Reference: 20160292

9 September 2016

Thank you for your Official Information Act request, received on 29 July 2016. You requested:

> *"1. A copy of all reports, briefings and advice Treasury has prepared to support Treasury's assessment for the Ministry of Education's Investor Confidence Rating of C in July 2016;*
> *2. A copy of any correspondence, including emails, between Treasury and the Ministry of Education regarding the Investor Confidence Rating, since 1 April 2016."*

On 26 August 2016, I sought an extension of 10 working days. A response to your request is due by 9 September 2016.

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	18/02/16	CO Implementation Update for Investment Ministers 11 February 2016	Release relevant part
2.	19/02/16	Investor Confidence Rating: Results for Tranche 1	Release relevant part
3.	18/03/16	Investor Confidence Rating: Results for Tranche One	Release relevant part
4.	24/03/16	SEC Briefing: Investor Confidence Rating: Results from Tranche One	Release relevant part
5.	6/05/16	Feedback on the LTIP(Kerry Hollingsworth [TSY]))	Release in full
6.	8/05/16	RE: ICR results - Tranche One - Possible release of high level results in July(Kerry Hollingsworth [TSY]))	Release in part

7.	9/06/16	ICR results - Tranche One - Possible release of high level results in July(Kerry Hollingsworth [TSY]))	Release relevant part
8.	28/06/16	RE: Follow up on the ICR results release approach(Fiona Smith))	Release in full
9.	11/08/16	FW: EMBARGOED Investor Confidence Rating (Emily Marden [TSY]))	Release relevant part
10.	11/08/16	FW: EMBARGOED Investor Confidence Rating(Emily Marden [TSY]))	Release in part
11.	11/08/16	FW: CONFIRMED RELEASE TIME/DATE(Emily Marden [TSY]))	Release in full
12.	11/08/16	FW: updated key messages and questions and answers(Emily Marden [TSY]))	Release in part

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including deceased people, and
- certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions

Please note, information withheld as 'out of scope' relates to the ratings of other Government agencies and therefore is not relevant to your request.

Information to be Withheld

There is one additional document covered by your request that I have decided to withhold in full under the following sections of the Official Information Act, as applicable:

certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions

Item	Date	Document Description	Proposed Action
13.	11 August 2016	Investor Confidence Rating messages for the Ministry of Education	Withhold in full

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

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

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

Yours sincerely

Ricky Utting
Manager, Investment Management & Asset Performance

OIA Information for Release 20160292

1.	Report on implementation of CO(15)5 Circular - Investor Confidence Ratings	1
2.	Treasury Report Investor Confidence Rating Results for Tranche 1	14
3.	Treasury Report Investor Confidence Rating- Results from Tranche One	32
4.	SEC Briefing: Investor Confidence Rating: Results from Tranche One	51
5.	Feedback on the LTIP	53
6.	ICR Results - Tranche One - Possible release of high level results in July	56
7.	RE ICR results - Tranche One - Possible release of high level results in July	63
8.	RE Follow up on the ICR results release approach	67
9.	FW EMBARGOED Investor Confidence Rating	68
10.	FW EMBARGOED Investor Confidence Rating	75
11.	FW Confirmed Release Time Date	77
12.	FW updated key messages and questions and answers	79

THE TREASURY
Kaitohutohu Kaupapa Rawa

A contribution that counts 1840-2015

Report on implementation of CO(15)5 Circular

Investor Confidence Ratings

Prepared for the Investment Ministers Group

11 February 2016

Contents

Part	Subject	Page
1	Executive Summary, including recommendations to Investment Ministers	3
2	CO(15)5 rationale and implementation programme	5
3	Potential ranges of implications at agency level	6
4	Tranche 1 ICR results and implications by agency	7-12
5	Themes from Tranche 1	13
6	Use of ICR results and supporting information	14
Appendices		
	1 Further information on the ICR approach and scoring framework	
	2 In-principle implications for agencies	
	3 List of Investment-intensive agencies by tier and implementation tranche	

1. Executive Summary

Purpose of this report

This report covers the preliminary results and proposed implications of the first tranche of Investor Confidence Ratings (ICR) for 6 agencies. This report invites Investment Ministers to consider these results and proposed implications, which vary according to each agency's ICR and investment context.

The report also seeks agreement to proceed with the CAB100 process and report to SEC by 30 March on these results and implications.

Overview of ICR

On 13 April 2015, Cabinet approved the new circular, CO(15)5 *Investment Management and Asset Performance in the State Services*. The circular created changes to the investment system designed to lift capability and performance across the system.

The ICR is a new component in the investment management system. It is a rating of an agency's current investment management environment, as distinct from the merits of a particular investment or proposal.

Purpose of ICR

- To provide an incentive mechanism that rewards good investment management performance and encourages agencies and the corporate centre to address gaps in investment performance.
- To enhance the degree of objectivity and rigour in the investment management system compared with past practices.

Operation of ICR

The Treasury examined agency performance through an agreed mix of lead and lag indicators (see Appendix 1). The results reveal what each agency (and the corporate centre) need to do to enhance future investment performance.

Incentive effects

Cabinet agreed that the ICR may influence the general level of financial authority an agency has over investments, as well as its reporting and assurance arrangements, and the level of assistance from the corporate centre. Appendix 2 sets out the in-principle implications agreed by Investment Ministers: a C rating means the status quo applies; relative to that position, agencies with A or B ratings can expect more decision making authority and reduced compliance costs; The converse applies to D and E rated agencies.

Tranche 1 results

As scheduled, The Treasury has now compiled preliminary results for each of the 6 agencies in tranche 1, based on specific information provided by agencies, monitoring departments and the corporate centre and 3rd party suppliers.

Detailed results are shown in the body of this report. Two agencies are due to provide further information on benefits or their long term plans which may affect their rating. Preliminary results are shown in the table below:

Agency	Preliminary ICR result
ACC	B
Department of Corrections	C*
Ministry of Education	C*
Inland Revenue Department	A
NZ Defence Force	B
NZ Transport Agency	B

** Agency providing further information which may affect the ICR result*

1. Executive Summary cont.

Potential agency implications

The Treasury has started discussions with each agency on the potential implications for them arising from the preliminary results, and the material in Appendix 2.

This report outlines the shape of the potential implications and invites Investment Ministers to indicate their level of comfort with the potential implications. Particular agency by agency implications would take effect as soon as practicable after Cabinet approval (ie from 1 May 2016).

Potential system implications

The preliminary ICR ratings are already being used to inform Investment Panel advice on capital proposals in the Budget process. Other investment-intensive agencies are responding proactively to the ICR process. There is scope to formally leverage ICR results and resultant areas for improvement into other performance processes.

Next steps

Tranche 1 activity	Timeframes	Target audience
Explore potential implications of agency ratings	January-February 2016	Investment Ministers, agencies, corporate centre
Prepare Cabinet paper for consultation (results and implications)	February 2016	MoF (for approval of Cab paper prepared by The Treasury with agencies and corporate centre)
Consult over Cabinet paper	March 2016	MoF, Ministers, chief executives, Boards
Cabinet committee consideration	30 March 2016	SEC
Cabinet consideration	4 April 2016	Cabinet

Recommendations for Investment Ministers

The Treasury recommends that Investment Ministers, acting under the delegation in CAB Min (15)11/7A:

Tranche 1 ICR results

1. **Note** the Treasury has compiled preliminary ICR scores for six investment-intensive agencies (Tranche 1) , drawing on information provided by the affected agencies, relevant monitoring departments, the corporate centre and expert 3rd party assessors
2. **Approve** the preliminary ICR ratings for each agency as set out in the body of this report
3. **Note** The Treasury has commenced discussions with each agency on the potential implications of their ICR score, taking account of their investment context
4. **Approve** the potential implications for each agency as set out in the body of this report (or as otherwise amended)

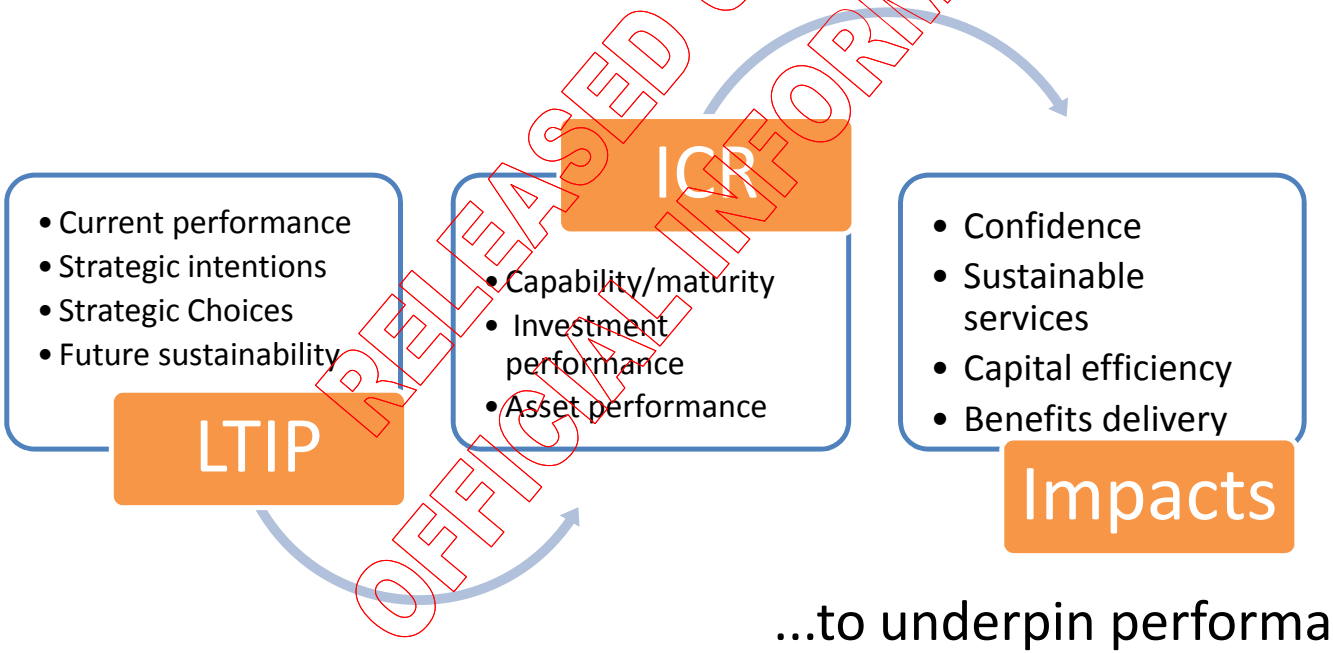
Next steps

5. **Invite** the Minister of Finance to proceed with the CAB100 process and report to SEC by 30 March on the first tranche of ICR results and implications, and
6. **Note** ICR activity is underway for tranche 2 [redacted]

Out of scope of request

2. CO(15)5 rationale and implementation programme

An 18 month programme in three tranches to meet 3 system objectives*. Initial focus is on getting quality long term investment plans (LTIP), assessing level of investor confidence rating (ICR) and improving investment performance...



...to underpin performance and improve public value

*optimise value; increase system efficiency; enable results

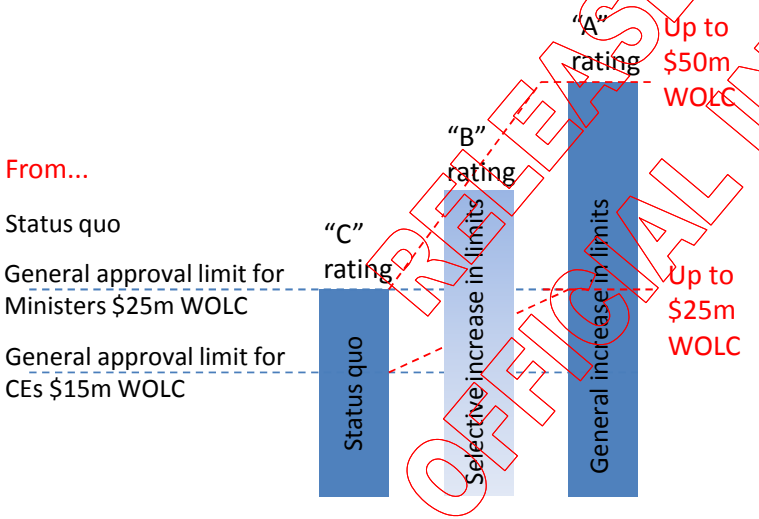
3. For discussion: Potential ranges of implications at agency level

Investment Ministers agreed the 10 in-principle implications in Appendix 2. Recent discussions with agencies have focused on two main implications: decision rights and corporate centre information requirements. This note seeks Investment Ministers reaction to the potential range of such implications for tranche 1 agencies.

For discussion purposes the potential breadth of implications for those two dimensions is shown below (example 1 relates to departments; example 2 could apply to all agencies covered by C0(15)5).

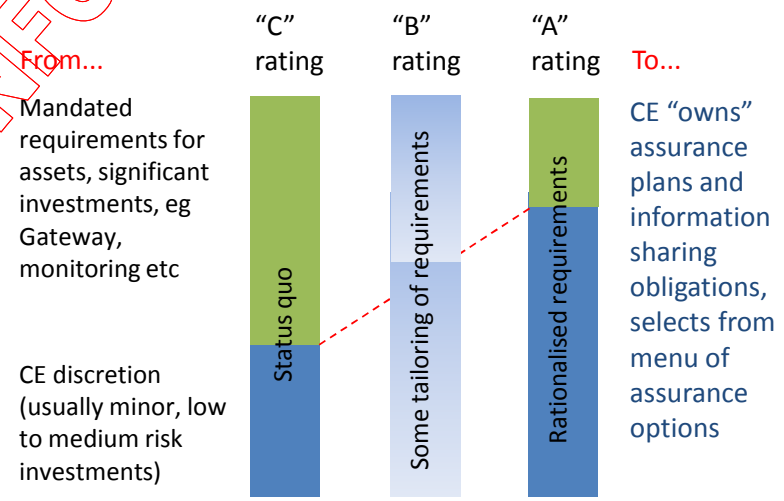
The overriding proviso is that Investment Ministers (and the corporate centre) have visibility through the LTIP of total agency investment intentions and performance information. With this visibility, there is scope to establish specific authorities or arrangements for individual investments (projects, programmes, portfolios) to satisfy particular Cabinet interests, such as those recently put in place for IRs Business transformation programme.

1. Potential range of capital investment (approval) thresholds



Note in addition for higher rated agencies there could be more flexibility around technical baseline changes (compared with CO(15)4, including use of MYAs.

