

Chair
Cabinet Government Administration and Expenditure Review Committee

Investor Confidence Rating: Introduction and latest results

Proposal

- 1 This paper invites Cabinet to approve the latest Investor Confidence Rating (ICR) results and proposed implications for the Ministry of Social Development (MSD), Southern District Health Board (SDHB), Defence¹, Housing New Zealand Corporation (HNZC), and the New Zealand Transport Agency (NZTA).

Executive Summary

- 2 This Government is undertaking a range of reforms which will improve the performance of the investment management system. This will provide Ministers with the ability to prioritise, sequence and manage investments to match their priorities, underpin budget reforms, enable the independent infrastructure entity and help build the confidence and capability of the market.
- 3 Effective reform cannot happen in isolation. Good investment requires quality information, strong long-term thinking, stakeholder engagement and collaboration, balanced against the capacity and capability constraints of the investment management system.
- 4 However, an agency's ability to manage its investments and assets well is also needed to deliver the benefits we are seeking from our investments. The Investor Confidence Rating (ICR) supports this by ensuring agencies have the right level of investment capability to deliver outcomes for New Zealanders.
- 5 The ICR is a three-yearly Treasury assessment, in the form of an A-E rating, of the performance of investment-intensive agencies in managing investments and assets that are critical to the delivery of New Zealand Government services.
- 6 It highlights each agency's strengths and gaps in core aspects of its investment and asset management and provides incentives for them to address these gaps through higher delegations and/or flexibility over assurance requirements.

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

- 7 The ICR applies to the 25 most investment-intensive agencies². Together these agencies manage 75% of the Crown's PPE³ balance sheet, and hold assets worth over \$100bn. Due to the size and criticality of their asset and investment portfolios, Cabinet previously set an expectation for all investment-intensive agencies to achieve a B rating over time. I invite you to reaffirm this expectation.
- 8 The incentive works of the ICR are working. All 25 agencies have improvement activities underway and they are starting to take a longer term, more strategic view of investments and assets.
- 9 Included in this paper are the results for MSD and SDHB. These were the first assessments for these agencies and took place between September 2017 and February 2018. Their completion concludes the first round of 25 ICR assessments. The paper also includes second round assessment results for Defence, HNZN and NZTA. These took place between February and July 2018.
- 10 I invite Cabinet to approve these ratings and their associated implications as outlined in Figure 1. This will ensure agencies build capability to improve performance and contribute to a more effective investment management system.

Figure 1: Latest results for Cabinet approval

| Agency | Preliminary ICR results | Comment |
|---------------|--------------------------------|---|
| MSD | C | This is MSD's first ICR assessment. This took place during a period of change for MSD, six months after the establishment of Oranga Tamariki and before the new organisational strategy had been agreed. |
| SDHB | D | This is SDHB's first ICR assessment and is the first agency to be assessed a D. Their executive team is committed to improving their maturity and performance and work is underway to achieve this, with support from the Ministry of Health and central agencies. |
| Defence | B | <p>Overall, Defence has strengthened its B rating since its first assessment in 2015. From a portfolio perspective, its Capability portfolio received an A rating and its Estate portfolio received a B rating.</p> <p>In recognition of these results and the scale of Defence's investments, it is proposed that the current increased approval thresholds are maintained for Estate investments and expanded for Capability investments. The Treasury has also agreed that Defence Chief Executives will have joint discretion over the use of Gateway in the Capability portfolio.</p> <p>The B rating also provides a good basis for confidence that Defence would make good use of greater portfolio and programme management flexibility. Defence and Treasury Officials will examine mechanisms to support enhanced portfolio and programme management for Defence investments.</p> |

² Including eight District Health Boards (DHBs). The full list of investment-intensive agencies can be found in Annex 2.

³ Property, plant and equipment

| | | |
|------|---|--|
| HNZC | A | HNZC maintained its A rating and will retain its discretion over its use of Gateway ⁴ and other investment reviews. The rating also provides a good basis of confidence for the Responsible Minister and the Board to discuss increasing the ministerial consultation threshold for major baseline-funded investment proposals from \$30m to \$50m. |
| NZTA | C | NZTA received a C rating, from a B rating in 2015. The assessment took place before the Government Policy Statement on Transport was finalised and following NZTA's organisational transformation. This context is partly responsible for the dip in some areas of investment maturity and performance. |

Background

Context for the ICR

- 11 Owning the right assets, managing them well, funding them sustainably, and managing risks to the Crown balance sheet are all critical to delivering cost effective and high quality public services. Establishing how agencies are managing their investments and assets helps ensure taxpayer money is being used as effectively as possible.
- 12 This Government is undertaking a range of reforms to improve the performance of the investment management system. This will provide Ministers with the ability to prioritise, sequence and manage investments to match their priorities, underpin budget reforms, enable the independent infrastructure entity and help build the confidence and capability of the market.
- 13 An agency's ability to manage its investments and assets well is also needed to deliver the benefits we are seeking from our investments. The Investor Confidence Rating (ICR) supports this by ensuring agencies have the right level of investment capability to deliver outcomes for New Zealanders.
- 14 The Investor Confidence Rating was introduced in 2015 through Cabinet Office circular CO(15)⁵ and provides a mechanism that highlights an agency's strengths and gaps in key aspects of its investment and asset management capability and performance.
- 15 Importantly, the ICR incentivises agencies to address these gaps. Agencies with higher ratings (A or B) may receive an increase in their general approval thresholds for investments⁶ and/or flexibility over assurance requirements. Agencies with lower ratings may attract the opposite effects and greater support from central agencies, monitoring agencies and functional leads.

⁴ Gateway is an independent and confidential peer review process that examines projects and programmes at key points in their lifecycles to assess their progress and to rate the likelihood of successful delivery of their outcomes. All high-risk projects and programmes are subject to Gateway unless otherwise agreed with the Treasury.

⁵ Cabinet Office circular CO(15)5 Investment Management and Asset Performance in the State Services

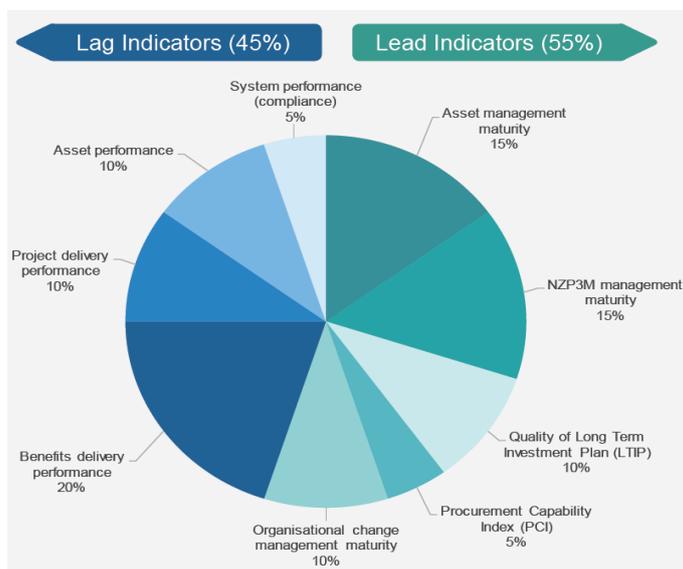
⁶ CO(15)5 outlines the general approval thresholds for investments that require Cabinet approval. ICR ratings are used to determine variations (up or down) from these thresholds. General approval thresholds can be found in Annex 2.

- 16 Over time, actions to improve the investment management system and the incentive effects of the ICR means our assets will be more effectively managed, our investments will be more successful and we will deliver improved outcomes for New Zealanders.
- 17 The ICR has also drawn interest from other jurisdictions including Canada, Australia and the UK, and the private sector including ANZ NZ and PMI global.

Operation of the ICR

- 18 The ICR is a three-yearly Treasury assessment of the performance of investment-intensive agencies in managing investments and assets that are critical to the delivery of New Zealand Government services.
- 19 Half way between the formal assessments, the Treasury runs a mid-point progress check with agencies in the form of an Outlook Discussion. This is designed to maintain the momentum for improvement action.
- 20 The ICR applies to the 25 most investment-intensive agencies⁷ in Government. This is based on the size and criticality of these agency’s investments and assets for the delivery of New Zealand government services, which together account for 75% of the Crown’s PPE⁸ balance sheet, with assets worth over \$100bn.
- 21 It is an evidence based assessment over nine elements of an agency’s past and prospective performance.

Figure 2: Elements assessed through the ICR



- 22 These elements are weighted and combined to determine an overall A-E rating for an agency. This rating is an indication of the level of confidence Cabinet and other investors can have in an agency’s ability to realise a promised investment result if funding was committed.

⁷ Including eight District Health Boards (DHBs). The full list of investment-intensive agencies can be found in Annex 2.

