



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

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 and Crown entity subsidiaries;
 - 1.3 companies listed on Schedule 4A of the PFA.
- 2 The circular supersedes Cabinet Office Circular CO (15) 5, and gives effect to Cabinet’s intention to make the best investment choices for current and future generations, ensure there is active stewardship of government resources, and maintain a strong alignment between individual investments and the government’s long-term priorities.
- 3 The focus of this policy is on:
 - 3.1 capital expenditure, asset disposals, lease arrangements, and “as a service” investments; and
 - 3.2 asset performance.

- 4 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:
- 4.1 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;
 - 4.2 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.
- 5 Ministers and chief executives should ensure that:
- 5.1 information in this circular is conveyed to all agencies affected by this circular; and
 - 5.2 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*.
- 6 In this circular:
- 6.1 all financial thresholds used in this circular are GST exclusive; and
 - 6.2 references to “agencies” means the types of organisations referred to in paragraph 1.
- 7 This circular is comprised of three sections and two annexes:

Section/Annex	Purpose
Section A	Outlines the objective of the government’s investment management system, system expectations and characteristics of the investment life cycle
Section B	Sets out the roles and expectations of parties involved in the system
Section C	Sets out the main operational requirements of the system
Annex 1	Sets out general approval thresholds for investments
Annex 2	Defines the main terms used in this circular

Section A: Investment Management System

General

- 8 The investment management system (the system) is a subset of the public finance system. It encompasses a set of processes, rules, capabilities, information and behaviours that work together to manage investments through their life cycles.
- 9 The system is complex with interrelated cycles spanning months and years. It converts business unit, agency, sector, system, and all of government needs into outcomes in a way that optimises value to New Zealand, working within financial and other constraints.
- 10 The system operates across the State services and through similar processes, capabilities and behaviours in agencies. For the system to be effective there needs to be a strong alignment of investment management interests at all levels.

Objective of the system

- 11 The primary objective of the investment management system is to optimise value from new and existing investments and assets for current and future generations of New Zealanders.
- 12 To that end, the system must:
 - 12.1 enable Cabinet and agencies to prioritise and coordinate significant investments according to government and State services long term priorities;
 - 12.2 establish, disclose and then deliver the agreed value from particular investments;
 - 12.3 promote good stewardship of Crown resources;
 - 12.4 enable all parties to exercise their required roles in a flexible and efficient manner; and
 - 12.5 make systematic use of performance information in government and agency investment management and decision-making processes.

System expectations

- 13 As each agency or party performs its roles in the system it should meet the following expectations:
 - 13.1 recognise and respect statutory and administrative roles, functions and authorities;
 - 13.2 work across government to develop, assess, and implement investments that improve wellbeing for New Zealanders;
 - 13.3 consider the needs of present and future generations of New Zealanders;
 - 13.4 operate management practices that meet the system objective, recognise and reduce investment risks, and improve Ministerial confidence in agency performance;
 - 13.5 share information on past, current and projected investment performance to inform all-of-government management and decision-making processes;
 - 13.6 build capability and minimise compliance costs by employing fit-for-purpose tools, methods, practices and policies.

Investment life cycle

- 14 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, across government, and with a wide range of stakeholders.
- 15 Each phase has different implications for agencies and decision-makers. Among these is the need to observe the approval thresholds (such as those in Annex 1).

The thinking phase

- 16 This phase involves identifying investment proposals that could deliver benefits to New Zealand over an agreed timeframe. This is an increasingly important part of agency planning that also helps inform the government's fiscal strategy. This phase involves revealing and challenging the assumptions that underpin current policies, strategies and business plans.
- 17 The purpose is to fully understand and define the underlying causes and effects of the problems or opportunities, the benefits that would accrue if these were addressed, and identify a broad range of potential responses.
- 18 Decision-makers want to understand why the issues need to be resolved and the array of potential investments available.

The planning phase

- 19 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, and the government budget process.
- 20 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 trade-offs between options and investments with different merits and costs.
- 21 This phase may result in divestment as well as investment decisions, and targeting resources to their best effect.
- 22 Agencies have to test the merits of an investment from different perspectives (for example, agency, system, sector or all-of-government). Before committing to the next phase, decision-makers need to consider:
- 22.1 the capability and capacity of agencies or markets to successfully deliver the investment;
 - 22.2 opportunities to scale, phase or consolidate investments;
 - 22.3 alternative ways of financing and funding investments; and
 - 22.4 the impact of such actions on the expected value of the investment.