2. Potential range of Corporate Centre requirements



Note for the purposes of discussion this example includes CC monitoring, reporting, Gateway, business cases and other assurance requirements

Pages 7 - 8 not relevant to request

4. Agency preliminary result: Education

Investor Confidence Rating:	C
Scope of ICR assessment	School property and ICT portfolios

Elements Score

		Element	% Score	Element Score
Lead Indicators	1	Asset Management Maturity (AMM)	87%	17/20
	2	Project, Programme and Portfolio Management Maturity (P3M3)	60%	9/15
	3	Quality of Long Term Investment Plan (LTIP)	40%	4/10
	4	Organisational Change Management Maturity	80%	4/5
Lag Indicators	5	Benefits delivery performance	20%*	4/20
	6	Project delivery performance	80%	12/15
	7	Asset performance	100%	10/10
	8	System performance (compliance)	60%	3/5
		Total Score		**63*/100**

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

Treasury Comment

Education receives an Investor Confidence Rating of C, which is based on a score of 63 points out of 100. The Treasury has an expectation that Tier 1 investment-intensive agencies achieve at least a B. The assessment recognises gains made in recent years and highlights the need for some further improvement .

The evidence shows Education has strengths in asset management maturity and in delivering projects to scope and on budget. It consistently meets its own asset performance targets and its self assessment shows strengths in organisational change management maturity.

There are gaps in aspects of its P3M3 management (particularly benefits management, stakeholder management and resource management) that may affect future performance. The separate parts of the Education LTIP need to be more closely integrated. Education plans to update the LTIP in the next 6 months.

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

Note: Education disagrees with the Treasury's preliminary assessment of the Ministry's benefits delivery performance which it claims fails to take account of programme level benefits. It says the benefits score “is not credible, is misleading and unnecessarily raises a reputation risk. ..” “It also prevents the Ministry from attaining an overall B rating...”. Further information may affect the score for this element and potentially the overall rating.

Potential Implications

Based on a C rating there is no change to the general approval thresholds set out in Cabinet Office circular CO(15)5. Existing business case and corporate centre assurance requirements apply. The main implications arising from the ICR are for Education, working with the corporate centre, to develop and use a n integrated long term investment plan, lift P3M3 capability and improve benefits management.

Pages 10 - 12 not relevant to request

5. Themes from Tranche 1

Tranche 1 confirmed some common strengths and revealed some other gaps that need to be addressed to lift overall investment performance...

Project delivery vs. benefits management

The evidence for element 6 shows agencies are very good at delivering projects according to the time, cost, and scope requirements agreed with investors.

By contrast with Investment delivery, the evidence around benefits management is much more mixed: the external P3M3 maturity assessments (element 2) and agencies' own benefits performance information (element 5) shows that benefits management varies from one agency to another.

Some agencies have mature practices and are using benefits information; Some don't have benefits management frameworks at all; others have benefits management frameworks but these are not yet being used; still others have articulated the expected benefits from investments but are not systematically assessing actual performance against what the investors expected or taking a long time to assess the impacts of investments.

The Treasury is enhancing its existing guidance and support for agencies to lift this aspect of investment performance, and to leverage good current and emerging practices in agencies like Out of scope of request .

Long term Investment Plans (10 year horizon)

The LTIP is seen as a key aspect of the regime set out in CO(15)5. It underpins a variety of corporate centre processes. Three agencies provided a stand-alone Long Term Investment Plan; By prior agreement three others provided a "virtual" LTIP - essentially an amalgam of existing planning documents, not necessarily oriented to the published LTIP requirements.

Out of scope of request . Most other LTIPs revealed a medium rather than long term perspective.

Most LTIPs took an agency-centric lens with limited recognition of an all-of-government approach to planning and options.

The Treasury will use exemplars from Tranche 1 to help agencies improve the next round of LTIPs.

Asset Performance targets

Agencies generally scored well in both asset management maturity (element 1) and in relation to their own asset performance targets (element 7). However, as in the past, the exercise raised questions about the quality of asset performance information. Due to some unintended ambiguity in its guidance around element 7, The Treasury accepted information of varying quality. The Treasury will fine tune its published guidance to make the information requirements clearer, particularly the distinction between how well assets themselves are performing as opposed to metrics on levels of customer service. The Treasury will work with agencies to improve the asset performance information.

A further area for improvement is in the way targets are set: In Out of scope of request the performance targets are agreed at Board level. In departments, equivalent targets are generally established at executive level or implied (rather than explicitly set) in output agreements with Ministers.

6. Use of ICR results and supporting information

Budget processes (access to new Crown funding)

Where available, the Investment Panel is using the ICR as an indicator of the credibility of agency budget proposals and prospects of success in the agency investment environment.

This information, along with the merits of the proposal, could influence whether the proposal is supported, how it might be delivered, and what conditions might need to be in place to assure benefits are delivered as expected.

In due course, when all the ICRs are known it may be possible to adopt a general rule for budget management purposes, for example:

- no new funding for "C" rated agencies
- limited access to new funding for "B" rated agencies.

However we think this could be counterproductive (ie if it precluded necessary or desirable investments in key sectors). In those situations the ICR can be used to influence the conditions around access to funding, reporting results etc.

This occurs to some degree at present but the ICR will provide a more systematic basis for investment contingency, draw down or reporting arrangements.

Use of more detailed information obtained through ICR process

Under the ICR headline scores there is rich detail on key management maturities by asset class (element 1) or investment portfolio (element 2). The CC intends to use insights into agency relative strengths or gaps to tailor particular assurance arrangements.

For example, there is more granular information available on the different levels of project vs programme maturity in agencies which is valuable if/when the agency is contemplating investing in a programme of work, compared with individual projects.

Outlook indicator and improvement actions

Once the ICR scores are confirmed by Cabinet we intend to use the Outlook indicator to recognise changes (positive or negative) in ICR elements between formal 2-yearly ICR assessments. For example, when an agency improves the quality of their LTIPs and/or starts to use the LTIP as a basis for monitoring its performance we can recognise that through a "positive " outlook indicator, to supplement the agreed ICR.

Over time we expect "positive " outlook indicators to translate into higher ICR scores. Conversely an observable deterioration in one or more ICR element could result in a "negative" or "Watch" outlook indicator which is a signal that some corrective action needs to be taken to restore the previous level of confidence.

The CC intention is that these ratings and indicators would be progressively taken into consideration in other performance processes .

Appendix 1: Investor Confidence Rating (ICR)

Approach to Ratings, Outlook

- To get an "A" rating, agencies need to score highly on the most valued elements - not necessarily high on all elements.
- Scores are determined by the extent of the alignment between current and appropriate levels of performance.
- Improvement actions (by the agency or corporate centre) will centre on closing gaps between current and appropriate levels for performance. Ie the performance "gap"
- The rating will be based on quality information and repeatable analytical processes so that it is reliable and durable.
- Between reviews, an "outlook indicator" will be used to signal changes in the direction of travel in an agency's investment or asset management environment.

Eight ICR Indicators, Weights, Bases for assessing each element

	Element	Indicator type	Weight	Assessment basis
1	Asset management maturity	Lead	20	*The asset management score obtained by agency self assessment reviewed by independent assessor using Treasury maturity model*
2	P3M3 management maturity	Lead	15	*The maturity score obtained through facilitated self assessment by independent assessor using P3M3 maturity model*
3	Quality of Long Term Investment Plan	Lead	10	*Corporate centre assessment based on criteria set out in LTIP guidance*
4	Organisational change management maturity	Lead	5	*The maturity score obtained by agency self assessment followed by moderation process using approved change management maturity model*
	Total for Lead indicators		50	
				Assessment approach
5	Benefits delivery performance	Lag	20	*Examines evidence to determine whether actual benefits met expected business case benefits from significant investments that attained "in-service" status over a given period*
6	Project delivery performance	Lag	15	*Examines evidence to determine whether actual performance met expected performance based on individual business cases*
7	Asset performance	Lag	10	*Examines evidenceto determine whether actual performance met agreed asset performance targets*
8	System performance (compliance)	Lag	5	*Corporate centre assessment based on transparency, compliance with key system performance expectations over recent past and performance against long term capital plan over a given period.*
	Total for Lag indicators		50	
	Totals		100	

Appendix 2: In-principle ICR implications for departments

- General implications for departments have been agreed with Investment Ministers (June 2015) as shown in the table below. The base case is a "C" rating, which reflects general approval thresholds set out in CO(15)5 and existing assurance or reporting arrangements.
- Particular implications will be determined by Cabinet taking account of the ICR and the agency's investment context (agency balance sheets and baselines, investment intentions).
- For items 1-6, levels of authority would be set by Cabinet in relation to the agency's Long Term Investment Plan.
- For items 7-9, arrangements for significant investments would also take account of the specific risk profile for a given investment (Risk Profile Assessment (RPA))

	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

Appendix 2: In-principle ICR implications for other agencies

- The table below sets out general implications for agencies like Crown entities and Schedule 4A companies
- The base case is a "C" rating, which reflects general approval thresholds set out in the circular.
- Actual levels of authority for these types of agency would be agreed between responsible Ministers and Boards in relation to the agency ICR, its balance sheet and long term investment plan.
- For items 7-9, actual arrangements for significant investments would also take account of the specific risk profile for a given investment (Risk Profile Assessment RPA)

	For Crown entities and Schedule 4A companies									
	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	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.			Subject to agreement on LTIP requirements	Limited assistance	Favourable, subject to merits of investment proposal	Tailored, recognising agency strengths			Unlikely
B				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				Subject to agreement on LTIP requirements	Targeted assistance	Neutral, subject to merits of investment proposal	Standard array of services			Likely
D				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				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

Appendix 3: Investment-intensive agencies

There are currently 24 investment-intensive agencies, split into two tiers according to the scale or criticality of assets.

The Treasury is implementing the ICR to all 24 agencies in three tranches over 18 months from mid 2015 to mid 2017.

Cabinet has yet to determine whether the new Canterbury Earthquake entity will be investment-intensive.

The TEC conveys relevant investment management expectations to TEIs

Tier 1 agencies (10)	Tranche 1 (March 2016)	Tranche 2 (Sept 2016)	Tranche 3 (March 2017)
ACC	✓		
Auckland DHB, Canterbury DHB		✓	
Corrections	✓		
Education	✓		
HNZC			✓
IRD	✓		
Ministry of Health			✓
NZDF	✓		
NZTA	✓		
Tier 2 agencies (14)	**Tranche 1 (March 2016)**	**Tranche 2 (Sept 2016)**	**Tranche 3 (March 2017)**
Conservation			✓
Customs			✓
Internal Affairs			✓
MBIE			✓
MFAT			✓
Justice			✓
Police			✓
MSD			✓
Counties Manukau DHB, Northland DHB, Waitemata DHB		✓	
Capital & Coast DHB, Southern DHB, Waikato DHB			✓

THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Investor Confidence Rating: Results for Tranche 1

Date:	23 February 2016	**Report No:**	T2016/239
		File Number:	ST-4-8-4-6-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	**Agree** to proceed with CAB100 consultation process.	Thursday 25 February 2016
Associate Minister of Finance (Hon Steven Joyce)	**Note** the report and attached draft Cabinet paper.	None
Associate Minister of Finance (Hon Paula Bennett)	**Note** the report and attached draft Cabinet paper.	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Kerry Hollingsworth	Principal Advisor	04 917 6153 (wk)	s9(2)(a)	✓
Ricky Utting	Manager	04 890 7200 (wk)		

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)
Cabinet paper - Investor Confidence Rating - Results of Tranche 1

Treasury Report: Investor Confidence Rating: Results for Tranche 1

Executive Summary

This report seeks your approval to consult over a Cabinet paper on the results and proposed implications of the first tranche of Investor Confidence Ratings (ICR) for six agencies – ACC, Corrections, Ministry of Education, IRD, NZDF and NZTA.

The Cabinet paper is based on material discussed and approved at the Investment Minister's meeting on 11 February 2016. At that meeting Ministers agreed to proceed with the CAB100 process and report to SEC by 30 March on the ICR results and implications. Cabinet makes final decisions on ICR ratings and consequential implications for each agency.

The report to Investment Ministers flagged areas where further information was being provided by the agencies. That information has now been provided and the scores firmed up as a result. None of the changes has been material enough to change the preliminary ratings approved by Investment Ministers.

The consultation period will run for nearly three weeks from 25 February to 17 March 2016. We intend to consult with the six affected agencies, relevant monitoring departments and the corporate centre.

Although the scores and ratings are firm, we anticipate that during this period agencies will want to have further discussions with the corporate centre on the ICR implications. We consider that further discussions are valuable if these strengthen the agency resolve to make desired improvements, provided the particular implications are within the parameters approved by Investment Minister and don't hold up the consultation process.

Our own analysis of the findings will also continue during the consultation period and that could lead us to suggest further information be included in the Cabinet paper. At the conclusion of the consultation period we will report back on any changes to the paper itself and on any proposed refinements to the broad agency by agency implications.

Recommended Action

We recommend that you **agree** to proceed with CAB100 consultation on the attached draft Cabinet paper: *Investor Confidence Ratings: Results from Tranche One.*

Agree/disagree.
Minister of Finance

Ricky Utting
Manager

Hon Bill English **Minister of Finance**	Hon Steven Joyce **Associate Minister of Finance**	Hon Paula Bennett **Associate Minister of Finance**

IN-CONFIDENCE

Office of the Minister of Finance

[Consultation Draft 23 February 2016]

Chair
Cabinet Committee on State Sector Reform and Expenditure Control

INVESTOR CONFIDENCE RATING: RESULTS FROM TRANCHE ONE

Proposal

1. This paper covers the results and proposed implications of the first tranche of Investor Confidence Ratings (ICR) for six of the most investment-intensive agencies being ACC, the Department of Corrections, The Ministry of Education (MoE), Inland Revenue Department (IRD), the New Zealand Defence Force (NZDF) and the NZ Transport Agency (NZTA).

2. It invites Cabinet to approve the ICR ratings for these agencies and the associated implications arising from those ratings.

Executive Summary

3. Cabinet Office circular CO(15)5 Investment Management and Asset Performance in the State Services came into effect on 1 July 2015. That circular established the ICR, which is a rating of an agency's current investment management environment, as distinct from the merits of a particular investment or proposal.

4. The ICR is designed to provide an incentive mechanism that rewards good investment management performance and encourages agencies and the corporate centre to address gaps in investment performance. The ICR complements other work underway in the social investment space to generate data to inform decisions on where to invest, make sure investments are structured for success and measure the impacts of our decisions.

5. In this context performance is assessed against an agreed mix of eight indicators that together provide insights to the way each agency manages its assets and capital investments.

6. The Treasury has now completed the first tranche of ICR assessments, working closely with six of the most investment-intensive agencies in the State Services – ACC, Corrections, MoE, IRD, NZDF and NZTA, and the corporate centre – under the direction of Investment Ministers.

7. The results from tranche 1 show that IRD attracts an A rating, ACC, NZDF and NZTA attract a B rating and Corrections and MoE attract C ratings.

Out of scope of request

9. The ICR has been challenging for all parties concerned given the timeframes for reporting back to Cabinet. However I consider that effort has been worthwhile. The ICR has systematically identified a range of strengths and gaps in each agency. This information provides a sound basis for focusing improvement activity within and between agencies over the next two years before the next round of ICRs takes place. It also helps inform the choices we will make in the budget process and any special arrangements around new investments.