⁸ Property, plant and equipment

- 23 For agencies with a high rating (A or B), Cabinet has in the past approved an increase in their general approval thresholds for investments. For agencies with a lower rating, Cabinet may request additional assurance or support for that agency’s investments. A “C” rating is considered the status quo and standard investment management system arrangements remain in place.
- 24 Cabinet previously set an expectation for all investment-intensive agencies to achieve a B rating over time due to the size and criticality of the asset and investment portfolios managed by these agencies (CAB-16-MIN-0010). I invite you to reaffirm this expectation.
- 25 The scope of the ICR is outlined in Figure 3.

Figure 3: ICR scope

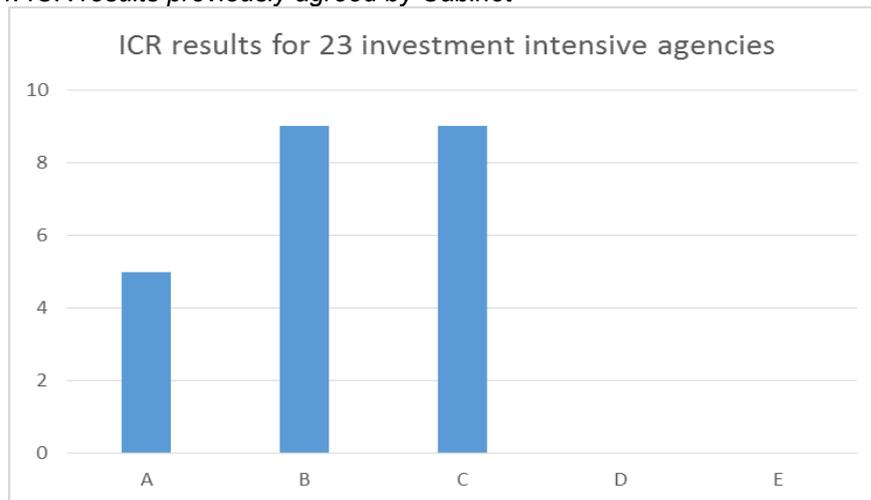
| What the ICR is | What the ICR isn’t |
|---|---|
| <ul style="list-style-type: none"> • An incentive mechanism • A source of information to improve maturity and performance • An indicator of the confidence that investors can have in an agency’s capacity and capability to realise a promised investment result if funding were committed • An assessment of the extent to which each agency met its performance targets, and how far away its maturity is from the appropriate level for the scale and complexity of the business • An assessment based on performance evidence at a point in time • One component of the information that is considered by Cabinet when prioritising investments and by central agencies and functional leads when monitoring investments | <ul style="list-style-type: none"> • A disincentive to invest in lower rated agencies - but is an indication of where additional support or assurance may be required • A test of the quality of management decisions • A detailed performance audit • A substitute for good use and monitoring of performance information by agencies or monitoring function/s • An indication that higher rated agencies have no capability or performance gaps or that lower rated agencies do not have strengths • A performance guarantee • A signal that things are perfect in higher rated agencies |

Cabinet approved ICR results and investment management system implications

- 26 Cabinet has previously approved all 23 first round ICR assessments. Annex 2 shows the 23 Cabinet-approved ICR results and the agreed investment management system implications. A summary of the 23 cabinet approved results can be found in Figure 4.
- 27 The final two out of 25 agencies (MSD and SDHB) have now been assessed and are ready for Cabinet approval, along with second round assessment results for Defence, HNZA and NZTA. These results are discussed later in this paper.
- 28 Across the 23 Cabinet-approved results, the common areas for improvement are in asset management, long term planning, P3M3 (portfolio, programme and project management) for investments, and benefits management⁹.

⁹ Benefits are the measurable improvement from an outcome perceived as an advantage by one or more stakeholders.

Figure 4: ICR results previously agreed by Cabinet



- 29 The Treasury and agencies recognise that improvements take time to translate into enhanced performance and acknowledge that limited resource and capacity constraints means improvement activity needs to be targeted. This fact, coupled with improvements to make the ICR assessment more robust in the second round, means it is possible that agencies will be making real improvements even if the results are similar to what they achieved in their first assessments 2-3 years ago.
- 30 It is also important to consider the results in the context of the assessment circumstances, particularly where there has been a period of significant change in the agency or the agency's environment.

The impact of the ICR on lifting investment management and asset performance

- 31 The incentive effects of the ICR are working. All 25 investment-intensive agencies have improvement activities underway to improve their investment and asset management capability and performance.
- 32 Agencies are also starting to take a longer term, more strategic view of investments and assets. For example:
- a. The introduction of the Long Term Investment Plan (LTIP) has enabled the four northern region DHBs to produce the first regional LTIP, and extended central government planning from 4 years to 10 years (and up to 30 years for Defence and HNZZ). LTIPs are also supporting strategic discussions enabled through the development of alternative long-term investment scenarios.
 - b. Agencies have programmes in place to improve asset management and asset performance practices, but for some the progress is slow. The Treasury has also tightened the asset performance and asset management maturity assessments and the gap in these two indicators could increase for some agencies in the second round. There are also observed weaknesses in asset management practice through other data sources such as the quality of asset renewal information in the ten year investment pipeline and the Office of the Auditor General's recent review of DHB asset management practice as part of 2016/17 audits. The long-term investment

plans also underscores our observations that asset performance is not sufficient to inform robust planning.

- 33 Agencies are starting to improve their investment and asset management capability and performance. This will contribute to an effective investment management system that will deliver the outcomes we want. Agencies cannot do this alone. Good investment requires quality information, strong long-term thinking, stakeholder engagement and collaboration, balanced against the capacity and capability constraints of the investment management system.

Observations on the application of the ICR to Counties-Manukau DHB

- 34 The Treasury acknowledges that questions have been asked about what the ICR means in the context of subsequent information about the state of some assets at Counties-Manukau DHB (CMDHB), and the decisions and priorities of its former Board and management.
- 35 CMDHB received an A rating as it met most of its performance targets and was close to an appropriate level of maturity. It was also very frank in its LTIP that its risk appetite for buildings was higher than for clinical equipment and ICT, given general health funding constraints and government priorities. This was also reflected in its asset performance results.
- 36 The ICR tests the extent to which each agency met its performance targets, and how far away its maturity is from the appropriate level for the scale and complexity of the business. But it does not assess management decisions nor determine whether targets are at the right level. In this case, this is the responsibility of the DHB Board, management, the Ministry of Health, as well as auditing entities.
- 37 The effectiveness of the ICR relies on these system functions to be working as intended. Expanding the scope of the ICR to test the quality of management decisions and the appropriateness of targets would fundamentally change the framework, and would require additional resource to conduct a function that is the responsibility of the monitoring agencies and auditing entities. The issues subsequently identified in CMDHB reveals deficiencies in the monitoring and auditing of the DHB and is a broader system issue that needs to be addressed outside the ICR.
- 38 The ICR is under constant review, and subject to ongoing incremental changes to improve content, process, and approach. An independent review of the ICR will be conducted following completion of round 2 assessments in 2020 to assess the value of the ICR and to inform the future programme of ICR assessments.
- 39 Other changes in the health sector to improve investment management are also under way including improvements to asset management and infrastructure. These are being overseen by the Ministry of Health and supported by the Treasury. The Minister of Health expects that the work to improve DHB capital monitoring and the development of an enhanced DHB performance framework will provide more comprehensive and systematic coverage of DHB performance.

ICR – Latest results and implications for Cabinet approval

Latest results

- 40 The Treasury has completed five ICR assessments for Cabinet approval. This includes the first assessment result for MSD and SDHB, whose assessment took place between September 2017 and February 2018. Their assessment completes the first round of ICR assessments. Also included in this paper are results for Defence, HNZA and NZTA which represent these agencies second ICR assessment and the start of round 2 assessments. These took place between February and July 2018.
- 41 I invite you to approve the results, as outlined in Figure 5.

Figure 5: Preliminary ICR results (subject to Cabinet approval)

| Agency | Preliminary ICR results (subject to Cabinet approval) |
|--|---|
| Ministry of Social Development | C |
| Southern District Health Board | D |
| Defence (being the Ministry of Defence and the New Zealand Defence Force (NZDF)) | B |
| Housing New Zealand Corporation | A |
| New Zealand Transport Agency | C |

- 42 I want to acknowledge the considerable effort made by these agencies to meet the ICR assessment requirements alongside other work priorities. I understand each agency has enhanced its knowledge and understanding of its business through this work. I invite Responsible Ministers to convey my thanks to these agencies.
- 43 Further details on each agency's rating are provided in Annex 1 of this paper.

