



Intended for All Ministers
Speaker of the House
All Chief Executives
All Senior Private Secretaries
All Private Secretaries

Investment Management and Asset Performance in Departments and Other Entities

Introduction

- 1 This circular supersedes Cabinet Office circular CO (19) 6, and gives effect to Cabinet's intention to:
 - 1.1 make the best investment choices for current and future generations;
 - 1.2 ensure there is active stewardship of government resources; and
 - 1.3 maintain a strong alignment between individual investments and the government's long-term priorities.
- 2 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):
 - 2.1 departments as defined in the Public Finance Act 1989 (PFA);
 - 2.2 the following types of Crown entities as defined in the Crown Entities Act 2004:
 - 2.2.1 statutory entities;
 - 2.2.2 Crown entity companies;
 - 2.2.3 Crown entity subsidiaries;
 - 2.3 companies listed in Schedule 4A of the PFA.
- 3 Departments must comply with this circular. All other agencies must treat this circular as an expression of government policy.

- 4 Ministers and chief executives should ensure that:
- 4.1 information and expectations in this circular are conveyed to all agencies affected by this circular (including to Crown entities and companies for which the Minister is a shareholder or otherwise responsible); and
- 4.2 all staff handling submissions for Cabinet, Cabinet committees and baseline updates are familiar with this circular and its companion circular CO (18) 2: *Proposals with Financial Implications and Financial Authorities*.
- 5 The Speaker of the House will convey the expectations to the Office of the Clerk of the House and the Parliamentary Service.
- 6 In this circular:
- 6.1 all financial thresholds are GST exclusive; and
- 6.2 terms defined in Annex 3 have the meaning given to them in that annex.
- 7 Guidance published by central agencies or system leaders that is referred to in this circular will be available at <https://www.treasury.govt.nz/information-and-services/state-sector-leadership/guidance>
- 8 This circular is structured as follows:

Section/Annex	Purpose
Section A	Outlines the objective of the government's investment management system and the investment life cycle
Section B	Sets out the operational requirements for agencies
Section C	Sets out the roles and expectations of other parties involved in the system
Annex 1	Outlines the general approval thresholds for investments
Annex 2	Outlines the process to develop the government's prioritised and sequenced investment pipeline
Annex 3	Defines terms used in this circular

Section A: Investment Management System

General

- 9 The investment management system (the system) is a subset of the public finance system. It encompasses the set of policies, processes and requirements that work together to manage investments through their life cycles.

Objective of the system

- 10 The primary objective of the system is to optimise value from new and existing investments and assets for current and future generations of New Zealanders.
- 11 To that end, the system must:
- 11.1 enable Cabinet and agencies to prioritise and sequence investments according to the government's and public sector's long-term priorities (see Annex 2 for an outline of the process to develop the Government's investment pipeline);
 - 11.2 establish, disclose, and then deliver the agreed value from particular investments;
 - 11.3 promote good stewardship of Crown resources;
 - 11.4 enable all parties to exercise their required roles in a flexible and efficient manner; and
 - 11.5 make systematic use of performance information in government and agency investment management and decision-making processes.

Investment life cycle

- 12 The investment life cycle comprises four recognisable phases: intentions, planning, delivery and benefits realisation.

The intentions phase

- 13 This phase involves identifying investment proposals that could deliver benefits to New Zealand over an agreed timeframe, based on an agency's strategic planning and asset management practices. Outputs from the intentions phase help inform the government's fiscal strategy. This phase involves revealing and challenging the assumptions that underpin current policies, strategies, and business plans.
- 14 The purpose of this phase is to fully understand and define the causes and effects of problems or opportunities that could be addressed with investment, the outcomes and benefits that would accrue if these were addressed, and to identify a broad range of potential responses.
- 15 Decision-makers want to understand when and why the issues need to be resolved, how proposals align with government priorities and the array of potential investment options available.

The planning phase

- 16 This phase involves further developing investment proposals, assessing these and prioritising investments according to the overall value of the proposal and alignment with government priorities. In this phase there is a deeper examination of options through business case processes, and the annual government budget process (where applicable).
- 17 The purpose of this phase 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 trade-offs between options and investments with different merits and costs.
- 18 This phase may result in divestment as well as investment decisions, and targeting resources to their best effect.
- 19 Agencies must test the merits of an investment from different perspectives. Before committing to the next phase, decision-makers need to consider:
- 19.1 whether an investment optimises value;
 - 19.2 the capability and capacity of agencies or the market to successfully deliver the investment;
 - 19.3 any supporting investment necessary to realise the intended outcome of an investment;
 - 19.4 opportunities to scale, phase, or consolidate investments;
 - 19.5 alternative ways of financing and funding investments; and
 - 19.6 the impact of such actions on the expected value of the investment.

