

IN CONFIDENCE

Office of the Minister of Finance

Chair  
Cabinet Government Administration and Expenditure Review Committee

## **Investor Confidence Rating: Round 2, tranche 2 results**

### **Proposal**

1. This paper invites Cabinet to approve the results and proposed implications of the latest tranche of Investor Confidence Ratings (ICR). This tranche assessed six investment-intensive agencies: Accident Compensation Corporation (ACC), Department of Corrections (Corrections), Inland Revenue (IR), Ministry of Education (MoE), Ministry of Justice (MoJ) and New Zealand Police (Police).

### **Executive Summary**

2. The ICR is a three-yearly evidence-based assessment, in the form of an A-E (high-low) rating, of the performance of the 25 investment-intensive agencies in managing investments and assets that are critical to the delivery of New Zealand Government services. These agencies collectively manage 75 percent of the Crown's balance sheet and hold assets worth over \$100 billion.
3. The ICR is proving an effective tool for encouraging and incentivising improvements in the capability and performance of investment-intensive agencies. The ICR incentive effects are working, delivering the following benefits:
  - 3.1 all agencies are starting to take a longer term, more strategic view of investments and assets which will deliver improved intergenerational wellbeing outcomes for New Zealanders
  - 3.2 leadership teams and their organisations have changed their behaviours and are focused on delivering the improvements suggested as part of the ICR process, often with additional resources and expert support
  - 3.3 the ICR delegation changes have reduced compliance in the investment system

4. The ICR highlights each agency's strengths and gaps in core aspects of its investment and asset management, and provides incentives for it to address these gaps through higher delegations and/or flexibility over assurance requirements.
5. These measurable improvements increase the likelihood that agencies will deliver the results expected of them by government and taxpayers now and for the future.
6. The Treasury has recently completed round two ICR assessments on six agencies, with their previous assessments having been completed in 2016. Of these agencies, three retained the ratings obtained in 2016 and three have improved from 'C' to 'B' ratings.
7. I invite Cabinet to approve these ratings and implications. This will ensure agencies continue building capability to improve performance and contribute to a more effective investment management system.
8. We will undertake an independent review of the ICR in FY19/20 to assess its value and to inform the future programme of assessments.
9. I previously introduced Cabinet paper *Investor Confidence Rating: Introduction and latest results, to Cabinet in October 2018* (GOV-18-MIN-0075). This provided Cabinet with full details on the ICR and methodology changes between rounds. Annex 3 includes an overview of the ICR and agency capability improvements.

## **Round Two, Tranche Two Results**

### *Results*

10. Between October 2018 and June 2019, the Treasury completed six ICR assessments for Cabinet approval.
11. I want to acknowledge the considerable effort made by tranche two agencies to meet the ICR requirements in tight timeframes, 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.
12. The results indicate that the incentive effects of the ICR are working. As detailed in Figure 1, all three agencies that attained a 'C' in 2016 have increased their respective overall ratings to a 'B'. These improvements are the result of improvement activities undertaken by the agencies based on improvement recommendations provided in the first assessment.

Figure 1

Agency	2016 Result		2019 (Subject to Cabinet approval)		
	ICR Result	Overall ICR Score (out of 100)	ICR result	Overall ICR Score (out of 100)	Change
IR	A	83	<b>A</b>	86	↑ 3 points
Corrections	C	61	<b>B</b>	77	↑ 16 points
ACC	B	77	<b>B</b>	74	↓ 3 points
MoJ	B	68	<b>B</b>	68	No change
Police	C	56	<b>B</b>	69	↑ 13 points
MoE	C	63	<b>B</b>	68	↑ 5 points

13. Retaining the same result, or having an improved ICR result, is a positive outcome, given that improvements to the assessment process between rounds have made it more rigorous.
14. All ICR agencies have improvement activities underway to improve their investment maturity and performance, and have acted upon previous improvement recommendations from round 1.
15. ACC retains a 'B' rating; this is a good result given the organisational transformation currently underway. It had a small decrease in its overall score. This is largely due to the reduced weighting in ACC's strongest elements (Asset Management Maturity and Project, Programme and Portfolio Management) and introduction of a new element (Procurement Capability Index). Another factor in the reduced score is the introduction of the verification process to the asset performance element.
16. Since ACC's assessment was undertaken:
  - 16.1 System performance – there has continued to be transparency with respect to ACC's Integrated Change Investment Portfolio (ICIP) transformation programme, including regular sharing of key documents and monthly meetings with central agencies, six monthly progress updates to Cabinet and a Gateway review of the programme.
  - 16.2 Long-term investment plan – ACC has continued developing its strategic planning to move from a traditional approach to a continuous delivery model, and is engaging with central agencies on the shaping of this.
  - 16.3 Asset performance – ACC is working with the Treasury to identify some new asset performance measures.