Final two results from round 1

Ministry of Social Development – ICR rating: C, assessment period: Sep 17 – Feb 18

- 44 The ICR assessment took place during a period of transition for MSD, 6 months after the establishment of the Ministry for Children Oranga Tamariki, and before the new organisational strategy had been agreed.
- 45 Although the assessment highlights areas for improvement, it also recognises the positive impact of MSD's improvements in recent years. This is reflected in MSD's high C rating and provides a good basis for improving its rating in the next assessment.
- 46 The evidence shows that MSD has strengths in asset management and in delivering projects to scope and on budget. MSD also has a good grounding in organisational change management, implemented some good procurement initiatives and successfully used procurement to deliver social outcomes.

- 47 However, further work is required for MSD to ensure consistent practice across the organisation and to improve its project, programme and portfolio management maturity, and benefits management.
- 48 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 assurance requirements continue to apply.
- 49 In terms of improvement actions, the main implications for MSD arising from the ICR is to work with central agencies and functional leads to improve its project, programme and portfolio management maturity, and benefits management maturity. As the organisational strategy has now been agreed, work can also commence on updating its Long Term Investment Plan.

MSD's response to the ICR result

- 50 As an agency with extensive service delivery assets and investment in a wide range of community-based services and providers, MSD recognises the importance of continuing to improve its investment practices from its current level.
- 51 MSD has stated that “The Treasury’s assessment of MSD as a “High C” recognises MSD’s strengths, the significant workload on MSD with the creation of Oranga Tamariki and the continuing effort over the assessment period to build its capability.”
- 52 It will continue to focus on this area and achieve high levels of performance. In particular, MSD is committed to:
 - a. Further development of its investment portfolio management systems to create a unified view of the performance of all MSD investments and to improve investment decision making
 - b. Enhancing the Change Management approach to manage whole of Ministry change as required by MSD’s strategy Te Pae Tawhiti
 - c. Enhancing MSD non-asset investment processes in core wellbeing investment areas such as community programmes
 - d. Developing a comprehensive benefits management approach to ensure the realising of value from existing and new investments
 - e. Enhancing procurement and contracting approaches required to support an increased focus on partnering and to achieve increased value from existing contracted services. This will include working closely with the MBIE Procurement group
 - f. Updating the current Long Term Investment Plan now that MSD has a defined strategy. This will have a particular focus on updating long term investment plans for Information Systems

- g. Enhancing all programme and project delivery capability to use a Scaled Agile approach to increase efficiency and flexibility of investments, noting that current deployment of this approach in IT is achieving positive results

53 MSD will work with Treasury and other agencies to implement this plan and provide regular updates on its progress.

Southern District Health Board – ICR Rating: D, assessment period: Sep 17 – Feb 18

54 SDHB has received the lowest ICR result to date and is the first agency to be assessed as a D.

55 Although SDHB demonstrates relative strength in procurement, is open in its engagement with central agencies and monitors, and contributes to regional health initiatives, the assessment has highlighted significant gaps.

56 There is currently a low level of maturity in P3M3 (portfolio, programme and project management) with no consistent approach to portfolio or project management. This is reflected in the results for benefits and project delivery performance. Additional work is also required to improve its asset management maturity and long term investment planning.

57 Alongside the major investment in the new Dunedin Hospital, significant effort from SDHB will be needed to address these gaps, and support will be required from the Ministry of Health, central agencies and functional leads.

58 SDHB's executive team is committed to improving the DHB's investment maturity and performance. The initial steps to begin the improvement process have commenced. This includes:

- a. Reviewing the investment required to maintain operational functionality at Dunedin Hospital until the new hospital is built
- b. Conducting an assessment of existing systems to improve data capture and management of assets
- c. Recruitment of an Asset Accountant with responsibility for the development and implementation of the asset management plan
- d. Development of a work plan to operationalise the asset management plan
- e. Improving reporting processes to create visibility of capital expenditure and enhance planning and monitoring of assets

59 This work will inform future decisions and contribute to an improved long term investment plan that will serve as a basis for capital investment decisions.

60 Investment system arrangements remain the same for DHBs until work is completed by the Ministry of Health to introduce potential ICR implications across the DHB network, in consultation with the Treasury.

- 61 In terms of improvement actions, the main implications for SDHB arising from the ICR is for the Ministry of Health, central agencies, and functional leads to support Southern DHB to deliver an improved Long Term Investment Plan, and with their P3M3 and asset management improvements.

SDHB's response to the ICR result

- 62 SDHB's ICR result reflects significant financial problems experienced by the DHB for a number of years. This has led to a number of changes including the replacement of the Board with the Commissioner Kathy Grant in June 2015, the appointment of the Southern Partnership Group in September 2015 (to provide independent assurance to the Ministers of Health and Finance for the successful delivery of the new Dunedin Hospital project) and the appointment of Chris Fleming as the new CEO in early 2017.
- 63 SDHB and their CEO is committed to improve their rating, and action has already been taken to achieve this including a significant restructure of SDHB's management team and the establishment of a Project Management Office for the new Dunedin Hospital rebuild.
- 64 The Ministry of Health considers that the rating is fair given the DHB's significant historical financial issues and is confident that with the current structures in place, and time to allow the Executive Leadership Team to implement systematic changes, the DHB can achieve improved outcomes.
- 65 SDHB's initial focus for improvement will be on asset performance, benefits delivery and project delivery, as the assessment identified these areas as having the biggest gap. Progress will be monitored monthly through reporting to the Finance, Audit & Risk Committee.

Figure 6: SDHB improvement action

| Improvement area | Improvement action |
|-------------------------------|---|
| Benefits delivery performance | SDHB will ensure benefits are clearly defined and prioritised with good measures and appropriate targets, which will allow them to review, monitor and report on benefits performance. |
| Project delivery performance | SDHB will ensure projects have clear targets for time, cost and scope and these are managed over time. |
| Asset performance | This will be the primary area of improvement focus. SDHB will ensure more relevant measures are in place over time which ultimately reflect the MoH expectations of DHBs. Currently the MoH are completing work to determine ICR implications across the DHB network. This work will include documentation of agreed approval of asset performance targets. |

- 66 These actions, combined with continuing to lift performance across the other elements, should enable SDHB to improve from a "D" to a "C" rating in the next assessment.

First three results from round 2

Defence – ICR Rating: B, assessment period: Feb 18 – July 18

- 67 Defence (NZDF and the Ministry of Defence) has a unique set of overlapping accountabilities as established in the Defence Act 1990. While the Chief of Defence Force and Secretary of Defence have separate formal accountabilities,

the expectation of Ministers and the practice of the two chief executives is that both organisations collaborate closely on investments. Accordingly, the ICR assessment covers both entities.

- 68 However, to highlight the relative strengths and areas of improvement at the sub-portfolio level, the assessment also produced ICR results for the Capability (Specialist Military Equipment) portfolio and Estate portfolio.
- 69 In 2015, Defence was rated a B. That rating was based on an assessment of the Major Capability portfolio. The latest ICR assessment broadened the scope of Defence's assessment to include Capability minor projects, Estate and some ICT and organisational components.
- 70 In the three years since its first ICR assessment, the Capability portfolio continues to perform strongly and has been rated an A. This is a positive result and signals that the improvement activity since its last assessment has led to improved results in benefits management, P3M3, and organisational change management. Procurement capability is also strong, driven by senior level commitment to improve.
- 71 The Estate portfolio, assessed for the first time in this round, also delivered a strong result, noting particular strength in asset management maturity and P3M3. This portfolio has been rated a B.
- 72 Overall, Defence has increased its score from 73 to 79 and maintained its B rating.
- 73 In recognition of its previous B rating and the scale of Defence's investment, Cabinet previously agreed to increase approval thresholds for selected large scale, low and medium risk¹⁰ Defence investments funded from existing baselines from \$25M to \$50m in whole of life cost terms compared with the general thresholds set out in Cabinet Office circular CO(15)5 (SEC-16-MIN-0010).
- 74 In recognition of its improved rating, I propose that this threshold is increased to \$75m for selected medium risk and \$100m for selected low risk Capability investments and maintained at \$50m for Estate investments, as outlined in Figure 7.