The doing phase

- 23 This phase involves implementing the investment decision while focusing continuously on delivering the required benefits.
- 24 The purpose is to give investments the greatest possibility of success while maintaining control to avoid loss of value.
- 25 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 reviewing phase

- 26 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.
- 27 The purpose is to ascertain what else needs to be done to optimise levels of customer service and levels of asset performance over time.

Section B: Roles and expectations of parties in the system**Cabinet and Cabinet Committees****Investment matters requiring Cabinet approval**

- 28 Cabinet, with support from its Cabinet Committees, will consider matters relating to government policy, commitments and expenditure on infrastructure, investment, and procurement proposals.
- 29 Cabinet has investment decision rights on all investment proposals where the investment requires new Crown funding¹ or support.
- 30 Cabinet must also be given the opportunity to consider investment proposals that have significant fiscal and policy implications and can affect the government's reputation in the marketplace. In particular:
- 30.1 any public private partnership (PPP) investment proposals or any significant innovative or non-traditional approaches to procurement or alternative financing arrangements, even if funded from agency baselines and balance sheets;²
 - 30.2 other investments or asset divestments indicated in Annex 1; and
 - 30.3 any changes in general approval thresholds arising from the Investor Confidence Rating.

¹ The Minister of Finance, rather than Cabinet, has decision rights in relation to the giving of Crown guarantees or indemnities under Section 65ZD of the Public Finance Act.

² 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.

Cabinet Committees

- 31 Cabinet Committees will support Cabinet to perform its role under this Circular by:
- 31.1 shaping and clarifying government investment priorities;
 - 31.2 overseeing the delivery of government investment priorities and monitoring the achievement of investment goals and outcomes; and
 - 31.3 resolving any sequencing and timing issues in relation to significant investments, including infrastructure investments.

Ministers

- 32 Ministers can help create the conditions for effective investment and asset management by:
- 32.1 setting, and when necessary reconciling, government priorities and being clear about the desired outcomes for New Zealanders;
 - 32.2 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;
 - 32.3 respecting the investment system objectives, processes and authorities;
 - 32.4 challenging prevailing thinking about problems and solutions; and
 - 32.5 reinforcing expectations of State sector leaders to undertake collaborative investments, and working together to support priority agency and cross-agency initiatives to succeed.
- 33 Ministers responsible for Crown entities and shareholding Ministers responsible for Crown companies will invite boards of those agencies to adopt and apply Treasury assurance and business case guidelines.

Investments requiring Ministerial approval

- 34 Cabinet has agreed that responsible Ministers may approve investments or asset divestments in an agency as set out in Annex 1, Table 1, subject to any Cabinet-approved changes arising from the Investor Confidence Rating.

Departmental Chief Executives

- 35 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 state sector.
- 36 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.
- 37 Departmental chief executives may approve investments or asset divestments as set out in Annex 1, subject to any Cabinet-approved changes arising from the Investor Confidence Rating.

- 38 Departmental chief executives must ensure their agency's current medium-to-long-term 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.
- 39 Departmental chief executives will ensure agencies plan for and accumulate sufficient funding within existing balance sheets to retain the appropriate asset capacity needed to underpin current levels of service. Any projected shortfall in capacity should be incorporated in long term plans.
- 40 Chief executives will ensure agencies adopt and apply, as good management practice, Treasury guidance on investment management.³

Boards of Crown entities and companies

- 41 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.
- 42 Boards should adopt and apply, as good management practice, guidance on investment management published by the Treasury.⁴

The Treasury as system leader

- 43 The Treasury leads 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:
- 43.1 oversee and provide guidance on the performance of investments and assets;
 - 43.2 share investment information with agencies;
 - 43.3 develop and contribute to a network of investment and asset management excellence across the system;
 - 43.4 ensure all investment management guidance materials are consistent with and support the system objective and system expectations;
 - 43.5 review the effectiveness and efficiency of the system settings;
 - 43.6 determine the methodology for Investor Confidence Rating assessments;
 - 43.7 determine the appropriate level of centrally-required assurance activity (eg investment reviews such as Gateway reviews) and investment performance support, including advice to Ministers about investments;
 - 43.8 determine whether investments or asset portfolios are significant for the purposes of this circular;

³ <http://www.treasury.govt.nz/statesector/investmentmanagement>.