10. Most agencies have good asset and change management maturity and are very good at delivering investments according to the agreed time, cost and scope. The two most important areas for improvement are in planning over a long term horizon and in the delivery of benefits from agency and all-of-government investments.

11. From a wider public sector management perspective we now have a sound basis for recognising the best rated agencies in a meaningful and evidence-based way and giving them (and their Ministers) more discretion over investments and reducing compliance costs, compared with other agencies. This paper invites Cabinet to not only approve the ICR ratings for the six agencies but also approve particular changes in approval thresholds and corporate centre requirements in recognition of the ICR results.

12. If approved, the ratings and associated implications will take effect as soon as practicable (i.e. from 1 May 2016). The Treasury will work through transitional arrangements with each agency, relevant monitoring departments for Crown entities and the corporate centre.[1]

13. Meantime, work is well underway on rolling out the ICR Out of scope of request Out of scope of request

Background

14. On 13 April 2015, Cabinet approved Cabinet Office circular, CO(15)5 *Investment Management and Asset Performance in the State Services*. That circular came into effect on 1 July 2015 and established changes to the investment system designed to lift capability and performance across the State Services.

15. Among the system enhancements was the introduction of the ICR, which is a rating of an agency's current investment management environment.

16. The primary purpose of the ICR is to provide an incentive mechanism that rewards good investment management performance and encourages agencies and the corporate centre to address gaps in investment performance. It also enhances the degree of objectivity and rigour in the investment management system compared with past practices.

17. During the second half of 2015, the Treasury worked with agencies to develop the detailed ICR approach. The ICR comprises eight elements or types of information, each of which has a given weighting as shown in figure 1 below.

1 Includes the State Services Commission, Department of Prime Minister and Cabinet and functional lead agencies.

2 Northland, Auckland, Waitemata, Counties-Manukau, and Canterbury DHBs.

Figure 1: Eight ICR elements, weightings and bases for assessment

	Element	Indicator type	Weight	Assessment basis
1	Asset management maturity	Lead	20	*The asset management score obtained by agency self assessment reviewed by independent assessor using Treasury maturity model*
2	P3M3 management maturity	Lead	15	*The maturity score obtained through facilitated self assessment by independent assessor using P3M3 maturity model*
3	Quality of Long Term Investment Plan (LTIP)	Lead	10	*Corporate centre assessment based on criteria set out in LTIP guidance*
4	Organisational change management maturity	Lead	5	*The maturity score obtained by agency self assessment followed by moderation process using approved change management maturity model*
	Total for Lead indicators		50	
				Assessment approach
5	Benefits delivery performance	Lag	20	*Examines evidence to determine whether actual benefits met expected business case benefits from significant investments that attained "in-service" status over a given period*
6	Project delivery performance	Lag	15	*Examines evidence to determine whether actual performance met expected performance based on individual business cases*
7	Asset performance	Lag	10	*Examines evidenceto determine whether actual performance met agreed asset performance targets*
8	System performance (compliance)	Lag	5	*Corporate centre assessment based on transparency, compliance with key system performance expectations over recent past and performance against long term capital plan over a given period.*
	Total for Lag indicators		50	
	Totals		100	

18. Among the design features of the ICR are that:

- The ICR gives equal weight to lead and lag indicators. Lead indicators give insights to future performance whereas lag indicators are generally based on evidence of performance against agreed targets over the last two years
- The ICR uses a mix of independent parties (to test the most important lead indicators), agency self assessment and corporate centre expertise, and
- It also reinforces government's investment objectives by placing a high weighting on delivery of benefits or impacts as well as traditional time, cost and scope dimensions of project delivery.

19. Investment Ministers approved the approach and confirmed the ICR would be rolled out across 24 investment-intensive departments and Crown agents in three tranches over 18 months.

20. Investment Ministers also agreed in principle what the implications of the ICR rating would mean for departments and Crown entities: a C rating means the status quo applies; relative to that position, agencies with A or B ratings can expect more decision making authority and reduced compliance costs, whereas the converse applies to any D or E rated agencies.

21. Detailed guidance was published in the first quarter of 2015/16. From September 2015 to January 2016, the Treasury worked with the six agencies in tranche 1 to collate, assess and moderate the ICR information.

22. As the detailed results emerged discussion focused on what each agency (and the corporate centre) needs to do to enhance future investment performance.

Tranche 1 results

Overview

23. The Treasury has now compiled results for each of the six agencies in tranche 1, based on specific information provided by agencies, monitoring departments, the corporate centre and 3rd party suppliers. The results are shown in Figure 2 below.

24. These interim results have been reviewed and approved by Investment Ministers[3] and are subject to Cabinet approval through this paper.

25. My expectation is that, due to the size and criticality of their asset and investment portfolios, Tier 1 investment-intensive agencies demonstrate at least a B rating. On that rationale, the results highlight the need for improvement in some agencies to attain or secure this level of confidence.

26. Further details on the basis for each agency's rating are provided in the annex to this report.

Figure 2: Interim ICR results (subject to Cabinet approval)

Agency	Interim ICR result
ACC	B
Department of Corrections	C
Ministry of Education	C
Inland Revenue Department	A
NZ Defence Force	B
NZ Transport Agency	B

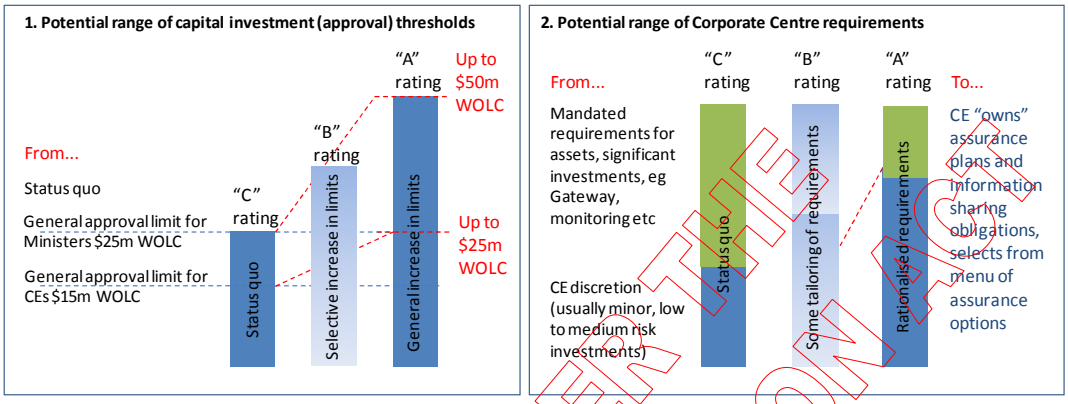
Potential implications

27. Acting under Cabinet authority, Investment Ministers previously agreed in-principle what the general implications of ICR scores could mean for departments and Crown entities. These general implications were published along with ICR guidance in October 2015.

28. Recent discussions with agencies have focused on two main implications: decision rights and corporate centre requirements. Investment Ministers considered the potential range of such implications for tranche 1 agencies as shown in figure 2 below.

[3] Acting under the delegation in CAB Min (15)11/7A

Figure 2: Potential ranges of ICR implications for approval thresholds and corporate centre requirements[4]



29. Investment Ministers considered that transparency should be overriding proviso for expanding approval thresholds or establishing more flexible and targeted reporting and assurance arrangements for any agency.

30. I consider it is important that Investment Ministers (and the corporate centre) have visibility through the LTIP of total agency investment intentions and performance information. With this visibility, there is scope to establish specific authorities or arrangements for individual investments (projects, programmes, portfolios) to satisfy particular Cabinet interests. Out of scope of request

Out of scope of request

Agency results and implications

Out of scope of request

[4] Example 1 relates to departments; example 2 could apply to all agencies covered by C0(15)5).

Out of scope of request

Out of scope of request

Ministry of Education (Interim rating: C)

39. The evidence shows MoE has strengths in asset management maturity and in delivering projects to scope and on budget. It consistently meets its own asset performance targets and its self assessment shows strengths in organisational change management maturity.

40. There are gaps in aspects of its P3M3 management (particularly benefits management, stakeholder management and resource management) that may affect

[6] These generally sit with the Board (for agency-funded investments) though the Cabinet Manual requires the responsible Minister to consider whether a proposal should also be considered by Cabinet.

future performance. MoE's separate investment portfolios need to be more closely integrated in its LTIP and connected with the Education System Agencies' Response to the Education System Stewardship Blueprint. MoE intends to update its LTIP in the next six months.

41. Some key performance information is limited or not yet available: in particular there is limited evidence of asset performance apart from utilisation targets or evidence to show that expected investment benefits have been realised, particularly for a range of school property investments.

42. The MoE has stated that it disagrees with the Treasury's assessment of its benefits delivery performance. The MoE says the methodology "fails to take account of programme level benefits management and the Treasury's approach has been inflexible in spite of recognising the need to change the methodology in future". Consequently, it considers "the resulting score of 4 out of 20 is not credible, is misleading, and unnecessarily raises a reputation risk if it is perceived the Ministry has failed to deliver benefits and therefore wasted taxpayers' money. It also prevents the Ministry from attaining an overall ICR of "B" further undermining the credibility of the ICR framework".

43. The Treasury acknowledges the perceived risk. It intends to work with MoE to help it underpin its performance story with information on the impacts of its school property upgrades or expansions in terms of the benefits government is seeking through such programmes, such as improved access to education or lifting educational achievement.

44. Based on a C rating there is no change to the general approval thresholds set out in Cabinet Office circular CO(15)5. Existing business case and corporate centre assurance requirements apply. The main implications arising from the ICR are for MoE, working with the corporate centre, to develop and embed its integrated long term investment plan, lift P3M3 capability and improve benefits management.

Out of scope of request

Out of scope of request

Out of scope of request

Improvement focus

63. The ICR requires agencies to explain in a new way, the rationale for their long term (at least 10 years) investment intentions; it involves independent analyses of key management maturities relating to the current and future management of assets and investments; and it requires agencies to collate and analyse information on investments over the last two years.

Incentive effects

64. Cabinet agreed that the ICR may influence the general level of financial authority an agency has over investments, as well as its reporting and assurance arrangements, and the level of assistance from the corporate centre.

Themes from tranche 1

65. The ICR has highlighted a range of particular improvement opportunities in each agency at the ICR element level. The common areas for improvement are in:

- Lifting the quality of long term planning (and resultant LTIPs)
- Aligning project delivery and benefits management disciplines, and
- Making asset performance targets more meaningful.

Long term Investment Plans (10 year horizon)

66. The LTIP is seen as a key aspect of the regime set out in CO(15)5. It underpins a variety of corporate centre processes. Agency LTIPs will become increasingly important tools for providing transparency over the long term impact of agency and sector investment intentions.

67. With a few exceptions, the first set of LTIPs revealed a medium rather than long term perspective. Further, most LTIPs took an agency-centric lens with limited recognition of sector or all-of-government approach to planning and options.

68. The Treasury will use exemplars from Tranche 1 to help all agencies improve the next tranche of LTIPs and connect intentions to performance reporting.

Project delivery vs. benefits management

69. The evidence for element 6 shows agencies are very good at delivering projects according to the time, cost, and scope requirements agreed with investors (i.e. Cabinet, responsible Ministers, Boards, Chief executives).

70. By contrast with Investment delivery, the evidence around benefits management is much more mixed: the external P3M3 maturity assessments (element 2) and agencies' own benefits performance information (element 5) shows that benefits management varies from one agency to another, for example:

- Some agencies have mature practices and are using benefits information
- Some don't have benefits management frameworks at all
- Others have benefits management frameworks but these are not yet being used, and
- Still others have articulated the expected benefits from investments but are not systematically assessing actual performance against what the investors expected or are taking a long time to assess the impacts of investments.

71. The Treasury is enhancing its existing guidance and support for agencies to lift benefits management performance, and to leverage some good current and emerging practices in agencies.

72. The Treasury, through its monitoring activity, will place renewed focus on building evidence on the impacts of investment activity to complement the strengths agencies have on delivery of new assets and capabilities.

Asset Performance targets

73. Agencies generally scored well in both asset management maturity (element 1) and in relation to their own asset performance targets (element 7). However, as in the past, the exercise raised questions about the quality of asset performance information. Due to some unintended ambiguity in its guidance the Treasury had to accept information that didn't always provide a complete picture of asset performance. The

Treasury has fine tuned its published guidance to make the information requirements clearer, particularly the distinction between how well assets themselves are performing as opposed to metrics on levels of customer service. The Treasury will work with agencies to improve their asset performance information.

74. A further area for improvement is in the way targets are set: In ACC and NZTA the performance targets are agreed at Board level. In departments, equivalent targets are generally established at executive level or implied (rather than explicitly set) in output agreements with Ministers.

System implications

Budget processes (access to new Crown funding)

75. Where ICR results are available, the Treasury's Investment Panel is using the ICR as an indicator of the confidence in agency budget proposals and prospects of success in the agency investment environment.

76. This information, along with the merits of the proposal, could form part of the Treasury's advice to Budget Ministers and could influence whether the proposal is supported, how it might be delivered, and what conditions might need to be in place to assure investment benefits are delivered as expected.

77. The ICR will provide a more systematic basis for investment contingency, draw down or reporting arrangements.

Use of detailed ICR information for improvement purposes

78. Under the ICR headline scores there is rich detail on key management maturities that both the agency and the corporate centre can use to tailor improvement plans and particular assurance or reporting arrangements.

79. For example, there is independent, granular information available on each agency's asset management capability by asset portfolio and also their project or programme maturity for different investment portfolios that is relevant when the agency is contemplating investing in programmes of work. Similarly, the data collated in support of the project and asset-related lag indicators provides a useful reference point for monitoring future performance.

Outlook indicator and improvement actions

80. ICR scores confirmed by Cabinet remain in force until Cabinet changes them. For pragmatic reasons Cabinet has previously agreed that Investment Ministers can, amongst other things, modify the ICR methodology.

81. Given the two year review cycle for the ICR I propose that Investment Ministers use an outlook indicator to recognise or signal changes (positive or negative) relating to ICR elements between the formal 2-yearly ICR assessments (similar to the way credit rating agencies signal changes in the outlook for listed companies).

82. For example, when an agency improves the quality of its LTIP and/or starts to use the LTIP as a basis for monitoring its performance this positive change would be recognised through the outlook indicator, as a signal to other agencies and the corporate centre that the agency has improved and/or embedded key elements of its capability or performance.

83. Over time I anticipate a "positive" outlook indicator would translate into higher future ICR scores, with resultant changes in the levels of discretion afforded to agencies relative to the centre. Conversely an observable deterioration in one or more

ICR elements could result in a "watch" signal that may indicate some corrective action needs to be taken to restore the previous level of confidence.