Figure 7: Proposed changes to Defence's general approval thresholds

| | Current approval threshold * | Proposed approval threshold for Estate portfolio ** | Proposed approval threshold for the Capability portfolio ** |
|----------------------|---|---|---|
| Cabinet | High risk > \$25m Medium and low risk over \$50m | High risk > \$25m Medium and low risk over \$50m | High risk > \$25m Medium risk > \$75m Low risk > \$100m |
| Responsible Minister | Medium and low risk up to \$50m | Medium and low risk up to \$50m | High risk up to \$25m Medium risk up to \$75m Low risk up to \$100m |

¹⁰ In the investment management context, risk is determined by the Treasury using a Risk Profile Assessment tool

| | | | |
|---|---------------------------------|---------------------------------|--|
| Secretary of Defence or Chief of Defence Force | Medium and low risk up to \$25m | Medium and low risk up to \$25m | High risk up to \$15m Medium risk up to \$50m Low risk up to \$50m |
| *Expressed in terms of whole of life costs, and based on baseline funded only ** Expressed in terms of whole of life costs, regardless of the source of funding and subject to Cabinet Budget decisions to appropriate funds | | | |

- 75 I direct Treasury and Defence officials to determine how the ICR implications will work alongside the new Defence investment funding arrangements (with Defence investments now having a mix of baseline and Crown funding) to recognise the confidence Ministers can have in Defence investments.
- 76 The Treasury has also agreed to give the Secretary of Defence and the Chief of the Defence Force joint discretion over the use of independent Gateway reviews as part of an assurance plan for individual high risk investments in the Defence Capability portfolio.
- 77 I expect that Defence will have appropriate assurance in place over significant projects or programmes of work, and will continue to discuss these plans with the Treasury and meet its risk profiling and investment reporting obligations.
- 78 The B rating also provides a good basis for confidence that Defence would make good use of greater portfolio and programme management flexibility. I direct Defence and Treasury Officials to examine mechanisms to support enhanced portfolio and programme management for Defence investments.
- 79 In terms of improvement actions, the main implication for Defence arising from the ICR is to continue embedding existing improvement actions and leveraging the relative portfolio strengths across its other portfolios.

Defence's response to the ICR assessment

- 80 Defence has stated that “the achievement of an A rating by the Capability portfolio reflects the success of the Defence Capability Change Action Plan (DCCAP) that has been underway since 2016 and is expected to be completed in 2020. This is supported by an independent review by Sir Brian Roche who confirmed the significant lift in maturity achieved by the change programme. He noted the requirement for ongoing refinement and consolidation, a view strongly held by the Defence leadership, and that work is evident in those areas.”
- 81 From a Capability portfolio perspective, Defence has noted that the DCCAP programme will continue to embed existing improvements and has identified areas for further improvement, including the extension of scope to lift the maturity of ‘minor’ capability projects run by the Defence Force.
- 82 From an Estate portfolio perspective, Defence acknowledged that the B rating represented a strong result for the first assessment and has identified benefits management and asset performance as key areas of improvement. Work to improve benefits management has commenced and is at the pilot phase. Asset performance targets will also be reset as part of the Defence Estate Regeneration Programme Refresh which will further strengthen the Estate Portfolio’s strong start.

- 83 Chief Executives expect that the Capability portfolio will deliver a strengthened A rating in 2020/21. The New Zealand Defence Force Estate portfolio is also targeting an A rating in 2020/21.

Housing New Zealand – ICR Rating: A, assessment period: Feb 18 – July 18

- 84 HNZN has maintained its A rating since its first ICR assessment in 2016 and continues to have the strongest all-round investment management capabilities assessed to date.
- 85 Retaining its A rating is a positive result, particularly given the improvements to make the ICR assessment process more robust and because it takes effort to maintain an appropriate level of capability.
- 86 Although the rating remains the same, the evidence shows that the action taken by HNZN in response to its first ICR assessment has materialised into improvements in its project, programme and portfolio management, asset management and long term investment planning. Procurement capability also performed well with resource being committed to lift capability in this area.
- 87 In recognition of its A rating in its last assessment, HNZN was given discretion by the Treasury over its use of Gateway and other investment reviews. Based on the latest result, HNZN will retain this discretion.
- 88 The Board of HNZN has full authority to make baseline-funded investment decisions, subject to meeting Ministerial consultation requirements. At present the consultation threshold is \$30 million. The A rating provides a good basis for confidence to increase the ministerial consultation threshold for major baseline-funded investment proposals from \$30 million to \$50 million. As a Crown agent, any changes to this threshold will be agreed between the Responsible Minister and the Board.
- 89 In terms of improvement actions, the main implication for HNZN arising from the ICR is to continue the existing practices and improvement actions that have already increased maturity.

HNZN's response to the ICR assessment

- 90 HNZN has stated that it continues to use what it has learned from the ICR assessment to focus on continued improvements. In particular, its Long Term Investment Plan is being embedded in its investment framework through the development of location specific investment plans, including the Regional Investment Plan which was finalised in August 2018.
- 91 Acknowledging that it is the biggest builder of homes in the country and its ability to deliver on the Government's ambitious housing supply programme is of paramount importance, a range of improvements are underway to increase its capacity and capability in this respect.

Figure 8: HNZN improvement action

| Improvement action | Details |
|------------------------------------|---|
| Innovate, Partner, Build Programme | To build even more homes, HNZN needs to increase the efficiency of its construction programme and challenge current methods of housing delivery. Through its Innovate, Partner, Build programme, HNZN plans to contract with supply and construction partners for longer time periods, with multi-year contracts, for a set volume of homes each year. It will also use its scale to buy construction materials across its entire build programme at wholesale rates. |
| Civils Alliance-style Programme | HNZN is building alliances with engineering and civil works providers to make the most efficient use of its significant land holdings in Auckland and replace not fit-for-purpose, ageing housing stock with new homes that will meet community need. |
| Customer Strategy | As demand for public housing has increased, more new tenants are presenting with complex and challenging needs and HNZN's service response needs to adapt to this. Its new Customer Strategy will identify priority customer groups and focus asset and service responses to their needs. |

New Zealand Transport Agency – ICR Rating: C, assessment period: Feb 18 – July 18

92 At the time of this second ICR assessment, the change of Government has prompted a significant change in the way transport investments are planned, with NZTA being expected to take a much broader role in the transport system. In support of these changes it has implemented a whole of organisation transformation, along with significant changes to its work programme to support the new government's policies. This context is partly responsible for the dip in some areas of investment maturity and performance and is reflected in NZTA's latest C rating, from a B rating in 2015.

93 The ICR assessment shows that NZTA has improved its asset management maturity since the last assessment and its organisational change management maturity remains strong. Procurement capability, assessed for the first time this round, also performed strongly.

94 However, there has been a decrease in NZTA's project, programme and portfolio management maturity. This does not mean that individual projects are not performing well, but that NZTA has significant opportunity to improve consistency. This is being addressed by the rollout of its new project controls framework and governance structure that will help deliver a consistent approach to project management across the organisation. P3M3 maturity is expected to improve as NZTA embeds these frameworks, formally implements portfolio management and continues improvements to benefits.

95 NZTA's benefits delivery also experienced a small reduction in performance. The assessment shows that benefits are not always consistently measured. This is expected to improve with the benefits work NZTA has underway. Due to the long time lag between project closure and benefits realisation, particularly in transport projects, these benefit improvements are expected to materialise into improved performance over the medium to long term.

- 96 As a Crown agent, NZTA has certain statutory functions. As with the previous assessment, the ICR does not affect these functions. General approval thresholds continue to apply as set out in CO(15)5, and existing business case and assurance requirements continue to apply.
- 97 In terms of improvement actions, the main implication for NZTA arising from the ICR is to work with central agencies and functional leads to continue improving and embedding activities to lift its P3M3 maturity, benefits management and aspects of its long term investment planning.

NZTA's response to the ICR assessment

- 98 NZTA has acknowledged the findings of the latest ICR assessment, and in particular, the areas where improvements were signalled. In response to the improvement areas, NZTA will take the improvement actions outlined in Figure 9.

Figure 9: NZTA improvement action

| Improvement area | Improvement action |
|--|--|
| Portfolio, programme and project management capability | NZTA is embedding a new project controls framework, which will strengthen the agency's project management maturity. The NZTA is also formally implementing portfolio management, alongside ensuring that appropriate assurance and governance structures and processes are embedded. The NZTA has engaged an independent expert to ensure that the improvements are being implemented in a way that will effectively address the gaps identified through the ICR. |
| Benefits management | NZTA is already in the process of developing new tools and processes to ensure a more robust and consistent approach to the management and realisation of benefits. These tools and processes are currently being rolled out for investment occurring through the National Land Transport Programme (NLTP). Further work is also planned to strengthen the quality of data and measures for tracking benefits. Once the improvements are in place, the NZTA will ensure robust benefits management methodology is embedded and consistently used across all programmes |
| Long-term investment planning | NZTA will evolve its Transport Agency Investment Plan, providing a basis for aligning investment with long-term intentions for the land transport system. To support this work, the Ministry of Transport will continue to work with the NZTA to develop long-term planning scenarios for the land transport system. The NZTA will use insights from this analysis to guide its future investment and asset management decision making. This approach will ensure that the NZTA take a broader perspective of future possibilities in framing its role as a major investor and asset manager in the land transport system. |

- 99 The Ministry of Transport has signalled a commitment to support NZTA. This includes facilitating central agency support to ensure the NZTA has clear guidance on the steps needed to strengthen the NZTA's investment management systems and capability. The Ministry has also stated that it will provide the Minister of Transport with advice, as part of its regular monitoring, on the progress that NZTA is making to address the improvement areas.