⁴ <http://www.treasury.govt.nz/statesector/investmentmanagement>.

- 43.9 periodically commission independent assessments of investment management capabilities and practices in agencies;
 - 43.10 report on the performance of the system; and
 - 43.11 provide advice on the performance of functional leaders operating within the system.
- 44 The Treasury will perform the above roles in consultation with relevant agencies, functional leaders, and the New Zealand Infrastructure Commission, Te Waihanga, as appropriate.

State Services Commission (SSC)

- 45 SSC has an overall system leadership role in relation to the State services. In relation to the investment management system, SSC will:
- 45.1 manage the performance of Public Service chief executives;
 - 45.2 support, develop and assess functional leadership across the State services;
 - 45.3 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;
 - 45.4 provide human resource and capability functional leadership, including development of senior leaders and strategies to address emerging skill gaps; and
 - 45.5 deliver aspects of assurance, including routine monitoring of public service departments and delivery of the Performance Improvement Framework.

New Zealand Infrastructure Commission, Te Waihanga (NZIC)

- 46 The NZIC has been established to lift the quality of infrastructure procurement and delivery in New Zealand.
- 47 The NZIC has two main roles in its empowering legislation, covering the provision of advice to:⁵
- 47.1 government on infrastructure strategy and planning, and
 - 47.2 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 PPPs.
- 48 The NZIC provides a first point of contact for interested parties in the infrastructure sector to receive information on current and future infrastructure projects.

⁵ <http://legislation.govt.nz/act/public/2019/0051/latest/LMS155571.html?src=qs>

Functional leaders

- 49 From time to time the Head of State Services appoints functional leaders to improve the effectiveness and reduce the overall costs to government of common business functions.
- 50 Agencies need to be aware of the mandated roles of functional leaders, which apply in differing ways in the system.
- 51 Details on the specific mandates for functional leaders can be found on the SSC website.⁶
- 52 In general terms the roles include:
- 52.1 setting standards;
 - 52.2 providing strategic direction, guidance, tools and templates for use by relevant government agencies;
 - 52.3 reviewing agency or sector functional strategies and plans;
 - 52.4 building relevant capability in agencies and across the system;
 - 52.5 providing relevant subject matter expertise;
 - 52.6 providing assurance that functional standards and policies are being met;
 - 52.7 approving certain plans or proposals; and
 - 52.8 reporting as required on aspects of functional leadership.

Monitors

- 53 Monitoring roles (in relation to a statutory entity) are provided for in the Crown Entities Act. Monitors may be departments or Crown entities.
- 54 As part of monitoring agency performance on behalf of the responsible Minister, monitors will adopt and apply guidance on investment management published by the Treasury, the NZIC and functional leaders.

Land Information New Zealand (LINZ)

- 55 LINZ is the department charged with maintaining geographical information and surveying functions as well as handling land titles, and managing Crown land and property.
- 56 The Crown estate comprises all publicly-owned land across New Zealand. LINZ supports agencies to optimise value from their land.

⁶ <https://ssc.govt.nz/assets/SSC-Site-Assets/MOG/System-Leads-Framework-public-facing-19sep19.pdf>

Section C: Operational requirements

Financial management

- 57 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 companion Cabinet Office circular CO (18) 2 *Proposals with Financial Implications and Financial Authorities*.⁷
- 58 Agencies must promptly seek an additional authority when it becomes clear that an approved financial authority is likely to be exceeded.
- 59 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.
- 60 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.

Investment planning and reporting

- 61 Agencies must have a current medium-to-long-term plan that meets the Treasury strategic planning and reporting guidelines.⁸
- 62 The effectiveness of the investment management system depends on high quality information on agency investment intentions and performance linked to outcomes. 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.
- 63 Whether applied at agency, system or sector level, strategic planning and reporting processes must apply the system expectations set out in this circular to reveal the potential impacts of strategic options, a pathway forward and a reliable basis for tracking performance over time.