Consultation

84. The Treasury consulted with all affected agencies and the corporate centre in the preparation of this paper, including the Ministry of Transport as the monitoring department for NZTA. The results were discussed and approved by Investment Ministers at their meeting on 11 February 2016.

Next steps in the ICR roll-out

Out of scope of request

Financial Implications

88. There are no financial implications from this paper other than agency-specific proposals that, if approved, would result in variations from the general approval thresholds set out in Annex 1 of CO(15)5.

Legislative Implications

89. There are no legislative implications.

Regulatory Impact Analysis

90. Regulatory impact analysis requirements do not apply.

Human Rights, Gender Implications, Disability Perspective

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

Publicity

92. There is no current intention to proactively release the ICR results or implications.

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7 Northland, Counties-Manukau, Waitemata, Auckland and Canterbury.

8 Department of Conservation, NZ Customs Service, Department of Internal Affairs, Ministry of Business Innovation and Employment, Ministry of Foreign Affairs and Trade, Ministry of Health, Ministry of Justice, NZ Police, Ministry of Social Development, Capital and Coast Health DHB, Southern DHB, Waikato DHB and Housing NZ Corporation. Timing of the ICR for Otakaro has not yet been confirmed.

Recommendations

93. I recommend that the Cabinet Committee on State Sector Reform and Expenditure Control:

Results from tranche 1

1. **note** that the Treasury, working closely with agencies, monitoring departments, independent experts and the corporate centre, has completed its assessment and moderation of the ICR results for the six investment-intensive agencies in tranche 1

2. **note** that Investment Ministers have considered and approved the interim ICR ratings for each of the six agencies and the broad parameters of the implications arising from those ratings taking account of their respective investment contexts

Approval of ratings

3. **approve** the following ICR ratings for the tranche 1 agencies

Agency	Interim ICR result
ACC	B
Department of Corrections	C
Ministry of Education	C
Inland Revenue Department	A
NZ Defence Force	B
NZ Transport Agency	B

Approval of changes to general approval thresholds set out in CO(15)5

Out of scope of request

Out of scope of request

Other improvement actions

10. **invite** responsible Ministers for each agency in tranche 1 to discuss the ICR results and the agency's plans to lift their investment performance over time.

Providing Cabinet with transparency over expanded thresholds

11. **direct** the Treasury to incorporate in its regular investment monitoring reports to Cabinet, information on the any investments that are subject to the expanded thresholds.

Outlook indicator

12. **agree** that Investment Ministers may use an outlook indicator to recognise and signal material changes (positive or negative) in the ICR elements between the formal 2-yearly ICR assessments, including changes in capability or performance arising from improvement plans.

Next steps with the ICR programme

13. **note** that ICR activity is already underway for tranche 2 agencies Out of scope of request Out of scope of request

14. **Note** that ICR activity for Out of scope of request Out of scope of request

Hon Bill English
Minister of Finance

Date:

Pages 16 - 17 not relevant to request

IN-CONFIDENCE

Annex: Details on each agency's ICR result

Agency preliminary result: Education

Investor Confidence Rating:	C
Scope of ICR assessment	School property and ICT portfolios

Elements Score

		Element	% Score	Element Score
Lead Indicators	1	Asset Management Maturity (AMM)	87%	17/20
	2	Project, Programme and Portfolio Management Maturity (P3M3)	60%	9/15
	3	Quality of Long Term Investment Plan (LTIP)	40%	4/10
	4	Organisational Change Management Maturity	80%	4/5
Lag Indicators	5	Benefits delivery performance	20%	4/20
	6	Project delivery performance	80%	12/15
	7	Asset performance	100%	10/10
	8	System performance (compliance)	60%	3/5
		Total Score		**63/100**

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

Treasury Comment

Education receives an Investor Confidence Rating of C, which is based on a score of 63 points out of 100. The Treasury has an expectation that Tier 1 investment-intensive agencies achieve at least a B. The assessment recognises gains made in recent years and highlights the need for some further improvement.

The evidence shows Education has strengths in asset management maturity and in delivering projects to scope and on budget. It consistently meets its own asset performance targets and its self assessment shows strengths in organisational change management maturity.

There are gaps in aspects of its P3M3 management (particularly benefits management, stakeholder management and resource management) that may affect future performance. The separate parts of the Education LTIP need to be more closely integrated. Education plans to update the LTIP in the next 6 months.

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

Note: Education disagrees with the Treasury's preliminary assessment of the Ministry's benefits delivery performance which it claims fails to take account of programme level benefits. It says the benefits score "is not credible, is misleading and unnecessarily raises a reputation risk. .." "It also prevents the Ministry from attaining an overall B rating...". Further information may affect the score for this element and potentially the overall rating.

Potential Implications

Based on a C rating there is no change to the general approval thresholds set out in Cabinet Office circular CO(15)5. Existing business case and corporate centre assurance requirements apply. The main implications arising from the ICR are for Education, working with the corporate centre, to develop and use a n integrated long term investment plan, lift P3M3 capability and improve benefits management.

Pages 19 - 22 not relevant to request

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Investor Confidence Rating- Results from Tranche One

Date:	22 March 2016	Report No:	T2016/494
		File Number:	ST-4-8-4-6-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	**Sign** the report if you agree **Sign** the Cabinet paper if you agree	Thursday 24 March 2016
Associate Minister of Finance (Hon Steven Joyce)	**Note** the report and attached Cabinet paper	None
Associate Minister of Finance (Hon Paula Bennett)	**Note** the report and attached Cabinet paper	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Kerry Hollingsworth	Principal Advisor, IMAP	04 917 6153 (wk)	s9(2)(a)	✓
Ricky Utting	Manager, IMAP	04 890 7200 (wk)		

Actions for the Minister's Office Staff (if required)

Note the CAB100

Return the signed report to Treasury.

Lodge the Cabinet paper with the Cabinet Office

Note any feedback on the quality of the report	

Enclosures: Yes: Cabinet Paper 3396324v4, Out of scope of request

Treasury Report: Investor Confidence Rating- Results from Tranche One

Executive Summary

This report invites you to submit the attached Cabinet paper for consideration at the Cabinet Committee on State Sector Reform and Expenditure Control (SEC) meeting scheduled for Wednesday 30 March 2016.

We provided you with a draft of the Cabinet paper last month, prior to formal CAB100 consultation (T2016/239 refers). We have consulted with each of the six agencies in Tranche One, relevant monitoring departments and the corporate centre.

There have been no changes to the substantive recommendations as a result of the consultation.

The paper presents the results from the first tranche of the Investor Confidence Rating (ICR). The main recommendations are for SEC to:

- approve the ratings for the six agencies in Tranche One being ACC, Corrections, Defence, Education, IRD and NZTA, and
- agree to particular implications for two departments – IRD and Defence – in recognition of their A and B ratings respectively.

Other points to note are:

- The paper and the recommendations express your view that Tier 1 investment-intensive agencies are expected to achieve at least a B rating due to the size and criticality of their asset and investment portfolios. However the ICR results show Corrections and Education attract a C rating and so the commentary on both Corrections and Education includes an expectation from you that each agency would work towards attaining at least a B rating at the next scheduled ICR assessment in two years' time.
- Out of scope of request
- Although there is no current intention to proactively release the ICR results we anticipate there may be further public interest in the ICR. Accordingly, we recommend you seek delegated authority for the Investment Ministers group to determine the timing of any public release of the Tranche One results.
- In addition to noting the next ICR tranches, the paper and recommendations invite SEC to note the parallel work the Treasury is doing to strengthen the investment management system.

Recommended Action

We recommend that you **agree** to submit the attached paper *Investor Confidence Rating: Results from Tranche One* to the Cabinet Office by Thursday 24 March 2016, for consideration by the Cabinet Committee on State Sector Reform and Expenditure Control (SEC) at its meeting scheduled for Wednesday 30 March 2016.

Agree/disagree.

Ricky Utting
Manager, IMAP

Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Hon Paula Bennett
Associate Minister of Finance

IN-CONFIDENCE

Office of the Minister of Finance

Chair
Cabinet Committee on State Sector Reform and Expenditure Control

INVESTOR CONFIDENCE RATING: RESULTS FROM TRANCHE ONE

Proposal

1. This paper covers the results and proposed implications of the first tranche of Investor Confidence Ratings (ICR) for six of the investment-intensive agencies being ACC, the Department of Corrections (Corrections), Defence[1], the Ministry of Education (Education), Inland Revenue Department (IRD), and the NZ Transport Agency (NZTA).

2. It invites Cabinet to approve the ICR ratings for these agencies and the implications arising from those ratings.

Executive Summary

3. Cabinet Office circular CO (15)5 Investment Management and Asset Performance in the State Services came into effect on 1 July 2015. That circular established the ICR, which is a rating of an agency's current investment management environment, as distinct from the merits of a particular investment or proposal.

4. The ICR is designed to provide an incentive mechanism that rewards good investment management performance and encourages agencies and the corporate centre[2] to address gaps in investment performance. The ICR complements other work underway in the social investment space to provide evidence that informs decisions on where to invest, make sure investments are structured for success and measure the impacts of our decisions.

5. In this context performance is assessed against an agreed mix of eight indicators that together provide insights to the way each agency manages its assets and capital investments.

6. The Treasury has now completed the first tranche of ICR assessments, working closely with six of the most investment-intensive agencies in the State Services – ACC, Corrections, Education, IRD, Defence and NZTA, and the corporate centre – under the direction of Investment Ministers.

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1 In this paper, Defence refers to the New Zealand Defence Force (NZDF) and the Ministry of Defence (MoD)

2 Corporate centre means the central agencies i.e. the State Services Commission (SSC), The Treasury and the Department of the Prime Minister and Cabinet (DPMC) and functional leaders working together to provide leadership for the State sector and to monitor, influence, and improve performance.

7. The ICR rating scale covers A to E, where A is the highest. The results from Tranche One show that IRD attracts an A rating, ACC, Defence and NZTA each attract a B rating and Corrections and Education attract C ratings. None of the agencies in Tranche One rated D or E.

8. Out of scope of request

9. Evidence also shows that most agencies have good asset and change management maturity and are very good at delivering investments according to the agreed time, cost or scope requirements – but usually not all three on every investment. The three most important areas for improvement are in planning over a long term horizon, setting asset performance targets and providing evidence for the delivery of agreed benefits from agency and all-of-government investments.

10. The ICR has been challenging for all parties concerned given the timeframes for reporting back to Cabinet. However I consider that effort has been worthwhile. The ICR has systematically identified a range of strengths and gaps in each agency. This information provides a sound basis for focusing improvement activity within and between agencies over the next two years before the next round of ICRs takes place. It also helps inform the choices we will make in the budget process and any special arrangements around new investments.

11. From a wider public sector management perspective we now have a sound basis for recognising the best rated agencies in a meaningful and evidence-based way and giving them (and their Ministers) more discretion over investments and options to reduce compliance costs, compared with other agencies.

12. This paper invites Cabinet to not only approve the ICR ratings for the six agencies but also approve particular changes in approval thresholds and corporate centre requirements in recognition of the ICR results.

13. If approved, the ratings and associated implications will take effect as soon as practicable (i.e. from 1 May 2016). The Treasury will work through transitional arrangements with each agency, relevant monitoring departments for Crown entities and the corporate centre.

14. Meantime, work is well underway on rolling out the ICR across five DHBs[3], with results due to be reported back to Cabinet in September 2016. Treasury is also liaising with fourteen other investment-intensive departments and Crown agents that make up the subsequent tranches of the ICR roll-out, with the results from Tranches Three and Four due to be reported back to Cabinet during 2017.

Background

Introduction of the ICR

15. On 13 April 2015, Cabinet approved Cabinet Office circular, CO(15)5 *Investment Management and Asset Performance in the State Services*. That circular came into effect on 1 July 2015. It established changes to the investment system designed to lift capability and performance across the State Services.

16. Among the system enhancements was the introduction of the ICR, which is a rating of an agency's current investment management environment.

[3] Northland, Auckland, Waitemata, Counties-Manukau, and Canterbury DHBs.

17. The primary purpose of the ICR is to provide an incentive mechanism that rewards good investment management performance and encourages agencies and the corporate centre to address gaps in investment performance. It also enhances the degree of objectivity and rigour in the investment management system compared with past practices.

Design of the ICR

18. During the second half of 2015, the Treasury worked with agencies to develop the detailed ICR approach. The ICR comprises eight elements or types of information, each of which has a given weighting as shown in figure 1 below.

Figure 1: Eight ICR elements, weightings and bases for assessment

	Element	Indicator type	Weight	Assessment basis
1	Asset management maturity	Lead	20	*The asset management score obtained by agency self assessment reviewed by independent assessor using Treasury maturity model*
2	P3M3 management maturity	Lead	15	*The maturity score obtained through facilitated self assessment by independent assessor using P3M3 maturity model*
3	Quality of Long Term Investment Plan (LTIP)	Lead	10	*Corporate centre assessment based on criteria set out in LTIP guidance*
4	Organisational change management maturity	Lead	5	*The maturity score obtained by agency self assessment followed by moderation process using approved change management maturity model*
	Total for Lead indicators		50	
				Assessment approach
5	Benefits delivery performance	Lag	20	*Examines evidence to determine whether actual benefits met expected business case benefits from significant investments that attained "in-service" status over a given period*
6	Project delivery performance	Lag	15	*Examines evidence to determine whether actual performance met expected performance based on individual business cases*
7	Asset performance	Lag	10	*Examines evidenceto determine whether actual performance met agreed asset performance targets*
8	System performance (compliance)	Lag	5	*Corporate centre assessment based on transparency, compliance with key system performance expectations over recent past and performance against long term capital plan over a given period.*
	Total for Lag indicators		50	
	Totals		100	

19. The composition and weights in the ICR are designed to:

a. Provide a reliable and rounded view of an agency's past and prospective investment performance

b. Give equal weight to lead and lag indicators (lead indicators give insights to future performance whereas lag indicators are generally based on evidence of performance against agreed targets over the last two years)

c. Consider a mix of views from independent parties (to test the most important lead indicators), the agency (in the form of self-assessments) and the corporate centre, and

d. Reinforce government's investment objectives by placing a high weighting on delivery of expected benefits as well as traditional time, cost and scope dimensions of project delivery.

20. The design is expected to evolve over time. Among its present limitations are that it relies on a representative sample of performance information provided by the agency and as such is not a complete survey of an agency's actual performance (ie there is scope for performance outliers that vary from the main result). As such the ICR provides a strong indicator rather than a guarantee of future performance.

Implementation of the ICR

21. Last year, Investment Ministers approved the approach and confirmed the ICR would be rolled out across 24 investment-intensive departments and Crown agents in multiple tranches over 18 months to March 2017[4].