Next steps in the ICR programme

- 100 As outlined above, three out of 25 investment intensive-agencies have now been assessed for a second time.
- 101 Assessment for the next set of agencies (Accident Compensation Corporation, Department of Corrections, Inland Revenue, Ministry of Education, Ministry of Justice and New Zealand Police) has commenced. I will report the results of these assessments from March 2019.
- 102 Following completion of all round 2 assessments in 2020, there will be an independent review of the ICR to assess its value and to inform the future programme of ICR assessments.

Consultation

- 103 In the preparation of this paper, the Treasury has consulted with all five agencies in this paper, central agencies, monitoring agencies¹¹ and functional leads¹².

Financial Implications

- 104 There are no fiscal implications but there are potential financial management implications through the proposed change in approval thresholds.

Legislative Implications

- 105 There are no legislative implications.

Regulatory Impact Analysis

- 106 Regulatory impact analysis requirements do not apply.

Human Rights, Gender Implications, Disability Perspective

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

Publicity

- 108 This paper invites Cabinet to authorise the Minister of Finance to determine the timing of the public release of the ICR results in this paper. This is consistent with the approach taken to the release of previous results.

¹¹ Ministry of Transport, Ministry of Health, and the Treasury for Housing New Zealand

¹² Government Chief Digital Officer and New Zealand Government Property and Procurement

Recommendations

- 109 The Minister of Finance recommends that the Cabinet Government Administration and Expenditure Review Committee:

Latest ICR ratings

- 1 **note** that the Treasury has completed its assessment and moderation of the ICR results for five agencies: The Ministry of Social Development, Southern District Health Board, Defence (being the Ministry of Defence and the New Zealand Defence Force), Housing New Zealand Corporation
- 2 **approve** ICR ratings for the following agencies:

| Agency | Preliminary ICR results (subject to Cabinet approval) |
|--|--|
| Ministry of Social Development | C |
| Southern District Health Board | D |
| Defence (being the Ministry of Defence and the New Zealand Defence Force (NZDF)) | B |
| Housing New Zealand Corporation | A |
| New Zealand Transport Agency | C |

Implications and changes to general approval thresholds set out in CO(15)5

- 3 **note** the general approval thresholds continue to apply for departments with a “C” rating
- 4 **agree** that all investment-intensive agencies must achieve at least a B ICR rating over time

Defence

- 5 **agree**, in recognition of Defence’s strengthened B rating, to maintain the current approval thresholds for Estate investments and expand the general approval thresholds for Specialised Military Equipment Capability investments as set out in the table below:

| | Current approval threshold * | Proposed approval threshold for Estate portfolio ** | Proposed approval threshold for the Capability portfolio ** |
|----------------------|---|---|---|
| Cabinet | High risk > \$25m Medium and low risk over \$50m | High risk > \$25m Medium and low risk over \$50m | High risk > \$25m Medium risk > \$75m Low risk > \$100m |
| Responsible Minister | Medium and low risk up to \$50m | Medium and low risk up to \$50m | High risk up to \$25m Medium risk up to \$75m Low risk up to \$100m |

| | | | |
|---|---------------------------------|---------------------------------|--|
| Secretary of Defence or Chief of Defence Force | Medium and low risk up to \$25m | Medium and low risk up to \$25m | High risk up to \$15m Medium risk up to \$50m Low risk up to \$50m |
| *Expressed in terms of whole of life costs, and based on baseline funded only ** Expressed in terms of whole of life costs, regardless of the source of funding and subject to Cabinet Budget decisions to appropriate funds | | | |

- 6 **direct** Treasury and Defence officials to determine how the ICR implications will work alongside the new Defence investment funding arrangements (with Defence investments now having a mix of baseline and Crown funding) to recognise the confidence Ministers can have in Defence investments
- 7 **direct** Defence and Treasury officials to examine mechanisms to support enhanced portfolio and programme management for Defence investments, with Defence providing an initial proposal to Treasury to begin this work
- 8 **note** that the Secretary of Defence and the Chief of the Defence Force will have joint discretion over the use of independent Gateway reviews as part of an assurance plan for individual high risk investments in the Defence Capability portfolio

HNZC

- 9 **note** that HNZC will retain its discretion over its use of Gateway and other investment reviews
- 10 **note** that the A rating provides a good basis of confidence for the Responsible Minister and the Board to discuss increasing the ministerial consultation threshold for major baseline-funded investment proposals from \$30 million to \$50 million

Effective date for ICR ratings and implications

- 11 **agree** that the ICR ratings and implications for the five agencies in this paper will apply from 1 October 2018

Other improvement actions

- 12 **note** that the five agencies in this paper have agreed to take specific actions to improve key aspects of their investment performance
- 13 **invite** responsible Ministers for each agency in this paper to discuss the ICR results and the agency's plans to lift their investment performance over time

Publication of ICR results

- 14 **authorise** the Minister of Finance to determine the timing of any public release of the ICR results in this paper

Next steps with the ICR programme and related work

- 15 **note** that ICR activity is underway for the next set of agencies and the results will be reported to Cabinet from March 2019

- 16 **note** that following completion of all round 2 assessments, there will be an independent review of the ICR to assess its value and to inform the future programme of ICR assessments

Hon Grant Robertson
Minister of Finance

Date:

Annex 1 – Detailed scorecards for agency ICR results pending Cabinet approval

Agency preliminary result: Ministry of Social Development

| | |
|-----------------------------|--|
| Investor Confidence Rating: | C |
| Scope of ICR assessment | Property and ICT portfolios managed by MSD including assets owned by the Ministry for Children |

Elements Score

| | Element | Element Score |
|--------------------|---|---------------|
| Lead Indicators | 1 Asset Management Maturity (AMM) | 14/15 |
| | 2 Project, Programme and Portfolio Management Maturity (P3M3) | 9/15 |
| | 3 Quality of Long Term Investment Plan (LTIP) | 4/10 |
| | 4 Procurement Capability Index (PCI) | 3/5 |
| | 5 Organisational Change Management Maturity | 8/10 |
| Lag Indicators | 6 Benefits delivery performance | 8/20 |
| | 7 Project delivery performance | 6/10 |
| | 8 Asset performance | 8/10 |
| | 9 System performance | 3/5 |
| Total Score | | 63/100 |

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

Treasury Comment

This assessment took place during a period of transition for MSD, 6 months after the establishment of the Ministry for Children Oranga Tamariki and before the organisational strategy had been agreed. The assessment recognises the positive impact of MSD's investment and asset improvements in recent years. It also highlights areas for further improvement to achieve Cabinet's expected level of a "B" rating for investment-intensive agencies.

MSD scored strongly on the asset management and asset performance elements. There is good underlying processes in the property portfolio but there needs to be more emphasis on ICT asset management which has a higher value and inherent risk.

MSD has completed some good recent work to improve P3M3 (project, programme and portfolio management) but further work should be undertaken to lift its maturity to the appropriate level and drive best practice consistently through the organisation.

MSD's LTIP projected the current pathway into the future and set out the rationale for investments that could be undertaken over the next 10 years. The LTIP would be enhanced in certain respects by, for example, providing greater specificity on the value of these investments, showing the expected impact of these investments on service delivery over time and the implications of MSD investments for others.

MSD has implemented some good procurement initiatives and successfully used procurement to deliver social outcomes. As with P3M3, there needs to be a focus on achieving consistency in the procurement practice.

MSD generally delivers projects to cost and scope, although it needs to have clearer performance targets. MSD also articulates project benefits upfront but these do not appear to be routinely measured post-project closure. MSD intends to implement quarterly benefits reporting and place greater organisational focus on benefits.

From an OCM perspective, MSD has created a good foundation on which to build capability. Next steps would be to bring together separate functions to support OCM as a whole and ensure practices are consistently applied.

Potential Implications

In response to the ICR, and working with central agencies and functional leads, MSD intends to improve its P3M3 maturity and benefits performance. Based on a C rating there would be no change to the general approval thresholds or other requirements set out in Cabinet Office circular CO(15)5.