Investor Confidence Rating

- 64 The Investor Confidence Rating provides an objective basis for confidence in an agency's investment performance and for expanding or constraining investment authorities.
- 65 The Treasury will use relevant investment performance information to determine an Investor Confidence Rating for investment-intensive agencies or sectors and report the results to Cabinet. The types of information and procedural expectations are published on the Treasury website.⁹
- 66 The Treasury may modify the Investor Confidence Rating methodology to ensure it is fit for purpose.

⁷ <https://dpmc.govt.nz/publications>

⁸ <https://treasury.govt.nz/information-and-services/state-sector-leadership/investment-management/think-investment-possibilities>

⁹ <http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr>

- 67 The level of investor confidence may affect an agency or sector in one or more of the following ways:
- 67.1 the ability to spend depreciation funding accumulated on a department's balance sheet;
 - 67.2 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);
 - 67.3 the retention of proceeds from asset disposals by departments;
 - 67.4 the level of authority to make different types of investment decisions relating to assets on the Crown account;
 - 67.5 the level of assistance available to the agency for improvement;
 - 67.6 the level of support for agency proposals for new funding;
 - 67.7 the level of assurance activity required;
 - 67.8 the level of project, programme or portfolio reporting by agencies;
 - 67.9 the assurance requirements an agency is to fulfil;
 - 67.10 whether agencies are recharged for additional interventions or support; and
 - 67.11 any other changes to the investment management system adopted by Cabinet in future.
- 68 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.

Reporting on investment performance

- 69 The Treasury will periodically report on the performance of all significant investments that have had or require Cabinet-level consideration. This report will cover:
- 69.1 the status of current significant investment intentions;
 - 69.2 an evaluation of actual benefits achieved compared with those expected from investments; and
 - 69.3 lessons learned from investment management practice.
- 70 Agencies will report to the Treasury on agency investment intentions and performance.
- 71 In respect of any Cabinet-approved investment, unless otherwise agreed by Cabinet, agencies must:
- 71.1 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;

- 71.2 provide information to Treasury at agreed intervals on the actual level of benefits achieved compared with those outlined in any significant investment; and
- 71.3 post on the Public Sector Intranet (PSI) copies of any benefits realisation reports, taking account of grounds for withholding information under the Official Information Act (OIA).

Asset management

- 72 Agencies must manage assets to ensure they deliver current and intended levels of service.
- 73 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.
- 74 Agencies must have current asset management plans to inform strategic, tactical, and operational choices.
- 75 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.
- 76 Agencies must report on relevant asset performance indicators in their annual reports.
- 77 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.¹⁰

Procurement

- 78 Agencies must apply the Government Procurement Rules.¹¹ These Rules are supported by published guidance that agencies should use where appropriate.
- 79 Agencies should engage early with the supply market to understand potential solutions and test ideas. Agencies must actively manage the supplier relationship to ensure delivery of the investment and to seek continuous improvement during the contract life.
- 80 Agencies must evaluate all procurement options, including innovative and non-traditional approaches to procurement and alternative financing arrangements, and should select the procurement approach that best delivers the investment objectives while optimising whole of life costs.¹²
- 81 Agencies must consult early with the Treasury in the planning for any significant investment (including any arrangements with Local Government Authorities seeking Crown funding or support).

¹⁰ For Crown property assets (excluding leased office accommodation), this can be obtained from Land Information New Zealand or Accredited Crown Property service providers. See <https://www.linz.govt.nz/crown-property>

¹¹ <https://www.procurement.govt.nz/procurement/principles-and-rules/government-procurement-rules>

¹² Current government policy precludes initiating the use of new Public Private Partnerships (PPPs) in the education, health and corrections sectors.

- 82 Agencies must consult early with the NZIC, and follow any relevant guidance published by the NZIC, if they are:
- 82.1 contemplating major investment in infrastructure (ie: where the whole-of-life cost (WOLC) of the proposal exceeds \$50 million), or
 - 82.2 considering any significant innovative and non-traditional approaches to infrastructure procurement, alternative financing arrangements, or PPPs.
- 83 The Treasury, the NZIC and relevant functional leaders (as appropriate) will determine the form of support for an investment, including identifying, evaluating and delivering commercial, procurement and financing options.

