



Intended for	All Ministers Speaker of the House All Chief Executives Controller and Auditor-General All Senior Private Secretaries All Private Secretaries
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Investment Management and Asset Performance in the State Services

Introduction

- 1 This circular sets out Cabinet's expectations for the management of investments and both physical and intangible assets by the following types of organisation (agencies):
 - 1.1 all departments (including departmental agencies) as defined by the Public Finance Act 1989 (PFA);
 - 1.2 the following types of Crown entities:
 - 1.2.1 Crown agents;
 - 1.2.2 Autonomous Crown entities;
 - 1.2.3 Independent Crown entities;
 - 1.2.4 Crown entity companies, including Crown Research Institutes;
 - 1.3 companies listed on Schedule 4A of the PFA.
- 2 The circular gives effect to Cabinet's intention that there is active stewardship of government resources, and strong alignment between individual investments and the government's long-term priorities.
- 3 This circular:
 - 3.1 supersedes Cabinet Office Circular CO (10) 2 entitled *Capital Asset Management in Departments and Crown Entities: Expectations*; and
 - 3.2 recognises and references the mandates of functional leaders that apply across the State services.
- 4 This circular is effective from 1 July 2015.

- 5 The focus of this policy is on:
 - 5.1 capital expenditure, asset disposals, lease arrangements, and “as a service” investments; and
 - 5.2 asset performance.
- 6 This circular applies to agencies in different ways depending on their organisational form, the nature of their investments, and the scale and criticality of assets under management. In particular:
 - 6.1 departments (including legislative branch non-public service departments) are to comply with this circular. The Speaker of the House will convey the expectations to the Office of the Clerk of the House and the Parliamentary Service;
 - 6.2 Crown entities and companies will treat the circular as an expression of government policy. Responsible Ministers or shareholding Ministers will convey the expectations in this circular to the respective boards of those agencies.
- 7 Ministers and chief executives should ensure that:
 - 7.1 material in this circular is conveyed to all agencies affected by this circular; and
 - 7.2 all staff handling submissions for Cabinet, Cabinet committees and baseline updates are familiar with this circular and its companion circular CO (15) 4: *Proposals with Financial Implications and Financial Authorities*.
- 8 This circular is in four sections and there are two annexes:

Section/Annex	Purpose
Section A	defines the main terms used in this circular
Section B	outlines the objectives of the government’s investment management system and the characteristics of the investment life cycle
Section C	sets out the roles and expectations of parties involved in the system
Section D	sets out the main operational requirements of the system
Annex 1	sets out general approval thresholds for investments
Annex 2	sets out the information and process details associated with the investor confidence rating

Section A: Interpretation

9 Terms used in this circular have the following meanings:

- 9.1 **Corporate centre** means the central agencies (i.e. the State Services Commission (SSC), The Treasury and the Department of the Prime Minister and Cabinet (DPMC)) and functional leaders working together to provide leadership for the State sector and to monitor, influence, and improve performance.
- 9.2 **Functional leaders** means those individuals or business units appointed by the State Services Commissioner to give effect to functional leadership.¹
- 9.3 **Functional leadership** means leadership of an aspect of business activity, on a cross-agency or cross-system basis, aimed at securing economies or efficiencies, improving services or service delivery, developing expertise and capability across the Public Service, and ensuring business continuity.²
- 9.4 **Investments** means the commitment of capital or balance sheet resources to the delivery of government services with the expectation of receiving future benefits. Resources are typically committed through projects or programmes or portfolios.

This circular covers the following activity, irrespective of funding source³ or appropriation type or the form of government financial support:

- 9.4.1 changes (additions or disposals) to asset portfolios;
- 9.4.2 changes that result from adopting “on demand” service offerings, also known as “XaaS” - a term for services and applications accessed over the internet as opposed to being provided in-house (for example, Infrastructure as a Service); and
- 9.4.3 any new lease arrangements, or renewals of lease arrangements (for example, property rentals).

In this context, investments exclude:

- 9.4.4 financial investment functions performed by Crown Financial Institutions (CFIs)⁴, or Treasury’s Debt Management Office; and
- 9.4.5 non-departmental official development assistance.

¹ The State Services Commissioner has overall responsibility for functional leadership but can delegate this responsibility by appointing functional leaders within the Public Service.

² The current functional leaders are listed at <http://www.ssc.govt.nz/bps-functional-leadership>

³ Funding sources include baseline, private investment, new funding etc. Appropriation types include expenses or capital expenditure, and departmental or non-departmental.