Agency preliminary result: Southern DHB

| | |
|-----------------------------|---|
| Investor Confidence Rating: | D |
| Scope of ICR assessment | Property, Clinical Equipment and ICT portfolios |

Elements Score

| | Element | Element Score |
|--------------------|---|---------------|
| Lead Indicators | 1 Asset Management Maturity (AMM) | 6/15 |
| | 2 Project, Programme and Portfolio Management Maturity (P3M3) | 6/15 |
| | 3 Quality of Long Term Investment Plan (LTIP) | 2/10 |
| | 4 Procurement Capability Index (PCI) | 3/5 |
| | 5 Organisational Change Management Maturity | 6/10 |
| Lag Indicators | 6 Benefits delivery performance | 4/20 |
| | 7 Project delivery performance | 2/10 |
| | 8 Asset performance | 4/10 |
| | 9 System performance | 3/5 |
| Total Score | | 36/100 |

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

Treasury Comment

Southern DHB is currently undergoing significant change and disruption associated with its recent restructure and the planned rebuild of Dunedin hospital. The assessment reflects this and emphasises the need for SDHB to build its investment and asset management capability in the lead up to the hospital rebuild and beyond, or risk future performance and service delivery. Positive steps have already been taken to address this, led by the new executive team, with a PMO being established and a refresh of governance processes underway.

There is currently a low level of maturity in P3M3 with no consistent approach to portfolio or project management. This is reflected in the results for benefits and project delivery performance.

Most projects assessed were for asset replacements. Although SDHB articulates expected benefits from these investments they typically do not set, measure or track performance against targets. Generally SDHB delivers projects to cost and scope since targets are based on quotes received before investment sign off. There is currently no systematic reporting of the extent to which projects were delivered on time. The quality of SDHB's project management maturity, and in turn performance, is expected to lift following a number of improvement initiatives being implemented by the PMO.

SDHB has grasped the importance of having appropriate asset management practices in place to support its core services, but has not yet made sufficient progress to demonstrate the required level of maturity. Similarly there is a recognition of the need to develop a good long term investment plan to inform future decisions and focus improvement activity.

The main areas of focus for SDHB are to deliver an improved Long Term Investment Plan, and P3M3 and AMM improvement plans.

Potential Implications

SDHB should develop a programme business case that provides a roadmap (to inform an enhanced LTIP) for:

- the investments the DHB will require over the next 10 years to keep Dunedin Hospital operating while the new Dunedin Hospital is built, and
- the system changes and any related investments the DHB will need to make to realize the benefits identified in the Dunedin Hospital redevelopment business cases.

MoH, central agencies and MBIE NZGPP are supporting the above work and the capability improvements sought. Any further implications are subject to the results of further work by MoH and the Treasury to improve investment performance across the DHB network.

Agency preliminary result: Defence (ie NZDF and the Ministry of Defence)

| | |
|-----------------------------|---|
| Investor Confidence Rating: | B |
| Scope of ICR assessment | Capability (ie specialist military equipment, majors and minors), property, ICT |

Elements Score

| | Element | Element Score |
|--------------------|---|---------------|
| Lead Indicators | 1 Asset Management Maturity (AMM) | 13/15 |
| | 2 Project, Programme and Portfolio Management Maturity (P3M3) | 12/15 |
| | 3 Quality of Long Term Investment Plan (LTIP) | 10/10 |
| | 4 Procurement Capability Index (PCI) | 4/5 |
| | 5 Organisational Change Management Maturity | 8/10 |
| Lag Indicators | 6 Benefits delivery performance | 16/20 |
| | 7 Project delivery performance | 6/10 |
| | 8 Asset performance | 6/10 |
| | 9 System performance | 4/5 |
| Total Score | | 79/100 |

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

Treasury Comment

Since its first ICR assessment in 2015, Defence has improved its investment maturity and performance. Although the first assessment was limited to the Capability majors sub-portfolio, improvements made to benefits management, project management and organisational change management have contributed to the uplift in the current assessment, despite the broadened scope to include minor projects, Estate and some ICT / organisational components.

From an overall Defence perspective, Defence has a greater understanding of appropriate levels of asset management maturity and asset management practices, and Estate have improved. Defence has the first LTIP assessed as being excellent. The assessment also demonstrates Defence's ability to generally deliver the expected benefits from an investment, with examples where this is supported by specific time-bound measures.

From a portfolio perspective, the Capability portfolio received an A rating and the Estate portfolio a B rating, noting some limitation to splitting out the results into portfolios.

The Capability Portfolio's improvement programme has also lifted Defence's P3M3 maturity and, in being leveraged by the Defence Estate and Infrastructure portfolio, has enabled this portfolio to achieve a solid first result.

Defence should continue embedding existing improvement actions that have already increased maturity and performance, and continue to leverage the Capability majors sub-portfolio practices across its other portfolios e.g. Estate, Capability minors and ICT. Defence should also ensure benefits are consistently applied across the portfolios and these measures are attributable and relevant.

Potential Implications

In recognition of these results and the scale of Defence's investments, it is proposed that the current increased approval thresholds are maintained for Estate investments and expanded for Capability investments. The B rating also provides a good basis for confidence that Defence would make good use of greater portfolio and programme management flexibility. Defence and Treasury Officials will examine mechanisms to support enhanced portfolio and programme management for Defence investments. The Secretary of Defence and the Chief of the Defence Force will also have joint discretion over the use of independent Gateway reviews as part of an assurance plan for individual high risk investments in the Defence Capability portfolio.

Agency preliminary result: Defence Capability Portfolio

| | |
|-----------------------------|--|
| Investor Confidence Rating: | A |
| Scope of ICR assessment | Spec. mil. Equipment (majors and minors) |

Elements Score

| | Element | Element Score |
|--------------------|---|---------------|
| Lead Indicators | 1 Asset Management Maturity (AMM) | 13/15 |
| | 2 Project, Programme and Portfolio Management Maturity (P3M3) | 12/15 |
| | 3 Quality of Long Term Investment Plan (LTIP) | 10/10 |
| | 4 Procurement Capability Index (PCI) | 4/5 |
| | 5 Organisational Change Management Maturity | 8/10 |
| Lag Indicators | 6 Benefits delivery performance | 16/20 |
| | 7 Project delivery performance | 6/10 |
| | 8 Asset performance | 8/10 |
| | 9 System performance | 4/5 |
| Total Score | | 81/100 |

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

Treasury Comment

The Defence capability portfolio received an Investor Confidence Rating of A, which is a positive improvement over the 2015 ICR B (noting it is not directly comparable due to changes in the ICR and the inclusion of the minors sub-portfolio).

The Capability branch has an AMM score of 74 compared to a target of 86. Both the score and the target were reduced to reflect current practice but both are at a high level given the importance of the capability portfolio.

There has been a noticeable uplift in portfolio, programme and project maturity (P3M3), from 2.4 in 2015, to 2.8 in 2018. The Treasury recognise that the improvements in portfolio, programme and Major projects scoring since the 2015 assessment is a good achievement as it typically takes a long time to embed improved processes and disciplines. For the project management capability portfolio, Major Projects received 3.17, with Minor Projects 2.27 so an uplift in the Minor Projects will further improve the P3M3 capability portfolio result.

Compared to the minors sub-portfolio, benefit measures under the majors sub-portfolio are more well defined, with targets and tracking over time. Greater portfolio consistency is expected over the longer term as the result of improvements to benefits management in the minors sub-portfolio materialise.

LTIP and system performance are assessed at the Defence level and are reflected in the overall Defence scorecard. Defence has provided feedback on both these elements and this will be discussed with Treasury.

Agency preliminary result: Defence Estate Portfolio

| | |
|-----------------------------|------------------|
| Investor Confidence Rating: | B |
| Scope of ICR assessment | Property and ICT |

Elements Score

| | Element | Element Score |
|--------------------|---|---------------|
| Lead Indicators | 1 Asset Management Maturity (AMM)* | 13/15 |
| | 2 Project, Programme and Portfolio Management Maturity (P3M3) | 15/15 |
| | 3 Quality of Long Term Investment Plan (LTIP) | 10/10 |
| | 4 Procurement Capability Index (PCI) | 4/5 |
| | 5 Organisational Change Management Maturity* | 6/10 |
| Lag Indicators | 6 Benefits delivery performance | 12/20 |
| | 7 Project delivery performance | 6/10 |
| | 8 Asset performance | 4/10 |
| | 9 System performance | 4/5 |
| Total Score | | 74/100 |

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

Treasury Comment

The Defence estate portfolio (with ICT and other) received an Investor Confidence Rating of B, noting the limited evidence base in the lag assessments.

The Estate branch has an AMM score of 70 compared to a target of 77, while ICT has an AMM score of 42 compared to a target of 65.

We expect to have ICT asset performance in future assessments.

Three Estate projects were assessed under benefits and project delivery. Benefit measures were primarily related to the delivery of outputs against specifications to meet compliance and risk benefits, although more meaningful and attributable measures could have been applied.