The delivery phase

- 20 This phase involves implementing the investment decision while focusing continuously on delivering the required outcomes and benefits.
- 21 Decision-makers want assurance that the investments are delivering and will deliver the expected value, and advice on further actions that may be required to secure the expected value.

The benefits realisation phase

- 22 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.
- 23 The purpose of this phase is to ascertain what else needs to be done to optimise levels of customer service and levels of asset performance over time, and to capture information to improve the planning and delivery of future investments.

Section B: Agency operational requirements

Financial management

- 24 Agencies must not incur financial commitments or expenses, commence projects, offer settlements, or place orders unless authority exists or has been specifically authorised by the responsible Minister or Cabinet, consistent with the requirements of this circular and companion Cabinet Office circular CO (18) 2 *Proposals with Financial Implications and Financial Authorities*.
- 25 Agencies must promptly seek an additional authority when it becomes clear that an approved financial authority is likely to be exceeded.
- 26 An additional or revised authority should also be sought where a change is proposed 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.

Strategic planning and asset management

- 27 Agencies must apply any relevant guidance published by a central agency or system leader to its strategic planning and asset management practices.¹
- 28 Agencies' strategic planning and asset management practices must incorporate consideration of whether, and the extent to which, existing and future assets are resilient to the effects of significant risks (for example, climate change, natural disasters or demographic changes). The level of resilience required for any given asset is determined by the agency and may vary based on factors including the asset type, location and the criticality of the asset.
- 29 Agencies must identify in their investment reporting as early as possible all investment intentions (over a minimum of ten years) that would require Cabinet consideration.
- 30 Agencies must manage assets to ensure they deliver intended levels and methods of service.
- 31 Where agencies receive Crown funding attributable to the depreciation of assets, agencies must apply this funding to ensure the levels and methods of service enabled by the agency's assets reflect its strategic intentions.
- 32 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.
- 33 Agencies must maintain asset management plans to inform strategic, tactical, and operational choices.
- 34 Agencies must identify their service critical assets and maintain details of the identity, condition, and risk exposure of these assets in the agency's asset register.
- 35 Agencies must capture relevant indicators of past and projected asset performance (for example, asset utilisation, condition, and fitness-for-purpose) for service critical assets. Agencies must use these indicators in internal management and decision-making processes.

¹ Including the preparation of strategic intentions by departments under the Public Finance Act 1989 and the preparation of statements of intent by Crown entities under the Crown Entities Act 2004.

- 36 Agencies must report on relevant asset performance indicators for service critical assets in their annual reports.
- 37 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 specialised assistance.

Investment planning

- 38 Agencies must apply the following to the development of all investment proposals:
- 38.1 the Better Business Case guidance;
 - 38.2 the Government Procurement Rules and associated guidance;² and
 - 38.3 any other relevant guidance published by a central agency or system leader.
- 39 Agencies must complete a risk profile assessment (RPA) for an investment proposal prior to commencing business case development for the investment.
- 40 Agencies must complete a strategic assessment for an investment proposal self-assessed as medium- or high-risk prior to commencing business case development for the investment.
- 41 Agencies must provide the Treasury all RPAs and strategic assessments for investment proposals that have been self-assessed as medium- or high-risk for moderation. The Treasury, in consultation with the relevant system leaders, will determine the final risk and alignment rating for an investment.
- 42 Agencies must upload a copy of Cabinet-approved business cases that can be shared with other agencies on the Public Service Intranet, taking account of grounds for withholding information under the Official Information Act 1982.

Reporting

- 43 The effectiveness of the system depends on high quality information about investments across the investment lifecycle. This information provides the strategic context for individual investment decisions and informs government planning and prioritisation processes, as well as decisions on fiscal policy settings.
- 44 Agencies must report to the Treasury regularly on their investments across the investment lifecycle as required from time to time by the Treasury.
- 45 Investment reporting submitted by agencies to the Treasury must be approved by the agency's chief executive (or a delegate approved by the Treasury) prior to submission.