⁴ Includes Guardians of New Zealand Superannuation, Government Superannuation Fund Authority, National Provident Fund, Earthquake Commission and Accident Compensation Corporation.

- 9.5 **Investment-intensive agencies** are tier 1 and tier 2 agencies that manage large or service-critical portfolios, programmes or projects. The list of tier 1 and tier 2 agencies is approved by Investment Ministers.⁵
- 9.6 **Investment Ministers** means a group of Ministers designated to give effect to the objectives of the system as set out in this circular.
- 9.7 **Investment performance** in relation to an investment means the level of actual results against those agreed by the decision maker.
- 9.8 **Investment performance information** means information on the past, current and forecast investment performance of an agency or sector or proposal and the past and current investment management capability of an agency or sector.
- 9.9 **Investment reviews** means an independent, periodic review of an investment.
- 9.10 **Investor confidence rating** means a rating based on evidence that reflects the level of confidence in the agency or sector in which investments may be made.
- 9.11 **Procurement** means all aspects of acquiring and delivering goods, services and works. It starts with identifying the need and finishes with either the end of a service contract or the end of the useful life and disposal of an asset.
- 9.12 **Public Private Partnership (PPP)** refers to a form of procurement based on a long-term contract for the delivery of a service, where the service involves the construction of a new asset or enhancing an existing asset. The project is privately financed on a non-recourse basis and full legal ownership is retained by the Crown.⁶
- 9.13 **Significant** means a high degree of importance of an investment issue, proposal, or decision in terms of its likely impact on, and likely consequences for:
- 9.13.1 the Crown or the agency or sector, customers or clients, or the capacity of State services agencies to perform their functions;
 - 9.13.2 the government's fiscal strategy; and
 - 9.13.3 the government's investment strategy.⁷

In terms of financial or risk thresholds, significant generally means investments that require Cabinet or Ministerial approval as per Annex 1, that is, high risk proposals, or proposals with whole of life costs (WOLC) in excess of \$15 million, however funded.

For a given agency or sector, the thresholds for significance may vary according to decisions made through the application of the investor confidence rating.

⁵ Investment-intensive agencies are listed at: <http://www.treasury.govt.nz/statesector/investment-intensive-agencies>

⁶ For further information see www.treasury.govt.nz/ppp

⁷ <http://www.treasury.govt.nz/statesector/investmentmanagement>

9.14 **Whole of life costs (WOLC)** means the present value of total cash costs of an investment over its life cycle, calculated using the WOLC guidance and the relevant Public Sector Discount Rate.⁸ In this circular, WOLC is used as a metric for assigning decision rights over particular investments. This metric requires the agency to consider the initial economic costs as well as the downstream economic costs of the investment proposal.

9.15 **Value** means the benefits minus costs of a proposal or a portfolio (risk-adjusted) as they relate to the government's investment strategy or direction.

10 In this circular:

10.1 all financial thresholds used in this circular are GST exclusive; and

10.2 references to agencies means the types of organisations referred to in paragraph 1.

Section B: Investment Management System

General

- 11 The investment management system (the system) means the processes, rules, capabilities, information and behaviours that work together to bring discipline to the way investments are managed throughout their life cycles.
- 12 The system is complex with interrelated cycles spanning months or years. The system has to concurrently and effectively convert business unit, agency, sector and all of government needs into outcomes in a way that optimises value to New Zealand, working within financial and other constraints.
- 13 The system operates across the State services and also needs to be reflected in similar processes, capabilities and behaviours in agencies. For the system to be effective there needs to be a strong alignment of investment management interests between the two levels.

Objectives of the system

- 14 Investment choices and decisions need to be informed by disciplined processes across the system and at agency level in order to:
 - 14.1 optimise value generated from new and existing investments;
 - 14.2 increase the efficiency and effectiveness of the investment management system; and
 - 14.3 enable investments to achieve their specific investment objectives.

⁸ For further guidance on Whole of Life Costs and The Public Sector Discount Rate see <http://www.treasury.govt.nz/publications/guidance/costbenefitanalysis>

- 15 To that end, the system must:
 - 15.1 enable Cabinet and agencies to prioritise and coordinate significant investments according to government and State services long term priorities;
 - 15.2 establish, disclose and then deliver the agreed value from particular investments;
 - 15.3 promote good stewardship of Crown resources;
 - 15.4 enable Ministers, agencies, and the corporate centre to exercise their required roles in a flexible and efficient manner; and
 - 15.5 make systematic use of performance information in corporate centre and agency investment management and decision-making processes.

