

The Treasury

Investor Confidence Rating Round 2 Tranche 3 results Information Release

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Chair
Cabinet Government Administration and Expenditure Review Committee

Investor Confidence Rating: Round 2, Tranche 3 results

Proposal

1. This paper invites Cabinet to approve the results of the latest tranche of Investor Confidence Ratings (ICR). This tranche assessed six investment-intensive District Health Boards (DHBs): Auckland District Health Board (ADHB), Counties-Manukau District Health Board (CMDHB), Capital and Coast District Health Board (CCDHB), Canterbury District Health Board (CDHB), Waitematā District Health Board (WDHB), and Waikato District Health Board (WKDHB)¹.

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 includes nine elements of investment and asset capability and performance – see Annex 3 for more details, including the scope of the ICR.
4. The ICR is proving an effective tool for encouraging and incentivising improvements in the capability and performance of investment-intensive DHBs. The ICR incentive effects are delivering the following benefits:
 - 4.1 these six DHBs are starting to take a longer term, more strategic view of investments and assets that will deliver improved intergenerational wellbeing outcomes for New Zealanders.
 - 4.2 leadership teams and their organisations have changed their behaviours and are now focused on delivering the improvements suggested as part of the ICR process, often with additional resources and expert support.

¹ Northland DHB was deferred from the Round 2 ICR assessments due to the deferral of funding for the redevelopment of Whangarei Hospital (which made them investment-intensive)

5. The ICR highlights each DHBs strengths and gaps in core aspects of its investment and asset management. It provides incentives to address these through the Cabinet expectation that they achieve a minimum B rating over time.
6. These measurable improvements increase the likelihood that DHBs will deliver the results expected by government and taxpayers now and for the future.
7. The Treasury has recently completed Round 2 ICR assessments on six DHBs, with the previous assessments having been completed between 2016 and 2017. Of these DHBs, five retained the ratings obtained in Round 1 and one has decreased from an A to a B rating.
8. I invite Cabinet to approve these ratings which, given the more robust assessment in Round 2 of the ICR, better reflect the DHBs investment maturity/performance and improvements made. Approving the ratings will ensure that DHBs continue building capability to improve performance and to contribute to a more effective investment management system.
9. Investment system arrangements remain unchanged for DHBs, pending the outcome of the Health and Disability review in 2020. Depending on the outcome of that Review, the Ministry of Health (MoH), in consultation with the Treasury, will consider developing new capital settings to support the incentive effects of the ICR, while also taking account of relevant measures of DHB performance and the need for appropriate oversight of sector investments. My expectation is that this work should be completed next year.
10. We will undertake an independent review of the ICR in FY19/20 to assess its value and to inform the future programme of assessments.

Round Two, Tranche Three Results

Results

11. I want to acknowledge the considerable effort made by the DHBs to meet the ICR requirements in tight timeframes, alongside other work priorities. I understand each DHB has enhanced its knowledge and understanding of its business through this work. I invite the Minister of Health to convey my thanks to these DHBs.

12. The results indicate that the incentive effects of the ICR are working. As detailed in Figure 1, five DHBs retained their ratings; of these, three increased their raw score. These improvements are the result of improvement activities undertaken by the DHBs 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
ADHB	B	71	B	73	↑ 2 points
CCDHB	C	51	C	62	↑ 11 points
CDHB	B	69	B	75	↑ 6 points
CMDHB	A	82	B	66	↓ 16 points
WKDHB	C	57	C	52	↓ 5 points
WDHB	B	72	B	70	↓ 2 points

13. Retaining the same result, or having an improved ICR result, is a positive outcome, given the improvements to the assessment process between rounds making it more rigorous². In addition, a decrease in score or rating for this round does not necessarily indicate a deterioration in maturity and performance, or lack of improvement, and may be partly due to the more robust assessment.
14. All DHBs have activities underway to improve their investment maturity and performance, as outlined in the DHB scorecards in Annex 1 and agency comments in Annex 2.

ADHB

15. ADHB has improved two points, maintaining the B rating from 2016. It has positively maintained or improved their Asset Management, Portfolio/Programme/Project and Change maturity, as well as its Project Delivery performance. It is the first DHB to obtain an excellent System Performance result, improved from the Good achieved in 2016. ADHB meets all health investment system expectations and provides valuable support to other DHBs.

² These include: element weighting changes, more robust maturity assessments (e.g. Portfolio, Programme and Project maturity (NZ3PM) moving from a self-assessment to diagnostic tool), more robust assessment and verification of the three performance elements.