22. Investment Ministers also agreed in principle what the implications of the ICR rating would mean for departments and Crown entities. The Treasury's published guidance shows that:

- Agencies with a C rating retain the status quo in terms of decision rights, corporate centre reporting and assurance arrangements etc
- Relative to that position, agencies with A or B ratings can expect more decision making authority and reduced reporting and assurance arrangements, and
- For any D or E rated agencies there would be constraints on investment decision making, more intensive reporting and assurance arrangements, and more intensive assistance from the corporate centre.

23. Detailed guidance was published in the first quarter of 2015/16. From September 2015 to January 2016, the Treasury worked with the six agencies in Tranche One and the corporate centre to collate, assess and moderate the ICR results to ensure they are fair and consistent across agencies.

Tranche One results

Overview

24. The Treasury has now compiled results for each of the six agencies in Tranche One, based on specific information provided by agencies, monitoring departments, the corporate centre and third-party suppliers. The results are shown in Figure 2 below.

25. These interim results have been reviewed and approved by Investment Ministers[5] and are subject to Cabinet approval through this paper.

26. I want to acknowledge the considerable effort made by Tranche One agencies to meet the ICR requirements in a short period of time, alongside other work priorities. All agencies have enhanced their knowledge and understanding of their business through this work.

27. Given the size and criticality of their asset and investment portfolios I expect that Tier 1 investment-intensive agencies will demonstrate at least a B rating. On that rationale, the results from Tranche One highlight the need for improvement in some agencies to attain this level of confidence.

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4 The list has since been expanded to include Otakaro Limited, the Schedule 4A company that will take over certain CERA assets. The Third Tranche has been split into two for logistical reasons.

5 Acting under the delegation in CAB Min (15)11/7A

28. Further details on the basis for each agency's rating are provided in the annex to this report.

Figure 2: Interim ICR results (subject to Cabinet approval)

Agency	Interim ICR results (subject to Cabinet approval)
ACC	B
Corrections	C
Defence	B
Education	C
IRD	A
NZTA	B

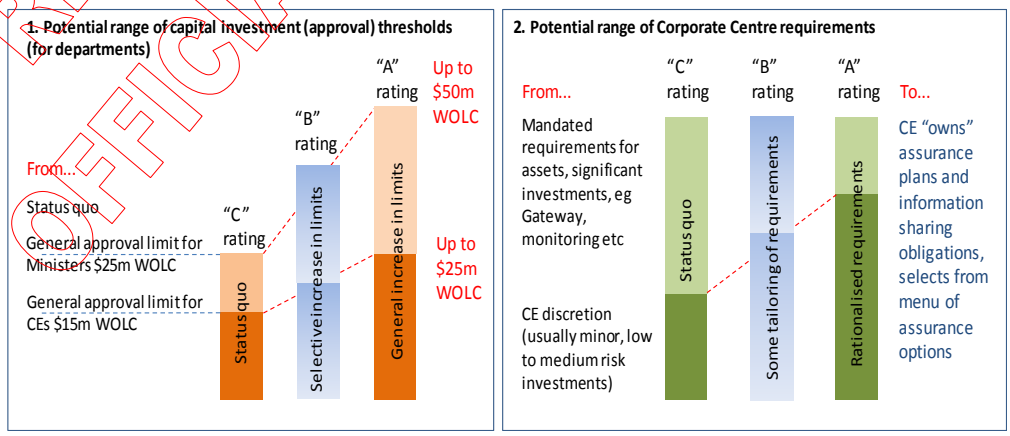
Potential implications

29. Cabinet previously agreed that the ICR may influence the general level of financial authority an agency has over investments, as well as its reporting and assurance arrangements, and the level of assistance from the corporate centre.[6]

30. Acting under Cabinet authority, Investment Ministers agreed in-principle what the general implications of ICR scores could mean for departments and Crown entities. The Treasury published these general implications along with ICR guidance in October 2015.

31. Investment Ministers considered the potential range of implications for Tranche One agencies as set out in figure 3 below.

Figure 3: Potential ranges of ICR implications for approval thresholds and corporate centre requirements[7]



32. Investment Ministers supported the potential expansion of investment approval thresholds in A rated departments from $25 million to $50 million whole of life costs. This is reflected in the proposed arrangements for IRD.

6 CAB Min (15) 11/7A refers

7 Example 1 relates to departments; example 2 could apply to all agencies covered by C0(15)5).

33. Investment Ministers consider that there needs to be ongoing transparency over investment performance as the quid pro quo for expanding approval thresholds or establishing more flexible and targeted reporting and assurance arrangements for any agency.

34. There are various ways in which Ministers have visibility over current and planned investment performance.[8] I consider it is important that Investment Ministers (and the corporate centre) have visibility through the Long Term Investment Plan (LTIP) over each agency's total long term investment intentions and performance information. With this visibility, there is scope to:

    a. establish specific authorities or arrangements for individual investments (projects, programmes, portfolios) to satisfy particular Cabinet interests,

    Out of scope of request

    b. inform other all-of-government planning and prioritisation processes, and

    c. monitor investment performance over time.

Agency results and implications

Out of scope of request

[8] For example Four-year plans, statements of corporate intent, annual reports etc

Out of scope of request

Pages 7 & 8 out of scope

Out of scope of request

Education (ICR rating: C)

56. The evidence shows Education has strengths in asset management maturity and in delivering projects to scope and on budget. It consistently meets its own asset performance targets and its self assessment shows strengths in organisational change management maturity.

57. There are gaps in aspects of its P3M3 management (particularly benefits management, stakeholder management and resource management) that may affect future performance. Education's separate investment portfolios need to be more closely integrated in its LTIP and connected with the Education System Agencies' Response to the Education System Stewardship Blueprint. Education intends to update its LTIP in the next six months.

58. Some key performance information is limited or not yet available: in particular there is limited evidence of historical asset performance *targets* against which to compare current performance, other than for utilisation. The Ministry has, however, started generating asset performance information in respect of current condition and future condition targets. There is limited evidence to show that expected investment benefits have been delivered, particularly for a range of school property investments.

59. Education has stated that it disagrees with the Treasury's assessment of its benefits delivery performance. Education says the methodology "fails to take account of programme level benefits management and the Treasury's approach has been inflexible in spite of recognising the need to change the methodology in future". Consequently, it considers "the resulting score of 4 out of 20 is not credible, is misleading, and unnecessarily raises a reputation risk if it is perceived the Ministry has failed to deliver benefits and therefore wasted taxpayers' money. It also prevents the Ministry from attaining an overall ICR of "B" further undermining the credibility of the ICR framework".

60. The Treasury acknowledges the differences of view. It intends to work with Education to help it underpin its performance story with information on the impacts of its school property investments.

61. Based on a C rating there is no change for Education to the general approval thresholds set out in Cabinet Office circular CO(15)5. Existing business case and corporate centre assurance requirements continue to apply.

62. I would expect Education to work towards attaining at least a B rating at the next scheduled ICR assessment in two years' time.

63. The main implications arising from the ICR are for Education, working with the corporate centre, to develop and embed its integrated long term investment plan, lift P3M3 capability and improve benefits management.

Page 10 not relevant to request

Out of scope of request

Comment

76. The first tranche of ICR results provided insights and lessons for agencies and the corporate centre alike. These have been grouped into themes and system implications below.

Themes from Tranche One

77. The ICR has highlighted a range of particular improvement opportunities in each agency at the ICR element level. The common areas for improvement are in:

    a. Lifting the quality of long term planning (and resultant LTIPs)

    b. Making sure the disciplines observed in project delivery are applied to benefits management, and

    c. Making asset performance targets more meaningful.

Long term Investment Plans (10 year horizon)

78. The LTIP is a key aspect of the regime set out in CO(15)5. It underpins a variety of corporate centre processes. Agency LTIPs will become increasingly important tools for providing transparency over the long term impact of agency and sector investment intentions.

79. Most of the first set of LTIPs revealed a medium rather than long term perspective. Further, most LTIPs took an agency-centric lens with limited recognition of sector or all-of-government planning and options. To some extent this reflects the short period of time agencies had to prepare the LTIP for ICR

purposes; on the other hand the requirement for these sorts of plans has been in place since 2010.

80. Most agencies intend to revise their LTIP during 2016 as part of regular planning cycles. The Treasury will use exemplars from Tranche One to help all agencies improve the next tranche of LTIPs and connect intentions to performance reporting.

Project delivery vs. benefits management

81. The evidence for element 6 shows most agencies are very good at delivering projects and programmes according to the time, cost, and scope requirements agreed with investors (i.e. Cabinet, responsible Ministers, Boards, Chief executives).

82. By contrast with project delivery evidence, the evidence around benefits management is much more mixed: the external P3M3 maturity assessments (element 2) and agencies' own benefits performance information (element 5) shows that benefits management varies from one agency to another, for example:

    a. Some agencies have mature practices and are using benefits information

    b. Some don't have benefits management frameworks at all

    c. Others have benefits management frameworks but these are not yet being used, and

    d. Still others have articulated the expected benefits from investments but are not systematically assessing actual performance against what the investors expected or are taking a long time to assess the impacts of investments.

83. The Treasury intends to work with agencies to understand and reveal the benefits government is seeking through projects and programmes, particularly in relation to property-related proposals. Increasingly, success in the investment context means providing something more than delivery of some infrastructure within a cost and quality envelope – it wants to know what the impacts are in terms of the impact on people's lives, for example, improving access to education or health services or making a safer working environment.

84. The Treasury is enhancing its existing guidance and support for agencies to lift benefits management performance, and to leverage some good current and emerging practices in agencies. In addition, the Treasury, through its monitoring activity, will place renewed focus on building evidence on the impacts of investment activity to complement the strengths agencies have on delivery of new investments and capabilities.

Asset Performance targets

85. Agencies generally scored well in both asset management maturity (element 1) and in relation to their own asset performance targets (element 7). However, as in the past, the exercise raised questions about the quality of asset performance information, both in terms of measures and targets.

86. Due to some unintended ambiguity in its guidance the Treasury had to accept performance measures information that didn't always provide a complete picture of asset performance. The Treasury has fine-tuned its published guidance to make the information requirements clearer, particularly the distinction between how well assets themselves are performing as opposed to metrics on levels of customer service. The Treasury will work with agencies to improve their asset performance information in the ICR and in their annual reports.

87. A further area for improvement is in the way asset performance targets are set: In ACC and NZTA the performance targets are appropriately agreed at Board and senior management levels. However, in departments, equivalent targets are generally established at executive level or implied in output agreements with Ministers. Departments need to agree asset performance targets with their Ministers or senior management at the beginning of the reporting period in order to assess performance for ICR purposes.

System implications

Budget processes (access to new Crown funding)

88. Where ICR results are available, the Treasury's Investment Panel is using the ICR as an indicator of the confidence in agency budget proposals and prospects of success in the agency investment environment.

89. This information, along with the merits of the proposal, could form part of the Treasury's advice to Budget Ministers and could influence whether the proposal is supported, how it might be delivered, and what conditions might need to be in place to assure investment benefits are delivered as expected.

90. The ICR will provide a more systematic basis for investment contingency, draw down or reporting arrangements.

Use of detailed ICR information for improvement purposes

91. Under the ICR headline scores there is rich detail on key management maturities that both the agency and the corporate centre can use to tailor improvement plans and particular assurance or reporting arrangements.

92. For example, there is independent, granular information available on each agency's asset management capability by asset portfolio and also their project or programme maturity for different investment portfolios that is relevant when the agency is contemplating investing in programmes of work. Similarly, the data collated in support of the project and asset-related lag indicators provides a useful reference point for monitoring future performance.

Outlook indicator and improvement actions

93. ICR scores confirmed by Cabinet remain in force until Cabinet changes them. For pragmatic reasons Cabinet has previously agreed that Investment Ministers can, amongst other things, modify the ICR methodology.

94. Given the two year review cycle for the ICR I propose that Investment Ministers use an outlook indicator to recognise or signal changes (positive or negative) relating to ICR elements between the formal two-yearly ICR assessments (similar to the way credit rating agencies signal changes in the outlook for listed companies).

95. For example, when an agency improves the quality of its LTIP and starts to use the LTIP as a basis for monitoring its performance this positive change would be recognised through the outlook indicator, as a signal to other agencies and the corporate centre that the agency has improved and/or embedded key elements of its capability or performance.

96. Over time I anticipate a "positive" outlook indicator would translate into higher future ICR scores, with resultant changes in the levels of discretion afforded to agencies relative to the general approval thresholds and mandated requirements. Conversely an observable deterioration in one or more ICR

elements could result in a “watch” signal that may indicate some corrective action needs to be taken to restore the previous level of confidence.

Out of scope of request

Consultation

100. In the preparation of this paper, the Treasury consulted with all six agencies in Tranche One, the corporate centre, and the Ministry of Transport as the monitoring department for NZTA. The ICR results were discussed and approved by Investment Ministers at their meeting on 11 February 2016.

Next steps in the ICR roll-out

Out of scope of request

Out of scope of request

Out of scope of

Out of scope of request

Out of scope of request

Financial Implications

104. There are no financial implications from this paper other than agency-specific proposals that, if approved, would result in changes to the general approval thresholds set out in Annex 1 of CO(15)5.

105. There is a possibility that some of the agencies involved in the three remaining ICR tranches may attract an ICR rating of D or E. The implication of such ratings is that there would be a diminution in the decision rights for the agency and the responsible Minister, relative to the general approval thresholds in CO(15)5. There could also be more strict reporting or assurance arrangements around the agency's investments.

Legislative Implications

106. There are no legislative implications.

Regulatory Impact Analysis

107. Regulatory impact analysis requirements do not apply.

Human Rights, Gender Implications, Disability Perspective

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

Publicity

109. There is no current intention to proactively release the ICR results. This paper seeks a delegated authority to Investment Ministers to determine the timing of any public release of the Tranche One results.