Investment life cycle

- 16 The investment life cycle comprises four recognisable phases: thinking, planning, doing and reviewing. These can be sequential but there is also an ongoing dynamic as ideas are tested, refined and adopted or discarded within an agency and across government.
- 17 Each phase has different implications for agencies and decision makers. Amongst these is the need to ensure that approval thresholds (such as those in Annex 1) are being properly observed.

The thinking phase

- 17.1 This phase involves identifying investment proposals that could deliver benefits to New Zealand over an agreed timeframe. This phase often involves revealing and challenging the assumptions that underpin current policies, strategies and business plans.
- 17.2 The purpose is to fully understand and define the underlying causes and effects of the problems or opportunities, the benefits that would accrue if they were addressed and a broad range of potential responses.
- 17.3 Decision makers want to understand why the issues need to be resolved and the array of potential investments available.

The planning phase

- 17.4 This phase involves further developing investment proposals, assessing these and prioritising investments according to the value of the proposal. In this phase there is a deeper examination of options through business case processes.
- 17.5 The purpose is to make investment choices that create the best value investment portfolio from an all of government perspective. Given financial or other constraints, this phase involves making difficult tradeoffs between options and investments with different merits and costs.
- 17.6 This phase may result in divestment as well as investment decisions, and targeting resources to their best effect.

- 17.7 Agencies and the corporate centre have to test the merits of an investment from different perspectives (for example, agency, sector or all-of-government). Before committing to the next phase, decision makers also have to consider: the capability and capacity of agencies or markets to deliver the investment; the need to scale, phase or consolidate investments; and the impact of such actions on the expected value of the investment.

The doing phase

- 17.8 This phase involves focussing continuously on the required benefits during the implementation of an investment.
- 17.9 The purpose is to give investments the greatest possibility of success while maintaining control to avoid loss of value.
- 17.10 Decision makers want both assurance that the investments will deliver the expected value and advice on further actions that may be required to secure the expected value.

The reviewing phase

- 17.11 This phase involves reviewing the actual performance of investments against expectations and reviewing benefits, the performance of assets, and the investment portfolio, in relation to current and emerging needs.
- 17.12 The purpose is to ascertain what else needs to be done to optimise services and/or asset portfolios.

Section C: Roles and expectations of parties in the system

Cabinet

Investments requiring Cabinet approval

- 18 Cabinet has investment decision rights on all investment proposals where the investment requires new Crown funding.⁹
- 19 Cabinet approval is also required for:
- 19.1 any PPP investment proposals by agencies, even if funded from agency baselines and balance sheets, as these can have significant fiscal and policy implications and can affect the government's reputation in the marketplace;
- 19.2 other investments or asset divestments set out in Annex 1, Table 1; and
- 19.3 any changes in general approval thresholds arising from the investor confidence rating.

⁹ The Minister of Finance, rather than Cabinet, has decision rights in relation to Crown guarantees or indemnities under Section 65ZD of the Public Finance Act.

Ministers

- 20 Ministers can help create the conditions for effective investment and asset management by:
 - 20.1 setting, and when necessary reconciling, government priorities and being clear about the desired outcomes for New Zealanders;
 - 20.2 supporting chief executives to show system leadership and take a system-wide view, including considering the broader implications of agency investments on other parts of the state sector;
 - 20.3 respecting the investment system objectives, processes and authorities;
 - 20.4 supporting Investment Ministers to perform their roles;
 - 20.5 challenging prevailing thinking about problems and solutions; and
 - 20.6 reinforcing expectations of State sector leaders to undertake collaborative investments, and working together to support priority agency and cross-agency initiatives to succeed.
- 21 Ministers responsible for Crown entities and companies will invite boards of those agencies to adopt and apply corporate centre assurance and business case guidelines.

Investments requiring Ministerial approval

- 22 Cabinet has agreed that responsible Ministers may approve investments or asset divestments in an agency as set out in Annex 1, Table 2, subject to any Cabinet-approved changes arising from the investor confidence rating.