16. ADHB's Benefits Delivery and Asset Performance results have decreased slightly, predominantly due to the more rigorous assessment processes and adjustments.
17. The four Northern Region DHBs are to be praised for the creation of the Northern Region Long Term Investment Plan (NRLTIP), which was developed to articulate the strategic direction for the Northern Region. The NRLTIP was assessed as Good under the ICR LTIP criteria³, and sets a solid foundation to build upon.
18. All six DHBs received similar improvement feedback from their Procurement Capability Index assessments. This encourages the DHBs to continue building procurement capability and engagement with the market, to strengthen procurement planning and sourcing activity. There is also a need for better clarity of roles and accountabilities across procurement activity in the health sector.

CCDHB

19. CCDHB has made the most improvement of all six DHBs in this tranche, improving 11 points. However, it still maintains the C rating from 2016. It has made good improvements in Asset Management, Portfolio/Programme/Project and Change maturity, Project and Benefits Delivery performance, as well as with System Performance. The improvements in the maturity assessments should help CCDHB achieve Cabinet's expected level of a B rating for investment-intensive agencies in Round 3.
20. There was a small decrease in Asset Performance, which includes a more robust verification process and adjustment from the previous assessment. Most of the asset performance issues identified can be addressed easily.
21. The CCDHB LTIP, while rated Low compared to the Basic in 2016, had strengths in the current state assessment of service and health needs, and in clearly articulating the key strategic drivers for investment. However, there is further work required to explain the range of future investment options for addressing current and future needs. The LTIP also did not include a full set of proforma accounts. CCDHB is to be commended for joining up with Hutt Valley DHB to develop a joint LTIP and for its initiative to progress stronger central region strategic planning.

CDHB

22. Despite the more robust assessment and verification process from the previous assessment, CDHB has improved six points, maintaining the B rating from 2016, and achieving the highest overall DHB rating. It has made good improvements in Asset Management, Portfolio/Programme/Project, Change maturity, and LTIP, as well as System Performance. The improvements in the maturity assessments should support improved delivery performance in future assessments.
23. High levels of maturity in areas like Asset management and Procurement provide a good foundation for CDHB to support other DHBs to lift their capabilities.

3 The LTIP assessment criteria are: Excellent, Very Good, Good, Basic and Low

24. Project Delivery has reduced due to some projects not delivering to time, while delivering to cost and scope. Benefits Delivery performance was maintained and Asset Performance reduced slightly due to the more rigorous assessment.

CMDHB

25. CMDHB has decreased 16 points, and moved from an A to a B rating. The 2019 assessment included a number of elements where the assessment process was more rigorous and elements have been assessed more accurately.
26. CMDHB has maintained results in Portfolio/Programme/Project, Change maturity, and Asset Performance.
27. In particular, the assessment showed improvements in both Project and Programme maturity, however, there was a reduction in Portfolio maturity. The Treasury was pleased to hear CMDHB has already made portfolio management improvements since the assessment maturity.
28. Asset Management maturity has slightly declined since the Round 1 assessment. CMDHB has undergone significant change over the last few years across the organisations leadership. The new leadership team has committed to improvements in its Asset Management maturity since the assessment.
29. Benefits Delivery and Project Delivery have both decreased in performance. Project Delivery mainly reduced due to some investments not delivering to time. Benefits Delivery had a downward verification adjustment applied in this assessment, which was not applied in 2016. This was predominantly due to issues with the measurement of non-financial benefits. However, this should improve with the Northern Regional Alliance-supported work across the four northern region DHBs to develop a standard benefits framework for health investments (which can also be shared across the DHB network).

WKDHB

30. WKDHB has reduced five points, maintaining the C rating from 2016. The decrease is predominantly due to reductions in lag indicator performance and partly due to the ICR having a more robust assessment. The evidence shows Waikato DHB has further work to do to achieve Cabinet's expected level of a B rating for investment-intensive agencies.
31. WKDHB has made good improvements in Asset Management and Portfolio/Programme/Project maturity. The improvements in these maturity assessments should help WKDHB achieve Cabinet's expected level of a B rating for investment-intensive agencies.
32. Project Delivery has reduced due to some projects not delivering to time and cost, while delivering to scope. Benefits Delivery performance should improve with consistent use of the Waikato Way project management tools and better quality benefit measures and reporting. The Asset Performance result reduced due to a more robust verification adjustment, due to some coverage and quality issues with asset performance indicators.

33. Due to the new Commissioner only recently joining WKDHB, the 2016 LTIP result has been carried over. WKDHB is committed to developing a meaningful strategy and LTIP in future.