Investment assurance

- 84 Agencies must identify as early as possible all significant investment intentions in multi-year investment plans and in central government reporting processes.¹³
- 85 Agencies must develop all significant investment proposals in accordance with published Treasury business case guidance.¹⁴
- 86 Agencies must complete risk profile assessments (RPA)¹⁵ for all significant investments identified in multi-year plans. Agencies must provide to Treasury an RPA for any investment proposal that has a medium or high risk profile.
- 87 Ministers may also request that a project or programme be subject to appropriate assurance oversight by the Treasury or functional leader, or relevant monitoring department.
- 88 All investment proposals that are determined high risk by the RPA will have an appropriate level of assurance applied, including Gateway reviews.¹⁶
- 89 Agencies are expected to adopt and apply central agency and functional lead assurance guidance for all investments, including non-significant investments.¹⁷
- 90 Agencies responsible for any significant investment must develop and implement an assurance plan. 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.
- 91 Agencies may use a single integrated assurance plan for multiple investments within an agency or for multiple investments across agencies provided this is agreed with the Treasury, relevant functional leads and the monitoring department.
- 92 The Treasury or functional lead may at its discretion require the agency to provide the assurance plan (and any revisions) for review and, if necessary, make recommendations to the agency, or Cabinet and the responsible Ministers on changes that may be required.

¹³ Including government investment portfolio (GIP) reporting:

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

¹⁴ <https://treasury.govt.nz/information-and-services/state-sector-leadership/investment-management/better-business-cases-bbc>

¹⁵ <http://www.treasury.govt.nz/statesector/investmentmanagement/think/riskprofile>

¹⁶ <http://www.treasury.govt.nz/statesector/investmentmanagement/do>

¹⁷ <http://www.treasury.govt.nz/statesector/investmentmanagement/do>

- 93 By agreement in advance, central agencies or functional leads may commission and recharge agencies on a cost recovery basis for costs incurred in the provision of independent assurance services.

Sharing good practices and results

- 94 Agencies must provide the Treasury with a copy of Cabinet-approved business cases that can be shared with other agencies on the PSI, taking account of grounds for withholding information under the OIA.
- 95 The Treasury will develop and support specialist communities of investment practice or forums as a means of promoting good agency practice and lifting capability.¹⁸

Michael Webster
Secretary of the Cabinet

Enquiries:
Your Treasury Vote team

¹⁸ <https://treasury.govt.nz/information-and-services/state-sector-leadership/office-government-accountant>

Annex 1: General approval thresholds for investments

Table 1: Departmental investments			
Type of proposal	Cabinet approval required	Responsible Minister approval required	Departmental chief executive approval required
Crown support			
All investments that require new Crown funding or support	✓		
High profile procurements			
Any public private partnership (PPP) investment proposals, or any significant innovative or non-traditional approaches to procurement or alternative financing arrangements, even if funded from agency baselines and balance sheets	✓		
Baseline funded investments			
All investments with a WOLC over \$25 million, if funded from baselines and balance sheets	✓		
All investments with a WOLC of between \$15 million and \$25 million, if funded from baselines and balance sheets		✓	
All investments with a WOLC of up to \$15 million, if funded from baselines and balance sheets			✓
Disposals/disinvestments			
Proposals to dispose of assets held on the Crown account	✓		
All proposals to dispose of assets with a carrying value of \$25 million or more	✓		
All proposals to dispose of assets with a carrying value of between \$15 million and \$25 million		✓	
All proposals to dispose of assets with a carrying value of up to \$15 million			✓
Other			
All high risk ¹⁹ or high value investments, irrespective of the scale and funding source	✓		

¹⁹ The investment risk profile is determined by the Treasury based on its risk profile assessment methodology (RPA). See: <http://www.treasury.govt.nz/statesector/investmentmanagement/think/riskprofile>

Table 2: Investments by Crown entities and Schedule 4A companies			
Type of proposal	Cabinet approval required	Cabinet consideration required	Consultation required with the responsible Minister²⁰
Crown support			
All investments that require new Crown funding or support	✓		✓
High profile procurements			
Any public private partnership (PPP) investment proposals, or any significant innovative or non-traditional approaches to procurement or alternative financing arrangements, even if funded from agency baselines and balance sheets		✓	✓
Disposals/disinvestments			
Proposals to dispose of assets held on the Crown account		✓	✓
Other considerations			
All high risk ²¹ or high value ²² investments, irrespective of the scale and funding source		✓	✓

²⁰ 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](#)

²¹ The investment risk profile is determined by the Treasury based on its risk profile assessment methodology (RPA). See: <http://www.treasury.govt.nz/statesector/investmentmanagement/think/riskprofile>

²² See the definition of Value in Annex 2 as basis for discussion

Annex 2: Interpretation

Terms used in this circular have the following meanings:

Asset means a resource presently controlled by the entity as a result of a past event.²³

- 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.
- Examples of assets include: land, buildings, state highways, specialist military equipment, specified cultural and heritage assets, computer hardware and software.