Investment Ministers

- 23 A group of Ministers (Investment Ministers¹⁰), has been designated to work with responsible Ministers to give effect to the objectives of the system as set out in this circular.
- 24 As a group, Investment Ministers have no approval authority in relation to individual investments.
- 25 The role of Investment Ministers includes:
 - 25.1 understanding the direction and array of potential investments available;
 - 25.2 supporting investment decision-making processes that create the best value investment portfolio. This includes divestment as well as investment and targeting resources to their best effect;
 - 25.3 scrutinising investments in development with a view to increase their likelihood of success;

¹⁰

<http://www.treasury.govt.nz/statesector/investmentmanagement/think/ministersgroup>

- 25.4 reviewing the performance of investments against expectations. This includes reviewing progress, benefits, the performance of assets, the measurement and performance of the investment system, and the investment portfolio, in relation to current and future needs;
- 25.5 better understanding the Crown's financial risk and contingent liabilities;
- 25.6 seeking savings and efficiencies from within the government investment system;
- 25.7 developing an investment strategy to guide investment management across the system;
- 25.8 modifying the investor confidence rating methodology, reviewing agency investor confidence ratings and making recommendations to Cabinet on any changes in agency ratings; and
- 25.9 resolving sequencing and timing issues in relation to significant investments, including the PPP programme.

Departmental Chief Executives

- 26 Departmental chief executives are responsible for the performance of the department's investments and assets, and for any non-departmental assets they manage on the Crown's behalf.
- 27 Departmental chief executives must ensure their agency's long term investment plan provides relevant, high quality information on the performance of current and future investments to inform all-of-government processes such as government's fiscal strategy, reviews of the affordability of current policies and the value of service delivery options.
- 28 Chief executives will ensure agencies accumulate sufficient depreciation funding within existing balance sheets to appropriately provide for the assets needed to underpin future service needs.
- 29 Chief executives will ensure agencies adopt and apply as good management practice corporate centre guidance on investment management.¹¹

Boards of Crown entities and companies

- 30 Each board is responsible for the performance of its agency's investments and assets. Boards are expected to be able to provide Ministers with relevant, high quality information on the performance of current and future investments to inform all-of-government processes such as the government's fiscal strategy, reviews of the affordability of current policies and the value of service delivery options.
- 31 Boards are expected to adopt and apply as good management practice corporate centre guidance on investment management.

¹¹ Including guidance on planning, investor confidence rating, business cases, assurance, monitoring, economic analysis etc.

Monitors

- 32 Monitoring roles (in relation to a monitored statutory entity) are described in the Crown Entities Act. Monitors may be departments or Crown entities.
- 33 As part of monitoring agency performance on behalf of the responsible Minister monitors will adopt and apply corporate centre guidance on investment management.

The Treasury

System leadership role

- 34 Cabinet expects the Treasury to lead the government's investment management system. The Treasury is responsible for developing and maintaining the integrity of the system as a whole. In this capacity it will:
 - 34.1 oversee the performance of investments and assets;
 - 34.2 share investment information with agencies;
 - 34.3 develop and contribute to a network of investment and asset management excellence across the system;
 - 34.4 ensure all investment management guidance materials are consistent with and support the objectives of the system;
 - 34.5 review the effectiveness and efficiency of the system rules and processes;
 - 34.6 administer the investor confidence rating;
 - 34.7 determine the level of monitoring and investment reviews (e.g. Gateway reviews);
 - 34.8 determine whether investments or asset portfolios are significant for the purposes of this circular;
 - 34.9 periodically commission independent assessments of investment management capabilities and practices in agencies;
 - 34.10 report on the performance of the system; and
 - 34.11 provide advice on the performance of functional leaders operating within the system.
- 35 The Treasury will perform the above roles in consultation with the relevant department, monitor and the corporate centre as appropriate.

Investment Panel

- 36 Cabinet, portfolio Ministers or Investment Ministers may require advice on the relative value of different types of investments being developed or delivered by agencies, irrespective of the funding source for those investments.

- 37 Treasury will convene a suitably qualified and experienced Investment Panel to analyse, advise and provide recommendations on investment proposals to Investment Ministers and the corporate centre. The advice will reflect a whole of government perspective, taking account of information provided by agencies and by other parts of the corporate centre.

State Services Commission (SSC)

- 38 SSC has an overall system leadership role in relation to the State services. In relation to the investment management system, SSC will:
- 38.1 manage the performance of Public Service chief executives;
 - 38.2 support and develop functional leadership across the State sector;
 - 38.3 advise on the machinery of government, including changes in the allocation of functions and responsibilities among government agencies and technical advice on Crown entity issues;
 - 38.4 provide human resource and capability functional leadership, including development of senior leaders and strategies to address emerging skill gaps; and
 - 38.5 deliver aspects of assurance, including routine monitoring of public service departments and delivery of the Performance Improvement Framework.

