

TE TAI ŌHANGA
THE TREASURY

Investor Confidence Rating (ICR)

July 2021

Investor Confidence Rating

Introduction

What is the ICR?

- The ICR is a Cabinet-approval approach for assessing agency investment performance and thus the level of confidence stakeholders should place in the ability of an agency to manage its assets and investments well.
- The assessment is managed by Treasury on a three yearly cycle. The results are expressed in a range from A (high confidence) to E (very low confidence).
- The ICR works on the hypothesis that there is a strong connection between agency capability and future performance. The ICR takes account of the level of maturity in each agency of key investment management capabilities (lead indicators) and the performance of significant investments and assets against expected targets (lag indicators).

Which agencies are subject to the ICR?

- Cabinet has identified 25 investment-intensive departments and Crown entities that manage investments and assets critical to the delivery of New Zealand Government services. These agencies collectively manage assets worth over \$100 billion, which is around 75 percent of the assets on the Crown's balance sheet.
- Cabinet has set the expectation that all investment-intensive agencies should achieve at least a "B" rating over time.

Why do we have the ICR?

- To reinforce the main objective of the government's investment system which is to optimise value for New Zealanders, and
- To provide an incentive mechanism that rewards good investment management performance and proactively addresses gaps.

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How the ICR works

Assess 9 factors or elements...

- The ICR weights nine elements according to the Treasury's view of the relative importance of each element to the system.
- The focus is on performance against agreed targets
- What is important to the ICR result is the extent of the gap between actual and target performance for a given element - the smaller the gap the higher the score for that element and the overall score.

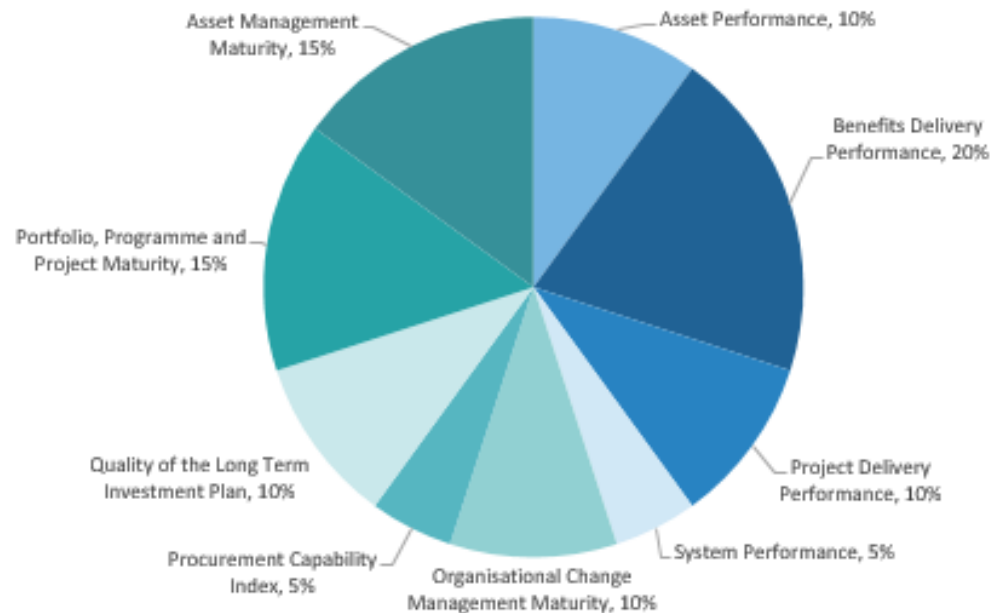
...against clear, appropriate targets

- The appropriate target levels differ for each element: Agencies set the targets for lag indicators to reflect agreed investment objectives, while lead indicator targets are set either by the Treasury (as system lead) or by agreement between the agency, the Treasury and external assessors.

The ICR uses 9 elements to assess performance

Lead Indicators (55%)

Lag Indicators (45%)



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Assessment activity to date

1. There have been two rounds of ICR assessments:
 - Round 1 over 2015 – 2017 (23 agencies), and;
 - Round 2 over 2018 – 2020 (23 agencies).
2. The programme has been applied in a flexible way taking account of agency circumstances, for example:
 - The **Ministry for Social Development** (MSD) had work underway in 2017 to split and form the Ministry for Children, Oranga Tamariki so its first assessment was Round 2.
 - **Southern DHB** was the subject of significant organisational change in 2017 and had its first assessment in Round 2.
 - **Otakaro Limited** was exempted from Round 2 (and future rounds) because it achieved an A rating in Round 1 and the monitoring agency agreed Otakaro had robust systems in place to report ongoing delivery performance.
 - **Northland DHB** achieved a C rating in Round 1 but a second assessment was deferred because business needs changed (ie, the Whangarei hospital redevelopment was delayed).
3. Between rounds the Treasury made changes to the ICR elements and weights to reflect changes in emphasis from a system perspective and tougher assessment processes. These included:
 - Including a new element Procurement Capability Index with a weighting of 5%
 - Increasing the weight for Organisational Change Management Maturity from 5% to 10%
 - Reducing the weight for Asset Management Maturity to 15% (from 20%) and for Project Delivery to 10% (from 15%)
 - Updating the frameworks for assessing lead indicators (ie NZP3M3 and LTIPs) and strengthening the evidence requirements for lag indicators (eg Project and Asset performance)

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Agency Results

Cabinet expects investment-intensive agencies to achieve a minimum of a B rating.

The Treasury considers the ICR assessments in Round 2 to be more robust and therefore more reliable than those in Round 1.

This means that to maintain the same ICR score between rounds agencies will have had to make improvements in several elements compared with what existed at the time of the Round 1 assessment.

ICR Scoring system

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







Agency		Round 1		Round 2	
		Score	Rating	Score	Rating
ACC	Accident Compensation Corporation	77	B	74	B
ADHB	Auckland DHB	71	B	73	B
CCDHB	Capital & Coast DHB	51	C	62	C
CDHB	Canterbury DHB	69	B	75	B
CMDHB	Counties-Manukau DHB	82	A	66	B
Corrections	Department of Corrections	61	C	77	B
Customs	New Zealand Customs Service	77	B	78	B
Defence	Defence Sector (NZDF & MoD)	73	B	79	B
DIA*	Department of Internal Affairs	58	C	56	C
DOC	Department of Conservation	61	C	72	B
HNZC	Housing New Zealand Corporation	87	A	87	A
IRD	Inland Revenue Department	83	A	86	A
MBIE*	Ministry of Business, Innovation, and Employment	70	B	79	B
MFAT	Ministry of Foreign Affairs and Trade	81	A	77	B
MoE	Ministry of Education	63	C	68	B
MoH	Ministry of Health	62	C	40	D
MoJ	Ministry of Justice	68	B	68	B
MSD	Ministry of Social Development			63	C
NDHB	Northland DHB	61	C		
NZTA	New Zealand Transport Agency	72	B	60	C
Otakaro	Otakaro Limited	88	A		
Police	New Zealand Police	56	C	69	B
SDHB	Southern DHB			36	D
WKDHB	Waikato DHB	57	C	52	C
WDHB	Waitematā DHB	72	B	70	B

* Excludes the Government Chief Digital Officer (GCDO) and New Zealand Government Procurement (NZGP) functional leads

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Data presentation and how to read the plots

- Most of the data in this report is presented as percentages, based on the gap between current scores and targets.
- The box and whisker plots are used to present the distribution of agencies' scores. The box and whiskers plot combines the lowest and highest values (i.e. the range) with the quartiles into on useful graph. It consists of a line, drawn according to scale, from the lowest to the highest data value, and a box drawn from the lower to upper quartile with a line marking the median and a dot marking the mean.
- Key to the plots:

Round		Highest score	
Mean		Lowest score	
Median		Middle Quartile of scores	

- Plots shape and interpretation:
 - ✓ **Symmetric:** If the distribution is normal, there are few exceptionally large or small scores. **The mean will be about the same as the median.**
 - ✓ Box shifted **to the lower part** most scores are 'small', but there are a few exceptionally large ones. Those exceptional values will impact the mean and pull it upwards, so that the **mean will be greater than the median**. The box plot will look as if the box was shifted to the lower part so that the *upper tail will be longer*.
 - ✓ Box shifted **to the upper part**, most scores are 'large', but there are a few exceptionally small ones. Those exceptional scores will impact the mean and pull it downwards, so that the **mean will be less than the median**. The box plot will look as if the box was shifted to the upper part so that the *lower tail will be longer*.
 - ✓ **No whiskers:** no whisker will be visible if a quarter of scores is equal to the lowest and the other quarter of scores is equal to the highest.
 - ✓ **No box:** no box can be seen if most scores are clustered at the median and just a few at the highest and the lowest. There are no scores between median, the highest and the lowest scores.