Recommendations

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

Results from Tranche One

1 **note** that the Treasury, working closely with agencies, relevant monitoring departments, independent experts and the corporate centre, has completed

its assessment and moderation of the ICR results for the six investment-intensive agencies in Tranche One

2 **note** that Investment Ministers have considered and approved the interim ICR ratings for each of the six agencies and the broad parameters of the implications arising from those ratings taking account of their respective investment contexts

3 **agree** that due to the size and criticality of their asset and investment portfolios, Tier 1 investment-intensive agencies are expected to achieve at least a B rating

Approval of ICR ratings for Tranche One agencies

4 **approve** the following ICR ratings for the Tranche One agencies

Agency	ICR result
ACC	B
Corrections	C
Defence	B
Education	C
IRD	A
NZTA	B

Out of scope of request

Out of scope of request

Out of scope of request

Effective date for ICR ratings and implications

11 **agree** that the ICR ratings, general implications for the six agencies in Tranche One, and the specific arrangements for IRD and Defence will apply from 1 May 2016

Other improvement actions

12 **invite** responsible Ministers for each agency in Tranche One to discuss the ICR results and the agency's plans to lift their investment performance over time

Providing Cabinet with transparency over expanded thresholds

13 **direct** the Treasury to incorporate in its regular investment monitoring reports to Cabinet, information on any investments that are subject to the expanded thresholds

Outlook indicator

14 **agree** that Investment Ministers may use an outlook indicator to recognise and signal material changes (positive or negative) in the ICR elements between the formal two-yearly ICR assessments, including changes in capability or performance arising from improvement plans

Publication of ICR results

15 **note** there is no immediate intention to publicly release the Tranche One results

16 **authorise** the Investment Ministers group to determine the timing of any public release of the Tranche One results

Out of scope of request

Hon Bill English
Minister of Finance

Date:

Pages 20 - 22 out of scope

16 Including Otakaro Limited, a Schedule 4A company

Annex: Details on each agency's ICR result

Agency interim result: Education

Investor Confidence Rating:	C
Scope of ICR assessment	School property and ICT portfolios

Elements Score

		Element	% Score	Element Score
Lead Indicators	1	Asset Management Maturity (AMM)	87%	17/20
	2	Project, Programme and Portfolio Management Maturity (P3M3)	60%	9/15
	3	Quality of Long Term Investment Plan (LTIP)	40%	4/10
	4	Organisational Change Management Maturity	80%	4/5
Lag Indicators	5	Benefits delivery performance	20%	4/20
	6	Project delivery performance	80%	12/15
	7	Asset performance	100%	10/10
	8	System performance (compliance)	60%	3/5
		Total Score		**63/100**

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

Treasury Comment

Education receives an Investor Confidence Rating of C. The Treasury has an expectation that Tier 1 investment-intensive agencies achieve at least a B. The assessment recognises gains made in recent years and highlights the need for some further improvement.

The evidence shows Education has strengths in asset management maturity and in delivering projects to scope and on budget. It consistently meets its own asset performance targets and its self assessment shows strengths in organisational change management maturity.

There are gaps in aspects of its P3M3 management (particularly benefits management, stakeholder management and resource management) that may affect future performance. The separate parts of the Education LTIP need to be more closely integrated. Education plans to update the LTIP in the next 6 months.

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

Note: Education disagrees with the Treasury's assessment of the Ministry's benefits delivery performance which it claims fails to take account of programme level benefits. It says the benefits score "is not credible, is misleading and unnecessarily raises a reputation risk. .." "It also prevents the Ministry from attaining an overall B rating...". Further information may affect the score for this element and potentially the overall rating.

Potential Implications

Based on a C rating there is no change to the general approval thresholds set out in Cabinet Office circular CO(15)5. Existing business case and corporate centre assurance requirements apply. The main implications arising from the ICR are for Education, working with the corporate centre, to develop and use an integrated long term investment plan, lift P3M3 capability and improve benefits management.

Pages 24 - 25 out of scope

Investor Confidence Rating: Results from Tranche One

Responsible Person: Ricky Utting

First Contact Person: Kerry Hollingsworth

Purpose

1. This paper covers the results from the first tranche of Investment Confidence Ratings (ICRs): IRD attained an 'A' rating; ACC, NZDF, and NZTA attained 'B' ratings; and Education and Corrections received 'C' ratings. These are all tier 1 investment intensive agencies (the largest and most critical group) and the expectation is that these agencies should be at a 'B' rating or higher.

2. The paper invites Cabinet to approve the ICR ratings for these agencies and on the basis of those ratings, agree to expand the investment approval thresholds for both IRD and for Defence, relative to the general approval thresholds set out in CO(15)5.

Comment

3. Treasury has reported on the first tranche of ICR results in T2016/494 and via Investment Ministers. This briefing focuses on the emerging dynamics around the ICR.

4. The first tranche of ICRs is having a positive effect on the investment system, alongside parallel work on major project monitoring, Investment Panel etc. For example, the ICR is helping the corporate centre and agencies refocus on delivery of benefits not just the delivery of infrastructure. It is also reopening the dialogue about the merits of different policies for capital and operating investments

5. Agencies have responded differently to the introduction of ICR and the results from the exercise. There seems to be a high correlation between the level of organisational maturity and the agency acceptance of the results and attitude to improving aspects of investment performance. Out of scope of request

   Out of scope of request

6. Of the other agencies, Out of scope of request

7. Out of scope of request Education are coming to terms with the ICR results and the expectation that aspects of their investment performance need to improve to attain the

expected B rating. Education have made significant improvement since 2013, when it began its journey to become an effective capital asset manager. However Out of scope of Out of scope of request s9(2)(g)(i) and it will take further effort and investment to lift performance to the required level before the next assessment in 2 years' time. The Corporate Centre will need to consider how it best supports Out of scope of to make the necessary step changes to improve their ICR results.

8. Looking ahead to tranches two and three, Out of scope of request

Treasury Recommendation

9. We recommend that you **support** the recommendations in this paper.

The following table goes into the Executive Summary of the paper

Title	Pg	Recommend	Fiscal Implications ($m GST excl.)					Treasury Comment
			15/16	16/17	17/18	18/19	Out years	
Investor Confidence Rating: Results from Tranche One		**e.g. Support**	*Operating*					First tranche of a Cabinet-approved programme to focus on and improve investment performance across the State services
			No fiscal implications					
			Capital					
			No fiscal implications					

From: Kerry Hollingsworth [TSY]
Sent: Friday, 6 May 2016 5:17 p.m.
To: 'Andrew Hutchinson'
Cc: Peter Hay; Liam Oldfield [TSY]
Subject: Feedback on the LTIP
Attachments: 3381404_4.docx

[IN-CONFIDENCE]

Hi Andrew

Further to recent emails on the chart in the exemplar document, we've inserted the Education chart showing relative strengths into the LTIP feedback document we provided a while back. I think the combination of the comments and the chart would have led to a good discussion a few months ago and can provide a place to restart discussions in Q2.

Be interested in your thoughts on this addition to the LTIP write-up (though I note it's no substitute for detailed discussion)

K

Kerry Hollingsworth | Principal Advisor | **The Treasury**
Tel: +64 4 917 6153 | kerry.hollingsworth@treasury.govt.nz

Assessment Report on Education's Long Term Investment Plan

01/02/2016

Context

Tier one Investment Intensive agencies submitted their first Long Term Investment Plan (LTIP) on 9 December for assessment as part of the Investor Confidence Rating (ICR) process and to inform cross-government planning.

On 17 December 2015, Education provided their "Ministry of Education Long Term Investment Plan December 2015" (version as at 16 December 2015) in two sections:

- Consolidation of: Education Infrastructure, ICT, Office Accommodation & Other; and
- Section 2: Education Infrastructure.

This report provides an assessment of the LTIP material provided for ICR purposes. It is intended to provide feedback on the fitness for purpose of the material provided and the key gaps relative to the assessment criteria for LTIP in the published guidance as well as the LTIP requirements set out in the CO(15)5 (para 50 and 51).

Assessment

We have assessed the Ministry of Education's LTIP as a strong "Basic" on the assessment scale set out in the published guidance.

The quality of the LTIP has improved during the development process. The presentation of consolidated investment intentions is useful but reveals further opportunities to integrate and prioritise investment intentions across all three parts of the business.

Feedback

There are some notable strengths in the plan, such as providing a reliable focus for infrastructure investment decisions and activities, and good financial tables. The EIS section in particular is well developed and demonstrates a strong longer-term perspective. However, the LTIP presented a lack of overall cohesion across the different portfolios, and other planning documents in the Ministry (e.g. 4YP).

To strengthen their LTIP, the Corporate Centre recommends that the Ministry continue to progress strategic dialogue around their long term planning in the areas of:

1. <u>Setting the strategic context for the investment portfolio</u>. Clearly articulate the strategic context to demonstrate alignment with the Ministry's SOI, 4YP, functional strategies, and business cases, and highlight how the proposed investment portfolio will contribute to the strategic intentions. This will enable consistent prioritisation across the Education System's investment portfolio and the identification of trade-offs and choices. The Education System's response to the 2016 PIF may provide a strong platform to continue this dialogue.
2. <u>Continuing development of each portfolio's investment planning</u> to ensure a reflective picture of investment intentions is captured. EIS was generally a strength of the plan, but similar rigor wasn't applied across the other portfolios. Enhancing each portfolio may include:

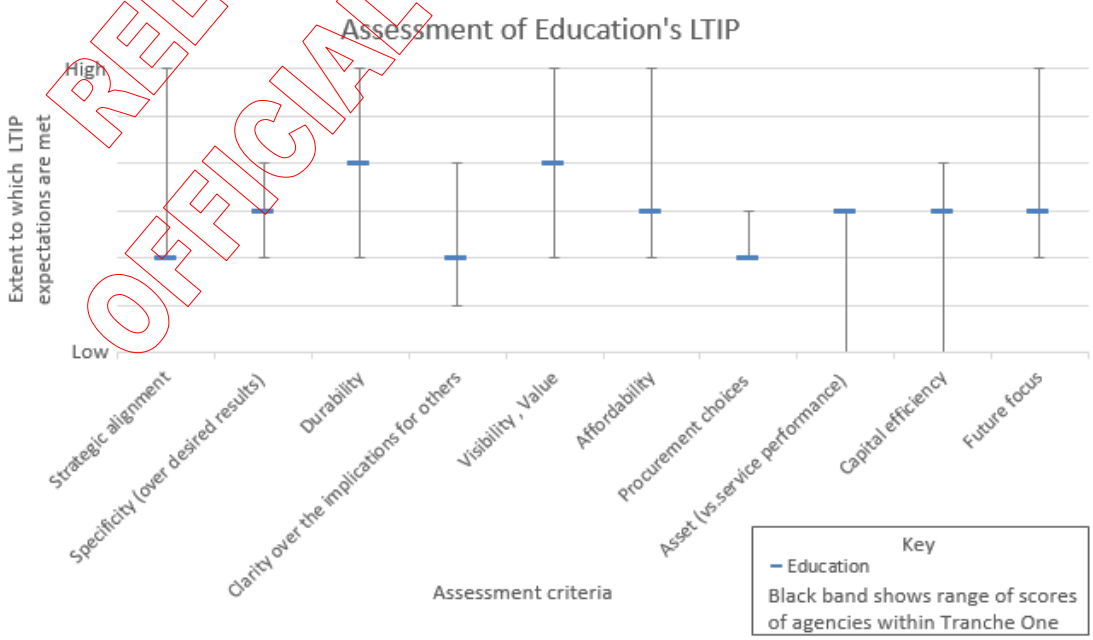
a. Confirming coverage of the investment portfolio over the ten year period, and clear articulation of the underpinning assumptions. E.g. ICT appears to be incomplete in some areas.
b. Considering e.g. the strategic/transformational value, or risk profile, of each portfolio in the context of education system, government, and Ministerial priorities, to complement the fiscal view.
c. Review for consistency. (E.g. Capex to Opex switch is inconsistent throughout the plan)

3. Identifying the value and impact of the Ministry's investments. This could consider:
   a. Which investments will contribute to Running, Growing, or Transforming the business
   b. Contribution to system outcomes – particularly those of the social sector.
   c. The interdependencies and interplay between the various portfolios. E.g. the potential impact of ICT initiatives on property demand.

The Corporate Centre acknowledges that different aspects of each portfolio may have greater/lesser certainty. In these instances, it is useful to understand what assumptions have been made and where allowances/contingencies may have been allowed for. Where there are substantial gaps, identifying these and outlining a plan to flesh this out is sufficient.

Overall the LTIP documents showed that there are gaps that need to be addressed, but the Corporate Centre has confidence in the Ministry's ability to significantly improve the quality of their LTIP by addressing the feedback above. The Ministry has been on a journey in recent years to improve the management of their investment portfolio and significant achievements are evident. The Corporate Centre welcomes the opportunity to continue working with the Ministry to continue on this trajectory.

Relative Strength



Prepared by the Corporate Centre

1 February 2016

From: Kerry Hollingsworth [TSY]
Sent: Wednesday, 8 June 2016 6:17 p.m.
To: Out of scope of request; Andrew Hutchinson; Out of scope of request
Cc: Out of scope of request Ricky Utting [TSY]; Helen Allred [TSY]
Subject: ICR results - Tranche One - Possible release of high level results in July
Attachments: 3463685_Annex 1_ Option A collateral draft.docx

[IN-CONFIDENCE]

Good evening everyone

This is a heads up on the possible timing of public release of the ICR results from Tranche One. Can you let me know whether the timeframes above are sufficient to prime your comms teams/ Ministers?

Recently MOF asked whether we had released the ICR results from Tranche One – he has been talking about the ICR in various public forums.
We reminded him that Cabinet had reserved to Investment Ministers (IMs) the decision on when to release the results. At his urging, yesterday we provided MOF with advice on the release options (see more below).

Given MOF preferences for disclosure we are recommending a soft release of a limited set of information on or about 4 July. We hope to get a decision from IMs at their meeting on 20 June. For your information:

- In the Treasury Report we discussed three options which vary in terms of the scope of content for disclosure, and the style of the proactive release:
  - Option A (our preferred option): 'soft launch' of tranche trend results, high level agency ratings, and partial commentary on agency-specific results and implications. Includes key messages for Investment Ministers to include in speeches with relevant stakeholders
  - Option B: full release of all results material including detailed agency scores on the performance indicators, and use of stand-alone media statement and briefing to the press
  - Option C: Minimal release of summary tranche trends and high level ratings only on the Treasury website only.
- All options use the Treasury website as a key channel to access the results.
- The process is designed to be repeatable for subsequent tranches and review rounds. Release is proposed to occur 90 days after Cabinet decisions on each tranche's results.
- For Tranche One this means:
  - If MoF agrees, Investment Ministers will consider the matter at their meeting 20/6. We will engage further with you once ministers' decisions are known).
  - Tranche One results release proposed for 4 July (tbc via liaison with Minister's office).
  - The annex attached to this email contains the proposed content for public release.
- We have also developed some collateral for managing responses to OIAs, which we anticipate Treasury will coordinate.

Thank you
Kerry

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IN-CONFIDENCE
Annex One: Option A Draft collateral

THE TREASURY
Kaitohutohu Kaupapa Rawa

FACT SHEET

Investor Confidence Rating

Government is strengthening how it manages investment

To make the most of the limited resources available the government wishes to optimise how it invests in different priorities and needs now and in the long-term, and to ensure that the promised benefits of its investments are achieved. The investment management system is designed to do this.

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

The government is wanting the Treasury to operate an investment management system that:

- optimises the value generated from new and existing investments
- increases the efficiency and effectiveness of the investment management system and
- enables investments to achieve their specific investment objectives

Targeted actions are being implemented to help government to achieve these objectives, including the introduction of the Investor Confidence Rating ICR). The ICR sits alongside other assurance mechanisms such as the monitoring of major projects, use of investment reviews such as Gateway™, and assistance from the corporate centre – e.g., from guidance material to support project and programme maturity, to New Zealand Government Procurement's commercial pool advice.

More information on the investment management system is available at: http://www.treasury.govt.nz/statesector/investmentmanagement.