Functional leaders

- 39 Details on functional leaders and their existing mandates are found on the SSC website.¹² In relation to the system, functional leaders have the following roles:

The Ministry of Business, Innovation and Employment (MBIE) - Procurement Functional Leadership

- 40 MBIE leads government procurement policy and practice. In relation to the investment management system this means that MBIE will:
- 40.1 lead on advice related to the procurement policy framework (including the Government Rules of Sourcing);
 - 40.2 provide procurement guides, tools and templates for use by government agencies;
 - 40.3 review agency procurement plans for activities valued at more than \$5m or where there are significant risks to the agency or government;
 - 40.4 provide commercial assistance with strategic and high risk projects;
 - 40.5 establish, oversee and facilitate collaborative contracts (including all-of-government, common capability and syndicated contracts) for use by government agencies;
 - 40.6 build and measure ongoing procurement capability in government agencies;

¹² See <http://www.ssc.govt.nz/bps-functional-leadership>

- 40.7 run the NZ Government Procurement Academy to build procurement capability in the government workforce; and
- 40.8 advise Ministers on procurement related matters.

The Ministry of Social Development - Property Functional Leadership

- 41 The Property Management Centre of Expertise (PMCoE) works to realise government's goals for efficiency, effectiveness and co-ordination in office and public interface accommodation. It will:
 - 41.1 provide leadership, guidance and brokerage services;
 - 41.2 undertake a monitoring role, including publishing an annual report on the Crown office estate;
 - 41.3 develop mandatory Property Principles and Standards (the Government National Property Strategy and associated guidelines);
 - 41.4 lead mandatory all-of-government procurement for office accommodation related goods and services;
 - 41.5 sign-off on all tenure decisions (investment or divestment);
 - 41.6 sign-off on agency property strategies and operational plans (which must be completed by agencies at least biennially); and
 - 41.7 operate a compulsory common information system (the Government Property Portal).
- 42 To support the achievement of its goals, the government has provided seven expectations for departments and Crown agents. These expectations cover how the agencies are to manage their property portfolios and how they are to contribute to the government's property management goals.¹³

The Department of Internal Affairs - ICT Functional Leadership

- 43 The Government Chief Information Officer, as ICT Functional Leader, is responsible for the transformation of government ICT to support sustainably better public services for New Zealanders. In relation to the investment management system this means the GCIO will:
 - 43.1 set policy, strategy, direction and standards for government ICT;
 - 43.2 contribute to improving ICT investment management system-wide through ICT subject matter expertise;
 - 43.3 establish and manage all-of-government ICT services;
 - 43.4 shape and develop government ICT capability; and
 - 43.5 provide co-ordinated oversight and delivery of system-wide ICT assurance across government.

¹³ <https://www.msds.govt.nz/about-msd-and-our-work/about-msd/our-structure/pmcoe/index.html>

Part D: Operational requirements

General investment management expectations

- 44 No financial commitments or expenses will be incurred, projects commenced, settlements offered, or orders placed unless authority exists or has been specifically authorised by the responsible Minister or Cabinet, consistent with the requirements of this circular and its companion Cabinet Office circular CO (15) 4: *Proposals with Financial Implications and Financial Authorities*.
- 45 Agencies and the corporate centre will use the government's investment strategy as a guide to investment management.
- 46 Agencies must promptly seek an additional authority when it becomes clear that an approved financial authority is likely to be exceeded. An additional or revised authority should also be sought where there is a proposed change to the scope or timing of the investment, or the nature and scale of benefits compared with what had previously been represented to, or agreed by, Cabinet or the responsible Minister.
- 47 Notwithstanding the investor confidence rating of a department, Cabinet may reallocate funds from asset disposals by a department to other parts of the State services, consistent with its investment strategy.