There is also room for improvement in aspects of change management, given the planned scale of Defence's Estate investment activity.

LTIP and system performance are assessed at the Defence level and are reflected in the overall Defence scorecard. Defence has provided feedback on both these elements and this will be discussed with Treasury.

*The AMM and OCM results also include some ICT and organisational components.

Agency preliminary result: Housing NZ Corporation

| | |
|-----------------------------|---|
| Investor Confidence Rating: | A |
| Scope of ICR assessment | Housing portfolio & corporate information systems |

Elements Score

| | Element | Element Score |
|--------------------|---|---------------|
| Lead Indicators | 1 Asset Management Maturity (AMM) | 14/15 |
| | 2 Project, Programme and Portfolio Management Maturity (P3M3) * | 15/15 |
| | 3 Quality of Long Term Investment Plan (LTIP) * | 8/10 |
| | 4 Procurement Capability Index (PCI) | 4/5 |
| | 5 Organisational Change Management Maturity | 8/10 |
| Lag Indicators | 6 Benefits delivery performance | 20/20 |
| | 7 Project delivery performance | 8/10 |
| | 8 Asset performance | 6/10 |
| | 9 System performance | 4/5 |
| Total Score | | 87/100 |

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

Treasury Comment

Housing NZ has improved its strong investment performance, grounded in mature investment management, since its first assessment in 2016.

It has robust asset management systems in place and is commended for the embedding of significant asset management improvements since the 2016 AMM assessment.

Its portfolio, programme and project (P3M3) maturity has also improved since the 2016 assessment, and largely exhibits the appropriate level for an organisation of this scale and complexity. This maturity is reflected in its project delivery performance and means Housing NZ often delivers projects to time, cost and scope. When the build/redevelopment of social housing is considered a benefit Housing NZ performs well. From an improvement perspective, Housing NZ are encouraged to also consider measuring alternative benefits and broader social benefits.

Organisational change management maturity has strengths in leadership, and collective ownership and support which will help deliver sought after change management improvements.

Housing NZ will continue the existing improvement actions that have already increased maturity.

Potential Implications

In recognition of the rating, it is proposed Housing NZ retain its discretion over its application of Gateway/other investment reviews as part of the suite of assurance activity according to the risk and value profile of new investments. The A rating would also support increasing the Ministerial consultation threshold for major baseline-funded investment proposals from \$30m to \$50m.

Agency preliminary result: New Zealand Transport Agency

| | |
|-----------------------------|--|
| Investor Confidence Rating: | C |
| Scope of ICR assessment | Highways and ICT (excluded regulatory functions) |

| Elements Score | | |
|--------------------|---|---------------|
| | Element | Element Score |
| Lead Indicators | 1 Asset Management Maturity (AMM) | 13/15 |
| | 2 Project, Programme and Portfolio Management Maturity (P3M3) | 3/15 |
| | 3 Quality of Long Term Investment Plan (LTIP) | 6/10 |
| | 4 Procurement Capability Index (PCI) | 5/5 |
| | 5 Organisational Change Management Maturity | 8/10 |
| Lag Indicators | 6 Benefits delivery performance | 8/20 |
| | 7 Project delivery performance | 6/10 |
| | 8 Asset performance | 8/10 |
| | 9 System performance | 3/5 |
| Total Score | | 60/100 |

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

Treasury Comment

At the time of this second ICR assessment for NZTA, the change of government has prompted a significant change in the way transport investments are planned, with NZTA being expected to take a much broader role in the transport system. In support of these changes, it has implemented a whole of organisation transformation along with significant changes to its work programme to support the new government’s policies, e.g. updating the Government Policy Statement on Land Transport with the Ministry of Transport, and having new complex major investments such as the Auckland rapid transport programme. This context is partly responsible for the dip in some areas of investment maturity and performance. This is reflected in NZTA’s latest C rating, from a B rating in 2015.

NZTA has improved its AMM score since the last assessment with both portfolios reducing the “gap” from current practice to the target. The AMM result for highways is close to an advanced level (which is the target) while the ICT portfolio remains at a “core” level of asset management. Similarly for asset performance highways has high quality measures, and ICT has now developed measures. NZTA also demonstrates strengths in procurement and in organisational change management maturity, which has strong senior leadership support.

However, there has been a decrease in NZTA’s P3M3 maturity. This does not mean that individual projects are not performing well, but that NZTA has significant opportunity to improve consistency. This is being addressed by the rollout of its new project controls framework and governance structure. P3M3 maturity is expected to improve as NZTA embeds these, formally implements portfolio management and continues improvements to benefits.

In terms of investment performance, there are examples of good benefit measures and targets for NZTA projects. However benefits experienced a small reduction in performance and also benefits are not always consistently measured. This is expected to improve with the benefits work NZTA has underway. Due to the long time lag between project closure and benefits realisation, particularly in transport projects, these benefit improvements are expected to materialise into improved performance over the medium to long term.

NZTA also has scope to improve its LTIP by articulating the long term asset, financial and service performance implications of different scenarios, including the GPS.

Potential Implications

As a Crown agent, NZTA has certain statutory functions. The ICR does not affect these functions. General approval thresholds continue to apply as set out in CO(15)5.

The main improvement areas are in P3M3 maturity, benefits management and long term investment planning. NZTA is considering how to action these ICR improvements alongside other organisational improvements e.g. PIF review. As NZTA’s monitor, the Ministry of Transport has signalled a willingness to work closely with NZTA to support the improvements.

Annex 2 – ICR agency results and investment management system implications

General approval thresholds for investments as set out in Cabinet Circular CO(15)5

Investments that require Cabinet approval

| Type/owner of proposal | All departments | All other agencies covered by the circular |
|---|------------------------|---|
| All investments that require new Crown funding | ✓ | ✓ |
| All PPP proposals, even if funded from baselines and balance sheets | ✓ | ✓ |
| All investments with a WOLC over \$25 million, even if funded from baselines and balance sheets | ✓ | |
| Proposals to dispose of assets held on the Crown account | ✓ | ✓ ¹³ |
| All proposals to dispose of assets with a carrying value of \$25 million or more | ✓ | |
| All high risk ¹⁴ or high value investments, irrespective of the scale and funding source | ✓ | ✓ ¹⁵ |

Investments that require the approval of the responsible Minister

| Type/owner of proposal | All Departments | All other agencies covered by the circular |
|---|------------------------|---|
| All investments with a WOLC of between \$15 million and \$25 million, if funded from baselines and balance sheets | ✓ | |
| All proposals to dispose of assets with a carrying value of between \$15 million and \$25 million | ✓ | |

Investments that require the approval of the departmental chief executive

| Type/owner of proposal | All Departments | All other agencies covered by this circular |
|--|------------------------|--|
| All investments with a WOLC of up to \$15 million, if funded from baselines and balance sheets | ✓ | |
| All proposals to dispose of assets with a carrying value of up to \$15 million | ✓ | |

¹³ The general rule for whether a proposal should go to Cabinet is set out in paragraphs 5.11 and 5.12 of the Cabinet Manual.

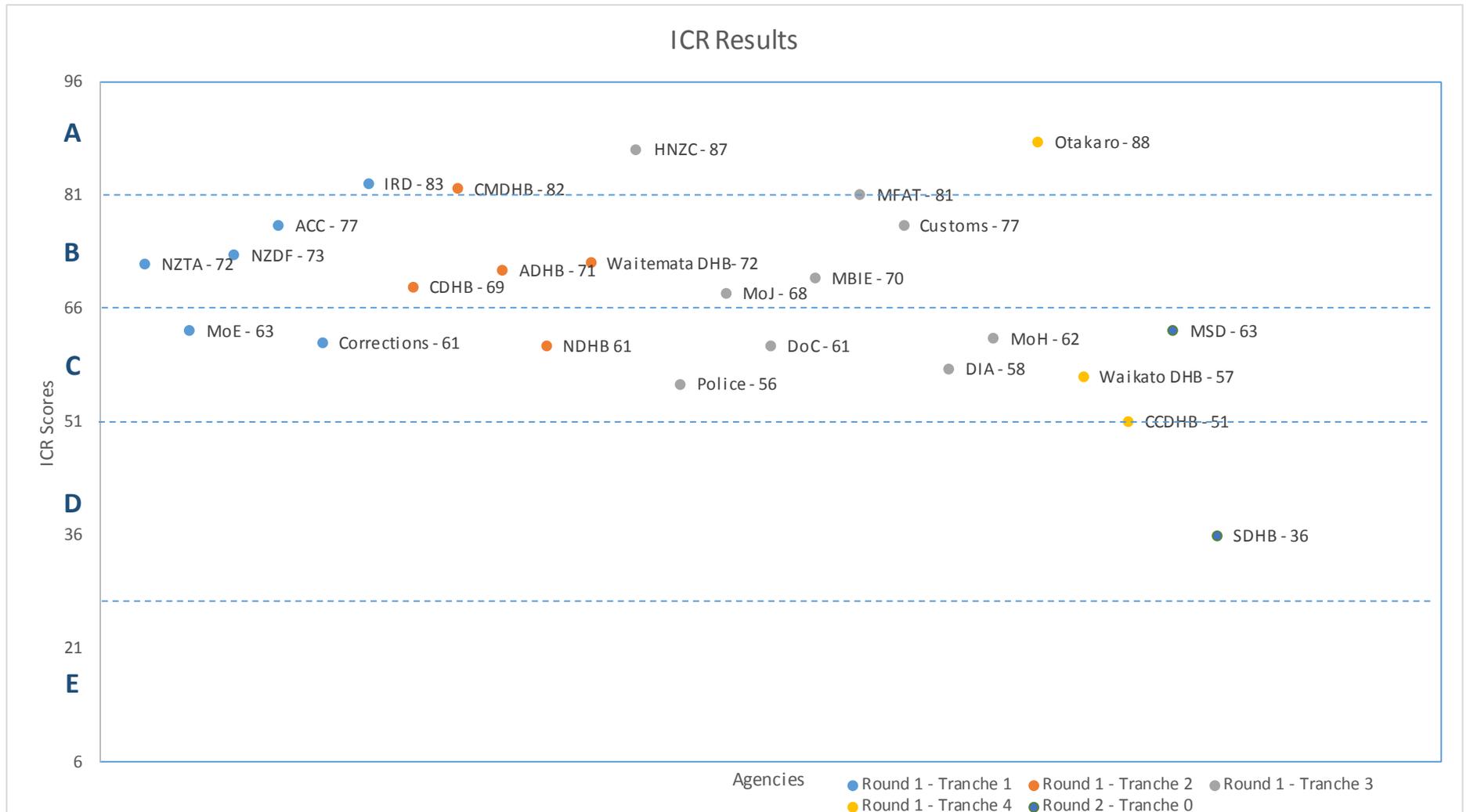
¹⁴ The investment risk profile is determined by The Treasury based on its risk profile assessment methodology (RPA).

¹⁵ The general rule for whether a proposal should go to Cabinet is set out in paragraphs 5.11 and 5.12 of the Cabinet Manual.

Cabinet-approved round one ICR results and implications

| Agency | ICR Result | ICR score | Implications |
|-----------------------------------|-------------------|------------------|--|
| Accident Compensation Corporation | B | 77/100 | Develop and report progress against a quality LTIP, lift some aspects of P3M3 capability and focus on benefits delivery. |
| Auckland DHB | B | 71/100 | None at present, as it is subject to further work on the health investment system led by the Ministry of Health, supported by the Treasury. |
| Capital & Coast DHB | C | 51/100 | See ADHB |
| Canterbury DHB | B | 69/100 | See ADHB |
| Counties-Manukau DHB | A | 82/100 | See ADHB |
| Corrections | C | 61/100 | Develop and use a quality LTIP, lift P3M3 capability, improve benefits management and timeliness of project delivery, and improve some asset management areas. |
| Customs | B | 77/100 | Customs' intends to focus its improvement action on enhancing the timeliness of project delivery in line with investor requirements. It intends to update its LTIP to reflect the border sector strategy. In recognition of its rating Custom's levels of Ministerial and Chief Executive decision making authority have increased to \$35m Whole of Life Cost (WOLC) and \$20m WOLC respectively, for medium or low risk baseline-funded investments. |
| Defence | B | 73/100 | Defence's general approval thresholds for selected large scale, low or medium risk Defence investments funded from existing baselines have been increased from \$25M to \$50M in whole of life cost terms. Also lift P3M3 capability, benefits management, portfolio management, and tighten project delivery performance. |
| Department of Internal Affairs | C | 58/100 | DIA intends to focus its ICR improvement action on lifting its asset management maturity, and its benefits delivery performance. It also intends to work with the corporate centre to lift the quality of its LTIP. Together these areas of focus will better align internal planning and other investment management processes. Based on a C rating there will be no change to the general approval thresholds or other requirements set out in Cabinet Office circular CO(15)5. |
| Department of Conservation | C | 61/100 | Conservation intends to focus its improvement actions on lifting the level of AMM and P3M3 maturity across its three main asset portfolios to bring more consistency to its investment management processes, and on securing the expected benefits from its investments. Based on a C rating there would be no change to the general approval thresholds or other requirements set out in Cabinet Office circular CO(15)5. |
| Housing New Zealand Corporation | A | 87/100 | Housing NZ intends to focus its improvement actions on the quality of its asset plans for both property and ICT as part of an organisation wide improvement programme. Housing NZ is prepared to help lift the performance of other agencies by sharing its areas of expertise. In recognition of its rating, Housing NZ will have discretion to apply Gateway/other investment reviews as part of the suite of assurance activity according to the risk and value profile of new investments. |
| Inland Revenue | A | 83/100 | IRs general approval thresholds for all baseline-funded investments have been increased from \$25M to \$50M in whole of life cost terms. The Commissioner will also have more discretion over the level of assurance activity around individual investments. The change in approval thresholds is subject to meeting agreed central agency information and transparency |

| Agency | ICR Result | ICR score | Implications |
|---|------------|-----------|--|
| | | | requirements. IR and central agencies intend to rationalise assurance processes to improve efficiency and reduce compliance costs while still providing visibility to enable the corporate centre to fulfil its roles. Inland Revenue will have more flexibility in its business case arrangements. |
| Ministry of Business, Innovation and Employment | B | 70/100 | The Ministry intends to strengthen its P3M3 capability and benefits management. It also intends to enhance its LTIP. In recognition of its rating, MBIE's levels of Ministerial and Chief Executive decision making authority have increased to \$35m WOLC and \$20m WOLC respectively, for medium or low risk baseline-funded investments. |
| Ministry of Foreign and Trade | A | 81/100 | MFAT intends to action selected ICR-related improvements (eg AMM and P3M3) within its overall Enterprise Performance Management programme. In recognition of its rating, MFAT's levels of ministerial and chief executive decision making authority have increased to \$40m WOLC and \$25m WOLC respectively, for medium or low risk baseline-funded investments. The chief executive will also have discretion over using Gateway reviews as part of an assurance plan for individual investments. |
| Ministry of Education | C | 63/100 | Develop and use an integrated LTIP and lift P3M3 capability and improve benefits management. |
| Ministry of Health | C | 62/100 | The Ministry intends to focus its improvement activity on strategic planning, asset management, and P3M3 capability (leading to improved benefits reporting). Based on a C rating there would be no change to the general approval thresholds or other requirements set out in Cabinet Office circular CO(15)5. |
| Ministry of Justice | B | 68/100 | The Ministry intends to strengthen its P3M3 capability and benefits management. It also intends to strengthen its investment management framework, enhance its own LTIP, particularly future scenarios, and ensure its LTIP reveals the reciprocal impact of any overlapping justice sector investment intentions. In recognition of its rating, the Ministry's levels of ministerial and chief executive decision making authority have increased to \$40m WOLC and \$25m WOLC respectively, for medium or low risk baseline-funded property investments. |
| Northland DHB | C | 61/100 | See ADHB |
| New Zealand Transport Agency | B | 72/100 | As a Crown agent, NZTA has certain statutory functions which are not affected by the ICR. General approval thresholds continue to apply, as do existing business case and corporate centre assurance requirements. The main implications are for NZTA, working with central agencies, to rationalise investment-related reporting requirements, leverage the ICR result and improvement actions to manage other stakeholder and monitoring requests for information and oversight, lift P3M3 capability, enhance benefits and develop a LTIP with a 10-year horizon. |
| Ōtākaro Limited | A | 88/100 | Potential to minimise the transactional nature of funding arrangements and reduce reporting required. The Responsible Minister is soon to consider the appropriate approach regarding delegated authorisations for Ōtākaro's quarterly funding. |
| Police | C | 56/100 | In response to the ICR, and working with the corporate centre, Police intends to improve the quality of its planning (to inform its LTIP and related asset management plans), change management (to deliver Policing 2020) and key aspects of its P3M3 maturity (to bring more consistency to its investment management processes). Based on a C rating there would be no change to the general approval thresholds or other requirements set out in Cabinet Office circular CO(15)5. |
| Waikato DHB | C | 57/100 | See ADHB |
| Waitemata DHB | B | 72/100 | See ADHB |



ICR assessments are completed in sets known as tranches

*Otakaro received a tailored assessment and is therefore not comparable to other ICR results

**MSD and Southern DHB were assessed using Round 2 methodology; results are not yet Cabinet approved