Investment assurance

- 46 Agencies must apply any relevant guidance published by a central agency or system leader to its investment assurance practices.

² <https://www.procurement.govt.nz/procurement/principles-charter-and-rules/government-procurement-rules/>

- 47 Investment proposals that are determined high-risk by the RPA must complete Gateway reviews. Gateway reviews are optional for investment proposals with a low- or medium-risk rating.
- 48 Ministers may request that a project or programme be subject to additional assurance oversight by the Treasury, a system leader, or the relevant monitoring department.
- 49 At the end of each financial year, the chief executive of each agency must provide an attestation to the Treasury outlining the agency's compliance with the requirements of this circular. The form of the attestation will be prescribed by the Treasury and may vary based on the level of investment activity or the organisational form of the agency.

Section C: Roles and expectations of parties in the system

Cabinet and Cabinet Committees

Investment matters requiring Cabinet approval

- 50 Cabinet, with support from its Cabinet Committees, will consider matters relating to government policy, commitments and expenditure on infrastructure, investment, and procurement proposals.
- 51 Cabinet's decision rights with respect to investments are set out in Annex 1.

Cabinet Committees

- 52 Cabinet Committees will support Cabinet to perform its role under this circular by:
- 52.1 shaping and clarifying government investment priorities;
 - 52.2 overseeing the delivery of government investment priorities and monitoring the achievement of investment goals and outcomes; and
 - 52.3 resolving any sequencing and timing issues in relation to significant investments.

Ministers

- 53 Ministers create the conditions for effective investment and asset management by:
- 53.1 setting, and when necessary reconciling, government priorities and being clear about the desired outcomes for New Zealanders;
 - 53.2 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 public sector;
 - 53.3 respecting the investment system objectives, processes and authorities;
 - 53.4 challenging prevailing thinking about problems and solutions; and
 - 53.5 reinforcing expectations of public sector leaders to undertake collaborative investments, and work together to support priority agency and cross-agency initiatives to succeed.
- 54 Cabinet has agreed that Ministers may approve investments or asset divestments in an agency as set out in Annex 1, Table 1, subject to any previous Cabinet-approved uplifts to the applicable approval thresholds arising from the Investor Confidence Rating.
- 55 Ministers responsible for Crown entities and shareholding Ministers responsible for Crown companies will invite boards of those agencies to adopt and apply relevant central agency and system leader guidance.

Departmental Chief Executives

- 56 Departmental chief executives can help create the conditions for effective investment and asset management by supporting Ministers to take a system-wide view, including considering the broader implications of agency investments on other parts of the public sector and New Zealand society.

- 57 Each departmental chief executive is responsible for the performance of the department's investments and assets, and for any non-departmental assets they manage on the Crown's behalf.
- 58 Cabinet has agreed that departmental chief executives may approve investments or asset divestments as set out in Annex 1, Table 1, subject to any previous Cabinet-approved uplifts to the applicable approval thresholds arising from the Investor Confidence Rating.
- 59 Chief executives will ensure agencies adopt and apply, as good management practice, relevant central agency and system leader guidance.

Boards of Crown entities and companies

- 60 Each board is responsible for the performance of its agency's investments and assets. Boards will provide Ministers with relevant, high quality information on the expected and actual performance of 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.
- 61 Boards should adopt and apply, as good management practice, relevant central agency or system leader guidance.

The Treasury

- 62 The Treasury leads the system. The Treasury is responsible for:
- 62.1 developing and maintaining the integrity of the system as a whole; and
 - 62.2 supporting Ministers and Cabinet to make investment decisions that deliver value, are aligned with government priorities and are deliverable.
- 63 In this capacity it will:
- 63.1 oversee and provide guidance to support good investment management practice;
 - 63.2 share investment information with agencies;
 - 63.3 ensure all investment management guidance is consistent with and supports the system objective;
 - 63.4 review the effectiveness and efficiency of the system settings;
 - 63.5 provide advice to Ministers and Cabinet about risks and opportunities within the government's investment portfolio;
 - 63.6 periodically commission independent assessments of investment management capabilities and practices in agencies;
 - 63.7 report on the performance of the system; and
 - 63.8 provide advice on the performance of system leaders operating within the system.
- 64 The Treasury will perform the above roles in consultation with relevant agencies and system leaders, as appropriate.