Principles

- 48 The system will operate on the following principles:
 - 48.1 resources are allocated to where they can have the best effect from a whole-of-life perspective, balanced across the whole of government;
 - 48.2 optimising the use of existing infrastructure over the expected lifespan is as important as investing in the right mix of new assets;
 - 48.3 system settings recognise and respect statutory roles, functions and authorities;
 - 48.4 accountability is delegated to the appropriate agency in return for assurance over alignment with government objectives, value, capability, practices and performance;
 - 48.5 governance and decision-making processes enable agencies to be responsive to whole-of-government investment priorities;
 - 48.6 sound management practices reduce fiscal and service delivery risks, and improve Ministerial confidence in agency performance;
 - 48.7 there are effective performance mechanisms to encourage the corporate centre and agencies to meet the system objectives;
 - 48.8 information on past, current and projected investment performance is shared between agencies and the corporate centre to inform management and decision-making processes;
 - 48.9 fit for purpose tools, methods and practices are employed in the system to minimise compliance costs; and

- 48.10 investments are informed by engaging with the supply market to build knowledge and test ideas.

Long term investment plans

- 49 The effectiveness of the investment management system depends on high quality information on agency investment intentions and performance linked to outcomes. Such information informs all of government prioritisation processes, decisions on fiscal policy settings and the affordability of current policies and future service delivery strategies.

- 50 Long term investment plans must:

In terms of investment management

- 50.1 be integrated with, and provide the investment context for, agency short to medium term plans;¹⁴
- 50.2 provide a sound basis for regular investment performance reporting and for an agency's annual report to Parliament;
- 50.3 provide a reliable focus for the investment decisions and activities of the agency or sector;
- 50.4 enable integrated decision-making and co-ordination of the resources of the agency and other parts of the State services;
- 50.5 reveal sufficient details of proposed investments and disinvestments, as reported to the Treasury in the government project portfolio dataset, to enable Investment Ministers and the corporate centre to fulfil their respective roles;
- 50.6 reveal the impact of investment intentions on the agency's forecast financial statements, taking account of expected WOLC and funding sources such as asset disposals and the use of baseline and depreciation funding over the planning period;
- 50.7 consider what capabilities will involve third party suppliers and provide an overview of how these supplier relationships will be managed;

In terms of asset performance

- 50.8 reveal the expected impact of investment intentions on future asset performance, in terms of meeting changes in demand, enabling level of service improvements, and renewing assets; and
- 50.9 reveal assets that are expected to be surplus to requirements, and whether such assets will be subject to formal Crown disposal processes.

Plans produced by tier 1 and tier 2 investment-intensive agencies

- 51 Investment-intensive agencies or sectors must have a current long-term investment plan that covers a period of at least 10 financial years. Such plans must be updated at least once every three years.

¹⁴ For departments this could be a Four-year plan; for other agencies it could be a medium-term plan.

- 52 Investment-intensive agencies or sectors must provide draft plans to the corporate centre for review prior to final approval by the relevant chief executive or Board as appropriate.

Plans produced by non investment-intensive agencies

- 53 All non investment-intensive agencies must have current multiyear (at least 4 financial years) investment plans that provide an appropriate level of information and fulfil the same purposes as plans required of investment-intensive agencies or sectors.
- 54 For all non investment-intensive departments, the Four-year plan will satisfy the long term investment intentions expectations.

Investor confidence

- 55 The objectives of the system will be reinforced by using performance indicators and information to determine an investor confidence rating for each agency or sector. The types of information and procedural expectations are set out in Annex 2.
- 56 The level of investor confidence may affect each agency or sector in one or more of the following ways:
- 56.1 the ability to spend depreciation funding accumulated on a department's balance sheet;
 - 56.2 the level of authority to make different types of investment decisions funded from departmental baselines or balance sheets (these could vary according to the type, scale, risk or value of transactions, and cover different periods of time);
 - 56.3 the retention of proceeds from asset disposals by departments;
 - 56.4 the level of authority to make different types of investment decisions relating to assets on the Crown account;
 - 56.5 the level of assistance available to the agency for improvement;
 - 56.6 the level of corporate centre support for agency proposals for new funding;
 - 56.7 the level of corporate centre or monitoring department assurance activity;
 - 56.8 the level of project, programme or portfolio reporting by agencies and the corporate centre;
 - 56.9 the assurance requirements an agency is to fulfil;
 - 56.10 whether agencies are recharged for additional interventions or support; and
 - 56.11 any other changes to the investment management system adopted by Cabinet in future.
- 57 The level of investor confidence for an agency or sector will not directly affect the extent of any capital withdrawal to reduce the level of net assets held by a department.

Expectations relating to reporting on investment performance

By the corporate centre

- 58 The Treasury will develop an annual report, in consultation with the rest of the corporate centre, on the performance of all significant investments that have obtained or will require Cabinet approval. This annual report will cover:
- 58.1 the status of all current significant investment intentions; and
 - 58.2 a summary of benefits achieved from investments that have been completed.

