

Fact Sheet: Investor Confidence Rating (ICR)

Investor Confidence Rating – Ensuring value from government investments

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

The Treasury is committed to robust and transparent stewardship of public funds. It has an important role to play in managing government finances on behalf of New Zealanders. The Treasury's stewardship requires a high degree of trust and maintaining that trust is dependent on being transparent. To deliver on that, the Treasury oversees an investment management system that aims to:

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

The Treasury has introduced the Investor Confidence Rating as part of a range of initiatives to strengthen how government manages its assets and investments. Other initiatives within this system include the Government Investment Portfolio which comprises the pipeline of government investments, Better Business Cases, and use of the Gateway review process for significant high risk programmes and projects.

The Investor Confidence Rating (ICR)

The ICR is an assessment conducted by the Treasury that looks at the performance of individual agencies in managing their investments and assets. It provides an indication of the level of confidence that investors (such as Cabinet and Ministers) have in an agency's ability to realise a promised investment result if funding were committed.

The main purpose of the ICR is to provide an incentive mechanism that rewards good investment management performance and proactively addresses gaps in investment management performance eg:

- agencies that receive a good rating may obtain greater autonomy, higher financial delegations and less monitoring and reporting
- agencies that do not rate as well may obtain less autonomy, lower financial delegations and additional monitoring and support from central agencies and monitoring functions.

A subsidiary purpose of the ICR is to enhance the degree of objectivity and rigour in the investment management system, compared with past practices.

The ICR is one component of the information that is considered by Cabinet when it prioritises investments.

Lifting investment management capability and performance

The Investor Confidence Rating helps agencies identify where they need to lift their investment management capability and performance. International evidence suggests that agencies that deliberately and methodically build their investment management capability at governance and delivery levels are likely to achieve better investment outcomes.

The Treasury has seen improvements since the ICR was introduced. It also anticipates that agencies will improve over time as they embed new areas of emphasis, for example, the quality of Long Term Investment Plans.

Which agencies are assessed, and when?

Assessments occur every 3 years. Please refer to the ICR website for details.

What do the ratings mean?

ICR ratings will show where agencies can develop enhanced levels of investment management capability. Over time, these changes position agencies to manage future investments and assets effectively.

The ICR uses a rating scale from A to E, with:

- an 'A' rating signalling a high level of investment management capability and performance, and trust in the agency delivering investments successfully
- a 'C' rating meaning that the status quo investment management system arrangements remain in place, and
- an 'E' rating indicating significant assistance may be required for the agency's investments to deliver results.

Cabinet has confirmed that all investment-intensive agencies should achieve at least a 'B' rating.

What is the rating based on?

The Investor Confidence Rating uses an evidence-based approach which looks at 9 elements of agency performance in managing significant investments and assets.

International best practice methodologies are used for some elements to provide an assessment of capability.

Maturity scales are used to indicate where agencies sit in relation to appropriate levels of expertise. Maturity ratings typically look at how realistic, repeatable and robust the processes underpinning best practice are, such as an agency's effectiveness in planning and delivering benefits.

There are 5 lead indicators that indicate a strong connection between agency capability and future performance, and 4 lag indicators that look at the agency’s recent past performance against commitments. They are weighted to the relative importance of each element to the investment management system (as shown in the table below).

Element	Weight (%)
1. Asset management maturity	15
2. NZP3M management maturity	15
3. Quality of long term investment plan	10
4. Procurement Capability Index (PCI)	5
5. Organisational change management maturity	10
Total for lead indicators	55
6. Benefits delivery performance	20
7. Project delivery performance	10
8. Asset performance	10
9. System performance	5
Total for lag indicators	45

How is the ICR conducted?

The ICR assessment process consists of:

- joint work between the Treasury and the agency to gather evidence, including input from expert third parties for some elements (NZP3M (Portfolio, Programme and Project maturity) and Asset Management maturity)
- Treasury collating, moderating results, and reporting to Ministers
- Cabinet making decisions on the agency’s rating, and implications on its investment autonomy (eg, funding decision thresholds, monitoring and support levels)
- Information gathered during the process being used by the agency to develop and deliver improvements.

Future direction of the ICR?

The Treasury intends to complete an independent assessment of the ICR in 2020 to determine how the ICR operates moving forward eg, consider targeting, tailoring, timing etc.

For more information

The Treasury's website provides additional detail on the ICR, including:

- ICR guidance:
<https://treasury.govt.nz/state-sector-leadership/investor-confidence-rating-information>
- The ICR results:
<https://treasury.govt.nz/state-sector-leadership/results-investor-confidence-rating-icr>