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Score and rating trend analysis

Results

1. Scores

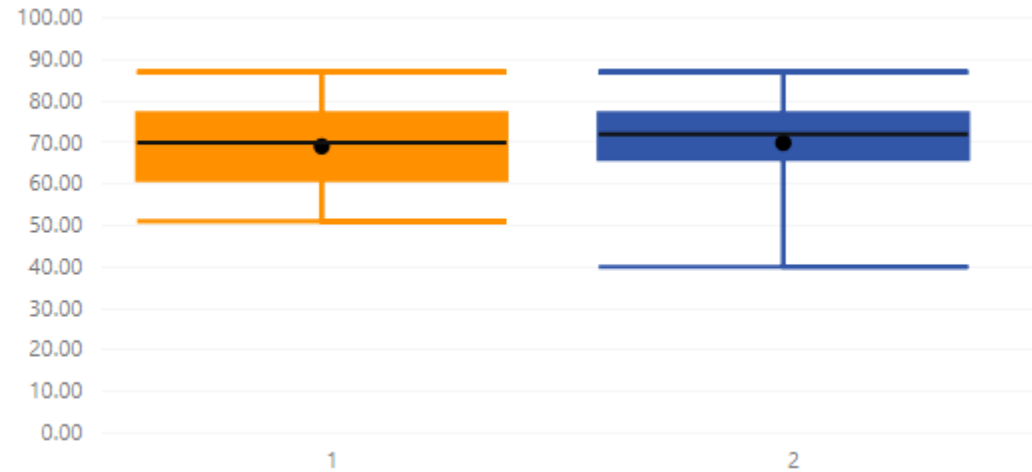
- There has been a two percent change in the average ICR scores
- There is a tightening of results ie a smaller range between the 75th and 25th percentile scores.

2. Ratings

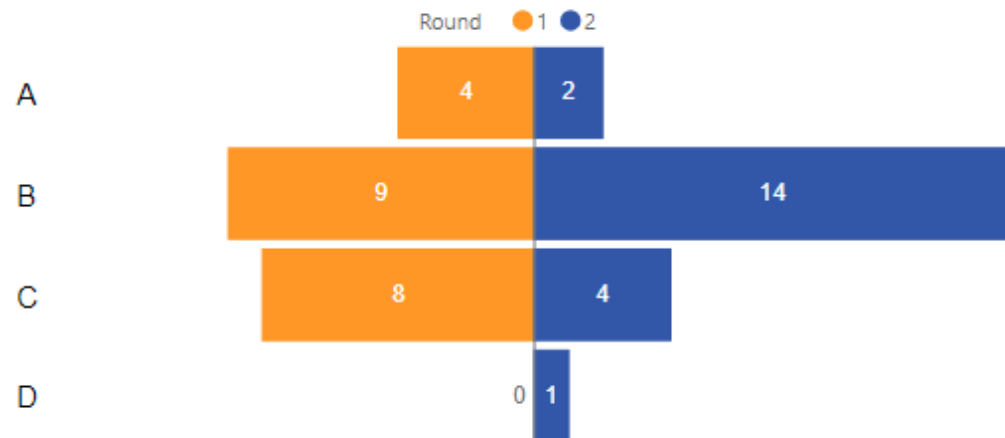
- Two agencies have moved from an A to a B rating
- Three agencies have moved from a C to a B rating (meeting the Cabinet minimum expectation of a B rating)
- One agency has moved from a C to a D rating

Note: this and all the following slides are based on trend analysis across the 21 agencies who have had two ICR assessments

ICR Overall Scores by Rounds



No. of Agencies by the ICR Rating



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Element level trends

Overall element level results:

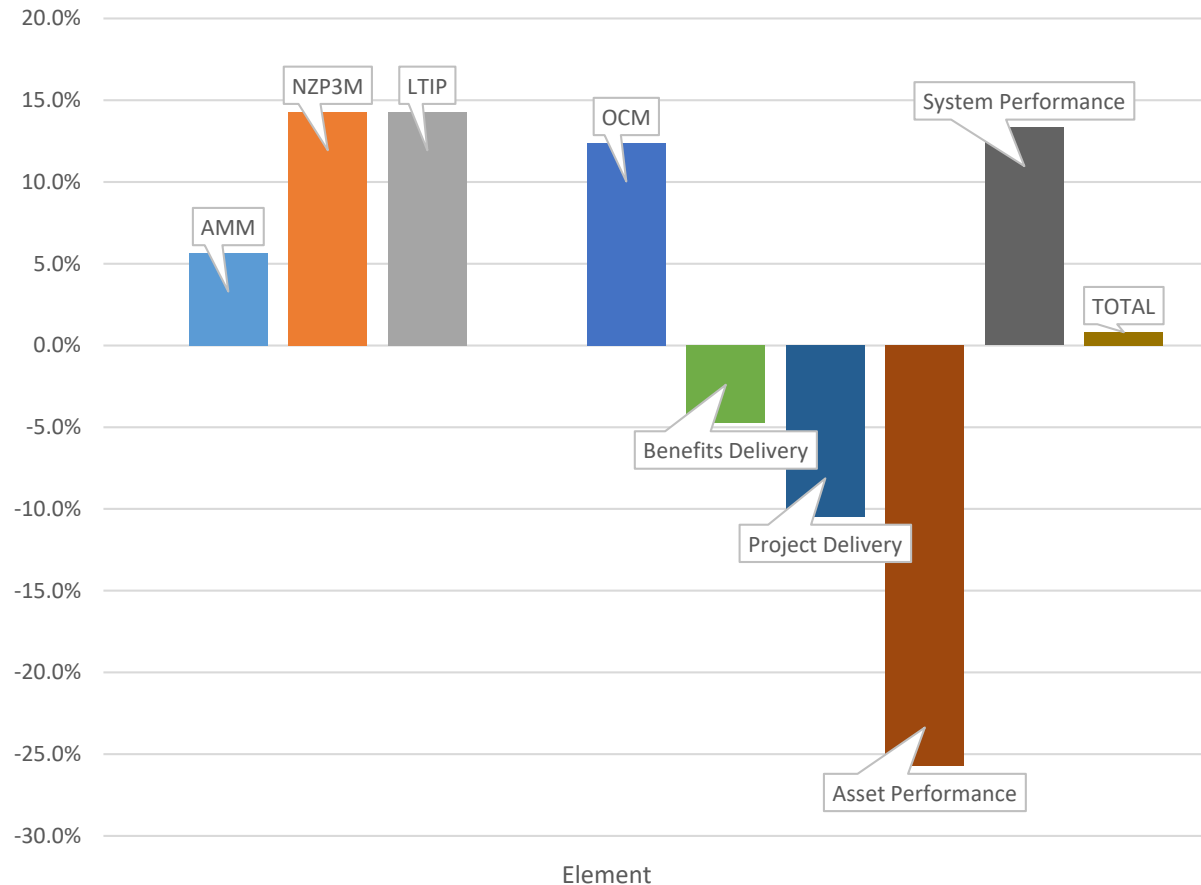
Improvement

- Agency capabilities in **Asset Management Maturity (AMM)**, **Portfolio/Programme and Project Maturity (NZP3M)**, and **Organisational Change Management (OCM)** have all improved.
- The quality of agency strategic plans have improved via their **Long Term Investment Plans (LTIPs)**.
- Agencies have improved the extent they are meeting the investment system objectives and expectations as evidenced by the improved **System Performance** scores.