WDHB

34. WDHB has reduced two points, maintaining the B rating from 2016. It has made good improvements in Asset Management, Portfolio/Programme/Project maturity, and long term planning (with the NRLTIP). The improvements in the maturity assessments should support improved delivery performance in future assessments.
35. Strengths in Asset Management and Portfolio/Programme/Project maturity (which recently took second place in the NZ Project Management Institute's Portfolio Management Office of the Year awards) provide the opportunity for WDHB to support other DHBs to lift these capabilities.
36. Similar to other DHBs, WDHB projects mostly missed delivering to time, with some projects not delivered to cost. Benefits Delivery performance had a downward verification adjustment applied in this assessment, which was not applied in 2016. This was predominantly due to some issues with the quality of benefit measures and reporting against these.
37. A detailed breakdown of each DHBs rating, individual element scores, and improvement areas is provided at Annex 1 of this paper.

Implications

38. Investment system arrangements remain unchanged for DHBs, pending the outcome of the Health and Disability review in 2020. Depending on the outcome of that Review, the Ministry of Health (MoH), in consultation with the Treasury, will consider developing new capital settings to support the incentive effects of the ICR, while also taking account of relevant measures of DHB performance and the need for appropriate oversight of sector investments. My expectation is that this work should be completed next year.
39. All six DHBs in this tranche, and especially those below the expected B rating, have requested greater MoH support for their investment system improvements. This could leverage a similar approach to the asset management work with the health National Asset Management Plan and Health Asset Management Improvement group. A few non-investment intensive DHBs have also asked for greater support from MoH and other DHBs. I strongly encourage MoH to help leverage the good practice found in the investment-intensive DHBs across the health network.
40. DHBs' comments on their ICR assessments are provided at Annex 2.

Next steps in lifting agency capability and performance

Improving capability through the ICR

41. Assessments for the next set of agencies (Department of Internal Affairs; Department of Conservation; Ministry of Business, Innovation, and Employment; Ministry of Foreign Affairs and Trade, Ministry of Health, New Zealand Customs) have begun. I will report the results of these assessments in 2020.
42. 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.

Consultation

43. In the preparation of this paper, the Treasury has consulted with all six DHBs, central agencies, MoH, and functional leads.

Financial Implications

44. There are no fiscal or financial management implications.

Legislative Implications

45. There are no legislative implications.

Regulatory Impact Analysis

46. Regulatory impact analysis requirements do not apply.

Human Rights, Gender Implications, Disability Perspective

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

Publicity

48. In accordance with Cabinet office circular CO(18)4, the ICR results and this Cabinet paper will be released by the Treasury in February 2020.

Recommendations

49. 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 of the Investor Confidence Rating (ICR) results for six agencies: Auckland District Health Board (ADHB), Capital and Coast District Health Board (CCDHB), Canterbury District Health Board (CDHB), Counties-Manukau District Health Board (CMDHB), Waikato District Health Board (WKDHB) and Waitematā District Health Board (WDHB).

2 **agree** the following ICR ratings:

Agency	ICR result
ADHB	B
CCDHB	C
CDHB	B
CMDHB	B
WKDHB	C
WDHB	B

3 **agree** that all investment-intensive DHBs must achieve at least a B ICR rating over time.

Effective date for ICR ratings and implications

4 **agree** that the ICR ratings and implications for the six DHBs in this paper will apply from 18 December 2019.

Other improvement actions

5 **note** that the six DHBs in this paper have agreed to take specific actions to improve key aspects of their investment performance.

6 **invite** the Minister of Health to discuss the ICR results and the DHBs plans to lift their investment performance over time.

Next steps with the ICR programme and related work

7 **note** that ICR activity is underway for the next set of agencies and the results will be reported to Cabinet from April 2020.

8 **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 2, Tranche 3 ICR results

Auckland District Health Board

Investor Confidence Rating:	B
Scope of ICR assessment	Property, Clinical Equipment 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)	12/15
	3 Quality of Long Term Investment Plan (LTIP)	6/10
	4 Procurement Capability Index (PCI)	3/5
	5 Organisational Change Management Maturity	8/10
Lag Indicators	6 Benefits Delivery performance	12/20
	7 Project Delivery performance	8/10
	8 Asset performance	6/10
	9 System performance	5/5
Total Score		73/100

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

Treasury Comment

ADHB has made good progress in investment and asset management as evidenced by the improvement from its initial assessment in 2016 (a score of 71). Given the more robust ICR assessment in Round 2, this result shows good improvement. The focus should now be on ensuring and embedding internal capability to sustain the improvements.

Since the 2016 assessment, ADHB has committed to improving Asset Management Maturity. This is evidenced by the increased score, especially considering that the assessment process has increased in difficulty by 2 to 3 points.

ADHB is taking a more mature approach to Benefits Delivery. This should serve it well in optimising benefits from its investments and to achieve a higher ICR benefits result.