System leaders

- 65 From time to time the Public Services Commissioner may designate system leaders to lead and co-ordinate best practice in a particular subject matter area across the whole or part of the public sector.
- 66 Details on the specific mandates for system leaders can be found on the Public Services Commission's website.³
- 67 System leaders have specific roles in system processes, including:
- 67.1 building relevant capability in agencies and across the system;
 - 67.2 providing relevant subject matter expertise;
 - 67.3 moderating RPAs and strategic assessments;
 - 67.4 participating in relevant Gateway reviews;
 - 67.5 publishing guidance and standards relevant to their system role;
 - 67.6 completing a needs-assessment to determine the scope of New Zealand's long-term investment requirements relevant to their system role;
 - 67.7 developing a system strategy for agencies to undertake the investments identified in the needs-assessment; and
 - 67.8 engaging with the Treasury to support advice to Ministers on the prioritisation and sequencing of investments to give effect to system strategies and deliver New Zealand's long-term investment requirements (see Annex 2 for an outline of the process to develop the Government's investment pipeline).

Te Waihanga, New Zealand Infrastructure Commission

- 68 Te Waihanga has been established to lift the quality of infrastructure procurement and delivery in New Zealand.
- 69 Te Waihanga has two main roles in its empowering legislation, covering the provision of advice to:
- 69.1 government on infrastructure strategy and planning; and
 - 69.2 agencies and local authorities responsible for planning, procuring and delivering major infrastructure projects and any innovative and non-traditional approaches to procurement, alternative financing arrangements, or Public Private Partnerships.
- 70 Te Waihanga provides a first point of contact for interested parties in the infrastructure sector to receive information on current and future infrastructure projects.

Public Service Commission (PSC)

- 71 PSC has an overall system leadership role in relation to the public sector. In relation to the system, PSC will:

³ <https://www.publicservice.govt.nz/system/leaders/public-service-system-leaders/system-leads/>

- 71.1 manage the performance of Public Service chief executives;
- 71.2 support, develop, and assess functional and system leadership across the public sector;
- 71.3 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;
- 71.4 provide human resource and capability functional leadership, including development of senior leaders and strategies to address emerging skill gaps; and
- 71.5 deliver aspects of assurance, including routine monitoring of public service departments and delivery of the capability reviews.

Rachel Hayward
Secretary of the Cabinet

Enquiries:

Your Treasury Vote team

Annex 1: General approval thresholds for investments

Table 1: Investments by departments⁴			
Type of proposal	Cabinet approval required	Responsible Minister approval required	Departmental chief executive approval required
New Crown funding or support			
Investments that require new Crown funding or support	✓		
Baseline funded investments			
Investments with a WOLC over \$35 million, if funded from baselines and balance sheets	✓		
Investments with a WOLC of between \$20 million and \$35 million, if funded from baselines and balance sheets		✓	
Investments with a WOLC of up to \$20 million, if funded from baselines and balance sheets			✓
High-risk investments			
High-risk investments, irrespective of the scale and funding source	✓		
Disposals/disinvestment of assets held on behalf of the Crown			
Proposals to dispose of assets held on behalf of the Crown with a carrying value of \$1 million or more	✓		
Proposals to dispose of assets held on behalf of the Crown with a carrying value of up to \$1 million		✓	
Disposals/disinvestments of assets held by the department			
Proposals to dispose of assets held by the department with a carrying value of \$35 million or more	✓		
Proposals to dispose of assets held by the department with a carrying value of between \$20 million and \$35 million		✓	
Proposals to dispose of assets held by the department with a carrying value of up to \$20 million			✓

⁴ Subject to any previous Cabinet-approved uplifts arising from the Investor Confidence Rating.

Table 2: Investments by Crown entities and Schedule 4A companies⁵

Type of proposal	Cabinet approval required	Cabinet consideration required ⁶	Consultation required with responsible Minister
New Crown funding or support			
Investments that require new Crown funding or support	✓		✓
High-risk or high-value investments			
High-risk investments, irrespective of the scale and funding source		✓	✓
Investments with a WOLC over \$35 million		✓	✓
Disposals/disinvestments of assets held on behalf of the Crown			
Proposals to dispose of service critical assets held on behalf of the Crown		✓	✓

⁵ Subject to any previous Cabinet-approved uplifts arising from the Investor Confidence Rating.