Decrease

- The three performance element results, **Benefits and Project Delivery**, and **Asset Performance** have decreased. This is due to the more robust assessment process in Round 2 (see slide 8 for more detail).

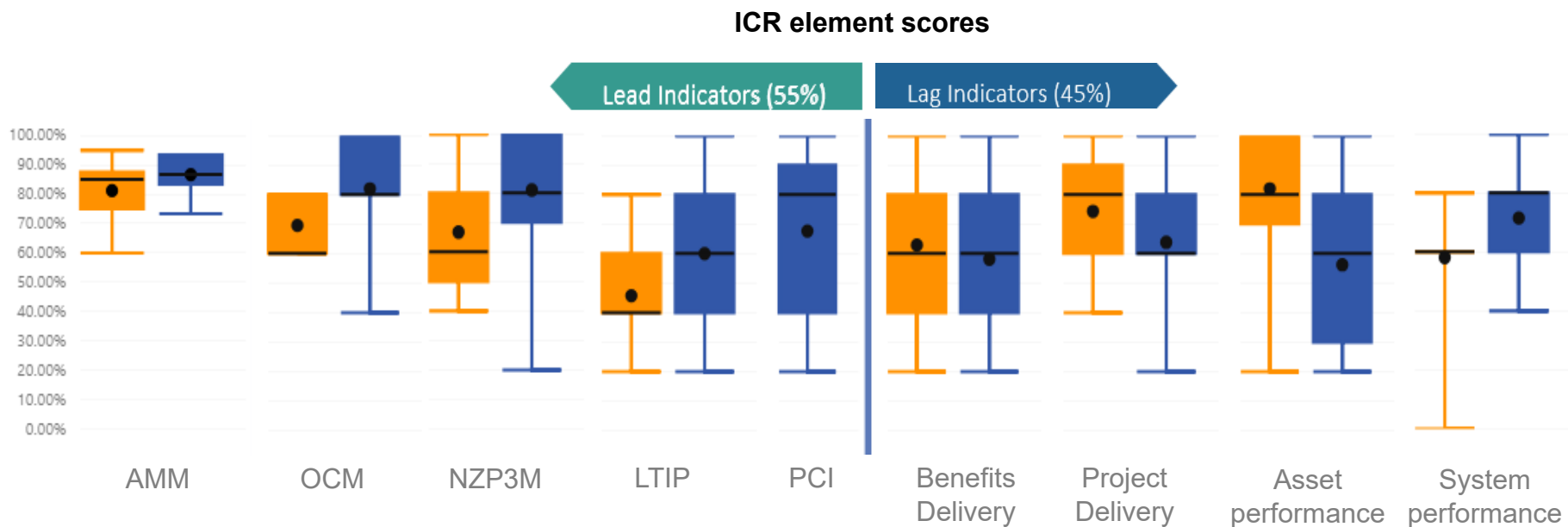
Changes in ICR Score per element between Round 1 and Round 2



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Distribution of element results

This is the distribution of data of Round 1 and Round 2. Larger boxes indicate larger variability in scores (between 25th and 75th percentiles), and larger lines show a greater gap between the lowest and highest scores.



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Lag indicator performance scores before and after adjustment

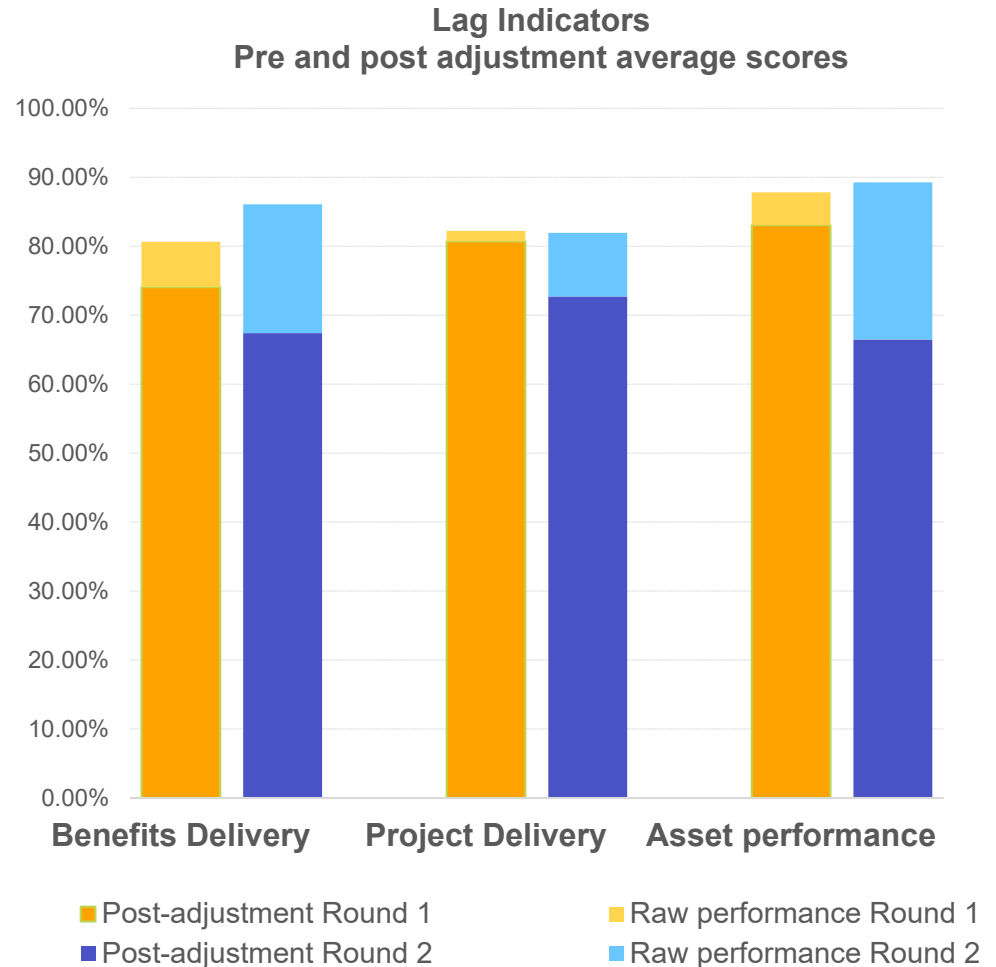
There has been a more robust assessment of the three lag performance indicators in Round 2.

The data for self-assessed and adjusted scores (due to evidence or data quality issues) shows that:

1. Project Delivery (time/cost/scope) has been maintained.
2. Self-assessed performance has improved for Benefits Delivery and Asset Performance.
3. However, owing to the more robust verification activity, there have been larger downwards adjustments in scores across all three elements in Round 2 compared to Round 1.

