTIP means Long Term Investment Plan as described in the Circular. Long Term Investment Planning refers to the process of generating Long Term Investment Plans.

Medium term plans/planning refers to the integrated medium term view (at least four years for department's) of planned interventions and resource management to deliver an Agency's Strategic Intentions. Referred to as *Four Year Plans* for departments.

PSI means Public Sector Intranet.

Responsible Minister means the Minister for the time being responsible for the performance of the Agency, more particularly as defined in the Public Finance Act 1989 or the Crown Entities Act 2004.

Tiers refers to categories of investment-intensive agencies.

Annex 1: Evolution of the ICR

ICR Round 1

The Investor Confidence rating was introduced in July 2015 as part of a change programme associated with Cabinet Office circular CO(15)5 entitled *Investment Management and Asset Performance in the State Services.* Inaugural ICR assessments were conducted for all investment-intensive agencies in a phased approach over 24 months from July 2015 – July 2017 (Round 1).

Following near completion of Round 1 assessments, there was opportunity to refresh the ICR methodology to reflect lessons learned from Round 1 and drive continuous improvement in the ICR assessment. These changes were developed by a cross agency working group between October 2016 and November 2016 and discussed with the Circular Implementation Reference Group in December 2016, with consultation on the changes across all investment-intensive agencies in January and February 2017. Changes were agreed by Government Investment Ministers in February 2017.

ICR Round 2

Round 2 ICR assessments will place greater emphasis on benefits and change management, include a new focus on procurement and rebalance weightings to allow agencies to take a more targeted approach to improving investment management and asset performance. Assessment methodologies will also be updated to improve ICR relevance and promote good investment management practice.

Summary of changes to ICR from Round 1

- The 2011 IIMM asset management framework has been replaced with the 2015 IIM asset management framework
- The organisational change management self-assessment will be reviewed by a panel of expert assessors for approval
- Long term investment plans will need to be updated every 2 years (from 3 years)
- Sampling methodology has been enhanced
- The time element of project delivery has been updated to consider project duration
- The facilitated NZP3M self-assessment tool will be replaced with a facilitated NZP3M diagnostic tool
- Procurement Capability Index (PCI) has been added
- Organisational change management maturity has increased weighting
- Asset Management Maturity has reduced weighting
- Project delivery performance has reduced weighting

	Element	Round 1 Weightings	Round 2 Weightings	
1	Asset management maturity	20	15	↓
2	NZP3M management maturity	15	15	–
3	Quality of Long Term Investment Plan (LTIP)	10	10	–
4	Procurement capability index (PCI)	0	5	↑
5	Organisational change management maturity	5	10	↑
	Total for Lead indicators	50	55	↑
6	Benefits delivery performance	20	20	–
7	Project delivery performance	15	10	↓
8	Asset performance	10	10	–
9	System performance (compliance)	5	5	–
	Total for Lag indicators	50	45	↓
	Total weighting	100	100	

Annex 2: Potential implications of the ICR

Table 4: In-principle ICR implications for departments

	For departments									
	1	2	3	4	5	6	7	8	9	10
	Spending accumulated depreciation on departmental balance sheet	Authority to make investment decisions on departmental assets	Authority to retain proceeds from departmental asset disposals	Authority to make investment decisions on Crown assets	Level of assistance available for improvement activity	Level of corporate centre support for new Crown funding	Level of CC or monitoring department assurance activity	Level of project, programme, portfolio reporting to and by CC	Assurance requirements	Charges from CC for additional interventions or support
Rating										
A	No change in management of cash disbursements	Significantly expanded authority for Minister and CE	Supported, subject to agreement on LTIP requirements		Limited assistance	Favourable, subject to merits of investment proposal	Tailored, recognising agency strengths			Unlikely
B	No change in management of cash disbursements	Some expansion in authority for responsible Minister	Likely to be supported, subject to agreement on LTIP requirements		Limited assistance	Favourable, subject to merits of investment proposal	Tailored to some extent in response to agency strengths			Unlikely
C	Close examination of cash disbursements profile relative to LTIP	General approval thresholds apply	Subject to agreement based on LTIP requirements		Targeted assistance	Neutral, subject to merits of investment proposal	Standard array of services			Likely
D	Some constraints on cash disbursement profile	Reduction in CE authority to make investment decisions	Conditional on achieving specific performance conditions		Targeted assistance	Conditional on merits of proposal and specific conditions	Standard array of services strengthened to shore up specific gaps			Likely
E	Cash disbursements subject to central release	Reduction in both Minister and CE authority to make investment decisions	Highly conditional on achieving specific performance conditions		Multiple forms of assistance	Highly conditional on merits of proposal and specific conditions	Potentially intensive monitoring or other assurance actions (eg via governance)			Highly likely

Table 5: In-principle ICR implications for Crown entities and companies

<table>
<tr><th></th><th colspan="10">For Crown entities and Schedule 4A companies</th></tr>
<tr><th></th><th>1</th><th>2</th><th>3</th><th>4</th><th>5</th><th>6</th><th>7</th><th>8</th><th>9</th><th>10</th></tr>
<tr><th>Rating</th><th>Spending accumulated depreciation on departmental balance sheet</th><th>Authority to make investment decisions on departmental assets</th><th>Authority to retain proceeds from departmental asset disposals</th><th>Authority to make investment decisions on Crown assets</th><th>Level of assistance available for improvement activity</th><th>Level of corporate centre support for new Crown funding</th><th>Level of CC or monitoring department assurance activity</th><th>Level of project, programme, portfolio reporting to and by CC</th><th>Assurance requirements</th><th>Charges from CC for additional interventions or support</th></tr>
<tr><td>A</td><td colspan="3" rowspan="5">These specific implications apply only to departments. For other agencies any equivalent action would be the subject of discussion between the responsible Minister and Board, rather than determined by Cabinet.</td><td>Subject to agreement on LTIP requirements</td><td>Limited assistance</td><td>Favourable, subject to merits of investment proposal</td><td colspan="3">Tailored, recognising agency strengths</td><td>Unlikely</td></tr>
<tr><td>B</td><td>Subject to agreement on LTIP requirements</td><td>Limited assistance</td><td>Favourable, subject to merits of investment proposal</td><td colspan="3">Tailored to some extent in response to agency strengths</td><td>Unlikely</td></tr>
<tr><td>C</td><td>Subject to agreement on LTIP requirements</td><td>Targeted assistance</td><td>Neutral, subject to merits of investment proposal</td><td colspan="3">Standard array of services</td><td>Likely</td></tr>
<tr><td>D</td><td>Conditional on achieving specific performance conditions</td><td>Targeted assistance</td><td>Conditional on merits of proposal and specific conditions</td><td colspan="3">Standard array of services strengthened to shore up specific gaps</td><td>Likely</td></tr>
<tr><td>E</td><td>Highly conditional on achieving specific performance conditions</td><td>Multiple forms of assistance</td><td>Highly conditional on merits of proposal and specific conditions</td><td colspan="3">Potentially intensive monitoring or other assurance actions (eg via governance)</td><td>Highly likely</td></tr>
</table>

Annex 3: Example of ICR in Operation

This Annex describes how the ICR was assessed for a fictional agency, the Department of A which manages a large asset base and makes significant investments on a regular basis.

Preliminary work

The Treasury and the Department of A agreed on a schedule of work required to deliver the ICR in the timeframe. The Treasury allocated the ICR maturity assessment work for Department A to two suppliers each of which had relevant experience assessing asset management maturity and NZP3M maturity respectively.

Over several days, those suppliers conducted interviews with key staff from Department of A, examined information pertinent to their assessments, explained the rationale for their assessments and for cost effective improvement actions that Department of A could consider to lift capability and performance.

Assessment of lead indicators

The independent assessments revealed that the target levels of maturity needed to be quite high for Department of A given its complex asset base and the criticality of its services. The process also revealed that the demonstrated levels of maturity were actually quite high as well, and that as a result the gaps between actual and target levels were relatively small. Figure 1 shows the scoring for one of the four maturity assessments.

Figure 1: Department of A – scores for asset management maturity element.

Investor Confidence Rating - Scorecard

Agency Name	Department of A
Agency Type	Public Sector Department
Rating Date	31/01/2017

	Element	Indicator type	Weight	Current level	Target Level	Gap (percent/steps /points)	Percent of points	Weighted score
1	Asset management maturity	Lead	15	81	90	10%	90%	14

This assessment indicated that Department of A has a target level of 90 points out of a possible 100 for its asset management maturity and the current level is 81, leaving a gap of 9 points. This is 10% of its target score, and so the department attracts 90% of the available points for this element according to the table in figure 2.[9] This particular element makes up 15% of the total ICR, so the final weighted score for asset management maturity for Department of A is 90% of 15 points or 14 out of 15.

9

This conversion table was developed by the Treasury-led working group that looked at the design the ICR.

The conversion tables for each element are subject to testing and review after the first tranche of Investor Confidence Ratings.

Figure 2: Table for converting gaps into points

Asset management maturity cap (% gap from target)	Points value
5%	100
10%	90
15%	85
20%	65
25%	45
>26%	0

The other lead indicator is the quality of Department of As long term investment plan. The Department of A has developed a plan based on published Treasury guidance. That plan was assessed by the Treasury and the other parts of the corporate centre as being of *good* quality compared with the target of *excellent* for tier 1 investment-intensive agencies, mainly because of question marks around the sustainability of the plan relative to Department of A's strategic intentions.

The long term investment plan revealed two high risk investment proposals (X and Y) with significant whole life cost implications, plus a series of low and medium risk projects and programmes with large and small whole life costs. The Department of A has a good track record in delivering X type investments. The other high risk investment (Y) is of a type that Department of A has had no experience with in the last 5 years. These differences have implications for assurance and reporting requirements.

Assessment of lag indicators

The Treasury worked closely with Department of A to select a sample of significant investments that had been completed in the last 12 months. The Department then provided information on the actual level of benefits achieved and actual costs and delivery performance compared with those stated in approved business cases. The assessment by the Treasury and its corporate centre partners revealed quite small differences between actual and expected results showing the investments had been well managed.

A similar approach to asset performance revealed that Department of A had achieved the expected levels of asset performance agreed with the responsible Minister as part of previous output plans.

The corporate centre also assessed the extent to which Department of A had met the expectations in the circular and of functional lead agencies. That assessment showed there had been some delays in providing key information for portfolio performance reporting purposes and in the timeliness of engagements over assurance requirements. These facts adversely affected the score for that element of the ICR.

Overall rating

On the basis of the evidence and judgements, the Treasury recommended to Government Investment Ministers that Department of A be assigned an A rating, as show in Figure 4 (The overall score was converted to an alpha rating using the thresholds in Figure 3).

Figure 3: Table for converting numeric scores to alpha rating

Investor Credit Rating (convert score to Rating)	
0	E
26	D
51	C
66	B
81	A

Figure 4: Interim scorecard and rating for Department of A (prior to Cabinet consideration)

Investor Confidence Rating - Scorecard

Agency Name	Department of A
Agency Type	Public Sector Department
Rating Date	31/01/2017

	Element	Indicator type	Weight	Current level	Target Level	Gap (percent/steps/points)	Percent of points	Weighted score
1	Asset management maturity	Lead	15	81	90	10%	90%	14
2	P3M3 management maturity	Lead	15	2.7	4.0	1.3	60%	9
3	Quality of Long Term Investment Plan	Lead	10	Good	Excellent	N/A	60%	6
4	Procurement Capability Index	Lead	5	2.6	3.6	1.0	40%	2
5	Organisational change management maturity	Lead	10	3.1	4.0	0.90	80%	8
	Total for Lead indicators		55					39
6	Benefits delivery performance	Lag	20	0.81	1.0	0.2	80%	16
7	Project delivery performance	Lag	10	0.95	1.0	0.1	100%	10
8	Asset performance	Lag	10	0.88	1.0	0.1	80%	8
9	System performance (compliance)	Lag	5	Very Good	Excellent	N/A	80%	4
	Total for Lag indicators		45					38
	Totals		100					77
							Investor Confidence Rating	**B**

Implications of the rating for Department A

The corporate centre then developed the following specific implications, in consultation with the Department of A. The specific implications were tailored, taking account of:

- the ICR for the Department of A
- relevant risk profile assessments (where available) for significant investments identified on the Department of A long term investment plan, and
- the in-principle implications set out in the ICR guidance.

The corporate centre recommended that Government Investment Ministers approve the implications shown in Table 6 below.

Table 6: ICR Implications for Department of A

<table>
<tr><th colspan="2">Category</th><th>Implication for the Department of A</th></tr>
<tr><td>1</td><td>Spending accumulated depreciation on departmental balance sheet</td><td>The department will have authority to spend accumulated depreciation on investments identified in the department’s LTIP.</td></tr>
<tr><td>2</td><td>Authority to make investment decisions on departmental assets</td><td>The department will have some expanded authority for investment decisions on its own departmental assets compared with the general approval thresholds in the circular.</td></tr>
<tr><td>3</td><td>Authority to retain proceeds from departmental asset disposals</td><td>Agreed, subject to performance against the LTIP.</td></tr>
<tr><td>4</td><td>Authority to make investment decisions on Crown assets</td><td>Not applicable as the department does not manage any assets other than those on the department’s balance sheet.</td></tr>
<tr><td>5</td><td>Level of assistance available for improvement activity</td><td>The corporate centre will target support towards improving project delivery performance and the quality of the long term planning, given these were identified as areas for improvement.</td></tr>
<tr><td>6</td><td>Level of corporate centre support for new Crown funding</td><td>Corporate centre support is likely to be favourable, but this is subject to the merits of particular investment proposals.</td></tr>
<tr><td>7</td><td>Level of corporate centre or monitoring department assurance activity</td><td rowspan="3">Both high risk investments identified on the long term investment plan (X and Y) will be subject to Gateway reviews in due course.[10]

Compared with standard corporate centre requirements for high risk investments there will be lower levels of monitoring and reporting on investment X. Department of A is expected to report on milestones and benefits for all medium risk investments, and to report annually on asset performance against the LTIP.</td></tr>
<tr><td>8</td><td>Level of project, programme, portfolio reporting to and by corporate centre</td></tr>
<tr><td>9</td><td>Assurance requirements</td></tr>
<tr><td>10</td><td>Charges from corporate centre for additional interventions</td><td>This is unlikely, given there are few interventions that will need to take place.</td></tr>
</table>

10 The long term investment plan revealed two high risk investment proposals (X and Y). The Department of A has a good track record in delivering X type investments. The other high risk investment (Y) is of a type that Department of A has had no experience with in the last five years.

Annex 4: ICR Round 2 Programme of Work

Approach

The Treasury is implementing Round 2 of the Investor Confidence Rating (ICR) in a phased approach over 24 months from August 2017 – July 2019.

The phased approach allows agencies and the corporate centre to adjust to the new expectations in an orderly manner. The Treasury will work closely with agencies to identify the specific information required to inform each agency's ICR.

Final agency ratings and any resultant implications will be determined by Cabinet under advice from Government Investment Ministers. Any adjustments following Cabinet decision will not affect the rating agreed by Cabinet but the adjusted rating will be used as the agency's benchmark to compare against in future assessments.

Initial phase

The initial phase of Investor Confidence Ratings for Round 2 will be limited to agencies that were not assessed in Round 1. Assessment of these agencies will take place between August 2017 and December 2017, with final Cabinet decisions on ratings expected in March 2018.

Next three phases – to July 2019

The next three tranches will follow a similar order as Round 1 assessments. This is to ensure agencies are given sufficient time to make improvements between cycles. Tranche 1 assessments will take place between February 2018 and May 2018, to allow for Cabinet decisions by July 2018. Tranche 2 assessments will take place between August 2018 and December 2018, with Cabinet decisions expected in March 2019. The final tranche in Round 2, Tranche 3, will take place between February 2019 and May 2019, with Cabinet decisions expected in July 2019.

Business as usual

Agency ICRs will be formally reviewed on a two-yearly cycle. Mid-way through the cycle, the agency's progress toward improving key aspects of its investment and asset performance will be reviewed through the Outlook Discussion process.

Annex 5: Support for Agencies

A range of tools and services are available to support agencies as they prepare for the ICR.

Tools

Frequently Asked Questions and their answers are on Treasury's website and is a useful guide to common queries and solutions.
http://www.treasury.govt.nz/statesector/investmentmanagement

Maturity assessments
Where possible (and subject to commercial arrangements) the Treasury will post or link to maturity assessment tools on its website so that these can be used to inform self-assessments or facilitated assessments using an independent assessor.
http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr

Services

Treasury can facilitate planning or awareness-raising sessions on the ICR.

Agencies should direct enquiries to: investmentmanagement@treasury.govt.nz.

Useful links

Treasury Investment Management
http://www.treasury.govt.nz/statesector/investmentmanagement

Treasury National Infrastructure Unit
http://www.infrastructure.govt.nz

Investment Management and Asset Performance - PSI shared space (authorised access only)
https://www.psi.govt.nz/home/guidance/investment-management/

State Services Commission - Four Year Plan Guide for Public service department medium term planning
http://www.ssc.govt.nz/four-year-plans

Victoria, Australia, Department of Treasury and Finance - Benefit management tracking tool
http://www.dtf.vic.gov.au/Publications/Investment-planning-and-evaluation-publications/Investment-management/Benefit-management-tracking-tool

Asset Management and infrastructure good practice manuals and guidelines
http://www.nams.org.nz/pages/6/manuals---guidelines.htm