There has been a good level of P3M3 improvement since the last ICR assessment in 2016. However, there is room for improvement across both resource allocation and stakeholder management.

The Asset Performance element for this round includes a more robust verification. This has impacted on ADHB's score, as verification revealed some underlying issues and resulted in a downwards adjustment to the self-assessed score

ADHB has made significant improvements to its System Performance since 2016, both in how it operates in the health investment system and in how it supports other DHBs. An area of opportunity is to increase engagement with iwi stakeholders, along with Māori and Pasifika communities.

The four Northern Region DHBs are to be praised for the creation of the Northern Region LTIP, which was developed to articulate the strategic direction for the Northern Region. The LTIP also identifies the investments necessary to ensure the ongoing delivery of high quality healthcare.

Potential Implications

None at present. Implications are subject to further work on the health investment system led by the Ministry of Health, supported by the Treasury.

Capital & Coast District Health Board

Investor Confidence Rating:	C
Scope of ICR assessment	Property, Clinical Equipment and ICT portfolios

Elements Score

	Element	Element Score
Lead Indicators	1 Asset Management Maturity (AMM)	11/15
	2 Project, Programme and Portfolio Management Maturity (P3M3)	9/15
	3 Quality of Long Term Investment Plan (LTIP) *	2/10
	4 Procurement Capability Index (PCI)	4/5
	5 Organisational Change Management Maturity	8/10
Lag Indicators	6 Benefits Delivery performance	12/20
	7 Project Delivery performance	10/10
	8 Asset performance	2/10
	9 System performance	4/5
Total Score		62/100

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

* Element result still being assessed

Treasury Comment

CCDHB has made good progress in terms of investment and asset management, as evidenced by the improvement from its initial assessment in 2017 (a score of 51). Given the more robust ICR assessment in Round 2, this improved result shows a good level of uplift. The evidence shows CCDHB has further work to achieve Cabinet's expected level of a B rating for investment-intensive agencies.

There has been incremental, positive improvement in P3M3, Asset Management Maturity, and Organisational Change Management Maturity. For P3M3, CCDHB has invested in foundational portfolio and project capabilities such as business cases and benefits. This should help provide more consistent delivery across the organisation.

A particular improvement for Asset Management Maturity was the Asset Register Data. CCDHB has also implemented many of the 2017 recommended improvement items. However, many of those associated documents or artefacts are still in draft.

CCDHB's LTIP reduced to be rated Low, partly due to it being incomplete. It sets out well the current state assessment of service and health needs and clearly articulates the key strategic drivers for investment. Additionally, it is positive to see collaboration through joint planning with Hutt Valley DHB. CCDHB is encouraged to continue developing its LTIP.

A good level of improvement has been made in Benefits and Project Delivery performance. Project Delivery achieved an excellent result with 90.3% of projects meeting time, cost, and scope. For Benefits Delivery, there is a gap between the benefit measures outlined in the business case and what was reported in the Project Closure report. However, CCDHB is praised for its work to address this gap.

The Asset Performance element for this round includes a more robust verification process. This has impacted on CCDHB's score as the verification revealed underlying issues and resulted in an downwards adjustment to the self-assessed score.

CCDHB has improved its System performance since 2017 both in how it operates in the health investment system and in supporting other DHBs e.g. Hutt Valley.

Potential Implications

None at present. Implications are subject to further work on the health investment system led by the Ministry of Health, supported by the Treasury.

Canterbury District Health Board

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

Elements Score

	Element	Element Score
Lead Indicators	1 Asset Management Maturity (AMM)	14/15
	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)	5/5
	5 Organisational Change Management Maturity	8/10
Lag Indicators	6 Benefits Delivery performance	12/20
	7 Project Delivery performance	8/10
	8 Asset performance	8/10
	9 System performance	2/5
Total Score		75/100

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

Treasury Comment

CDHB has made good progress in its investment and asset management as evidenced by the improvement from its initial assessment in 2016 (a score of 69). Given the more robust ICR assessment in Round 2, this improved result shows a good level of uplift. The focus should now be on embedding internal capability to sustain the improvements.

There is a high level of Asset Management Maturity at CDHB. Key areas of strength are in Policy, Strategy, and Forecasting Demand. The increase in score since 2016 has been achieved by embedding many of the 2016 improvement recommendations. Implementation of an AM Steering Group is encouraged to help support continued improvement.

For P3M3, the management of the recently initiated Rapid Maturity Transformation project is of high quality and has lifted maturity. Once embedded, this should see CDHB meet its P3M3 target.

CDHB's LTIP is a good document with key strengths in the current state assessment and identifying drivers for investment. It demonstrates that CDHB has improved its long term planning since 2016.