Round 1 vs Round 2 conclusions:

- Agencies consider their own performance has improved, but...
- larger adjustments have been applied, thus decreasing overall the scores and giving a more consistent and accurate result



ICR Element results

(across 21 agency results)

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Lead indicators

- The ICR evaluates the level of maturity in each agency across five key investment management capabilities:
 - ✓ **Asset Management** (the activity that ensures investment is evidenced and physical and intangible assets services are optimised in the long term interests of the organisation and its customers),
 - ✓ **Portfolio, Programme and Project Management** (NZP3M) (the activity that results in the delivery of successful investments),
 - ✓ **Organisational Change Management** (the activity that delivers incremental or transformational change),
 - ✓ the quality of the agency's **Long-Term Investment Plan**, and
 - ✓ the agency's ability to **Procure** goods and services strategically and manage providers, suppliers and markets.

Asset Management Maturity (AMM)

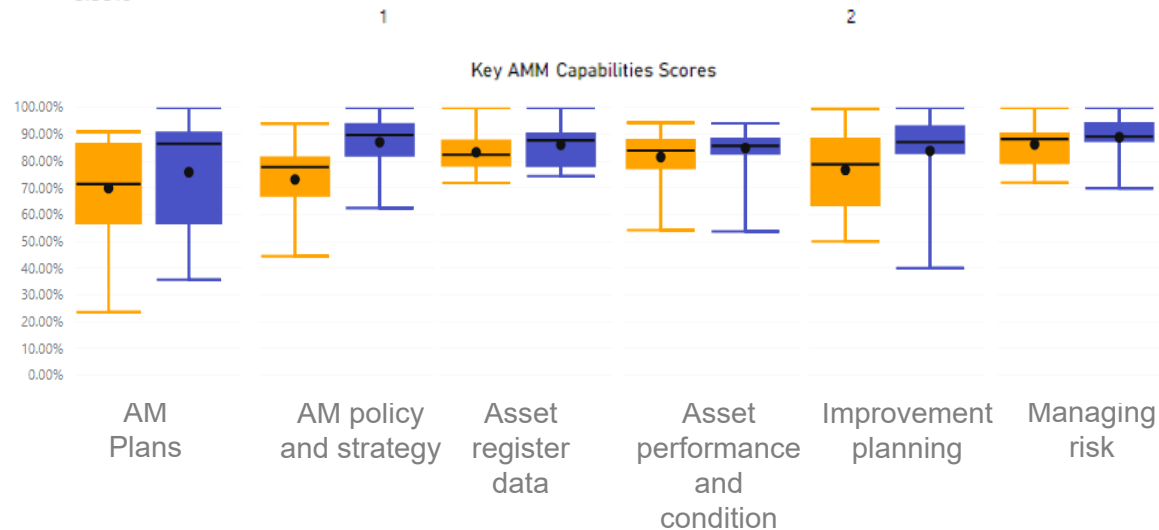
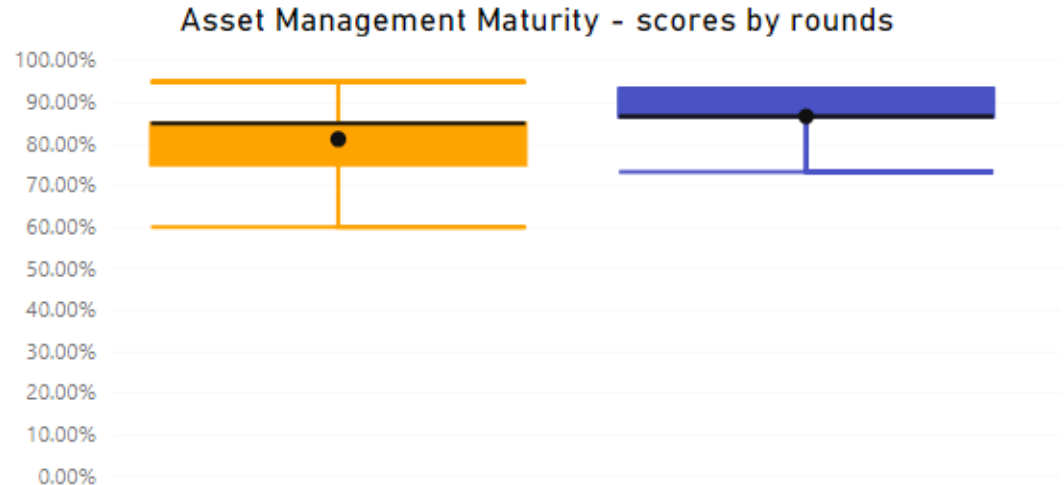
Assessed by independent AMM experts

What was examined by AMM

- An agency's Asset Management Maturity is evidenced by analysing the gap between the current and appropriate target across 16 asset capability areas.
- Each capability area has the same weight.
- A small gap demonstrates high capability or maturity relative to the appropriate maturity level for that agency.

Results

1. Overall, there has been an increase in the Round 2 AMM capability scores compared to Round 1.
2. The AMM ICR scores appear overly optimistic as an agency can have large gaps in key areas but still obtain high points scores.
3. Despite improvement between rounds, the core capability of asset management planning still has a significant average maturity gap of 24 points.



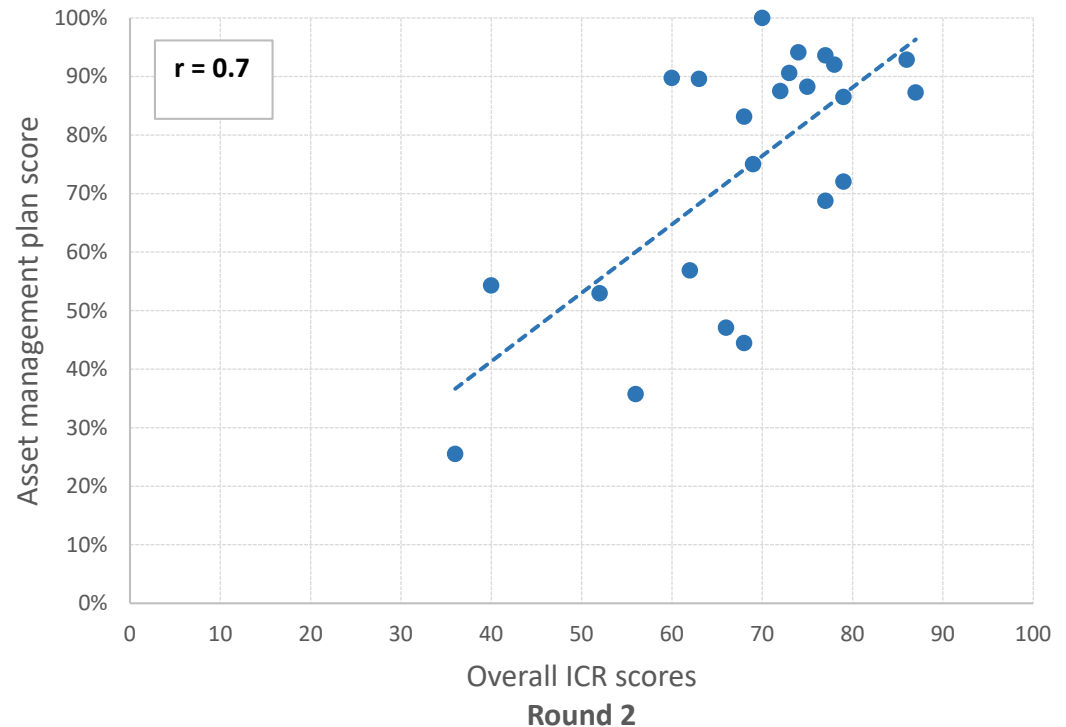
Asset Management Maturity (AMM)

Assessed by independent experts (cont.)