17. Police and Corrections have made the most significant improvements, and along with all the ICR agencies, are encouraged to continue to lift their performance.
18. Police has a key strategic initiative that will modernise how Police use and manage its property portfolio to keep pace with the increase in policing numbers, the changing operating environment and its evolving service delivery model. In order to enact the property initiative, Police is seeking to retain the divestments from any property sales for reinvestment back into its property portfolio. The Treasury will continue to work with Police on the property divestment process and potential for reinvestment.
19. A detailed breakdown of each agencies rating, individual element scores and improvement areas is provided in Annex 1 of this paper.

*Implications*

20. Based on the results I propose the following implications shown in Figure 2:

*Figure 2*

<b>Agency</b>	<b>ICR result 2016</b>		<b>ICR result 2019</b>	<b>Implications</b>
ACC	B		B	No change. ACC as a Crown agent has certain statutory functions and the ICR does not affect these functions. General approval thresholds should continue to apply as set out in CO(15)5, which are the same implications as ACC's 2016 assessment.
Corrections	C		B	The expansion of the general approval thresholds, for investments funded from baselines or the departmental balance sheet, to: <ul style="list-style-type: none"> <li>• Chief Executive threshold increases from \$15m to \$25m Whole of Life Cost (WOLC).</li> <li>• Responsible Minister threshold for major investments increases from \$25m to \$45m WOLC.</li> <li>• Cabinet threshold increases to \$45m WOLC.</li> </ul>
IR	A		A	No change. Retain the same implications as 2016 which: <ul style="list-style-type: none"> <li>• Expanded the general approval thresholds for all IR investments funded from baselines or the departmental balance sheet up to \$50m WOLC for the Responsible Minister and up to \$25m for the Chief Executive. This rating also gave the Chief Executive flexibility over the applicability of investment reviews, e.g. Gateway.</li> </ul>

MoJ	B	B	<p>No Change. Retain the same implications as 2016, which:</p> <ul style="list-style-type: none"> <li>Expanded the levels of ministerial and chief executive decision-making authority to \$40m WOLC and \$25m WOLC respectively, for medium or low risk baseline-funded property investments.</li> </ul>
MoE	C	B	<p>Expand the general approval thresholds for investments funded from baselines or the departmental balance sheet to:</p> <ul style="list-style-type: none"> <li>Chief Executive threshold increases from \$15m to \$25m WOLC.</li> <li>Responsible Minister threshold for major investments increases from \$25m to \$35m WOLC.</li> <li>Cabinet threshold increases to \$35m WOLC.</li> </ul> <p>Note that the project cost escalation delegations agreed in Supporting Improvements to the Condition of the School Portfolio (12 December 2018) SWC-18-MIN-0183 are not affected by the change in delegations detailed in this paper for MoE and remain unchanged.</p>
Police	C	B	<p>Expand the general approval thresholds for investments funded from baselines or the departmental balance sheet to:</p> <ul style="list-style-type: none"> <li>Chief Executive threshold increases from \$15m to \$25m WOLC.</li> <li>Responsible Minister threshold for major investments increases from \$25m to \$35m.</li> <li>Cabinet threshold increases to \$35m WOLC.</li> </ul>

21. Agencies comments on their ICR assessments are provided in Annex 2.

### **Next steps in lifting agency capability and performance**

#### *Improving capability through the ICR*

22. The incentive effects of the ICR appear to be working, and the improvements are the direct result of Senior Leadership Team (SLT)/ Executive Leadership Team (ELT) endorsing and supporting improvement programmes.
23. Assessment for the next set of agencies (Auckland DHB, Capital and Coast DHB, Canterbury DHB, Counties-Manukau DHB, Waikato DHB, Waitemata DHB) has begun. I will report the results of these assessments from November 2019.
24. There will be an independent review of the ICR in FY19/20 to inform future ICR assessments. The review will also allow an opportunity to realign the ICR with government priorities, including a focus on wellbeing and the Living Standards Framework.