Procurement is strategically positioned within CDHB, with policies in place and procurement advice sought for all areas of spend. CDHB plans to further strengthen strategic supplier relationships and develop contract management plans for key accounts.

Project Delivery performance has reduced slightly due to some projects not being delivered on time.

One key improvement noted across multiple elements is the opportunity to engage with other DHBs, central agencies, and MoH to improve consistency and share knowledge. One suggestion was to work with other DHBs to create standardised Asset Performance measures.

CDHB has improved System Performance and is encouraged to continue this improvement with all stakeholders (e.g. MoH and the Treasury) to ensure information is disseminated to all to improve understanding and communications.

Potential Implications

None at present. Implications are subject to further work on the health investment system led by the Ministry of Health, supported by the Treasury.

Counties-Manukau District Health Board

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

Elements Score

	Element	Element Score
Lead Indicators	1 Asset Management Maturity (AMM)	12/15
	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)	1/5
	5 Organisational Change Management Maturity	8/10
Lag Indicators	6 Benefits Delivery performance	12/20
	7 Project Delivery performance	6/10
	8 Asset performance	6/10
	9 System performance	3/5
Total Score		66/100

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

Treasury Comment

CMDHB's result has decreased since the first assessment in 2016 (a score of 82, which attracted an A rating). The decrease is partly due to the ICR having a more robust assessment in Round 2 and because there are a number of elements where performance or capability have been assessed more accurately. CMDHB has also had turnover in critical leadership roles.

CMDHB has strong Asset Management Maturity. However, that maturity has declined since the last assessment in 2016. Leadership turnover is one of several reasons for the limited improvements and, in some cases, a decline in maturity.

CMDHB has positively maintained results in P3M3, Organisational Change Management, and Asset Performance. P3M3 showed improvements in both project and programme maturity. However, there was a reduction in portfolio maturity which requires attention.

The PCI rating reflects a need to incorporate procurement and the use of markets and suppliers into strategic and business planning across all areas. With change in personnel and the complexity of health sector, it's also important to maintain clear roles and accountabilities between internal procurement functions and regionally and nationally outsourced capabilities.

Benefits Delivery and Project Delivery have both decreased in performance, with Project Delivery mainly dropping due to not delivering to time. Benefits Delivery performance should improve if the recommendation to implement better measurement of non-financial measures is actioned.

CMDHB's reduced System performance score reflects a short-term reduction in some system engagement/compliance.

The four Northern Region DHBs are to be praised for the creation of the Northern Region LTIP, which was developed to articulate the strategic direction for the Northern Region. The LTIP also identifies the investments necessary to ensure the ongoing delivery of high quality healthcare.

Potential Implications

None at present. Implications are subject to further work on the health investment system led by the Ministry of Health, supported by the Treasury.

Waikato District Health Board

Investor Confidence Rating:	C
Scope of ICR assessment	Property, Clinical Equipment and ICT portfolios

Elements Score

	Element	Element Score
Lead Indicators	1 Asset Management Maturity (AMM)	12/15
	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)	4/5
	5 Organisational Change Management Maturity	6/10
Lag Indicators	6 Benefits Delivery performance	8/20
	7 Project Delivery performance	2/10
	8 Asset performance	4/10
	9 System performance *	3/5
Total Score		52/100

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

* Element result still being finalised

Treasury Comment

WKDHB's result has decreased since the first assessment in 2016 (a score of 57). The decrease is due to reductions in lag indicator performance and partly due to the ICR having a more robust assessment in Round 2, so that a number of elements have been assessed more accurately. The evidence shows Waikato DHB has further work to do to achieve Cabinet's expected level of a B rating for investment-intensive agencies.

WKDHB's Asset Management Maturity has positively increased since the last round in 2016. However, there are a number of improvements required to lift maturity further. This is particularly important given the financial pressures DHBs are working within.

P3M3 maturity has increased but there is still room for improvement, especially in awareness, use, and standardisation of the Waikato Way project management tools. WKDHB has new resources and an improvement programme focused on improving its project management maturity.

Due to recent leadership changes, the 2016 LTIP result has been carried over. However, WKDHB is committed to developing a meaningful strategy and LTIP in future.

Benefits Delivery and Project Delivery performance have both decreased, with Project Delivery mainly dropping due to not delivering to time and cost. Benefits Delivery performance should improve with consistent use of the Waikato Way and better quality benefit measures and reporting.

The Asset performance element for this round includes a more robust verification from the previous assessment. This has impacted on WKDHB score as verification revealed underlying issues and resulted in an adjustment downwards of the self-assessed score.

The main areas of improvement focus are in developing an LTIP, improving P3M3 maturity, benefits/project delivery performance, and asset performance.

Potential Implications

None at present. Implications are subject to further work on the health investment system led by the Ministry of Health, supported by the Treasury.

Waitematā District Health Board

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

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)	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	2/5
Total Score		70/100

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

Treasury Comment

WDHB’s result has decreased slightly since the initial assessment in 2016 (a score of 72). The decrease is primarily due to the ICR having a more robust assessment process in Round 2. However, this has been offset by very positive uplifts in both Asset Management and P3M3 maturity as described below.

There is a high level of Asset Management Maturity with some areas praised as examples of good practice for the sector. Asset Performance is an area of strength for WDHB with strong processes and comprehensive information provided across the Property and Clinical Equipment portfolios.

P3M3 maturity has significantly improved since 2016, demonstrating the benefit of having a successful, dedicated improvement project. WDHB is encouraged to continue consolidating and embedding these excellent portfolio and project improvements.

Benefits Delivery and Project Delivery have both decreased in performance. The drop in Project Delivery is mainly due to not delivering to time and cost. Benefits Delivery performance has been assessed more accurately this round, which has impacted the score. However, following the recommendation to implement better quality measures and reporting this score should see an increase in Round 3.

The business cases received from Metropolitan Auckland DHBs demonstrated improvement in system collaboration. We encourage WDHB to continue the system collaboration alongside proactive engagement on Crown funding, as well as health sector and government operational policy systems. However there has been proactive leadership from WDHB across the health sector supporting asset management uplift.

The four Northern Region DHBs are to be praised for the creation of the Northern Region LTIP, which was developed to articulate the strategic direction for the Northern Region. The LTIP also identifies the investments necessary to ensure the ongoing delivery of high quality healthcare.

Potential Implications

None at present. Implications are subject to further work on the health investment system led by the Ministry of Health, supported by the Treasury.

Annex 2: DHB and Northern Region Capital Investment Group comments

ADHB	<p>The introduction of the ICR was embraced by ADHB as an opportunity to improve capability and maturity across investment management elements. Initiatives are developed and implemented as part of a continuous improvement programme across all ICR elements.</p> <p>The DHB has already seen significant improvement in the quality of information and evidence for investment decision making, assurance and governance processes for programmes and projects. A stronger focus on identifying and delivering investment benefits will ensure alignment of investments to DHB goals, regional and national strategies. This will enable the best use of limited resources to deliver better health outcomes more cost effectively. ADHB will continue to work with northern region DHBs and nationally to facilitate sustained improvement in investment management capability for the sector.</p> <p>ADHB welcomes further opportunities to engage with central agencies to improve the ICR regime and maturity in the health sector through sharing of improvements and development of standards.</p>
CCDHB	<p>Capital and Coast DHB agrees with the ICR assessment. The assessment process has been very useful for targeting areas for improvement. A three-year review period has allowed improvements to be embedded and recognition of the areas where we have applied particular focus. We would expect that a B rating is very achievable in the next review.</p>
CDHB	<p>Since the 2016 ICR assessment process, improvements to uplift the maturity of various elements have been progressively implemented, as part of the readiness for the 2019 ICR assessment.</p> <p>In line with the outcome of the 2019 ICR assessment, improvement plans for the various elements have been updated and implementation is already underway. In particular for the following ICR elements where we have a lower score than 2016; improvements have already been implemented or are underway:</p> <p><u>Project Delivery Performance</u></p> <ul style="list-style-type: none"> • Business case process change has been implemented to ensure planned project timelines are clearly articulated in the business case • The introduction of Project Duration tolerance and a better defined scope change process have been implemented as part of the Project Management improvements to improve monitoring and approvals for changes in delivery targets • The ongoing embedding of consistent Project Management practice is expected to support improvement in the project delivery performance, and • Investigating tool options to enable simpler and more transparent benefits monitoring for our investments is underway. <p><u>Asset Performance</u></p> <p>An agreed, streamlined and closed-loop process with clear roles and responsibilities has been introduced, with annual planning cycle to ensure:</p> <ul style="list-style-type: none"> • asset performance targets are approved in a timely manner • continuous improvement in the validity and meaningfulness of the asset performance indicators and measures, and • continuous improvement in the accuracy of the asset performance results.

WKDHB	<p>Waikato DHB agrees with the ICR assessment. We are pleased that the Lead Indicators have improved, given our focus applied. We are very committed to making the relevant improvements as we move back towards a sustainable position.</p>
WDHB	<p>WDHB fully supports the ICR process and the significant value it has provided to us. As a result of the process we have invested in developing our organisational capability across our lead indicators (particularly in Portfolio, Programme and Project (P3M) and Asset Management).</p> <p>This has been very successful and we expect to see demonstrated as an increase in our lag indicator scores over the next period (particularly project and benefits delivery).</p>
CMDHB	<p>CMDHB agrees with the findings and recommendations of the various elements.</p> <p>There are several reasons why the CMDHB result has decreased from the 2016 self-assessment;</p> <ul style="list-style-type: none"> • the ICR review has been more robust in its assessment and moderation (2016 was a self-assessment) • the assessment tools used in the various elements have changed with greater reliance on evidence based reviews • the number and weighting of each of the elements has changed, and • there has been a high turnover of staff and critical leadership roles in the DHB during the period under review. <p>Despite the score decreasing since the last assessment, there were a lot of positive aspects noted by the assessment, specifically:</p> <ul style="list-style-type: none"> • Clinical Equipment asset performance portfolio demonstrates best practice, with certain documents recommended as standard for other DHBs to use, and • Project, Programme and Portfolio Management maturity has maintained its rating (despite higher assessment thresholds) which is a considerable achievement, indicating that practices within the DHB have improved substantially to enable the score to remain unchanged <p>CMDHB will develop an improvement plan to focus on process and system improvements to lift our performance and will continue to work closely with regional DHBs to improve regional performance (refer to the additional Northern region DHB response below).</p> <p>We welcome the on-going and positive contribution from the Treasury ICR team.</p>

Northern Region DHBs collective response (ADHB, CMDHB, NDHB and WDHB)

The Northern Region Capital Investment Group (RCIG) is implementing a Regional Capital Investment Programme (RCIP) to improve capital investment planning, delivery and benefits realisation across the four northern DHBs.

The programme supports our Long Term Health Plan by providing the enabling facilities, infrastructure and clinical equipment required to deliver optimal services for our population. We have included insights gained from the Investor Confidence Rating assessment to develop a work programme across the entire investment and asset management lifecycle and we support the continuation of the ICR as an important contributor to improving our investment processes.

The objectives of the RCIP are to:

- Oversee work to develop a prioritised capital investment programme that aligns with regional direction and national priorities
- Support capital business case development (including quality assurance and Regional endorsements)
- Progress the capital planning and investment process improvements, and
- Provide oversight and coordination of delivery of the investment programme at a regional level.

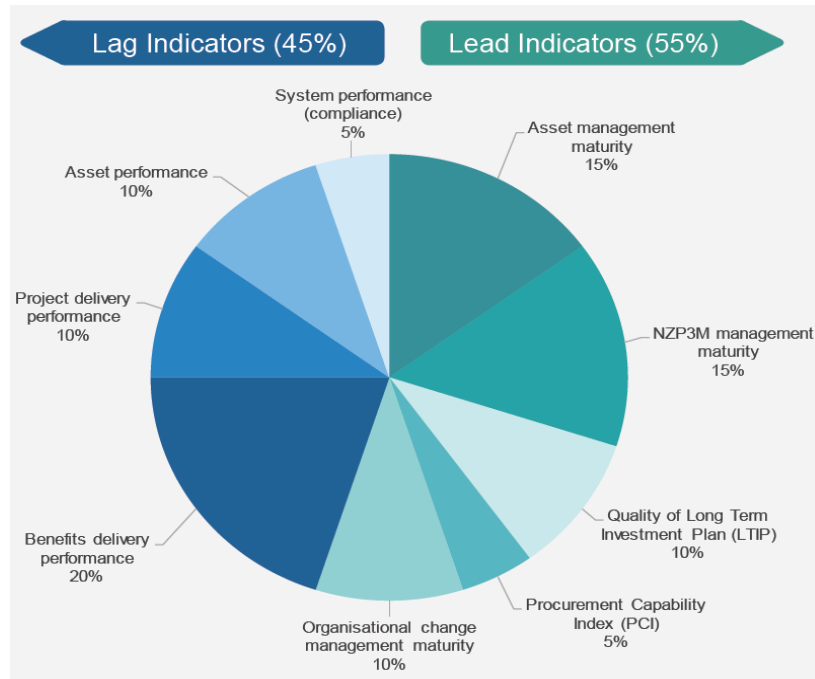
Three working groups, consisting of resources drawn from the DHBs, healthAlliance and the Northern Regional Alliance, have been established under the direction of the RCIG. These groups will deliver a range of initiatives over the next 12 months to support our investment capability and address the areas for improvement identified by the ICR assessment. The names and key areas of focus for our investment working groups are outlined below.