Results

1. There is a strong positive correlation ($r = 0.7$) between capability in 'asset management plans' (a core capability within the AMM element) and an agency's overall ICR score in Round 2.
2. This correlation reinforces the importance of maintaining capability in planning which strengthens and evidences how well an agency performs in their investment intentions, asset service performance, and managing sustained asset services.

Correlation between AM Plan score and overall ICR score



Organisational Change Management (OCM)

Assessed by change management experts

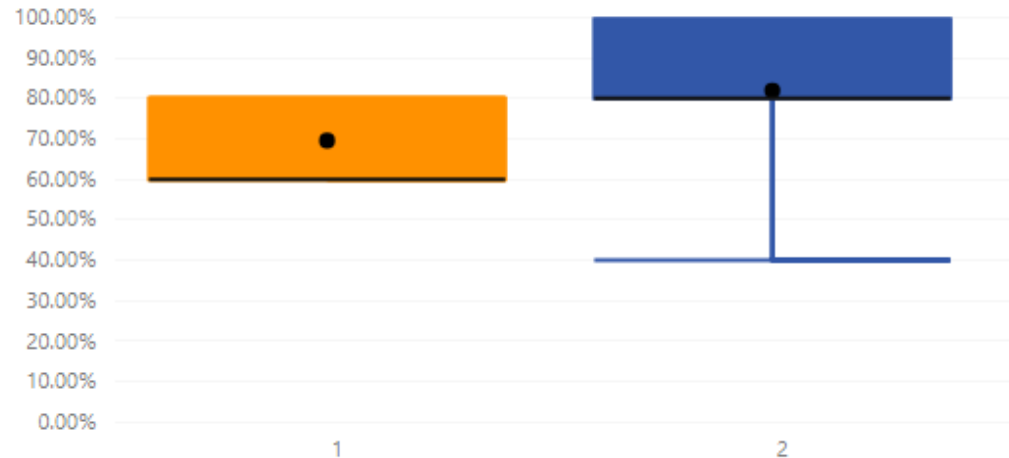
What was examined by OCM

- This is a whole-of-organisation assessment of its Change Management capability. Six OCM capability areas are assessed from 23 questions.
- Successful investment change management is a key determinant of benefits being optimised.

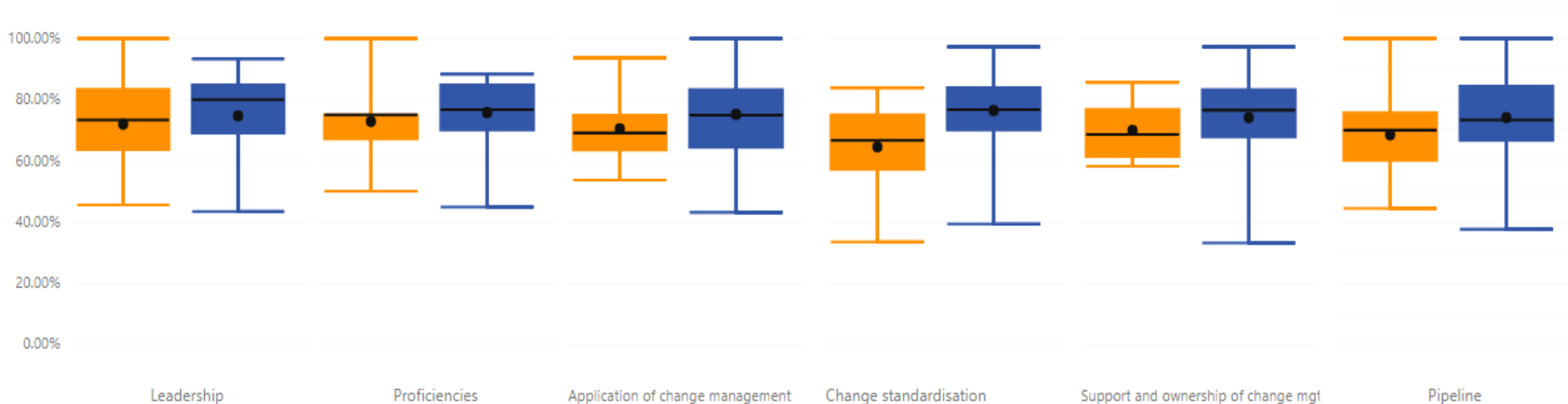
Results

1. Agencies have improved their Change Management capability across all capability areas compared to Round 1.
2. There is a median increase of 20%.

Organisational change management - scores by rounds



OCM Capabilities Scores



Portfolio, Programme and Project Management Maturity (NZP3M) *Assessed by independent experts*

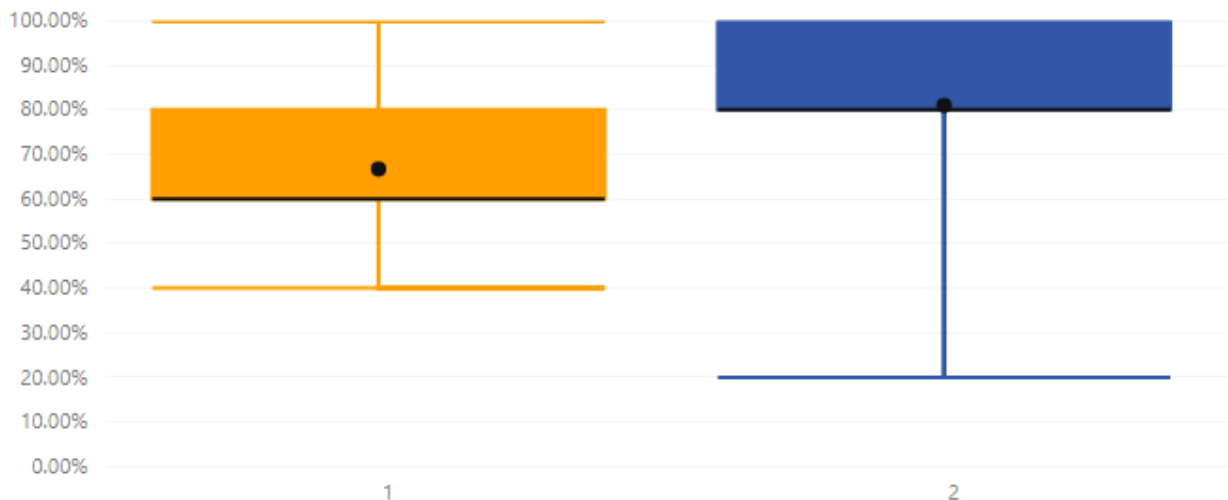
What was examined by NZP3M

- NZP3M assesses portfolio, programme and project capability using seven key areas.
- It is well recognised that it takes time to effect change in these disciplines and so there can be a delay between improving NZP3M maturity and seeing evidence of performance improvement in Project and Benefits Delivery

Results

1. The move to the underlying NZP3M diagnostic tool in Round 2 has meant that agencies will have had to make improvements to maintain the same result.
2. The **median and average NZP3M scores have improved significantly** since Round 1.
 - Some agencies have met their appropriate target level of NZP3M maturity.

Portfolio, Programme and Project Management Maturity Model – Round 1 and Round 2 scores



Portfolio, Programme and Project Management Maturity (NZP3M) *Assessed by independent experts (cont.)*

Results (cont.)