Asset performance means the extent to which assets meet the agreed levels of service.

Asset portfolio means a group of assets with similar characteristics and use.

Central agencies means the State Services Commission (SSC), the Treasury and the Department of the Prime Minister and Cabinet (DPMC).

Functional leaders means those individuals or business units appointed by the Head of the State Services to give effect to functional leadership.²⁴

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.²⁵

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 receiving future benefits. Resources are typically committed through projects or programmes or portfolios.

- Investment includes the following activities, irrespective of funding source²⁶ or appropriation type²⁷ 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;

²³ For further explanation of financial reporting concepts see the PBE Conceptual Framework.

²⁴ The State Services Commissioner has overall responsibility for functional leadership but can delegate this responsibility by appointing functional leaders within the Public Service.

²⁵ The current functional leaders are listed at <https://ssc.govt.nz/assets/SSC-Site-Assets/MOG/System-Leads-Framework-public-facing-19sep19.pdf>

²⁶ Funding sources include baseline, private investment, new funding etc. Appropriation types include expenses or capital expenditure, and departmental or non-departmental.

²⁷ Investments, as defined in this circular, is wider than the appropriation type: Capital Expenditure, that authorises the costs of assets acquired or developed.

- 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);
- In this context, investments exclude financial investment functions performed by Crown Financial Institutions (CFIs)²⁸, or New Zealand Debt Management²⁹ and non-departmental official development assistance.

Investment-intensive agencies are those agencies covered by this circular that manage large or service-critical portfolios, programmes or projects. Cabinet approves the list of such agencies from time to time.³⁰

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

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.

Investment reviews means an independent, periodic review of an investment.

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.³¹

Major infrastructure projects refers to infrastructure projects with whole of life costs over \$50 million.

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.

Significant means one or more of the following:

- a high degree of importance of an investment issue, proposal, or decision in terms of its likely impact on, and likely consequences for the Crown or the agency or sector, customers or clients, or the capacity of State services agencies to perform their functions; or the government’s fiscal strategy; or the government’s investment or infrastructure strategy³²; or
- an investment proposal that requires 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.
- The thresholds for significance for a given agency or sector, may vary according to decisions made through the application of the Investor Confidence Rating.

²⁸ Includes Guardians of New Zealand Superannuation, Government Superannuation Fund Authority, National Provident Fund, Earthquake Commission and Accident Compensation Corporation.

²⁹ The part of the New Zealand Treasury responsible for managing the Government’s debt and overall cash flows

³⁰ Investment-intensive agencies are listed at: <http://www.treasury.govt.nz/statesector/investment-intensive-agencies>

³¹ <http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr>

³² <http://www.treasury.govt.nz/statesector/investmentmanagement>

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.³³

- In this circular, WOLC is used as a metric for assigning decision rights over particular investments.
- This metric requires the agency to consider the downstream economic costs as well as the initial economic costs of the investment proposal.

Value in this context means the net fiscal, economic and wellbeing benefits of an asset or investment proposal over its life cycle taking into account dimensions of effectiveness, efficiency, sustainability, resilience and adaptability. These dimensions are expressed as:

- **Effectiveness** – the extent to which the asset or investment delivers the required level of service in support of the Government’s wellbeing priorities.
- **Efficiency** – the extent to which the asset or investment makes best use of resources to deliver the required level of service, while minimising negative impacts.
- **Sustainability** – the extent to which the asset or investment is able to deliver required levels of service for present and future New Zealanders.
- **Resilience** – the extent to which the asset or investment can participate in, absorb, accommodate, or recover from the effects of an event in a timely and efficient manner.
- **Adaptability** – the extent to which an asset or the investment can respond to long term trends, new technologies or changes in the way services need to be delivered.

³³ For further guidance on Whole of Life Costs and The Public Sector Discount Rate see <http://www.treasury.govt.nz/publications/guidance/costbenefitanalysis>