RCIG Working Groups		
Process Improvement and Quality Assurance	Capital Build and Works Delivery	Asset Management Planning
<i>Improve the Region's investment capability</i>	<i>Optimise value and minimise risks over the investment delivery lifecycle</i>	<i>Improve asset knowledge and asset management processes</i>
<p><i>Prioritise and deliver improvements across the capital investment system:</i></p> <ul style="list-style-type: none"> • Business Case workflow, Benefits framework, Information sharing, Monitoring and reporting • Standardise and align where advantageous <p><i>Provide resource to focus on tactical priorities:</i></p> <ul style="list-style-type: none"> • Coordinated funding communications • Regional business case standards • Leverage DHB knowledge for regional benefit 	<ul style="list-style-type: none"> • Maintain summary reports for 'Planned', 'Approved' and 'Delivery' investments • 'Variance from plan' risk analysis • Supply / capacity delivery monitoring • Construction quality assurance • Identify and deliver improvements • Common procurement assumptions • Coordinate engagement with the market • Monitor DHB and external provider capability / capacity • Benefits delivery reporting 	<ul style="list-style-type: none"> • Regional view of Asset Management Plans (AMPs) • Align with National AMP requirements • Consistent planning assumptions • Standardise condition assessment approaches • Align remediation, maintenance and replacement approaches • Levels of Service alignment • Standardise asset registers • Regional policy and strategy

Annex 3: Overview of the ICR and improving capability

The ICR is one of the main tools to improve performance; it 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 (high-low) 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 scope of the ICR is outlined in Figure 2.

Figure 2: 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

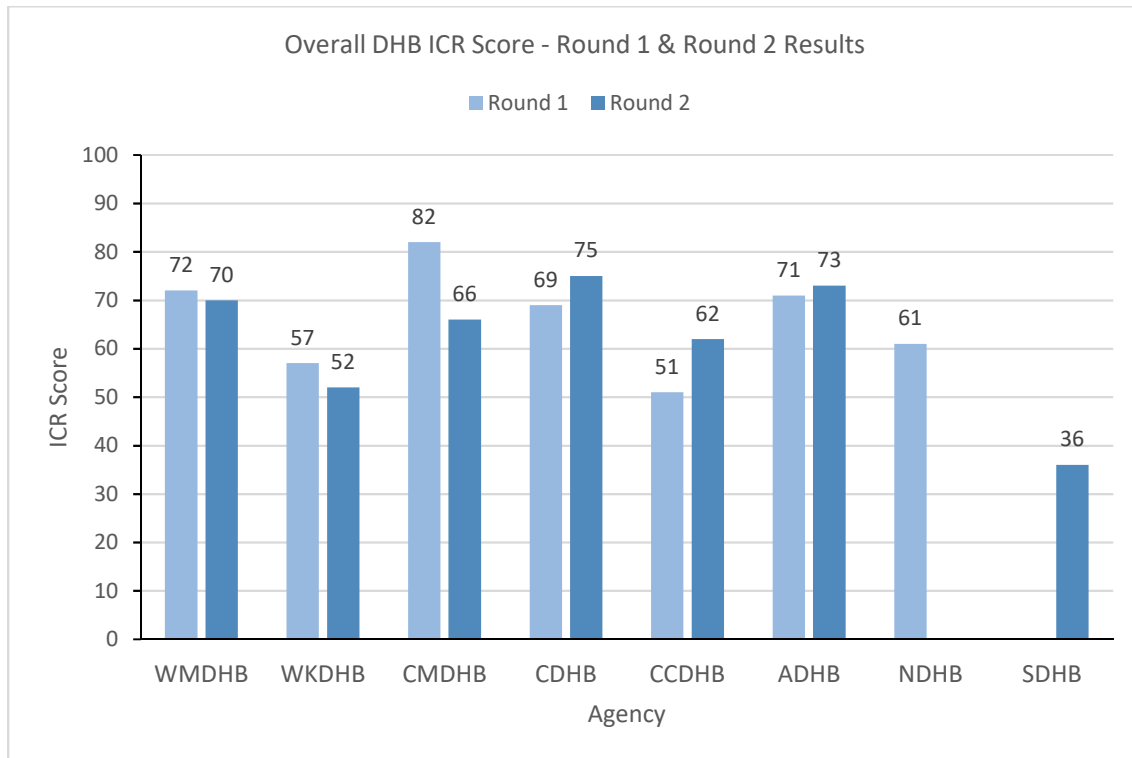
The ICR applies to the 25 most investment-intensive agencies. Due to the size and criticality of their asset and investment portfolios, Cabinet has an expectation for all investment-intensive agencies to achieve a B rating over time.

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. This does not currently apply for DHBs as implementation of incentives is subject to further work on the health investment system led by the Ministry of Health, supported by the Treasury.

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 3 shows the changes to the overall ICR scores between Rounds 1 and 2.

Figure 3: DHB results to date



The real and measurable improvements increase the likelihood that these agencies will deliver the results expected by government and future generations of taxpayers.