1. The strongest capability areas are:

- *Organisational Governance, Management Control, Risk Management, and Finance Management.*

2. The weakest capability areas are:

- *Benefits Management, Stakeholder Management and Resource Management.*

NZP3M Capabilities Analysis



Quality of Long-Term Investment Plan (LTIP)

Assessed by System Leads

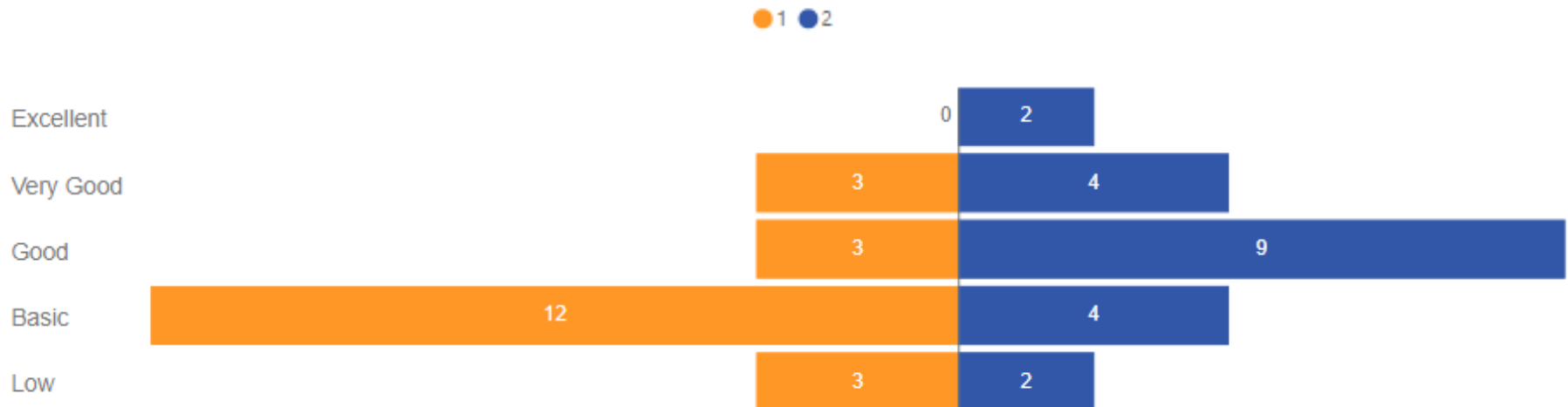
How LTIPs have been assessed

- A LTIP describes an agency's or sector's investment journey subject to their long term vision and goals. The assessment of the quality of an agency's LTIP is based on ten strategic planning criteria.
- All investment-intensive agencies are expected to produce *Excellent* quality LTIPs.

Results

1. There has been an overall increase in LTIP quality in Round 2. Two agency's' LTIPs have been assessed as Excellent, and there is a reduction in the number of agencies that have Basic or Low rated LTIPs.

Long Term Investment Planning Rating by No. of Agencies



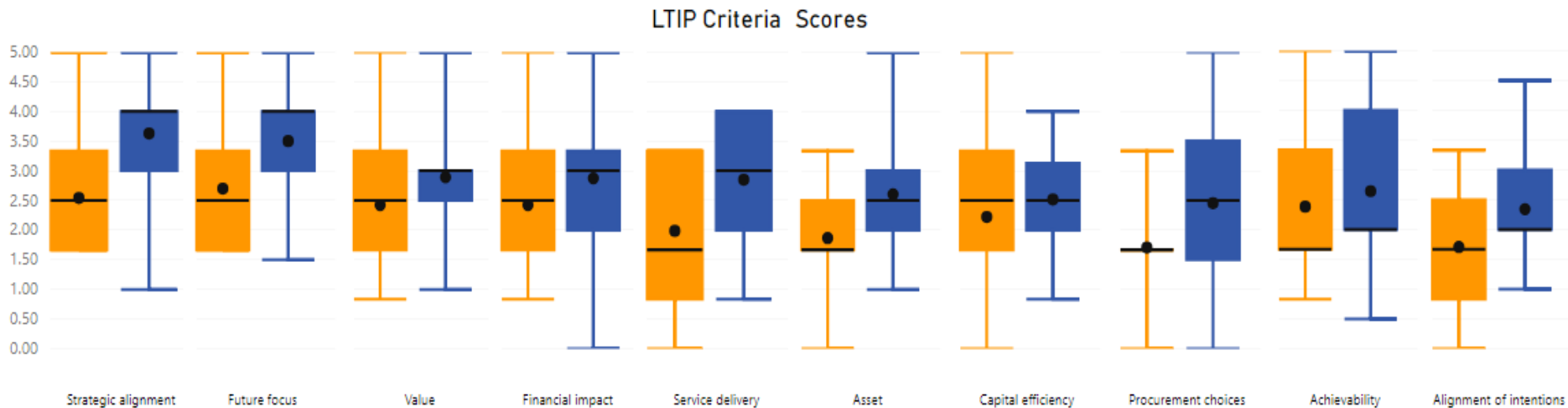
Quality of Long-Term Investment Plan (LTIP)

Assessed by System Leads (cont.)

Results (Continued).

Across the ten LTIP criteria:

- 1. The areas with the most improvement are:**
 - *Future focus, Strategic alignment and Service delivery.*
- 2. The areas that require more work to improve are:**
 - *Achievability and Alignment of intentions*



Quality of Long-Term Investment Plan (LTIP)

Further analysis

LTIPs and Asset Management plans

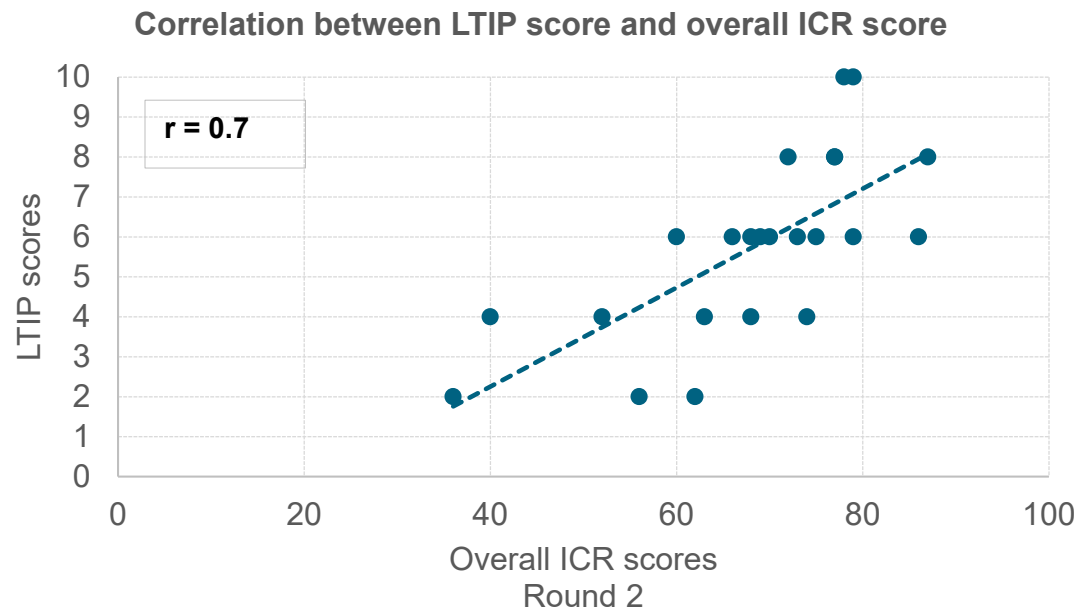
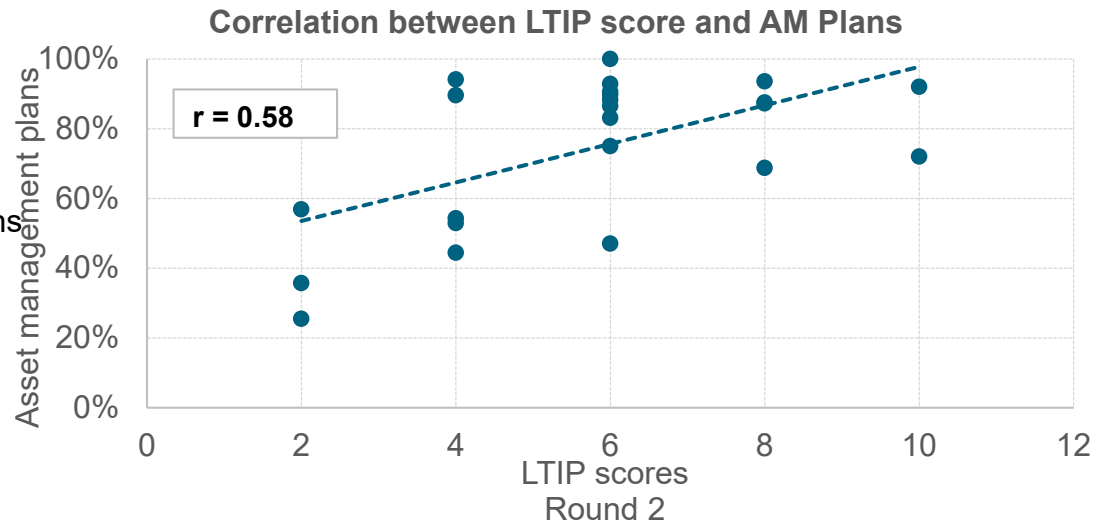
- There is a moderate positive correlation ($r = 0.58$) between the quality of Long-Term Investment Plans and Asset Management Plans (assessed via the AMM assessment).
- This correlation supports the assumption that there is a relationship between asset management planning and the ability of an agency to produce a quality Long-Term Investment Plan.