### *Improving capability through other means*

25. The Treasury is currently refreshing the Better Business Cases (BBC) framework to simplify and clarify guidance. In addition, the guidance will be more explicit on how to incorporate wellbeing. This will assist agencies to develop more robust business cases including assessment of options and benefits against wellbeing criteria, to assist Cabinet to compare initiatives for funding decisions.
26. The Treasury is leading a work programme to improve the management of the assets that support government's most critical services. The objective is to reduce the government's risk of service failure and to ensure that future service delivery is assured through good asset management practices. The Treasury will work with NZ Lifelines and agencies to develop a criticality framework that will be used to identify the most critical government services and the fitness for purpose of current asset management practices in place to support these services. Meantime, the Ministry of Health is leading a related piece of work to develop a National Asset Management Plan to improve asset management practices in that sector.
27. The LTIP results show that we still need to improve our collective strategic planning capability. That means working better together to anticipate strategic issues, evaluate possible responses and collaborate on delivering what we sign off in strategies and plans. I intend to report to Cabinet shortly on piloting a fundamentally different approach to strategic planning and reporting so that we are better placed to understand how the investment decisions of today may affect the long-term wellbeing of New Zealanders.

### **Consultation**

28. In the preparation of this paper, the Treasury has consulted with all six agencies in this paper, central agencies, monitoring agencies and functional lead agencies.
29. Investment-intensive agencies will play a significant role in meeting the government's recent announcement of priority outcomes for procurement.
30. The establishment of the New Zealand Infrastructure Commission (NZIC) will also help improve how New Zealand coordinates and plans its infrastructure, make the most of the infrastructure we already have, and plan long-term to ensure our investment delivers what we need, where and when we need it.

### **Financial Implications**

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

### **Legislative Implications**

32. There are no legislative implications.

## Regulatory Impact Analysis

33. Regulatory impact analysis requirements do not apply.

## Human Rights, Gender Implications, Disability Perspective

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

## Publicity

35. In accordance with Cabinet office circular CO(18)4, the ICR results and this Cabinet paper will be released by the Treasury on 19 September 2019.

## Recommendations

36. The Minister of Finance recommends that the Cabinet Government Administration and Expenditure Review Committee:

### *Latest ICR ratings*

- note** that the Treasury has completed its assessment of the Investor Confidence Rating (ICR) results for six agencies: Accident Compensation Corporation (ACC), Department of Corrections (Corrections), Inland Revenue (IR), Ministry of Education (MoE), Ministry of Justice (MoJ) and New Zealand Police (Police)
- agree** the following ICR ratings and implications:

Agency	ICR result	Implications
ACC	B	No change. ACC as a Crown agent, has certain statutory functions and the ICR does not affect these functions. General approval thresholds should continue to apply as set out in CO(15)5, which are the same implications as ACC's 2016 assessment.
Corrections	B	Expand the general approval thresholds for investments funded from baselines or the departmental balance sheet to: <ul style="list-style-type: none"><li>• Chief Executive threshold increases from \$15m to \$25m Whole of Life Cost (WOLC).</li><li>• Responsible Minister threshold for major investments increases from \$25m to \$45m WOLC.</li><li>• Cabinet threshold increases to \$45m WOLC.</li></ul>
IR	A	No change. Retain the same implications as 2016: <ul style="list-style-type: none"><li>• Expanded the general approval thresholds for all IRD investments funded from baselines or the departmental balance sheet up to \$50m WOLC for the Responsible Minister and up to \$25m for the Chief Executive, as well as the Chief Executive having flexibility over the applicability of investment reviews e.g. Gateway.</li></ul>

MoJ	B	No change. Retain the same implications as 2016: <ul style="list-style-type: none"> <li>Expand the levels of ministerial and chief executive decision-making authority to \$40m WOLC and \$25m WOLC respectively, for medium or low risk baseline-funded property investments.</li> </ul>
MoE	B	Expand the general approval thresholds for investments funded from baselines or the departmental balance sheet to: <ul style="list-style-type: none"> <li>Chief Executive threshold increases from \$15m to \$25m WOLC.</li> <li>Responsible Minister threshold for major investments increases from \$25m to \$35m WOLC.</li> <li>Cabinet threshold increases to \$35m WOLC.</li> </ul> <p>Note that the project cost escalation delegations agreed in Supporting Improvements to the Condition of the School Portfolio (12 December 2018) SWC-18-MIN-0183 are not affected by the change in delegations detailed in this paper for MoE and remain unchanged.</p>
Police	B	Expand the general approval thresholds for investments funded from baselines or the departmental balance sheet to: <ul style="list-style-type: none"> <li>Chief Executive threshold increases from \$15m to \$25m WOLC.</li> <li>Responsible Minister threshold for major investments increases from \$25m to \$35m.</li> <li>Cabinet threshold increases to \$35m WOLC.</li> </ul>