⁶ Cabinet consideration may be required even if the agency has decision rights in legislation. 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 (<https://www.dpmc.govt.nz/our-business-units/cabinet-office/supporting-work-cabinet/cabinet-manual>)

Annex 2: Process to develop the Government's investment pipeline

At a high level, developing a long-term investment pipeline involves combining:

- a top-down view of investment need supported by sector needs assessments as well as wellbeing, fiscal, and capacity considerations, and
- a bottom-up view of investments across the investment life cycle reported by agencies through the Treasury's investment reporting processes.

In practice, this is an iterative process that involves the following steps:

- Agencies develop long-term investment intentions based on their strategic planning and asset management practices.
- Investment intentions are consolidated by the Treasury through its investment reporting processes for consideration by Ministers and other stakeholders in the system.
- Assessment of consolidated investment intentions by stakeholders in the system including:
 - the Treasury to apply fiscal and wellbeing analysis; and
 - system leaders to apply system strategies and needs assessments,

to identify themes, risks and opportunities across the government's investment portfolio to inform advice to Ministers.

- Application of prioritisation and sequencing framework developed by the Treasury and system leaders.
- Advice provided to Minister of Finance by the Treasury including analysis and recommendations made by Treasury, system leaders and PSC.
- Decisions taken by Ministers and communicated to relevant agencies and stakeholders for action.
- Decisions implemented and reflected in subsequent amendments to agency investment intentions.

Annex 3: Interpretation

Terms used in this circular have the following meanings:

Agency means the types of organisations referred to in paragraph 2.

Asset means a resource presently controlled by the entity as a result of a past event.⁷

- An asset may be owned or controlled as a contracted service resulting from an investment.
- An investment is an example of a past event that leads to recognition of an asset.

Central agencies means the Public Service Commission, the Treasury and the Department of the Prime Minister and Cabinet.

Infrastructure means fixed, long-lived structures that facilitate economic performance and wellbeing.

- Infrastructure includes buildings and physical networks, principally: transport, water, social assets, and communications infrastructure such as mobile and broadband infrastructure, however funded.
- Infrastructure does not include cultural assets, specialist military equipment or ICT business systems.

Investment means the commitment of financial and physical resources to the delivery of government services with the expectation of maintaining, renewing or creating an asset for the department or the Crown. Resources are typically committed through projects or programmes or portfolios.

- Investment includes the following activities, irrespective of funding source,⁸ appropriation type,⁹ or the form of government financial support:
 - changes (additions or disposals) to asset portfolios or infrastructure managed by or through agencies covered by this circular;
 - 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, Software-as-a-Service); and
 - new lease arrangements, or renewals of lease arrangements (for example, property rentals);
- Investment does not include financial investment functions performed by Crown Financial Institutions (CFIs),¹⁰ or New Zealand Debt Management¹¹ and non-departmental official development assistance.

⁷ For further explanation of financial reporting concepts see the PBE Conceptual Framework.

⁸ Funding sources include baseline, private investment, new funding etc. Appropriation types include expenses or capital expenditure, and departmental or non-departmental.

⁹ Investments, as defined in this circular, is wider than the appropriation type: Capital Expenditure, that authorises the costs of assets acquired or developed.

¹⁰ Includes Guardians of New Zealand Superannuation, Government Superannuation Fund Authority, National Provident Fund, Earthquake Commission and Accident Compensation Corporation.

¹¹ The part of the New Zealand Treasury responsible for managing the Government’s debt and overall cash flows.

Investment performance in relation to an investment means the level of actual results against those agreed by the decision maker.

Investment reporting means the reporting referred to in paragraph 44.

PFA means the Public Finance Act 1989.

PSC means the Public Service Commission.

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.

RPA means the Risk Profile Assessment.

Service critical asset mean an asset which, if damaged or destroyed, is likely to have a significantly adverse impact on the delivery of the agency's services.

System leaders means:

- the public service chief executives designated as a system leader by the Public Service Commissioner;¹² and
- (for the purposes of this circular) the chief executives of Te Waihanga and the Ministry for the Environment.

Value means the net fiscal, economic and wellbeing benefits of an asset or investment proposal over its life cycle.

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.¹³

¹² The current system leaders are listed at <https://www.publicservice.govt.nz/system/leaders/public-service-system-leaders/system-leads/>

¹³ <https://www.treasury.govt.nz/information-and-services/state-sector-leadership/guidance/reporting-financial/discount-rates>