LTIPs and Overall ICR scores

- There is a strong positive correlation ($r = 0.7$) between the LTIP scores and the overall ICR scores. This suggests that better long term planning improves the performance of other elements and the ICR results overall.

Conclusion

- High scores in AM Plans ($r = 0.7$) and LTIPs ($r = 0.7$) have strong positive correlations with overall ICR score. This indicates that clear strategic thinking and planning can uplift scores across all elements.



Procurement Capability Index (PCI)

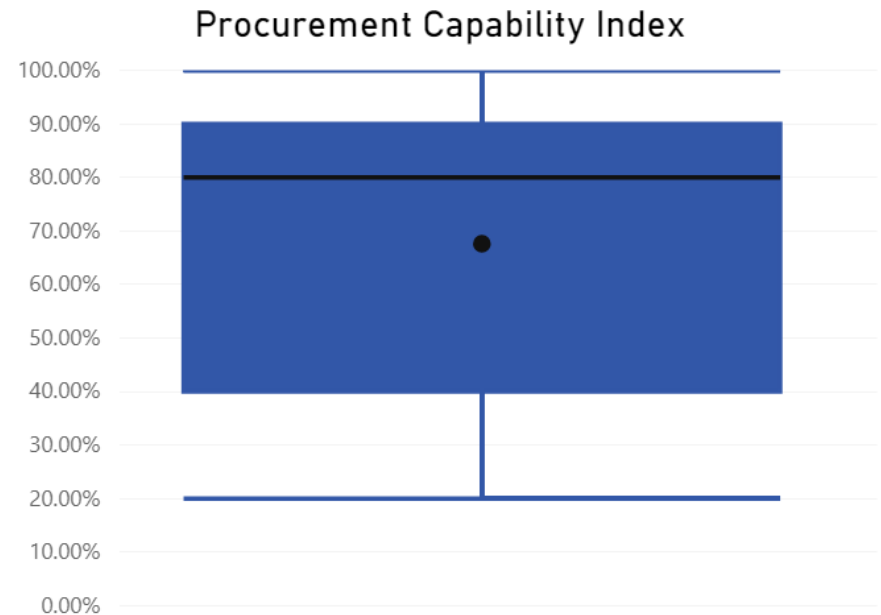
Assessed by independent experts commissioned by MBIE NZGP

How the PCI is assessed

- Agency's procurement maturity is evidenced by analysing the gap between the current and appropriate target across eight procurement capability areas. A small gap demonstrates high capability or maturity against the agency's appropriate procurement targets.

Results

1. The large box, along with the lowest result of 20 percent and highest result of 100 percent, shows PCI results have the widest variability of all the nine ICR elements.
2. There is an opportunity for agencies with a larger maturity gap to leverage maturity from those at their appropriate level of maturity.



Round 2

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Lag indicators

- The four lag indicators take account of information provided by the agency on:
 - ✓ the performance of significant investments against investment objectives - with a particular focus on **project delivery (time/cost and scope)** and **benefits** realised.
 - ✓ the agency's **asset performance** over time against approved targets, and
 - ✓ the extent to which an agency is contributing to the **investment management system objectives and expectations**.

Project Delivery and Benefits Delivery

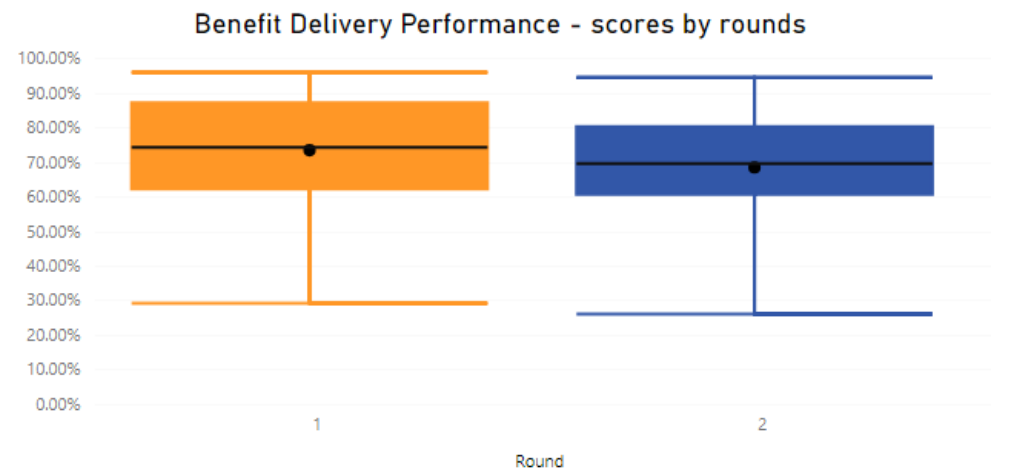
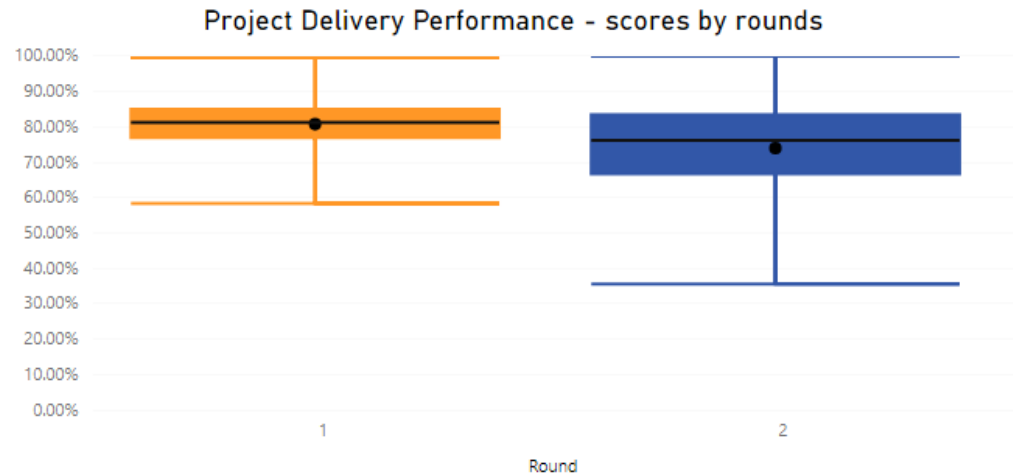
Assessed by the Treasury

How indicators have been assessed:

- Agencies are responsible for providing the evidence base of performance against targets for the Benefits and Project Delivery elements.
- The targets are those agreed with investors on individual projects or programmes.
- Targets may be agreed by agency leadership teams, Boards or Ministers.
- The Treasury may adjust the score if the verification process reveals evidence and data issues.

Results

1. In Round 2, there has been a slight reduction in the average scores of these two lag indicators.
2. However, lower scores do not necessarily mean that the agency performance has fallen: There has been a more robust adjustment process in Round 2 compared to Round 1.
3. Once underlying evidence and data issues are addressed, revealed performance should improve.



Asset Performance

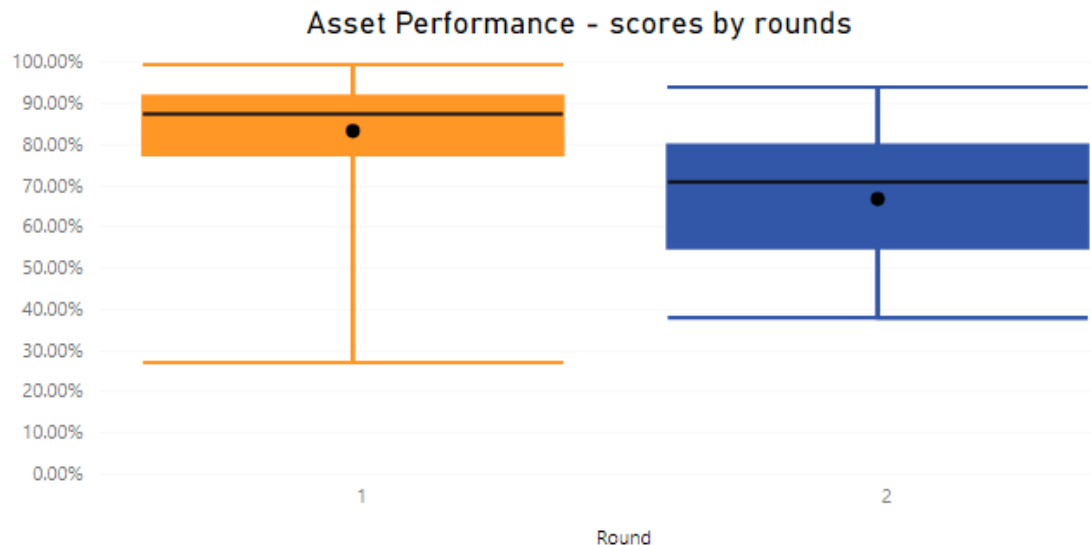
Assessed by the Treasury

How Asset Performance has been assessed

- Treasury assesses how well the agency is meeting its agreed levels of asset service in terms of utilisation, condition, and functionality (fitness for purpose) indicators.
- The Treasury reviews both the coverage of measures across critical asset portfolios, along with the quality of the supporting asset data.

Results

1. There has been a significant reduction in asset performance scores between Round 1 and 2. This may be due to the more robust assessment in Round 2.
2. Once underlying evidence and data issues are addressed, revealed performance should improve.



System performance

Assessed by system leads

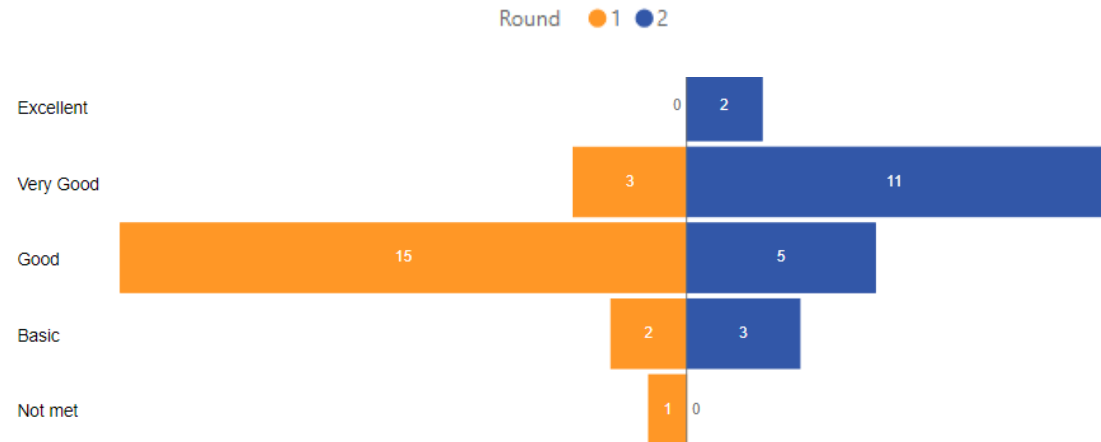
How System performance is reviewed

- The assessment considers supporting evidence to evaluate the extent to which the agency met (i.e. complied) or breached the government's investment system expectations and objectives.
- For this element, the target level of performance is *Excellent* which means there is evidence of full compliance with system norms and support for system objectives.

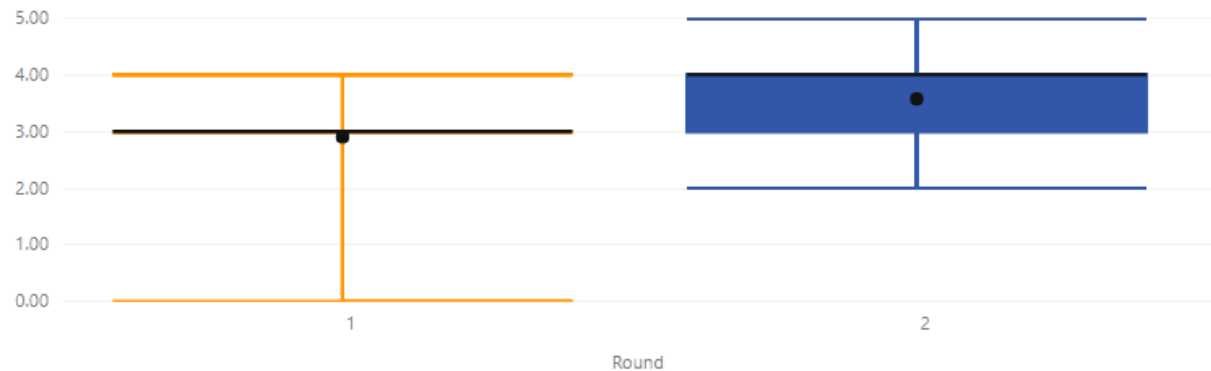
Results

1. Round 2 showed improvements in *System performance* across agencies with two agencies having been assessed as *Excellent*, and many other agencies having moved up from *Good* to *Very Good*.
2. Overall, the average score has increased.
3. The lowest score has also lifted 2 points.

System Performance Rating by No. of Agencies



System Performance Scores



ICR review

ICR Review

- ✓ A review of the ICR is underway to ensure that the ICRs objectives are met, being to:
 - improve its impact
 - improve the methodology
 - improve its operational efficiency (both for agencies and the Treasury)

Once the review is complete, the Treasury's ICR website will be updated.

“Waitematā DHB has been confirmed as a finalist in the national Project Management Institute PMO of the Year award.

The ICR has been a massive factor in us (and the wider sector) moving forward, so I hope the ICR continues post the current review.”

For more information on the ICR please refer to:

- <https://treasury.govt.nz/information-and-services/state-sector-leadership/investment-management/review-investment-reviews/investor-confidence-rating-icr>