By agencies

- 59 In respect of any Cabinet-approved investment, unless otherwise agreed by Cabinet, agencies must:
- 59.1 report back to Cabinet within 12 months after the in-service date on the actual level of benefits achieved compared with those outlined in the Cabinet-approved investment; and
 - 59.2 post copies of any benefits realisation reports generated on the Public Sector Intranet (PSI) taking account of grounds for withholding information under the Official Information Act (OIA).
- 60 In addition to reporting back to Cabinet, agencies must provide information to Treasury at agreed intervals, on the actual level of benefits achieved compared with those outlined in any significant investment.
- 61 Agencies must report on relevant asset performance indicators in their annual reports.

Expectations relating to asset management

- 62 Agencies must capture and use in internal management and decision-making processes, relevant indicators of past and projected asset performance, such as asset utilisation, condition and fitness for purpose.
- 63 Agencies must demonstrate a level of asset management practice and performance that is appropriate to the scale of assets under their management and the criticality of those assets to the delivery of key public services.
- 64 The investor confidence rating will take account of the level of asset management maturity which will be based on a Treasury-endorsed asset management maturity matrix.
- 65 Agencies must plan for the eventual withdrawal or sale of assets and use approved asset disposal processes. Beyond the requirements set out in this circular, asset disposals can be subject to legal, statutory and Government policy requirements that must be fulfilled prior to disposal. This could require the use of specialised assistance.¹⁵

¹⁵ For Crown property assets (excluding leased office accommodation), this can be obtained from the Crown Property Centre of Expertise in Land Information New Zealand or Accredited Crown Property service providers.

Expectations relating to procurement

- 66 Agencies will apply the Government Rules of Sourcing.¹⁶ The Rules are supported by a set of guidance which agencies should use where appropriate.
- 67 Investment decisions will be informed by market research where agencies will engage early with the supply market to understand potential solutions and test ideas.
- 68 Agencies must actively manage the supplier relationship to ensure delivery of the investment and to seek continuous improvement during the contract life.
- 69 Agencies planning any significant investment must consult with The Treasury early in the development of the proposal. The Treasury and MBIE will determine corporate centre support for the project for the purpose of identifying and evaluating commercial and procurement options.
- 70 Agencies that are planning any significant investment (including any arrangements with Local Government Authorities seeking Crown funding or support) must evaluate all procurement options, including PPPs. Agencies should select the procurement approach that best delivers the investment objectives and optimises whole of life costs.
- 71 Treasury will coordinate the sequencing and timing of projects in the New Zealand PPP Programme in order to meet the overall PPP programme objectives, avoid material conflicts in timeframes, increase overall market participation in projects, and ensure the programme is sustainable and deliverable. Treasury will refer any unmanageable conflicts over the sequencing and timing of projects in the PPP programme to Investment Ministers.

Expectations relating to investment assurance

Investment proposals

- 72 Agencies must identify as early as possible all significant investment intentions in multi-year investment plans and in corporate centre reporting processes.¹⁷
- 73 Agencies must develop all significant investment proposals in accordance with published Treasury business case guidance.¹⁸

Risk profiling and disclosure

- 74 Agencies must complete risk profile assessments (RPA)¹⁹ for all significant investments identified on multi-year plans. Agencies must provide to Treasury an RPA for any investment proposal that has a medium or high risk profile.
- 75 The responsible Minister may also request that a project or programme be subject to appropriate monitoring and assurance oversight by the corporate centre, or relevant monitoring department.

¹⁶ <http://www.business.govt.nz/procurement/for-agencies/key-guidance-for-agencies/the-new-government-rules-of-sourcing>

¹⁷ Including government project portfolio (GPP) reporting:
<http://www.treasury.govt.nz/statesector/investmentmanagement/think/governmentprojectportfolio>

¹⁸ <http://www.treasury.govt.nz/statesector/investmentmanagement/plan>

¹⁹ <http://www.treasury.govt.nz/statesector/investmentmanagement/think/riskprofile>

Monitoring

- 76 All investment proposals that are determined high risk by the RPA will have an appropriate level of monitoring applied.²⁰

Investment reviews

- 77 All investment proposals that are determined high risk by the RPA will have the appropriate investment review applied, including Gateway reviews.²¹