- 3 **note** that Police is seeking to retain the divestments from any property sales for reinvestment back into its property portfolio, and that the Treasury is working with Police on the property divestment process and potential for reinvestment
- 4 **agree** that all investment-intensive agencies must achieve at least a 'B' ICR rating over time

*Effective date for ICR ratings and implications*

- 5 **agree** that the ICR ratings and implications for the six agencies in this paper will apply from 1 September 2019

*Other improvement actions*

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

*Publication of ICR results*

- 8 **authorise** the Treasury to release the results and this Cabinet paper on 19 September 2019

*Next steps with the ICR programme and related work*

- 9 **note** that ICR activity is underway for the next set of agencies and the results will be reported to Cabinet from November 2019
- 10 **note** there will be an independent review of the ICR in FY19/20 to inform future ICR assessments

Hon Grant Robertson

Minister of Finance

Date:

## Annex 1: Round Two, Tranche Two ICR results

### Accident Compensation Corporation

Investor Confidence Rating:	B
Scope of ICR assessment	ICT portfolio (excludes ACC's investment)

#### 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)	4/10
	4 Procurement Capability Index (PCI)	2/5
	5 Organisational Change Management Maturity	10/10
Lag Indicators	6 Benefits delivery performance	16/20
	7 Project delivery performance	8/10
	8 Asset performance	2/10
	9 System performance	3/5
<b>Total Score</b>		<b>74/100</b>

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

#### Treasury Comment

ACC retains a "B" rating and continues to meet Cabinet's expectations for an investment-intensive agency, which is a good result given the organisational transformation currently underway. ACC has strengths in the ICR maturity frameworks. Asset Management scored highly for the ICT portfolio, which uses the ITIL framework. ACC is close to reaching an optimal level of maturity in Project, Programme and Portfolio Management maturity. ACC has a solid organisational change management foundation in place.

Benefits and project delivery have improved since ACC's last ICR assessment in 2016. This improvement aligns well with P3M3 maturity results.

ACC can improve future LTIPs by articulating long-term asset, financial and service performance implications of different scenarios, particularly for years five-to-ten. Since the ICR assessment, ACC has continued developing its strategic planning to move from a traditional approach to a continuous delivery model and is engaging with central agencies on the shaping of this.

With PCI, ACC is actively engaged in cross-agency procurement advisory groups. With three procurement teams, centralised oversight is important for alignment of market engagement and systemic capability development.

Asset performance was lower in part due to a new verification approach. The ICT measures provided did not meet the asset performance requirements and ACC is working with the Treasury to identify better measures, especially for outsourced ICT services.

With system performance, since this assessment was conducted there has continued to be transparency with respect to ACC's ICIP transformation programme, e.g. regular sharing of key documents and monthly meetings with central agencies, six monthly progress updates to Cabinet and a Gateway Review of the programme.

#### Potential Implications

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

## Department of Corrections

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

### 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)	8/10
	4 Procurement Capability Index (PCI)	3/5
	5 Organisational Change Management Maturity	10/10
Lag Indicators	6 Benefits delivery performance	12/20
	7 Project delivery performance	6/10
	8 Asset performance	6/10
	9 System performance	4/5
<b>Total Score</b>		<b>77/100</b>

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

### Treasury Comment

The Department of Corrections (Corrections) has made great progress in terms of investment management as evidenced by the improvement from the last assessment in 2016 (a score of 61 which resulted in a “C” rating). There has been a significant uplift in investment management and the focus should now be on embedding this work and focussing on internal capability to sustain the improvements. The improved ICR will reinforce confidence in Corrections from key stakeholders.

Corrections is an organisation with solid asset management that is supported by good asset performance measures (particularly in the property portfolio). The Strengthening Portfolio Management programme run by the Enterprise Project Management Office (EPMO) since Correction’s last ICR assessment has and will continue to place it amongst the best investment-intensive agencies from the perspective of portfolio and change management.

Corrections has developed one of the better long-term investment plans seen in government. The key next step is to develop a Justice Sector LTIP that will align agency investment strategies.

Corrections has improved portfolio management since its last ICR assessment, although the full impact of improvements are yet to be fully realised in benefits and project delivery at the time of assessment.

A future improvement opportunity is ensuring that benefits are approved and include targets that can be measured, tracked and realised over time.

### Potential Implications (Draft)

Based on the “B” rating, the following change to approval thresholds set out in Cabinet Office circular CO(15)5:

- Chief Executive threshold increase from \$15m to \$25m WOLC.
- Responsible Minister threshold for major investments from \$25m to \$45m WOLC.
- Cabinet threshold increases to \$45m WOLC.

## Inland Revenue Department

Investor Confidence Rating:	A
Scope of ICR assessment	ICT and property portfolio

### 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)	6/10
	4 Procurement Capability Index (PCI)	5/5
	5 Organisational Change Management Maturity	10/10
Lag Indicators	6 Benefits delivery performance	16/20
	7 Project delivery performance	10/10
	8 Asset performance	6/10
	9 System performance	4/5
<b>Total Score</b>		<b>86/100</b>

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

### Treasury Comment

Inland Revenue (IR) has maintained its 'A' Rating, and continues to have the second highest result after Housing NZ Corporation. Treasury acknowledges that maintaining the 'A' Rating is difficult and demonstrates Inland Revenue's leadership in investment management amongst investment-intensive agencies.

Standards for investment management are continuing to evolve as maturity increases. Since the last assessment the PCI element has been added, some element weightings have changed and a verification process to test underlying data for asset performance has been added. Guidance and processes to verify benefits and project delivery have also been strengthened.

IR scored highly on the maturity frameworks for asset management, P3M3 and organisational change, which shows that it is performing in line with independently verified quality expectations. Project delivery was also very strong and IR is one of the few to get 10/10. Benefits realisation is also relatively high (86%), although minor improvements are recommended to track benefits across all investments.

IR has scope to improve its LTIP by articulating the impacts of an integrated service scenario across the public sector. Asset performance metrics could also be improved by focussing on the key objectives from the Business Transformation programme, such as the ease of ICT systems to change in-line with services and requirements.

### Potential Implications

Retain existing increased delegations from round one ICR. These expanded the general approval thresholds for all IRD investments funded from baselines or the departmental balance sheet up to \$50m WOLC for the Responsible Minister and up to \$25m for the Chief Executive, as well as the Chief Executive having flexibility over investment reviews e.g. Gateway

## Ministry of Justice

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

### 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)	4/10
	4 Procurement Capability Index (PCI)	1/5
	5 Organisational Change Management Maturity	10/10
Lag Indicators	6 Benefits delivery performance	16/20
	7 Project delivery performance	6/10
	8 Asset performance	2/10
	9 System performance	4/5
<b>Total Score</b>		<b>68/100</b>

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

### Treasury Comment

The Ministry of Justice's (Justice) ICR assessment was bought forward to align with its Justice Sector partners. It has led improvements in the Justice Sector to enable better planning in-line with government priorities and the strategy of the wider sector.

Justice has improved AMM and P3M3 scores from the last assessment in 2017. It has focused on internal capability supporting investment management, including embedding long-term planning and prioritisation approaches into business planning. Treasury supports this focus as it should ensure more sustainable improvements.

The Procurement Capability Index was introduced in Round 2 as an indicator of agency procurement capability maturity. Future focus should include implementation of enterprise wide contract and supplier management practices and systems.

There is evidence of Justice putting in place a number of steps to improve in the areas of benefits and project delivery. It should continue to place emphasis on improving in these areas, ensuring that all investments carry associated benefits with clear targets and measures that can be monitored and reported on over time.

The Asset Performance element within the ICR includes a more robust verification process from the previous assessment to test base data which reduced the asset performance score through a "verification" adjustment. Justice has plans in place to improve asset performance measures primarily through the asset management and facilities contract.

### Potential Implications

Retain existing increased delegations from round one ICR. Cabinet agreed to expand the levels of ministerial and chief executive decision making authority to \$40m WOLC and \$25m WOLC respectively, for medium or low risk baseline-funded property investments.

## Ministry of Education

Investor Confidence Rating:	<b>B</b>
Scope of ICR assessment	Property and ICT portfolio

### Elements Score

	Element	Element Score
Lead Indicators	1 Asset Management Maturity (AMM)	13/15
	2 Project, Programme and Portfolio Management Maturity (P3M3)	9/15
	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	10/10
	9 System performance	3/5
<b>Total Score</b>		<b>68/100</b>

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

### Treasury Comment

The Ministry of Education (Education) has made gains in terms of investment management as evidenced by the improvement since the last assessment in 2016 (a score of 63 which resulted in a 'C' overall rating). Progress has been made in areas such as the quality of the long-term investment plan (LTIP), and the focus should now be to build internal capacity and capability to embed and sustain these improvements.

The evidence shows Education has strengths in Asset Management Maturity and meets its own asset performance targets. It has also scored highly in Organisational Change Management Maturity. Education has also clearly strengthened its procurement maturity, illustrated by an excellent result in the Procurement Capability Index.

There remain gaps in aspects of P3M3 management (across the entire ICT Portfolio as well as stakeholder, resource and benefits management in the Capital Works Portfolio). There are opportunities for improved integration across Property and ICT portfolios such as more consistent prioritisation, portfolio management, governance and sharing of data and processes.

Overall, the current and future improvements in investment management should position Education to realise the benefits from planned reforms within the Education Sector.

### Potential Implications (more details in body of this paper)

Based on the "B" rating, the following change to approval thresholds set out in Cabinet Office circular CO(15)5:

- Chief Executive threshold increases from \$15m to \$25m WOLC.
- Responsible minister threshold for major investments increases from \$25m to \$35m WOLC.
- Cabinet threshold increases to \$35m WOLC.

## NZ Police

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

### 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)	6/10
	4 Procurement Capability Index (PCI)	4/5
	5 Organisational Change Management Maturity	10/10
Lag Indicators	6 Benefits delivery performance	12/20
	7 Project delivery performance	6/10
	8 Asset performance	2/10
	9 System performance	4/5
<b>Total Score</b>		<b>69/100</b>

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

### Treasury Comment

New Zealand Police (Police) has made great progress in terms of investment management as evidenced by the improvement from the last assessment in 2017 (a score of 56 which resulted in a "C" rating). There has been a significant improvement in investment management and the focus should now be on embedding this work and focussing on internal capability to sustain the improvements.

Police has made good progress towards improving its asset management maturity since its last ICR assessment. Future emphasis should focus on asset management plans and systems. Asset performance was the weakest element and continuing to develop more meaningful asset performance measures across all portfolios should be a priority, which can then be aligned to asset management plans.

Police has taken significant steps forward to improve its portfolio and change management maturity. Continued emphasis on areas including governance and benefits management will result in improved project and benefits delivery performance.

The organisational long-term investment plan is well developed and clearly articulated, and shows strong alignment with agency and government priorities. Police should continue to leverage and utilise the recently published long-term investment plans developed by the Department of Corrections and Ministry of Justice as the basis for collective Justice Sector planning.

Overall, the current and future improvements in investment management should position Police well to deliver on its mission and ensure high levels of trust and confidence in NZ Police.

### Potential Implications

As ICR is an incentive regime there is potential to access balance sheet resources, increased levels of authority to make investment decisions and decreased levels of investment-related reporting and assurance activity. The ICR may also reduce the level of corporate centre scrutiny of an agency.

## Annex 2: Agency comments

ACC	<p>“Overall ACC is pleased it retained its ‘B’ rating. However, ACC questioned the assessment for some of the specific elements, and are not confident the paper fully reflects our concerns.</p> <p>ACC is pleased with the results measuring our maturity and delivery of the Portfolios and Projects. A number of recommendations were made for areas of focus for ACC over the upcoming 12-18 months. These are now prioritised for completion. This, coupled with the strategic direction ACC is taking to move to a Continuous Delivery Model, means ACC is well positioned to reach optimal maturity.</p> <p>The ICT Asset Maturity Measure remained high. ACC will work with the Treasury to develop suitable asset performance measures that both organisations can agree to. ACC would then expect to see its ICT Asset Maturity Measure improve.</p> <p>ACC appreciates the work undertaken to review its Procurement Capability Index score following the moderation issues experienced for all agencies in this tranche, but are not fully comfortable with this score. We do not believe the score appropriately reflects ACC’s procurement function. The function operates effectively with sound policy and processes and a well-planned programme of work to continue improving its procurement capability and maturity.</p> <p>ACC welcomes the opportunity to work with agencies to support the independent review of the ICR process.”</p>
Corrections	<p>“Corrections has demonstrated its strong commitment and focus to improving the management of capital assets and development of new assets through the achievement of a high B. This result illustrates the progress Corrections has made across all facets of the ICR, including improving its investment management performance and developing long-term strategic planning.</p> <p>Corrections has an incredibly diverse asset portfolio of \$2.8b across NZ and has undertaken significant investment in addressing capacity shortfalls and enabling new ways of working to achieve its strategic objectives of keeping communities safe and changing lives, which has been reflected in the ICR result.</p> <p>Corrections is committed to continuous improvement and is looking to further strengthen its Asset Management capability including the integration of long term planning, investment, asset maintenance and project delivery.</p> <p>Corrections will consistently adopt its Benefits Management Framework to ensure consistent and regular identification and management of Benefits within its Portfolios in order to measure and determine the realisation of benefits.”</p>
IR	<p>“Inland Revenue (IR) maintained an A rating and scored full points in asset management maturity, Portfolio, Programme and Project management capability, organisational change maturity and project delivery performance.</p> <p>IR will continue to focus on improving benefits delivery management, long term investment planning and asset performance. IR recognises the need to continue to adapt investment management to support the changing profile of the organisation’s portfolio following the conclusion of the Business Transformation programme.”</p>

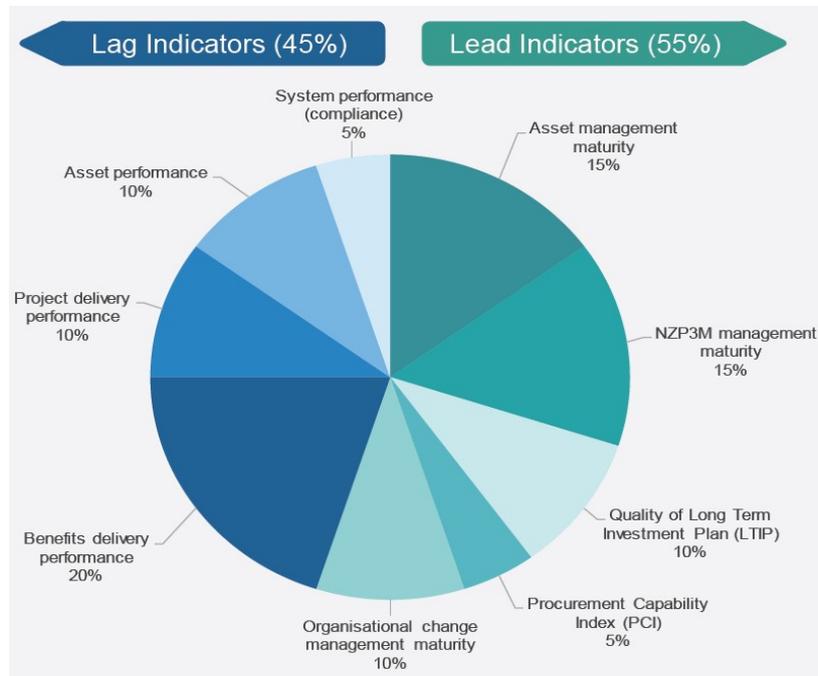
MoJ	<p>“The Ministry of Justice is comfortable with maintaining our B rating, acknowledging that level of evidence required for the assessment processes has increased significantly since the first assessment round. Our approach has always been to use this process as an opportunity to understand our business and how we can improve our investment management capability to deliver better services.</p> <p>The Ministry has invested significant internal resources to focus on developing a Long Term Investment Plan that is meaningful and integrated into our organisational investment planning and prioritisation processes.</p> <p>We are pleased that our investment and focus on improving our Portfolio, Programme and Project Management, Benefits Delivery, Project Delivery and Organisational Change Management have been reflected and we will continue to embed these changes across the organisation.</p> <p>We are comfortable that the progress we have made with our Asset Management Capability has been reflected in the assessment outcome. We have invested in lifting our internal capability and building the foundational operations and processes required to support the development and delivery of our Asset Performance Plans.</p> <p>We are not comfortable with the final score for the PCI assessment, as we do not feel it appropriately reflects the Ministry’s procurement function. We believe our Procurement function operates effectively with sound policy and practices and has a well-planned programme of work to continue improving its procurement capability and maturity.</p> <p>The Ministry will continue our focus on building our investment capability, and connecting with our Justice Sector Partners to align our strategic investment outcomes.”</p>
MoE	<p>“The Ministry of Education views the ICR rating as an outcome of us being good investment managers rather than being the sole driver for change. We are supportive of the intentions underpinning the ICR framework and have been committed to the improvements to maturity and performance in accordance with Cabinet’s intentions for investment intensive agencies. We see these improvements as part of a broader lift in investment management maturity that extends to all expenditure, not just the investments within scope of the Cabinet Circular CO(15)5.</p> <p>Our ‘B’ rating is a reflection of the hard work that has been put in over the last few years, especially in areas such as Capital Works, asset management and procurement. Our focus now is to embed the improvements made to date and act on the key improvement recommendations that came out of the assessments.”</p>

Police	<p>“As an investment intensive agency Police is committed to ensuring the investments and assets we are funded for are managed well, provide the maximum value possible to all New Zealanders and underpin the trust and confidence the public have in our ability to deliver an effective 21st century Police service.</p> <p>The progress we have made to date in moving to a ‘B’ rating and our future plans further demonstrate our continued commitment to improving our investment and asset management practices across all areas of the system.</p> <p>New Zealand Police will continue to evolve their Long Term Investment Plan on an annual basis to ensure it continues to provide a solid basis for long-term planning and investment delivery that will maximise investment outcomes and management of assets.</p> <p>The future areas of focus for Police are to improve our collective strategic planning capability with our sector partners, continue to grow and improve our asset management and performance functions and to strengthen our benefits, change, project, programme and portfolio management practices through our continual ICR improvements programme and new ways of working.”</p>
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## Annex 3: Overview of the ICR and improving capability

The ICR is one of the main tools to improve performance, and is an evidence-based assessment over nine elements of an agency's past and prospective performance as shown in Figure 1.

Figure 1: Elements assessed through the ICR



The nine 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 the agency's ability to realise a promised investment result if funding were committed.

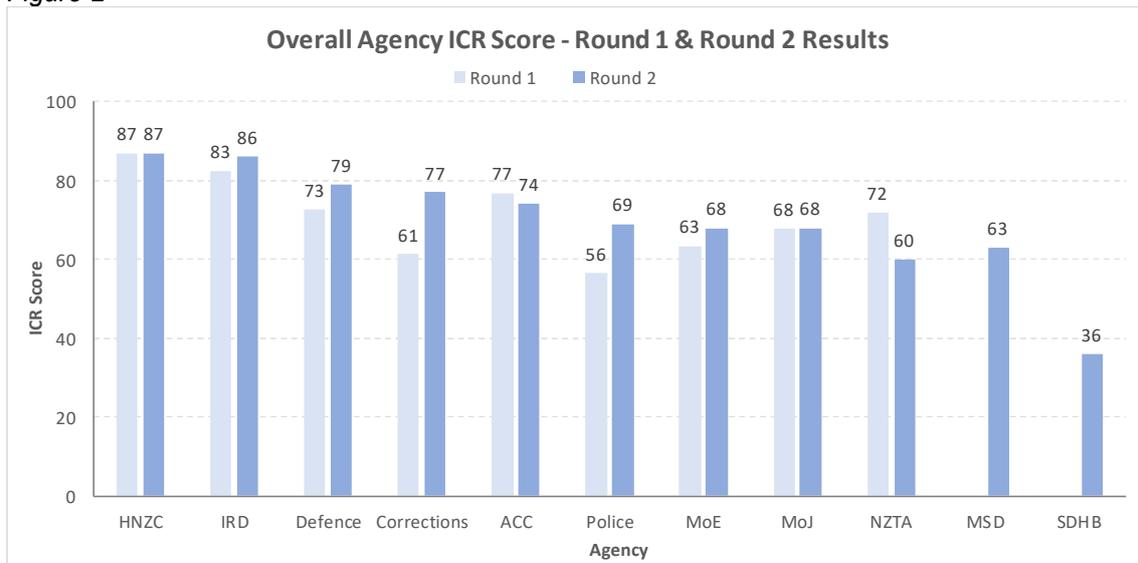
The ICR applies to the 25 most investment-intensive agencies. Due to the size and criticality of their asset and investment portfolios, Cabinet has an expectation for all investment-intensive agencies to achieve a B rating over time.

Importantly, the ICR incentivises agencies to address gaps. Agencies with higher ratings (A or B) may receive an increase in their general approval thresholds for investments, 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.

### *Improving capability through the ICR*

The ICR is proving an effective tool for encouraging and incentivising improvements in the capability and performance of investment-intensive agencies. Figure 2 shows the changes to the overall ICR scores between rounds 1 and 2.

Figure 2



The real and measurable improvements increase the likelihood that these agencies will deliver the results expected of them by government and future generations of taxpayers. Note that the Ministry of Social Development (MSD) and the Southern District Health Board (SDHB) had their first assessment in round 2.