Investing for New Zealand

Insights from 2015-2016

Liz Innes and Ricky Utting – The Treasury

Te Kāwanatanga o Aotearoa
New Zealand Government

Overview of Government Investment

Investment – ɪnˈvɛstmənt
*commit resources in anticipation of future benefit*

#Government Investment

- There are **508** significant investment projects in the portfolio
- They have a combined whole-of-life-cost of **$87b**
- There are **53** agencies leading investments…
- …across **11** sectors.
- **38%** of investments are collaborative, involving at least two agencies.

Government invests so New Zealanders can:
- learn
- travel
- connect
- get jobs
- grow businesses
- stay safe, and
- live healthy lives

To do this, we invest in things like building homes, schools, hospitals and roads and lifting public sector productivity.
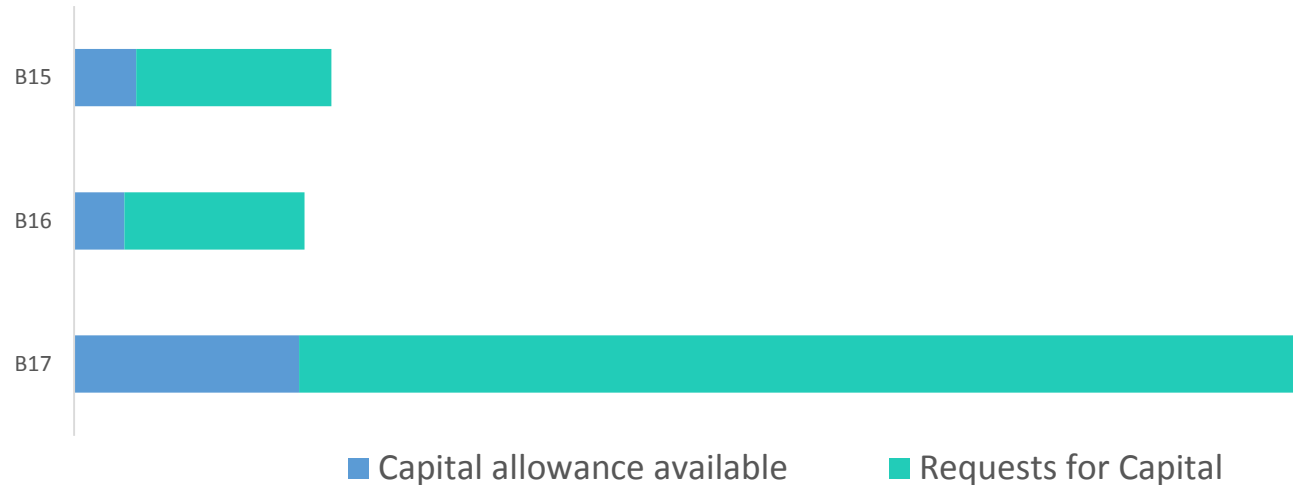
The Investment Management System
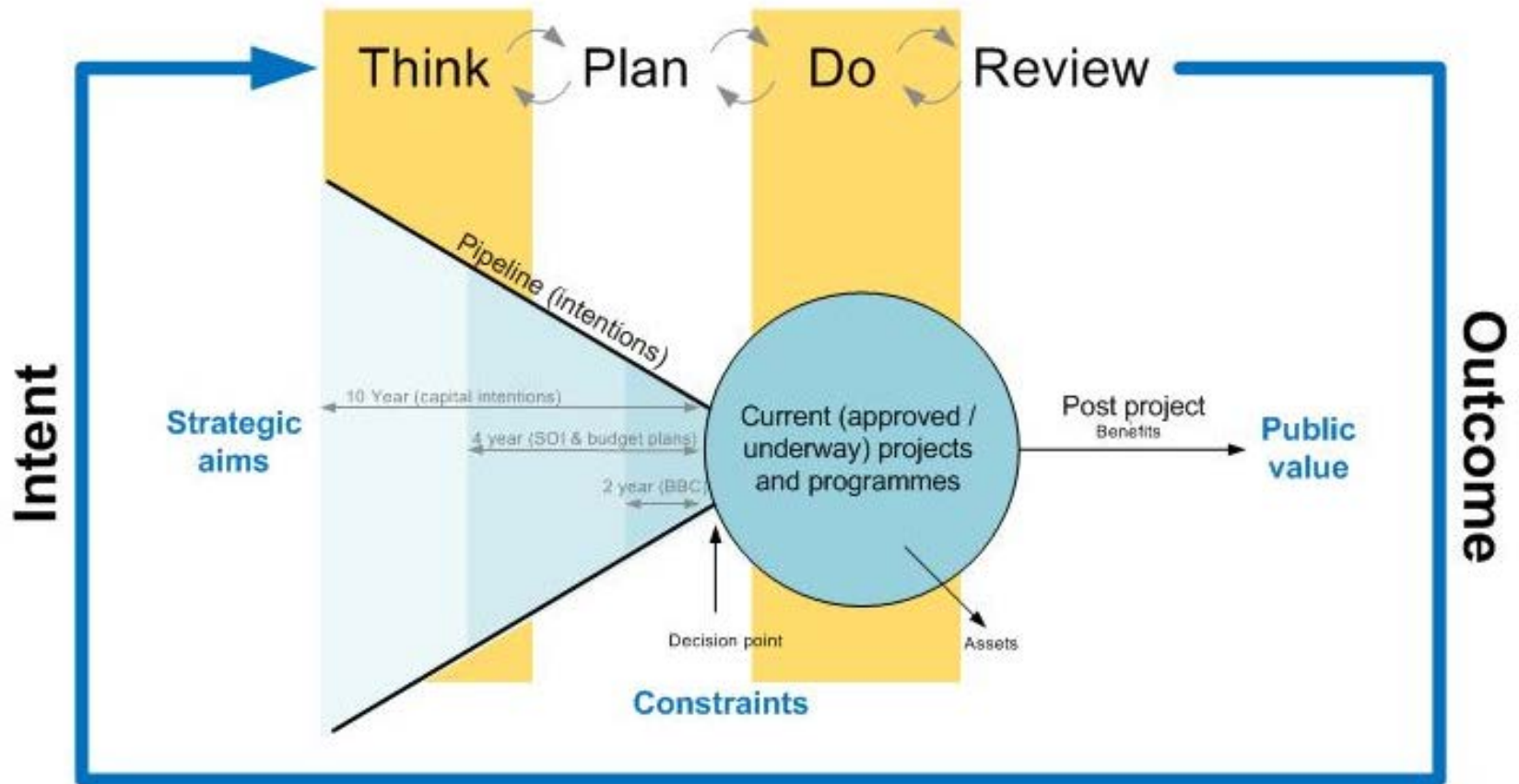
The investment management system is a combination of processes, rules, capabilities, information and behaviours.

Making good investment decisions

Requests for capital funding relative to available capital funding, by Budget year

	Capital allowance available	Requests for Capital
B15		
B16		
B17		

There are more opportunities and ideas than we can fund.

- B15 was oversubscribed by 313%
- B16 was oversubscribed by 358%
- B17 is oversubscribed by 448%
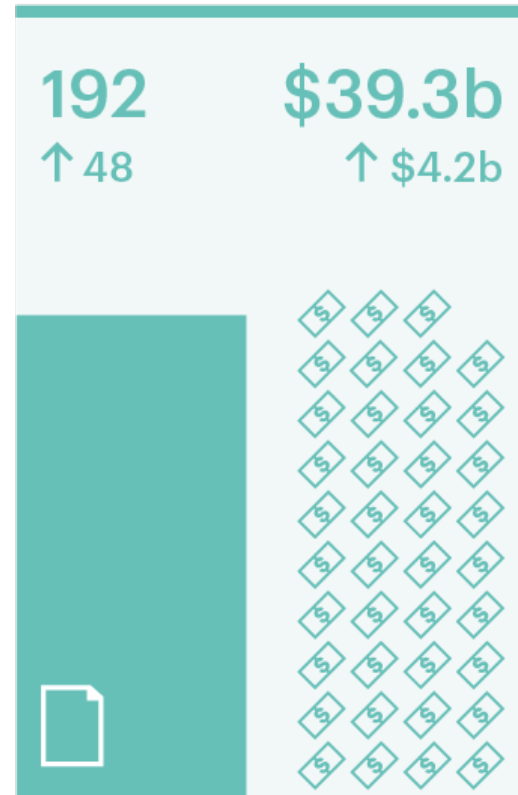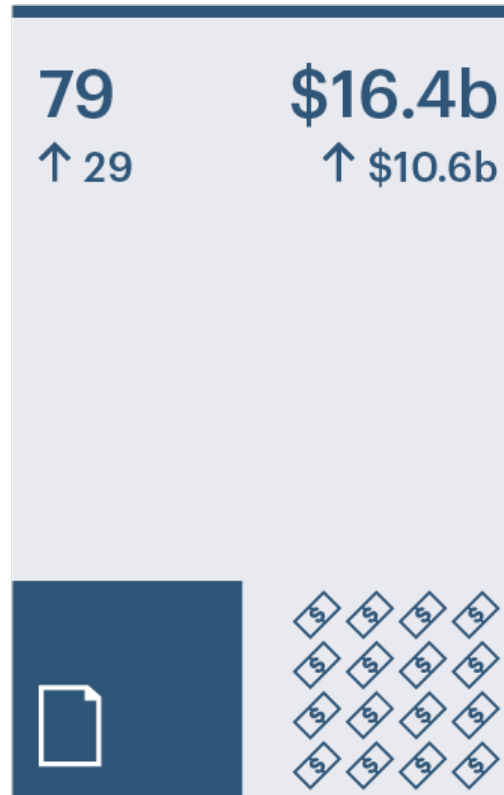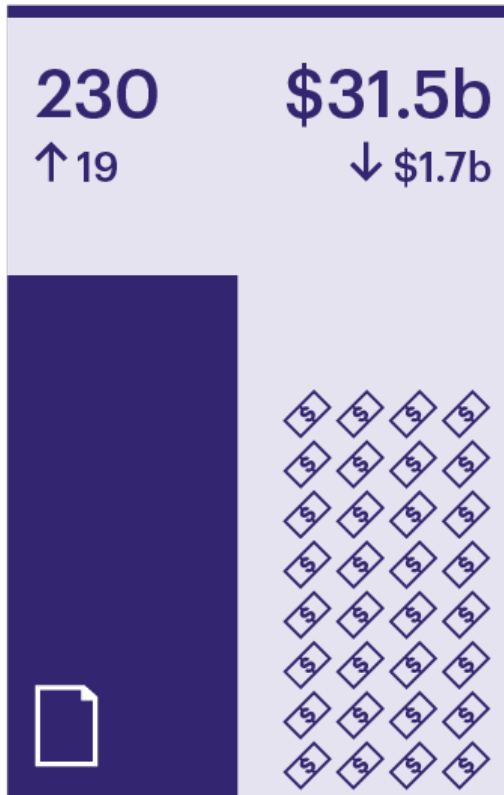
Government Investment drivers

Run

These investments enable government to continue to run core services. Investments in this category include property and equipment maintenance or replacement, and software procurement and enhancement.

230
↑ 19

$31.5b
↓ $1.7b

Grow

New government policies and agency strategies can grow the scope or quality of public services. This investment extends or enhances existing services; for example, building new education facilities to match growing demand.

**79**
↑ 29

$16.4b
↑ $10.6b

Transform

Some initiatives transform and fundamentally change the way services are delivered. These investments typically involve significant business change.

192
↑ 48

$39.3b
↑ $4.2b

Note: 7 projects ($0.2b) did not provide data on their primary investment driver and are not included above

Government Investment drivers in Long-term Investment Plans

Business as Usual

5

2

1

5

Affordable

2

2

1

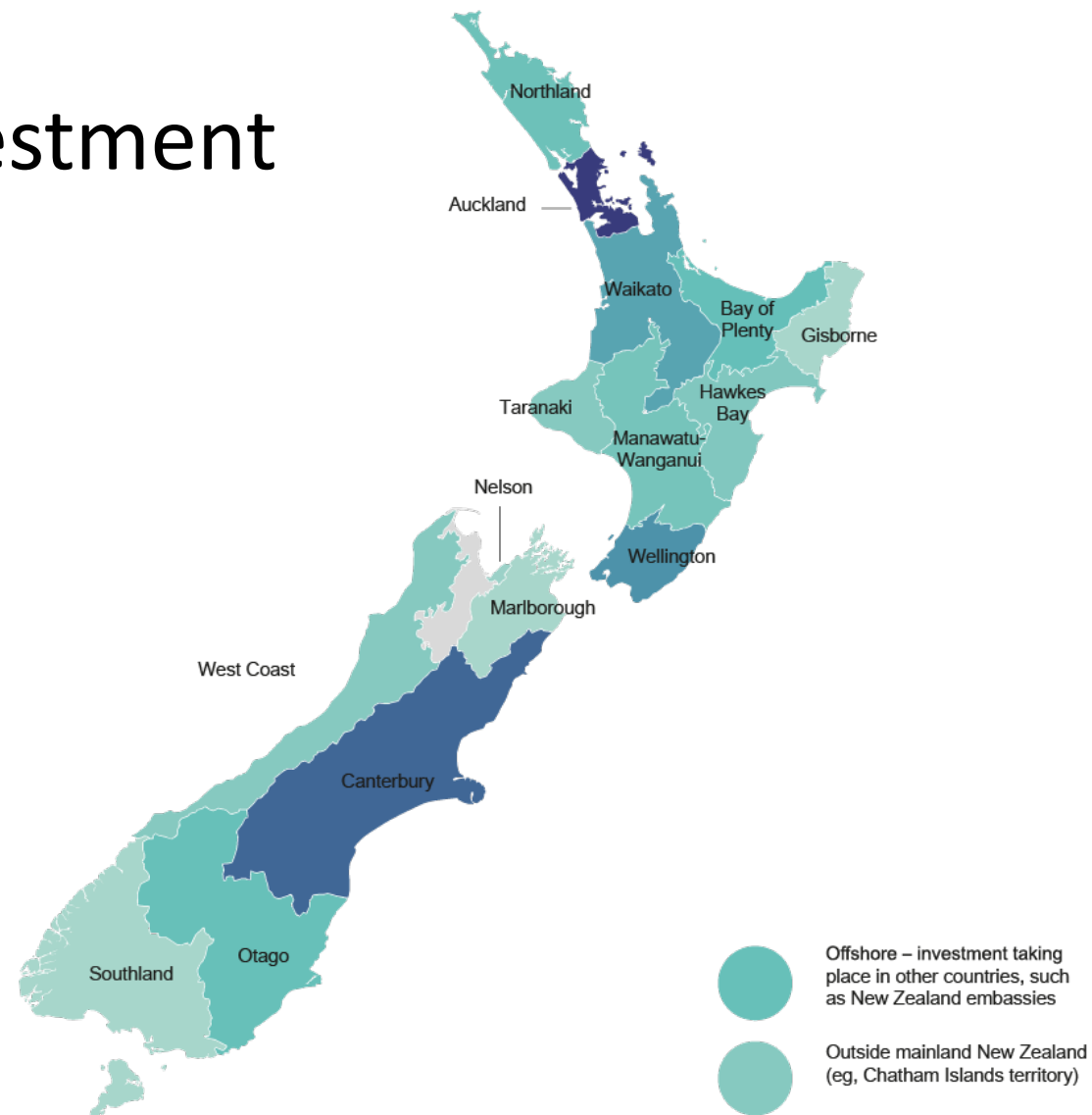Demand driven

2

Transformation
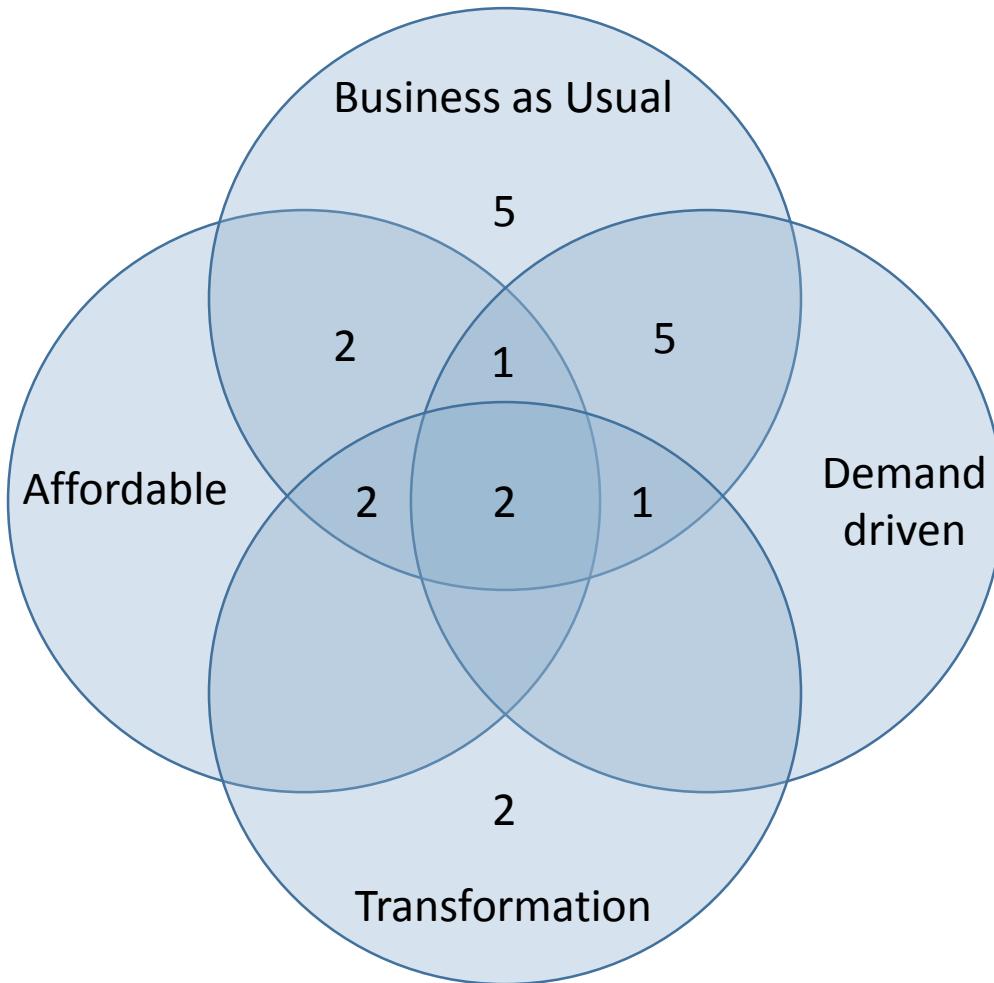
An overly BAU perspective can lead to unrealistic assumptions:

- no wage pressures
- continued efficiency gains
- that the Crown will always cover shortfalls in Opex and Capex
- consistent new capital funding
- that appropriations will increase to cover operating expenses.

What regional investment is underway?

- 48% of investments will benefit specific areas of New Zealand.

- Regional investment typically delivers local infrastructure like roads, schools, and better access to things like health care.

Offshore – investment taking place in other countries, such as New Zealand embassies

Outside mainland New Zealand (eg, Chatham Islands territory)

Colour corresponds to level of investment by whole-of-life cost

$0b $2b $4b $6b $8b $10b $12b $14b $16b $18b $20b

What sectors are attracting investment?

Project WOLC ($b)

Transport
$21b
68

Defence
$16.2b
58

Housing
$12.6b
9

Canterbury Recovery
$7.7b
27

Education and Skills
$7.6b
44

Health
$10.3b
151

Justice
$3.5b
35

Economic Development
$2.9b
28

Administration/ Business of Government
$2.9b 47

Social Development
$1.9b 37

Border
$0.6b
4
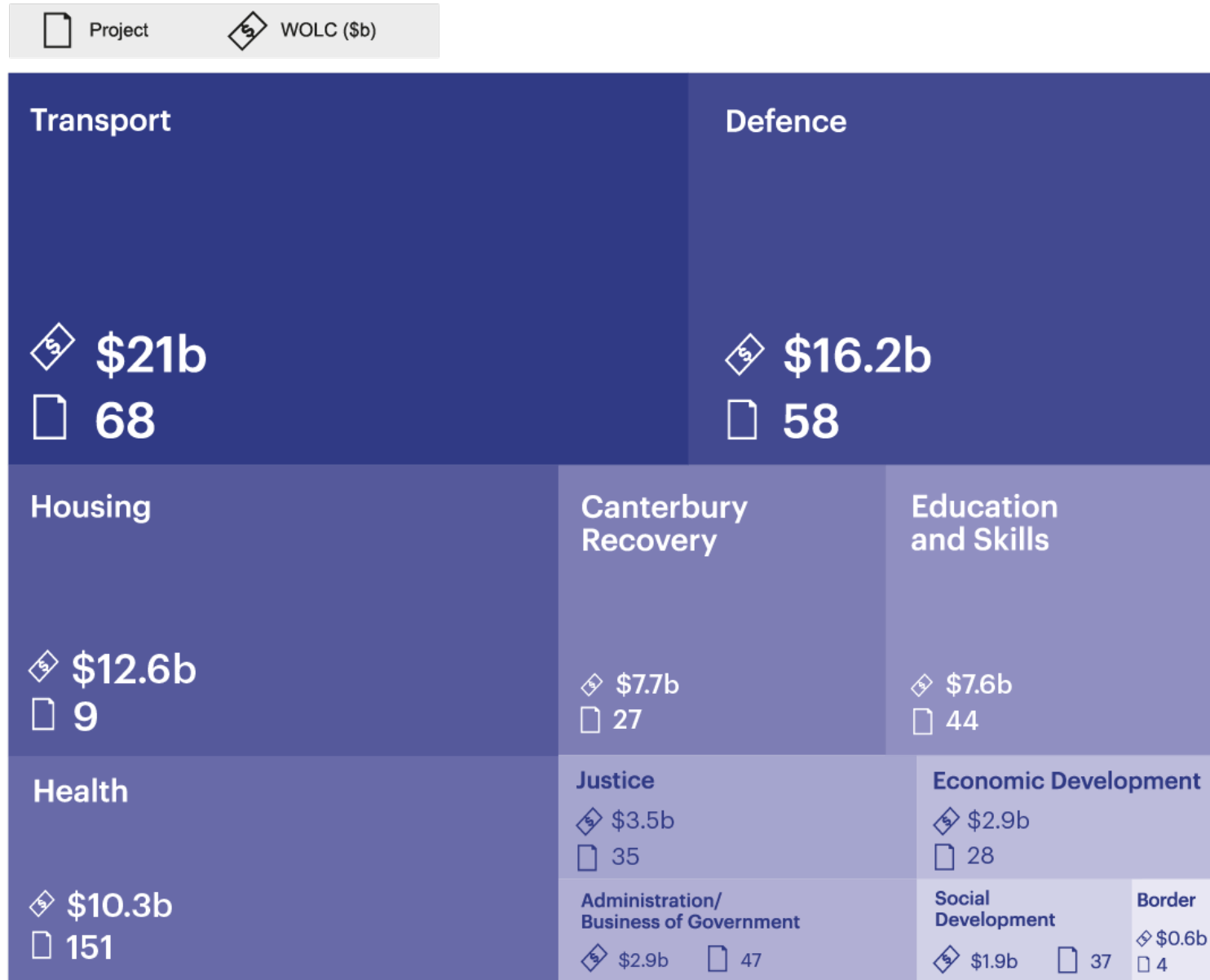
How are our investments performing?
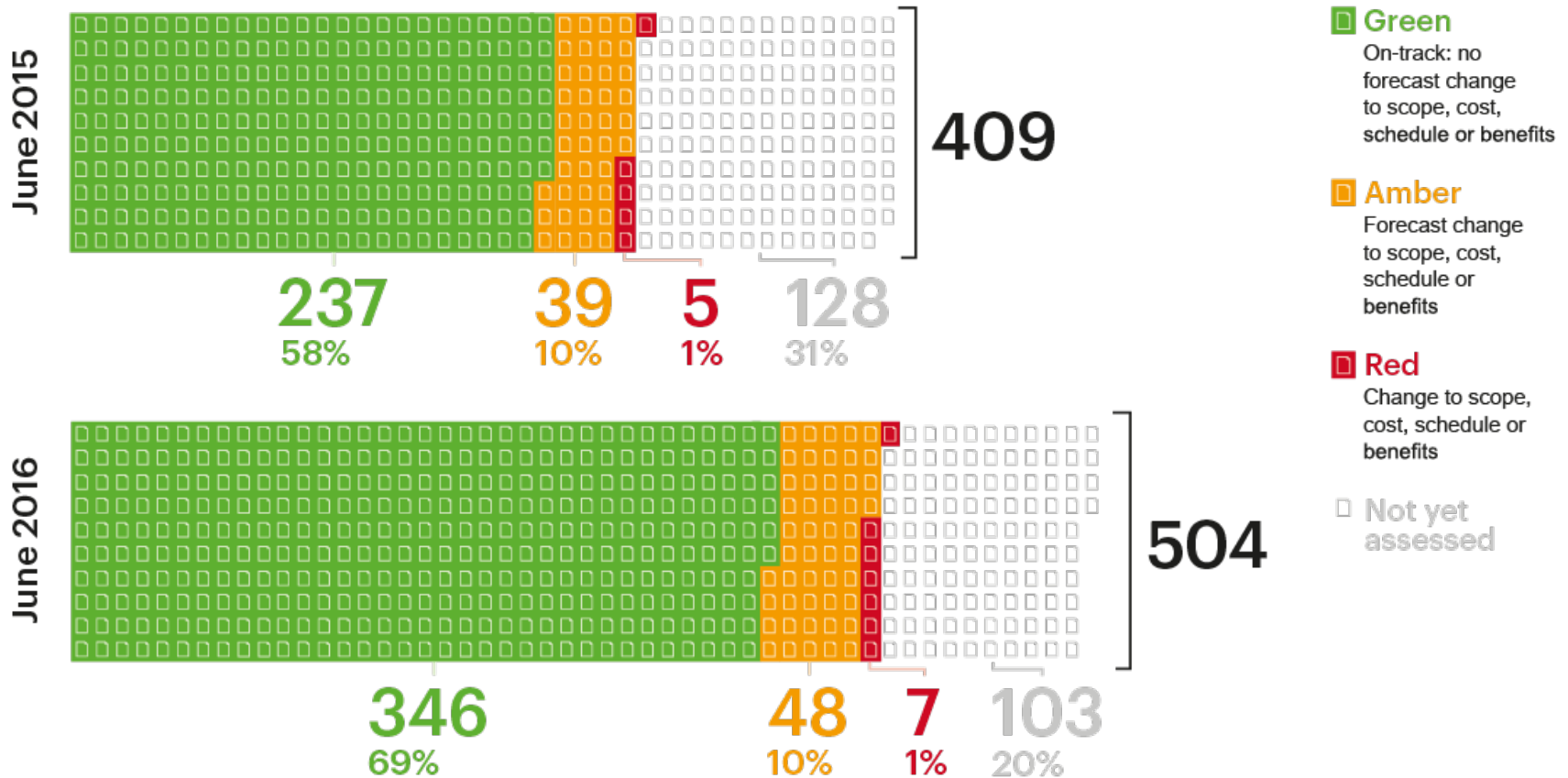
69% of the portfolio was assessed as Green, up from 58% last year

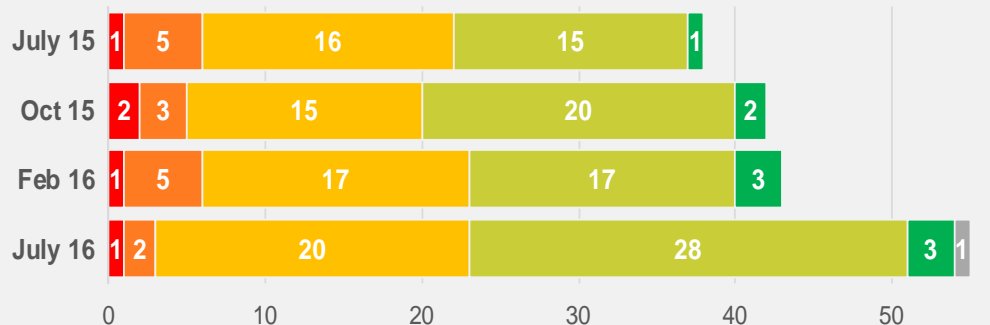# Major Projects Performance Report
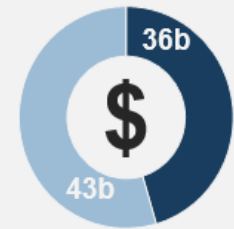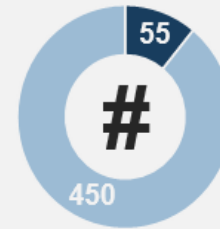
Impact of increased transparency:

- Increased focus on project performance

- Better quality data

- More real time information sharing

- Fewer redactions to the report

Major projects make up 11% of the government investment portfolio, but account for **45%** of the cost.

55
450
(number chart)

36b
43b
$ (cost chart)

Rest of investment portfolio ■ Major projects

Border $0.2b

Canterbury Recovery $2.9b

Culture and Heritage $0.2b

Defence $10.4b

Economic Development $0.7b

Education $0.3b

Foreign Affairs $0.2b

Health $1.4b

Justice $1.2b

Services Transformation $2.6b

Transport $15.8b

New Zealand Major Projects Portfolio monitoring delivery confidence assessments, July 2015 - July 2016

July 15	1	5	16	15	1
Oct 15	2	3	15	20	2
Feb 16	1	5	17	17	3
July 16	1	2	20	28	3	1

0   10   20   30   40   50

The grey project has yet to be assessed

- These are our riskiest projects

- There are always some experiencing challenges

The Investor Confidence Rating

#Investor Confidence Ratings

- **20** investment intensive agencies have now been assessed
- Investment intensive agencies account for **~65%** of the Crown's PPE balance sheet, with assets worth **~$87.5b**
- **4** agencies have received an A
- **9** agencies have received a B
- **7** agencies have received a C
- **0** agencies have received D or E
- **6** agencies have been offered increased approval thresholds for investments

Findings:

- All agencies have some strengths
- Some agencies have improved in specific areas
- There are common gaps:
  - The quality of long term planning.
  - Project, programme and portfolio management capabilities.
  - Asset performance.

Provisional

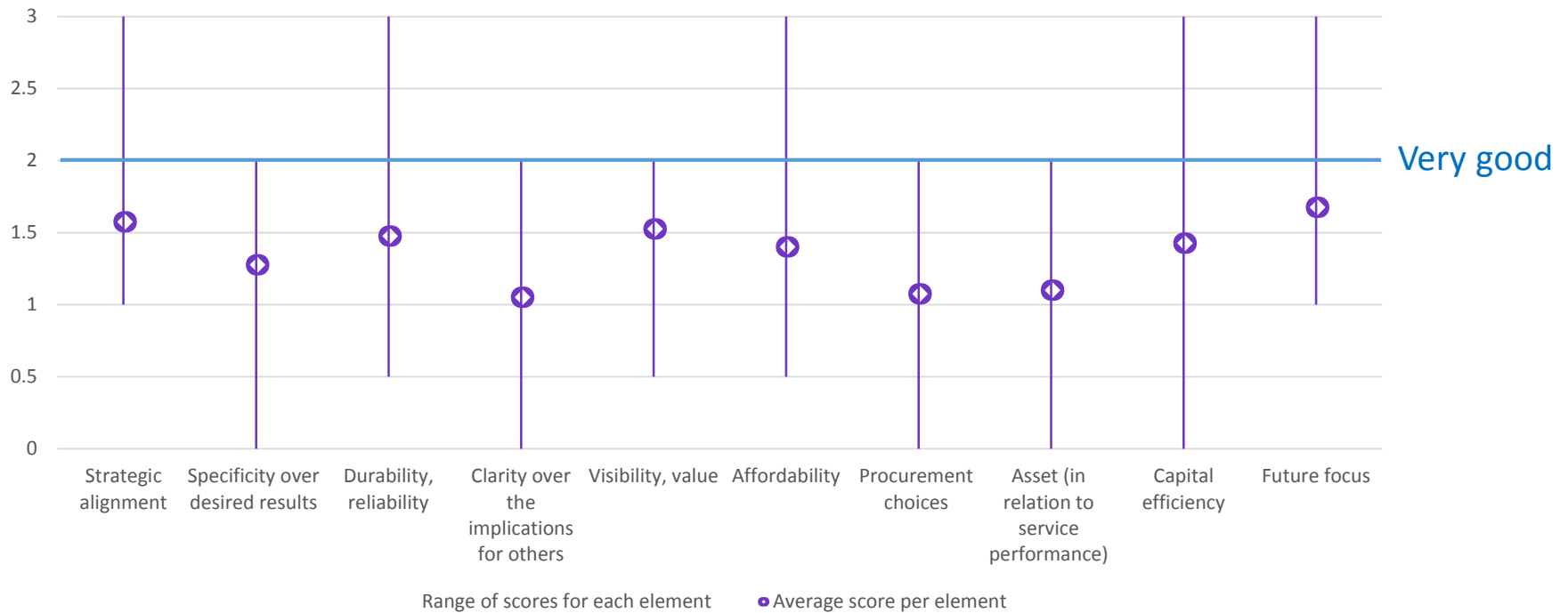# Quality of long and medium term planning
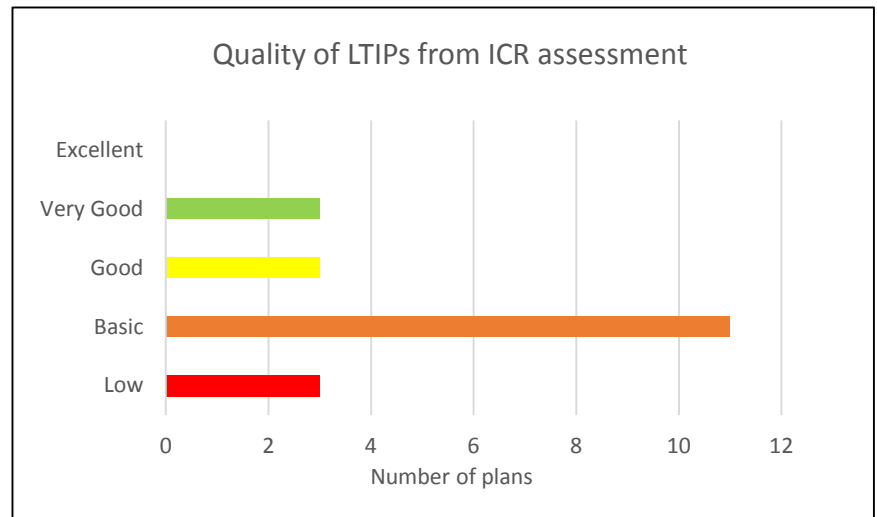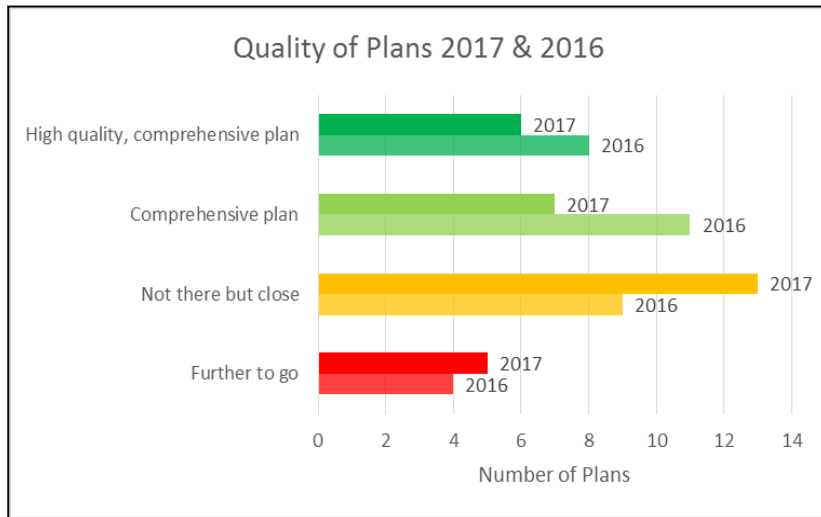
Corporate Centre assessments of 4-year plans from the 32 Departments and Offices of Parliament.

Corporate Centre assessment of 20 LTIPs from investment-intensive agencies.

Strengths and weaknesses in LTIPs

Long Term Investment Plan assessment findings
from 20 investment-intensive agencies

Very good

Strategic alignment · Specificity over desired results · Durability, reliability · Clarity over the implications for others · Visibility, value · Affordability · Procurement choices · Asset (in relation to service performance) · Capital efficiency · Future focus

Range of scores for each element — Average score per element

P3M3 Capability assessments

P3M3 average scores for 20 Investment Intensive agencies

Legend: Project, Programme, Portfolio, Lowest score, Highest score

Categories: Organisational governance, Management control, Benefits management, Risk management, Stakeholder management, Finance management, Resource management, Average total score
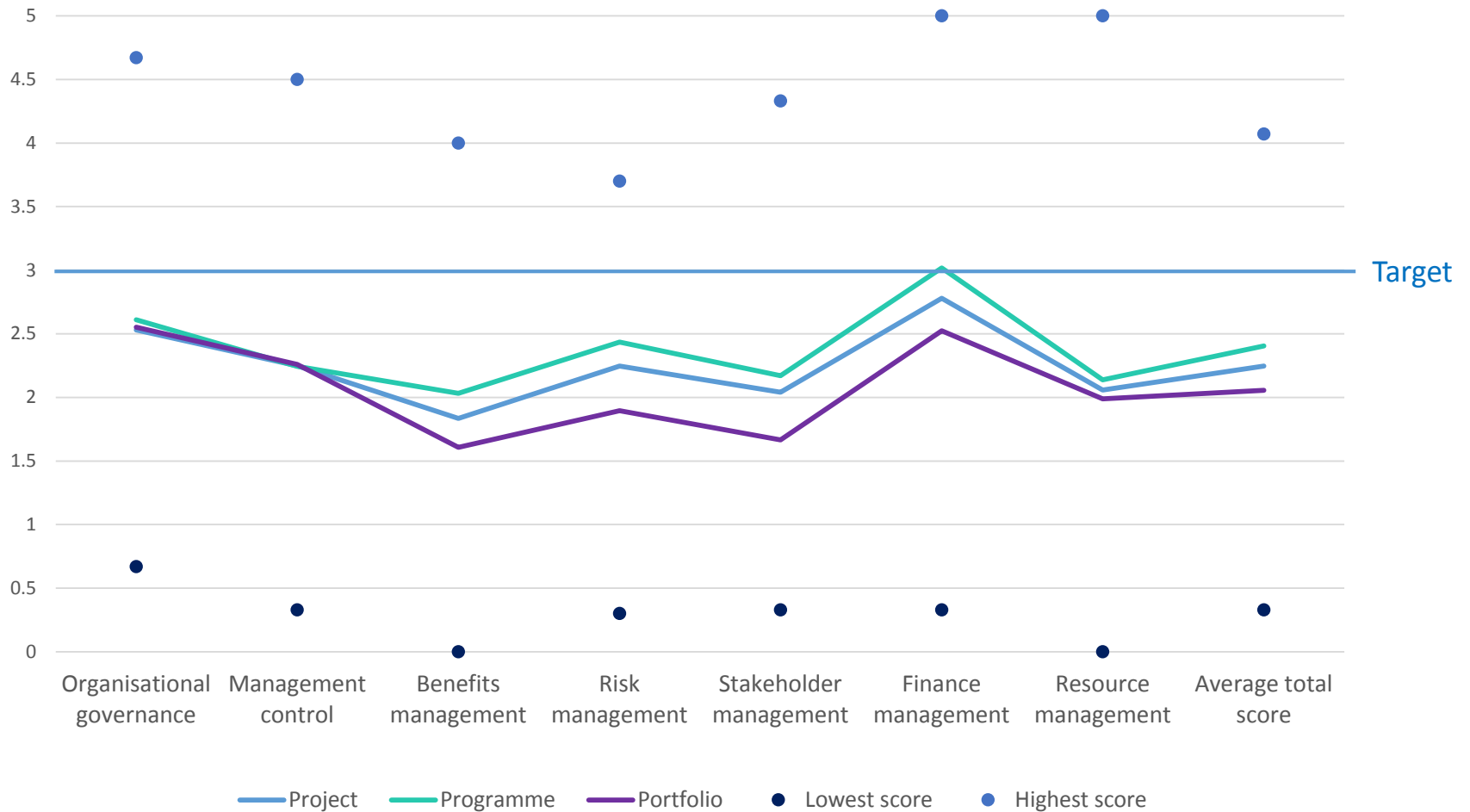
Emerging data - assets

- Last year the Treasury collected asset data from **24** investment-intensive agencies for the first time.

- These agencies have reported **279** different asset measures.

- Around **68%** of the **279** measures had a formal target for the 2015/16 financial year, and around **61%** of these targets were met.

- Overall this means asset performance targets were met for **42%** of measures.

- All agencies are expected to provide asset information in their annual reports form 2018

We have a large range of asset measures

Agencies have 3–4 measures for each asset portfolio, covering the main aspects of asset performance. In some cases agencies watch individual assets more closely (for example critical business information systems).

The quality of information is variable

Many agencies do not yet have suitable performance targets across all their asset portfolios.

Most agencies have asset types in common

Every investment-intensive agency manages both property and ICT networks. There is scope to normalise measures and targets for these portfolios.

Some agencies and sectors have specialised asset portfolios

For example, clinical equipment (District Health Boards), roads and infrastructure (New Zealand Transport Agency), and military equipment (New Zealand Defence Force). In these cases there is scope to focus on the target level of performance.

Looking forward – focus on benefits

- New investment review focussed on benefits realisation – pilot in June
- New benefits training "How to succeed as a benefits owner" available on the PSI
- Auckland-based Benefits Community of Interest was launched on 10 March
- Benefits now part of regular Government Project Portfolio data collection
- Benefits data will be aggregated and published as part of the next annual report on government investment to show public value
- Benefits report-backs to Cabinet will be implemented

Key takeaways

Planning improves performance and enables sustainable services. Contemplate the different ways the future could unfold and how this will impact the services you provide or the outcomes you influence.

Know where you're going. Many LTIPs have a missing end state. If you don't know where you're going, it really doesn't matter what investments you make.

Bust the silos. We often get different information and sense of priorities from different parts of an agency. Use longer-term planning as a tool to identify and reconcile these perspectives.

Investment proposals have to be strong. There are lots of good ideas competing for limited funding. Your proposals need to be well developed – collaboratively, where appropriate - to compete well for limited funds.

Identify and manage for benefits. This will help strengthen investment proposals by making sure expected benefits are worthwhile and valued, realistic and optimally realized. It also helps decision-makers choose the best options for NZ

Look wider. We sometimes compete with each other instead of working together when we're trying to do similar things at around the same time. We also need to better understand stakeholders/dependencies outside our agency.

Link asset management to service performance. This will help your agency see the benefit in looking after assets well. Making the most of what we already have contributes to sustainability – it stops waste, e.g. replacing something early.