What is the Investor Confidence Rating (ICR)?

The ICR is an evidence-based assessment of an agency or sector's performance in managing investments including asset management. The ICR indicates the level of confidence that investors (e.g., Cabinet, responsible Ministers, or Investment Ministers) have in an agency's ability to deliver promised investment results if funding were committed.

The main purpose of the ICR is to incentivise improvement ie, to lift agencies' capabilities to deliver tangible results from investment. Eight performance elements form the rating, such as how well assets are managed, and the extent that benefits

agreed with the investor are achieved. [Link to webpage for further details on the 8 elements]

The ICR informs the level of investment decision making that the agency or sector is given, its level of required investment-related reporting and assurance activity, and areas for improvement. It is a point-in-time assessment undertaken every two years. It is not used to review the merits of a particular investment or proposal. ICR results are shared with the agency and Investment Ministers.

As well as supporting agencies to lift their capability, the ICR aims to enhance the objectivity and rigour in the investment management system, compared to past practices e.g., by use of a strong evidence base.

Who's involved?

The ICR is applied to 25 investment-intensive agencies, and the Treasury leads the ICR process. These agencies have been involved in the development of the framework and what is important to measure in the investment management system. Improvements to the evidence base may inform refinements to the ICR methodology over time to ensure that it remains efficient, effective, and fit for purpose.

The timeline for the reviews is as follows:

Out of scope of request

Why has the ICR been developed?

To ensure scarce resources are allocated to the areas of greatest need and public interest, government is strengthening how it manages investment. Actions that improve the visibility of agency investment plans enable the government to better prioritise

investment, and to implement those decisions effectively to achieve the intended outcomes from investment.

The ICR is a tool that helps the government to understand how effectively investment is being managed, and where assistance may strengthen an agency's or sector's contribution to the investment management system. Based on the nature of their services, agencies have different levels of experience in managing investment-intensive portfolios, including asset management. The ICRs inform agencies and the government of what is working well and areas for development.

What do the ratings mean? How are they used?

The ICR uses a rating scale from A to E, with an 'A' rating indicating the highest levels of performance and maturity, and a 'D' or 'E' indicating a need for substantial assistance to deliver to expectations. A 'C' rating indicates that while some sound investment practices may be in place, operating the status quo doesn't provide sufficient confidence that investment objectives will be fully met.

Investment-intensive agencies are categorised by Investment Ministers as either Tier 1 or Tier 2 agencies. Tier 1 agencies are the most investment-intensive, and therefore expected to achieve at least a 'B' rating. Detail on the Tier 1 and Tier 2 investment-intensive agencies is available at: http://www.treasury.govt.nz/statesector/investment-intensive-agencies.

ICRs provide a baseline assessment that supports the government to understand where changes will enhance how it manages investment. The ratings do not change whether an agency receives funding, but will influence the level of investment decision making and central monitoring of agencies' investment practices.

[ends]

IN-CONFIDENCE
Annex One: Option A Draft collateral

THE TREASURY
Kaitohutohu Kaupapa Rawa

TRANCHE ONE RESULTS

Investor Confidence Rating

Investor Confidence Rating assessments have been completed for the Tranche One cohort, and three more tranches are planned between now and September 2017 for remaining investment-intensive agencies. This first review round for the ICR provides baseline data for subsequent reviews, and evidence of areas for improvement. Tranche One involved six investment-intensive agencies. The summary results were:

Agency	ICR Result
Out of scope of request	
Ministry of Education	C
Out of scope of request	

None of the agencies in this tranche attracted a D or E rating. This indicates that these agencies have the foundations for good investment management in place, but some could improve their future performance, and the functioning of the overall system, by applying a targeted emphasis on some elements.

Most agencies have good asset and change management maturity and are very good at delivering investments to agreed time, cost or scope requirements - but usually not all three on every investment. Areas for improvement are in how agencies plan for a long term horizon, set asset performance targets, and provide evidence that investments are delivering agreed benefits.

The areas for improvement are based on what evidence could be provided at the time of the assessment. For example, the results of some agencies, do not infer that there are no benefits being achieved from the government's investment, however the processes to track results robustly over the long term may require more systematic planning and monitoring.

The ratings are determined every two years, providing the opportunity for agencies to progress their maturity between the review periods.

More detail on the results of the individual agencies participating in Tranche One is available at [hyperlink to detailed agency results A3 document].

[ends]

Page 5 not relevant to request

IN-CONFIDENCE

Annex One: Option A draft collateral

Ministry of Education	**Investor Confidence Rating**	**C**	**Scope of ICR assessment:**	School property and ICT portfolios
	Treasury Comment Cabinet has an expectation that the most investment-intensive agencies achieve at least a B result. The ICR assessment recognises gains made in recent years and highlights the need for some further improvement. The evidence shows Education has strengths in asset management maturity and in delivering projects to scope and on budget. It consistently meets its own asset performance targets and its self-assessment shows strengths in organisational change management maturity. There are gaps in aspects of its P3M3 (particularly benefits management, stakeholder management and resource management) that may affect future performance. The separate parts of Education's LTIP need to be more closely integrated. Education plans to update its LTIP in the next six months. Some key performance information is limited or not yet available. In particular there is limited evidence of asset performance or evidence to show that expected investment benefits have been realised (as distinct from project delivery to time, cost and scope requirements).			
	Implications The main implications are for the Ministry of Education, working with the corporate centre, to: • Develop and use an integrated LTIP • Lift P3M3 capability and improve benefits management.			

Out of scope of request

Annex One: Option A draft collateral

Key Messages for Investment Ministers

Government is strengthening its investment management system to ensure results are maximised from its investments, including how effectively they're managed. This supports the government in managing fiscal pressures over the longer term, through directing resources to address changing priorities and needs over time.

Tailored attention is being applied to investment-intensive agencies so that they have the right capability across a range of disciplines for the scale and criticality of what they need to deliver. This gives confidence that taxpayer money is used as effectively as possible to make a difference to New Zealanders.

Government is using a new tool, the Investor Confidence Rating, to assist investment-intensive agencies to have the right capability and capacity to maximise their effectiveness. This means for example, not just completing an infrastructure project in time and on budget, but ensuring it continues to deliver the right benefits over the long term.

The ICR is an improvement tool that can help Cabinet and agencies to prioritise and coordinate significant investments so that they maximise their contribution to a stronger, more productive economy.

Using a strong evidence base, the rating supports greater flexibility in the system – so that the government's corporate centre assists agencies where it will have the most impact, a shift in capability raises an agency's investment management effectiveness, and agencies with advanced investment management performance have greater flexibility to redistribute funding committed within its agreed operating parameters.

[ends]

From: Kerry Hollingsworth [TSY]
Sent: Friday, 8 July 2016 12:31 p.m.
To: Out of scope of request Andrew Hutchinson; Out of scope of request
Cc: Out of scope of request Ricky Utting [TSY]; Helen Allred [TSY]; Fiona Smith; Grant Petherick [TSY]; Louise Lennard; s9(2)(a) Daniel White [TSY]; s9(2)(a); Joseph Sant [TSY]; s9(2)(a)
Subject: RE: ICR results - Tranche One - Possible release of high level results in July

Good afternoon everyone

We are still waiting for our Minister's office to confirm a date for the release of the Tranche One results from the Investor Confidence Rating. Things won't be clearer until the middle of next week at the earliest (due to recess).

FYI, the Treasury has developed a new, simpler overview of what the ICR is, which aims to provide a less technically detailed summary for external audiences (eg, media and the public). This collateral has been added to our website. We hope this will be helpful for fielding more general queries around the ICR after the release. See http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr

This web page has two downloadable docs – ICR At A Glance and an ICR Fact Sheet. We'd appreciate any feedback you may have on this material.

Meantime, thanks for your patience as we work to confirm the timing of the release. We'll update you as soon as we have more information so that this supports your engagement with your Minister. The liaison between our respective comms teams will continue.

Regards

Kerry

Kerry Hollingsworth | Principal Advisor | **The Treasury**
Tel: +64 4 917 6153 | kerry.hollingsworth@treasury.govt.nz

From: Kerry Hollingsworth [TSY]
Sent: Wednesday, 29 June 2016 5:01 p.m.
To: Out of scope of request Out of scope of request Andrew Hutchinson <Andrew.Hutchinson@minedu.govt.nz>; Out of scope of request.
Cc: Out of scope of request Out of scope of request Ricky Utting [TSY] <Ricky.Utting@treasury.govt.nz>; Helen Allred [TSY] <Helen.Allred@treasury.govt.nz>; Fiona Smith <Fiona.Smith@education.govt.nz>; Grant Petherick [TSY] <Grant.Petherick@treasury.govt.nz>
Subject: RE: ICR results - Tranche One - Possible release of high level results in July

[IN-CONFIDENCE]

Hello again everyone

Following our recent correspondence on the release of the Tranche One results of the Investor Confidence Rating, please note the release date will no longer be in the week of 4 July 2016. It is now likely to be released mid-July, with the exact date to be confirmed with our minister's office.

We understand that the Minister of Finance has decided to release a media statement as part of the release. This will be shared with your ministers' offices once available (and in advance of the release) to support the coordination of messages. We will also provide you advanced copy of the final content that the Treasury will be releasing on its website. This will not change the detailed agency commentaries that we have recently discussed with you (which reflect Cabinet decisions).

Emily Marden from the Treasury's communications team has also advised your comms teams today of the change to the timing of the release date.

Thanks and regards

Kerry

Kerry Hollingsworth | Principal Advisor | **The Treasury**
Tel: +64 4 917 6153 | kerry.hollingsworth@treasury.govt.nz

From: Kerry Hollingsworth [TSY]
Sent: Tuesday, 21 June 2016 3:40 p.m.
To: Out of scope of request
Out of scope of request
<Andrew.Hutchinson@minedu.govt.nz>; Out of scope of request
Cc: Out of scope of request
Out of scope of request Ricky Utting [TSY] <Ricky.Utting@treasury.govt.nz>; Helen Allred [TSY] <Helen.Allred@treasury.govt.nz>; 'Fiona Smith' <Fiona.Smith@education.govt.nz>
Subject: RE: ICR results - Tranche One - Possible release of high level results in July

[IN-CONFIDENCE]

Good afternoon everyone

Further to my email on Wednesday 8 June I can confirm that Investment Ministers yesterday agreed to all the recommendations
relating to the release of tranche one results from the Investor Confidence Rating (ICR).

Investment Ministers agreed to:

- a 'soft' release of tranche trends, high level agency ratings, and tailored commentaries (option a in my earlier email)
- release tranche one results in the week on 4 July 2016
- communicate the lead messages eg, via speeches with relevant stakeholders
- repeat the same approach to the release of ICR results for subsequent tranches ie release no later than 90 days following Cabinet decisions on the results of each tranche.

What is happening now is that we are finalising material that can be used in various contexts. Gabs Makhlouf will email your respective CEs today advising them of this set of decisions and the coordinating role Treasury is playing with you and your communications colleagues. Gabs is likely to make release a media statement when the information is posted on the Treasury website. We also anticipate that MoF (on behalf of Investment Ministers) will communicate with your respective Ministers about the purpose of the release at this time, emphasising the performance improvement objectives of the ICR. We'll share that collateral as soon as its ready. Meantime we'd

encourage you to consider the improvement initiatives you have commissioned as a result of the ICR and how that might be used in any agency collateral.

Please get back in touch if you have any questions or need further information. In my absence please contact Helen Allred who is coordinating the communications with various parties.

Kind regards

Kerry

Kerry Hollingsworth | Principal Advisor | **The Treasury**
Tel: +64 4 917 6153 | kerry.hollingsworth@treasury.govt.nz

From: Kerry Hollingsworth [TSY]
Sent: Wednesday, 8 June 2016 6:17 p.m.
To: Out of scope of request Out of scope of request; Andrew Hutchinson <Andrew.Hutchinson@minedu.govt.nz>; Out of scope of request
Cc: Out of scope of request Out of scope of request Ricky Utting [TSY] <Ricky.Utting@treasury.govt.nz>; Helen Allred [TSY] <Helen.Allred@treasury.govt.nz>
Subject: ICR results - Tranche One - Possible release of high level results in July

[IN-CONFIDENCE]

Good evening everyone

This is a heads up on the possible timing of public release of the ICR results from Tranche One. Can you let me know whether the timeframes above are sufficient to prime your comms teams/ Ministers?

Recently MOF asked whether we had released the ICR results from Tranche One – he has been talking about the ICR in various public forums.
We reminded him that Cabinet had reserved to Investment Ministers (IMs) the decision on when to release the results. At his urging, yesterday we provided MOF with advice on the release options (see more below).

Given MOF preferences for disclosure we are recommending a soft release of a limited set of information on or about 4 July. We hope to get a decision from IMs at their meeting on 20 June. For your information:

- In the Treasury Report we discussed three options which vary in terms of the scope of content for disclosure, and the style of the proactive release:
  - Option A (our preferred option): 'soft launch' of tranche trend results, high level agency ratings, and partial commentary on agency-specific results and implications. Includes key messages for Investment Ministers to include in speeches with relevant stakeholders
  - Option B: full release of all results material including detailed agency scores on the performance indicators, and use of stand-alone media statement and briefing to the press
  - Option C: Minimal release of summary tranche trends and high level ratings only on the Treasury website only.
- All options use the Treasury website as a key channel to access the results.
- The process is designed to be repeatable for subsequent tranches and review rounds. Release is proposed to occur 90 days after Cabinet decisions on each tranche's results.
- For Tranche One this means:
  - If MoF agrees, Investment Ministers will consider the matter at their meeting 20/6. We will engage further with you once ministers' decisions are known).

  - Tranche One results release proposed for 4 July (tbc via liaison with Minister's office).
  - The annex attached to this email contains the proposed content for public release.
- We have also developed some collateral for managing responses to OIAs, which we anticipate Treasury will coordinate.

Thank you
Kerry

Kerry Hollingsworth | Principal Advisor | **The Treasury**
Tel: +64 4 917 6153 | kerry.hollingsworth@treasury.govt.nz

From: Fiona Smith <Fiona.Smith@education.govt.nz>
Sent: Tuesday, 28 June 2016 10:57 a.m.
To: Kate Lancaster
Cc: Emily Marden [TSY]; Helen Allred [TSY]; Andrew Hutchinson
Subject: RE: Follow up on the ICR results release approach

Hi Kate

Please see the below email with the Treasury communication contacts.

Thanks

Fiona

Fiona Smith | Principal Advisor - Investment Management | Strategic Finance
DDI +64 4 463 7630 | Ext 47630

From: Helen Allred [TSY] [mailto:Helen.Allred@treasury.govt.nz]
Sent: Friday, 24 June 2016 12:58 p.m.
To: Fiona Smith
Cc: Emily Marden [TSY]
Subject: Follow up on the ICR results release approach

[IN-CONFIDENCE]

Hi Fiona

Thanks for your query yesterday to confirm the approach to communicate the ICR results for Tranche One agencies. As referenced, when we have finalised Treasury key messages we are happy to share these. I should also have an indication from our minister's office early next week on how he will be coordinating with his colleagues, including your minister, and timing of any possible media statements too.

You mentioned a colleague (Kate?), was working with you on Education's comms around your agency findings. Are you able to send through her details? Emily Warden in our communications team is keen to update her as our material and the approach is finalised, and to provide any support we can to your process too. Emily is available on 04 917 6302, or the above email address.

Please feel free to contact us if you have any queries or concerns.

Thanks and regards
Helen

Helen Allred | Principal Advisor - Investment Management and Asset Performance | **The Treasury**
Tel: +64 4 890 7254| Helen.Allred@treasury.govt.nz

From: Emily Marden [TSY]
Sent: Thursday, 11 August 2016 11:52 a.m.
To: Liam Oldfield [TSY]
Subject: FW: EMBARGOED Investor Confidence Rating
Attachments: DRAFT ICR MATERIAL.docx; Tranche 1 trends summary.docx

Importance: High

From: Emily Marden [TSY]
Sent: Wednesday, 22 June 2016 11:19 a.m.
To: Out of scope of request
Out of scope of request 'rod.scotts@minedu.govt.nz'
<rod.scotts@minedu.govt.nz> Out of scope of request
'Out of scope of request
Cc: Out of scope of request
Subject: EMBARGOED Investor Confidence Rating
Importance: High

[SEEMAIL][SENSITIVE]

Hi all,

I've tried to call each of you with a heads up - apologies if I have not managed to get hold of you. Yesterday Gab's emailed your CE to advise of the up –coming (*likely* to be 4 July) Investor Confidence Rating release by the Treasury.

Attached is a draft fact sheet which includes over-arching key messages and agency specific messaging - please note these are suggested messages only and you are of course welcome to adapt as you see fit.

The second attachment provides an (Embargoed) overview of agency rating results for this tranche – this is high level and indicative of what will be published in the release. I will email each of you separately with more detailed individual agency rating information and the names of the agency contact that Treasury staff have been working with.

At this stage the release will be published on our website (with updated plain language content) but we are awaiting a decision from MoF as to whether he'll do a PR.

Feel free to call if you would like to discuss and/or reply all to this email in the interest of us all being on the same page….

Regards

Emily Marden | Principal Communications Advisor | **The Treasury**
Tel: +64 4 917 6302 | Emily.Marden@treasury.govt.nz

Fact Sheet

Investor Confidence Rating - Ensuring value from government investments

The Treasury is committed robust, and transparent stewardship of public funds. Owning the right assets, managing them well, funding them sustainably, and managing risks to the Crown balance sheet are all critical to public services being cost effective and high quality.

Establishing how agencies are manging investment and assets is a critical way to ensure taxpayer money is being used as effectively as possible.

The Investor Confidence Rating (ICR)

The ICR is an assessment conducted by the Treasury that looks at the performance of individual agencies in managing investments and assets. It provides an indication of the level of confidence that investors (such as Cabinet and Ministers) can have in an agency's ability to deliver results.

Agencies that receive a good rating can expect greater autonomy, higher financial delegations and less onerous monitoring and reporting. If the rating received is lower the agency. Agencies that do not rate as well are provided with additional monitoring and support from the Corporate Centre.

The rating is not used to inform decision making for funding proposals.

Lifting investment management capability

The Investor Confidence Rating is a useful tool which helps agencies lift their capability to deliver results and identify areas for improvement. Agencies that deliberately and methodically build their investment management capability at governance and delivery levels will achieve better investment outcomes.

Which agencies are assessed?

The ICR is conducted on 25 agencies from across the state sector. These agencies receive high levels of government investment and are responsible for delivering critical and large scale services.

ICR assessments are being conducted in tranches, and tranche one (which includes 6 agencies) is now complete. Additional tranches are planned for September 2016 and March and September 2017. Agencies included in tranche one include;
Inland Revenue, the Ministry of Education, the N Z Transport Agency, Accident Compensation Corporation, the Department of Corrections and the NZ Defence Force/Ministry of Defence. Results from this tranche will be released in July 2016.

What do the ratings mean?

The ICR uses a rating scale from A to E, with an 'A' rating signalling a high level of performance and an 'E'; rating indicating significant assistance is needed for the investment to deliver results. A 'C' rating means that while overall the agency has sound practices in place these do not provide adequate certainty that the investment objectives or goals will be fully realised.

How is the ICR conducted?

(See A3 visual in development……)

Trust, transparency and stewardship.

The Treasury has an important stewardship role to play in managing Government finances on behalf of New Zealanders. Stewardship requires a high degree of trust and maintaining that trust is dependent on being transparent. To deliver on that, the Treasury operates an investment management system that;

- Optimises the value generated from new and existing investments
- increases the efficiency and effectiveness of the investment management system and
- enables investments to achieve their objectives

Investor Confidence Rating - Ensuring value from government investments

Key messages:

For Ministers:

- Establishing how agencies are managing investment and assets is a critical way to ensure taxpayer money is being used as effectively as possible.
- The Investor Confidence Rating provides a valuable indication of the level of confidence that Cabinet and Ministers can have in an agency's ability to deliver on investment objectives.
- It is a useful tool which helps individual agencies to identify where they need to lift their capability to maximise the value of their investments.
- The rating determines the level of autonomy an agency is given in relation to how they manage their investments and assets.
- A higher degree of reporting and assurance is required if agencies receive a low rating. These agencies are also given additional monitoring and support from the Corporate Centre.
- The ICR uses a rating scale that ranges from A to E. An 'A' rating signals a high level of performance and an 'E' rating indicates significant assistance is needed for the agency to deliver results from the investment.

- A 'C' rating signals that overall an agency has some sound practices but these do not provide adequate certainty that the investment objectives or goals will be fully realised.
- The Treasury conducts the ICR every 2 years with 25 agencies that receive high levels of government investment and are responsible for delivering critical and large scale services.
- ICR assessments are being conducted in tranches, and tranche one (which includes 6 agencies) is now complete. Additional tranches are planned for September 2016 and March and September 2017.
- Agencies included in tranche one include;
  Inland Revenue, the Ministry of Education, the N Z Transport Agency, Accident Compensation Corporation, the Department of Corrections and the NZ Defence Force/Ministry of Defence.

Investor Confidence Rating Results

- Tranche One results for the first 6 of the 25 agencies showed that overall agencies have good investment management practices in place, with 4 of the 6 agencies receiving a 'B' rating or higher.
- Inland Revenue received the highest rating with an 'A' followed by ACC, Defence, and NZTA with 'B' ratings.
- A 'C' rating, indicating greater certainty is needed that investment objectives will be met, was given to the Ministry of Education and the Department of Corrections.

Messages for agencies

Out of scope of request

Out of scope of request

Ministry of Education

- The Ministry of Education welcomes the opportunity the Investor Confidence Rating provides us to ensure our investment management practices are sound and that we are delivering value to the New Zealand public.
- The review has showed that overall the ministry has sound asset management practices and delivering projects to scope and within budget.
- Participating in the rating process provides us with a level of confidence that we are delivering on planned targets, and highlights areas where improvements can be made.
- The rating has highlighted for example, that improvements can be made by integrating long terms investment plans and addressing gaps in aspects of our benefits and resource management.

Out of scope of request

Out of scope of request

IN CONFIDENCE

THE TREASURY
Kaitohutohu Kaupapa Rawa

TRANCHE ONE RESULTS

Investor Confidence Rating

Investor Confidence Rating assessments have been completed for the Tranche One cohort, and three more tranches are planned between now and September 2017 for remaining investment-intensive agencies. This first review round for the ICR provides baseline data for subsequent reviews, and evidence of areas for improvement. Tranche One involved six investment-intensive agencies. The summary results were:

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

None of the agencies in this tranche attracted a D or E rating. This indicates that these agencies have the foundations for good investment management in place, but some could improve their future performance, and the functioning of the overall system, by applying a targeted emphasis on some elements.

Most agencies have good asset and change management maturity and are very good at delivering investments to agreed time, cost or scope requirements - but usually not all three on every investment. Areas for improvement are in how agencies plan for a long term horizon, set asset performance targets, and provide evidence that investments are delivering agreed benefits.

The areas for improvement are based on what evidence could be provided at the time of the assessment. For example, the results of some agencies, do not infer that there are no benefits being achieved from the government's investment, however the processes to track results robustly over the long term may require more systematic planning and monitoring.

The ratings are determined every two years, providing the opportunity for agencies to progress their maturity between the review periods.

More detail on the results of the individual agencies participating in Tranche One is available at [hyperlink to detailed agency results A3 document].

[ends]

From: Emily Marden [TSY]
Sent: Thursday, 11 August 2016 11:51 a.m.
To: Liam Oldfield [TSY]
Subject: FW: EMBARGOED Investor Confidence Rating

From: Emily Marden [TSY]
Sent: Tuesday, 28 June 2016 12:53 p.m.
To: 'Kate Lancaster' <Kate.Lancaster@education.govt.nz>; Helen Allred [TSY] <Helen.Allred@treasury.govt.nz>
Cc: Fiona Weightman <Fiona.Weightman@education.govt.nz>
Subject: RE: EMBARGOED Investor Confidence Rating

Hi Kate

That sounds great – we've also developed an A3 which once finalised we will share with the comms group.

Regards

Emily Marden | Principal Communications Advisor | **The Treasury**
Tel: +64 4 917 6302 | Emily.Marden@treasury.govt.nz

From: Kate Lancaster [mailto:Kate.Lancaster@education.govt.nz]
Sent: Tuesday, 28 June 2016 11:52 a.m.
To: Emily Marden [TSY] <Emily.Marden@treasury.govt.nz>
Cc: Fiona Weightman <Fiona.Weightman@education.govt.nz>
Subject: FW: EMBARGOED Investor Confidence Rating
Importance: High

Hi there Emily. I'm in Fiona Weightman's team at the Ministry of Education and have been working on communications associated with ICR. Fiona passed on your email regarding Treasury's communications material. Thanks for sending it across.

We've developed our key messages on the ICR and I'm pleased to note they are pretty consistent with what you have provided. These messages are with our Minister at the moment.

Kind regards

Kate Lancaster

From: Emily Marden [TSY] [mailto:Emily.Marden@treasury.govt.nz]
Sent: Wednesday, 22 June 2016 11:21 a.m.
To: Fiona Weightman

Subject: FW: EMBARGOED Investor Confidence Rating
Importance: High

From: Emily Marden [TSY]
Sent: Wednesday, 22 June 2016 11:19 a.m.
To: 'Out of scope of request
Out of scope of request 'rod.scotts@minedu.govt.nz'
<rod.scotts@minedu.govt.nz>; Out of scope of request
Out of scope of request
Cc: Out of scope of request
Subject: EMBARGOED Investor Confidence Rating
Importance: High

[SEEMAIL][SENSITIVE]

Hi all,

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At this stage the release will be published on our website (with updated plain language content) but we are awaiting a decision from MoF as to whether he'll do a PR.

Feel free to call if you would like to discuss and/or reply all to this email in the interest of us all being on the same page….

Regards

Emily Marden | Principal Communications Advisor | **The Treasury**
Tel: +64 4 917 6302 | Emily.Marden@treasury.govt.nz

From: Emily Marden [TSY]
Sent: Thursday, 11 August 2016 11:49 a.m.
To: Liam Oldfield [TSY]
Subject: FW: CONFIRMED RELEASE TIME/DATE

From: Emily Marden [TSY]
Sent: Monday, 25 July 2016 5:29 p.m.
To: 'Kate Lancaster' <Kate.Lancaster@education.govt.nz>
Subject: RE: CONFIRMED RELEASE TIME/DATE

Hi there

Is it possible for us to see the messages you intend to respond with?

Thanks

Emily

From: Kate Lancaster [mailto:Kate.Lancaster@education.govt.nz]
Sent: Monday, 25 July 2016 4:34 p.m.
To: Emily Marden [TSY] <Emily.Marden@treasury.govt.nz>
Subject: RE: CONFIRMED RELEASE TIME/DATE

Thanks Emily.

s9(2)(g)(i)

Kate Lancaster | Senior Communications Advisor
DDI +6444638654

s9(2)(a)

From: Emily Marden [TSY] [mailto:Emily.Marden@treasury.govt.nz]
Sent: Monday, 25 July 2016 4:18 p.m.
To: Leanne.macdonald@corrections.govt.nz; trudy.warrender@nzdf.mil.nz; Fiona Weightman; Kate Lancaster; Diane Gamble; james.funnell@acc.co.nz; andrew.stott@ird.govt.nz
Cc: Tim Ingleton [SSC]; Helen Allred [TSY]; Andrew Blazey [TSY]; Ricky Utting [TSY]; @ELT (Executive Leadership Team) [TSY]; @OE analysts [TSY]; Bryan McDaniel [TSY]
Subject: CONFIRMED RELEASE TIME/DATE
Importance: High

[SEEMAIL][SENSITIVE]

Hi

The Ministers office have advised they intend to issue the ICR PR at 10 AM tomorrow. Will circulate the embargoed PR once in hand.

Emily Marden | Principal Communications Advisor | **The Treasury**
Tel: +64 4 917 6302 | Emily.Marden@treasury.govt.nz

From: Emily Marden [TSY]
Sent: Thursday, 11 August 2016 11:48 a.m.
To: Liam Oldfield [TSY]
Subject: FW: updated key messages and questions and answers
Attachments: s9(2)(g)(i)

Out of scope of request

From: Kate Lancaster [mailto:Kate.Lancaster@education.govt.nz]
Sent: Tuesday, 26 July 2016 11:10 a.m.
To: Emily Marden [TSY] <Emily.Marden@treasury.govt.nz>
Cc: Simon Sanders <Simon.Sanders@education.govt.nz>; Zoe Griffiths <Zoe.Griffiths@education.govt.nz>; Andrew Hutchinson <Andrew.Hutchinson@education.govt.nz>; Media Team Shared Mailbox <Media@education.govt.nz>; Fiona Weightman <Fiona.Weightman@education.govt.nz>
Subject: updated key messages and questions and answers

Hi there Emily – here's the updated key messages and questions and answers.

Kind regards

Kate Lancaster | Senior Communications Advisor
DDI +6444638654
33 Bowen St, Wellington

s9(2)(a)

education.govt.nz | Follow us on Twitter: @EducationGovtNZ

We get the job done *Ka oti i a mātou ngā mahi*
We are respectful, we listen, we learn *He rōpū manaaki, he rōpū whakarongo, he rōpū ako mātou*
We back ourselves and others to win *Ka manawanui ki a mātou, me ētahi ake kia wikitoria*
We work together for maximum impact *Ka mahi ngātahi mō te tukinga nui tonu*

Great results are our bottom line *Ko ngā huanga tino pai ā mātou whāinga mutunga*

MINISTRY OF EDUCATION