Assurance plans

- 78 Agencies are expected to adopt and apply corporate centre assurance guidance for all investments, including non-significant investments.²²
- 79 Agencies responsible for any significant investment must develop and provide an assurance plan to the relevant corporate centre agency. At a minimum the assurance plan must cover the next stage of the investment of the project or programme. The assurance plan must be updated on a regular basis, usually prior to the end of each stage.
- 80 The relevant corporate centre agency will review the assurance plan (and any revisions) and, if necessary, make recommendations to the agency, or Investment Ministers and the responsible Ministers on changes that may be required. The relevant corporate centre agency may endorse the assurance plan as required.
- 81 The corporate centre or monitoring department, in consultation with the rest of the corporate centre, may agree and approve an assurance plan for an agency or for a portfolio of investments.
- 82 By agreement in advance, the corporate centre may commission and recharge agencies on a cost recovery basis for costs incurred in the provision of independent assurance services.

Expectations relating to sharing good practices and results

- 83 Agencies must post copies of Cabinet-approved business cases on the PSI within 30 days of obtaining approval, taking account of grounds for withholding information under the OIA.
- 84 The corporate centre will develop and support specialist communities of investment practice or forums as a means of promoting good agency practice and lifting capability.

Michael Webster
Secretary of the Cabinet

Enquiries: your Treasury Vote team.

²⁰ <http://www.treasury.govt.nz/statesector/investmentmanagement/do>

²¹ <http://www.treasury.govt.nz/statesector/investmentmanagement/review>

²² <http://www.treasury.govt.nz/statesector/investmentmanagement/do>

Annex 1: General approval thresholds for investments

Table 1: Investments that require Cabinet approval		
Type/owner of proposal	All departments	All other agencies covered by this circular
All investments that require new Crown funding	✓	✓
All PPP proposals, even if funded from baselines and balance sheets	✓	✓
All investments with a WOLC over \$25 million, even if funded from baselines and balance sheets	✓	
Proposals to dispose of assets held on the Crown account	✓	✓ ²³
All proposals to dispose of assets with a carrying value of \$25 million or more	✓	
All high risk ²⁴ or high value investments, irrespective of the scale and funding source	✓	✓ ²⁵

Table 2: Investments that require the approval of the responsible Minister		
Type/owner of proposal	All Departments	All other agencies covered by this circular
All investments with a WOLC of between \$15 million and \$25 million, if funded from baselines and balance sheets	✓	
All proposals to dispose of assets with a carrying value of between \$15 million and \$25 million	✓	

²³ The general rule for whether a proposal should go to Cabinet is set out in paragraphs 5.11 and 5.12 of the [Cabinet Manual](#).

²⁴ The investment risk profile is determined by The Treasury based on its risk profile assessment methodology (RPA).

²⁵ As for footnote 23 above.

Table 3: Investments that require the approval of the departmental chief executive		
Type/owner of proposal	All Departments	All other agencies covered by this circular
All investments with a WOLC of up to \$15 million, if funded from baselines and balance sheets	✓	
All proposals to dispose of assets with a carrying value of up to \$15 million	✓	

Annex 2: Investor confidence: Information and process details²⁶

Types of information to be used in the assessment

Lead indicators of investment performance

- 1 Information on the agency's investment management capabilities (for example, asset management maturity, organisational change management maturity and portfolio, programme and project management maturity).
- 2 Corporate centre assessment of an agency's long term investment plan.

Lag indicators of investment performance

- 3 Actual performance of significant investments against investment objectives (for example, project delivery and benefits realised).
- 4 Information on the agency's asset management performance over time against relevant asset performance metrics set out in the agency's approved long term investment plan.
- 5 Information on the extent to which the agency has appropriately applied the following:
 - 5.1 Principles set out in this circular;
 - 5.2 any relevant directions issued under s107 of the Crown Entities Act; and
 - 5.3 any other Cabinet-endorsed standards or norms.

Procedural arrangements

- 6 Treasury, in consultation and the agency, will periodically assess the level of investor confidence for an agency or sector. Treasury may make recommendations on the appropriate level and resultant implications for consideration by Investment Ministers. Final decisions on ratings will be made by Cabinet.
- 7 Initial confidence ratings and changes in confidence ratings will be used to determine variations (up or down) from the standard expectations and general approval thresholds in this circular.
- 8 The approved investor confidence level will be used to inform corporate centre investment management processes and advice, including advice on the development of agency capability.
- 9 Treasury will monitor and report on compliance with ratings approved by Cabinet.

²⁶ <http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr>