



CAPITAL ASSET MANAGEMENT REVIEW

R E P O R T

CAPITAL ASSET MANAGEMENT REVIEW – TRANCHE 3: THE QUALITY OF ASSET MANAGEMENT INFORMATION

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1. EXECUTIVE SUMMARY

This paper provides an assessment of the quality of the Capital Asset Management (CAM) information available to Treasury and is part of a wider review of Capital Asset Management regimes in the Public Sector. A key factor in the assessment was to determine the intended use of CAM information, which was not immediately apparent. Therefore a significant part of the review focussed on identifying possible Treasury roles in CAM and the information necessary to support each role. Existing information sources were then assessed against these requirements, gaps were identified and options to improve the information were considered.

Key Findings:

1. Treasury currently has limited involvement in the management of fixed assets at the organisational level. Chief Executives of government departments and crown entity boards are responsible for the management of fixed assets and in general Vote Analysts do not become involved in CAM issues unless proposed expenditure exceeds the prescribed limits, a budget bid is submitted for additional funding, or there have been issues with the agency (section 3.2).
2. To support achievement of its outcomes and the direction of the “Stepping Up” initiative, Treasury may need to increase the emphasis on the Leadership, Monitoring and Assurance roles in CAM (section 3.2).
3. The review identified seven roles for Treasury in CAM. These roles are not necessarily of equal significance - the emphasis given to each role and the nature of Treasury activity within each role will depend on the nature of the agency being considered. The roles include (section 3.3):
 - *Provision of fiscal advice*
 - *Provision of consolidated forecast and historical information*
 - *Funds Management*
 - *Monitoring of CAM performance*
 - *Assurance around CAM controls and processes*
 - *Evaluation of investment in capital assets*
 - *Leadership in CAM*
4. Treasury currently derives information on CAM from ten existing sources. CAM information is largely collected as a by-product of information collected for other purposes (sections 4.1 & 4.2).

5. The key gaps in CAM information currently available to Treasury include (section 5.1):
 - *Details of existing significant capital assets*
 - *Explanation of links between significant capital assets, outputs and agency and Government outcomes*
 - *Information to assess the effectiveness of capital assets (ie bench-marking, output and utilisation information linked to significant capital assets)*
 - *Significant medium-term forecast funding requirements for capital assets (above baselines)*
 - *Significant long-term forecast funding requirements for capital assets (above baselines)*
 - *Delivery against implementation plans and budgets for new capital initiatives (ie achievement of milestones, budgets and performance measures identified business cases)*
 - *Evidence that an appropriate capital asset management plan is in place to guide the acquisition, maintenance and disposal of fixed assets*
 - *Evidence that appropriate policies, procedures and controls are in place to ensure that fixed assets are protected, held securely, maintained, and purchased & disposed of within appropriations and delegated authority*
 - *Information on CAM practices at agency level to identify issues and provide examples of frameworks, tools, guidelines and best practice*
 - *Medium-term (1 – 5 years) forecast funding requirements to maintain and replace existing assets, and for new initiatives (including amounts and timing of funding requirements) for funds management purposes*
 - *Forecast capital requirements and key implementation milestones for new capital initiatives (including amounts, dates and approval references).*

6. The primary cause of these information gaps is that Treasury does not have a single system or process to collate CAM information across the public sector but relies on the information collected for other purposes through a myriad of different sources. By default CFIS and SOIs (and to a lesser extent Annual Reports) have become the primary source of information for Treasury on CAM which have inherent limitations (section 5.1). The limitations of information derived from CFIS and SOIs include:
 - *Information is at a consolidated level*
 - *Forecasts are based on existing baselines plus any cabinet approved expenditure and therefore do not necessarily reflect capital expenditure requirements*
 - *Forecasting is short term (information is forecast in CFIS over a 5 year time horizon; information is forecast in SOIs over a 3 year time horizon for crown entities and a 1 year horizon for departments).*

7. Options to improve the quality of CAM include (section 5.2):
 - *Rectify gaps in existing sources*
 - *Access CAM information from other sources*

- *Develop new systems to collate CAM information*
- *Focus CAM information needs on “capital asset intensive” departments and crown entities.*

Recommendations:

It is recommended that Treasury:

Strategy

1. Focuses its CAM information requirements around the eight “capital asset intensive” agencies that manage 92% of the investment in Public Sector Assets ¹ rather than taking an “across the board” approach to collecting CAM information. CAM information for these capital intensive agencies could be sourced from existing capital asset management plans or systems, although an assessment should be made of existing plans as recommended below. (section 5.2).
2. Relies on CAM information from existing sources for the vast majority of departments and crown entities which account for the remaining 8 % of investment in capital assets. However some of the more significant information gaps will need to be rectified and the use of capital asset management plans will need to be encouraged as identified in the recommendations below. (section 5.2).
3. Increases the emphasis on its leadership role in the design, maintenance and operation of a Capital Asset Management framework for the public sector. This role includes setting clear expectations, providing tools and guidelines, promoting best practice, providing advice and initiating remedial action when problems arise (section 3.3).

Capital Asset Intensive Agencies

4. Gains assurance that effective capital asset management plans are in place in “capital asset intensive agencies” and can provide quality CAM information. This could be achieved through one-off audit activity. Where issues arise, Treasury should provide guidelines, tools and advice to assist the agencies to improve their capital asset management plans (section 5.2).
5. Establishes a process to regularly collate CAM information from existing capital asset management plans in capital asset intensive agencies and feeds this into Treasury’s internal information sources so that it meets the information needs of Treasury’s CAM roles (section 5.2).
6. Collates additional information on an ad hoc basis from capital intensive agencies to monitor CAM performance and evaluate the effectiveness of the Crown’s investment in capital assets (section 5.2).

¹ *These agencies exceed \$1 billion in capital assets and include Transit, Housing NZ, Tertiary Education, DHB’s, TAMU, Education, NZDF, Corrections. - refer to Appendix 2.*

Non-Capital Intensive Agencies

7. Encourages all departments and crown entities to develop and implement effective capital asset management plans. These plans will provide a source of additional CAM information for performance and evaluation purposes which could be accessed on an ad hoc basis (section 4.2 - 10).
8. Gains assurance that effective capital asset management plans are in place through audit activity (this could be provided via the yearly audit, or through a revamped DICE process) (section 4.2 – 7).
9. Relies on CAM information from existing sources, but rectifies the following key information gaps by (section 5):
 - Extends CFIS reporting to include forecast funding requirements for maintenance and replacement of capital assets (in addition to existing baselines plus cabinet approved expenditure which is currently reported). Consideration should also be given to extending forecast information to at least 10 years (although up to 50 years may be appropriate for some agencies, depending on the nature of their capital assets) to reflect the funding requirements of capital assets over their operational life.
 - Provides Vote Analysts with wider future access to budget initiative information in CFIS. This will give them access to the details of significant capital assets which is necessary for Treasury's evaluation role.
 - Encourages government departments and crown entities to extend the time horizon of SOIs to at least 5 years (although longer timeframes may be more appropriate for agencies in sectors with long life cycle assets such as housing and transport) and to include forecast requirements for maintenance and replacement of significant capital assets.
 - Encourages government departments and crown entities to include an Asset Management section in both SOIs and Annual Reports to provide assurance around CAM, productivity measures of key capital assets and to identify asset related risks.
 - Develops guidance material and templates for business cases to improve the consistency of information and analysis.
 - Reviews the DICE questions related to CAM (ie section 14 - property, plant and equipment) and methodology for assessing control mechanisms to increase the level of assurance around capital asset management plans.
 - Considers extending DICE to cover crown entities.
 - Considers using DICE to support Treasury's leadership role in CAM by identifying examples of best practice across the public Sector and agencies needing additional advice or support.

10. Considers including a focus on CAM in 2006/07 financial year audit to gain some short term assurance around Capital Asset Management.

2. OBJECTIVES

2.1 PURPOSE OF THE REVIEW:

The Cabinet Business Committee has requested that Treasury undertake a review of Capital Asset Management (“CAM”) and report back by September 2006 (CBC Min (06) 8/5 refers). There are two distinct components to this review. The first is a review of asset management regimes in the public sector management system. The second is a more specific assessment of prevailing asset management policies and practices in Justice and Defence sectors against best practice.

The first component is further divided into three levels. Level one considers whether existing system-wide arrangements encourage or provide adequate incentives for efficient and effective use of capital resources and is further divided into four Tranches of work. This paper undertakes the work required for Tranche three by providing an assessment of “the quality of the capital asset management information available to Treasury and other monitoring departments”².

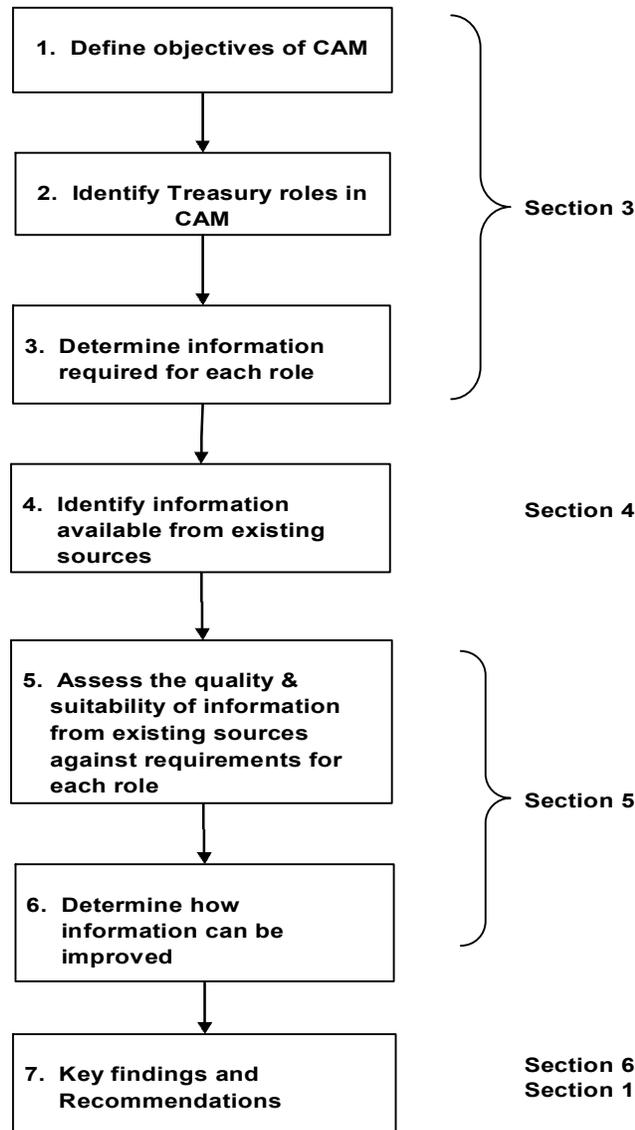
This paper considers the following key issues:

1. The roles for Treasury and other monitoring agencies in capital asset management
2. Fitness for purpose of existing capital asset management information available to Treasury or other monitoring departments to meet these roles
3. The need to enhance Treasury and monitoring agency information systems (in terms of coverage and reliability) to provide useful inputs for long term financial forecasts
4. Options to improve the usefulness of information relating to capital asset management within the existing financial management framework.

² To contain the scope of this paper it was agreed with the sponsor that the information requirements of monitoring departments could be assumed to be a subset of Treasury information requirements

2.2 REVIEW METHODOLOGY

The methodology for the review of the quality of capital asset management information available to Treasury involved the following process:



Steps one to three involved interviews with Treasury staff and a review of relevant documents (refer appendix 3). Steps four to six involved consideration of Treasury systems (ie CFIS and Inspect-a-risk), discussions with Treasury staff and analysis of formal reporting documents for the 20 sample agencies identified in Tranches 1 & 2 of the review (refer appendix 2 for a list of the sample agencies and appendix 3 for a list of the documents reviewed).

2.3 DEFINITIONS

For the purposes of this project:

Capital assets are defined as physical or fixed assets. *The Guide to the management of Departmental fixed assets* (1991) defines a fixed asset as “an asset which possesses a physical form and which is intended to be used in the business on a long term basis in order to earn income or to produce outputs”³. A fixed asset should have the following characteristics:

- It should be able to provide services or benefits to the entity that uses it;
- It should have an estimated useful life of greater than 1 year;
- It should be used by the entity in pursuit of its objectives; and
- It should be under the control of the entity so that the entity benefits from it ⁴.

In practical terms these assets will comprise items such as plant, equipment, machinery, vehicles, office equipment, office fitouts, property, buildings and land.

Capital asset management is defined as the process that ⁵:

- Guides the acquisition, use and disposal of assets, and makes the most of their service delivery potential;
- Ensures that capital assets meet the organisation’s service delivery requirements; and
- Manages risks and costs over the life of the asset.

Capital asset management information includes management information, budget submissions, Cabinet papers or other documentation intended to reveal the asset management performance of a department or crown entity (SOEs and CrOCs are outside the scope of this paper).

³ *A Guide to the Management of Departmental Fixed Assets, The Treasury, 1991, page 9*

⁴ *A Guide to the Management of Departmental Fixed Assets, The Treasury, 1991, page 12*

⁵ *Capital Asset Management Review project documentation*

3. ROLES & INFORMATION NEEDS

3.1 OBJECTIVES OF CAPITAL ASSET MANAGEMENT

The objectives of capital asset management are to ensure that the physical assets of the organisation are ⁶:

- Assisting the organisation to achieve its outcomes;
- Efficient and cost effective;
- Maintained in good operating condition;
- Protected and held securely; and
- Valued accurately and consistently.

An asset management plan assists the achievement of these objectives by ensuring that ⁷:

- There are procedures and policies in place which, when followed, will result in consistently good asset management throughout the organisation;
- The organisation can assess its ability to meet its physical asset needs through present funding and can take action now to prevent future problems;
- The management of physical assets is consistent with, and linked to, the strategic plan; and
- Costs related to physical assets are properly documented and reflected in the costs of outputs.

While capital asset management is, by necessity, undertaken at the decentralised level, Treasury has a number of roles reflecting its functions as both a central agency and as the Government's principal fiscal and economic advisor. Treasury's roles in departmental and crown entity capital asset management are outlined in the following section.

⁶ Derived from the DICE criteria for Property, Plant and Equipment, Departmental Internal Control Evaluation, The Treasury, June 2001, page 19

⁷ Management of Physical Assets, Report of the Controller and Auditor-General, second report for 1993, page 34

3.2 BACKGROUND

The value of capital assets under Crown management is significant. As at 30 June 2005, the Crown had a total of \$67.5 billion of property, plant and equipment under management⁸, which represents around 16% of the net capital stock of the country. Each year, the Crown incurs a depreciation expense on those assets of around \$2.5 billion (1.6% of GDP), and an equivalent amount plus an additional \$0.5 - \$1.0 billion is spent on new capital investment.

Looking forward, the Treasury projects that the value of Property, Plant and Equipment will grow to around \$147 billion by 2024/25.⁹ While growth in Crown-owned marketable securities is projected to be faster over the same period, physical assets' share of total assets nevertheless remains larger in absolute terms. By 2024/25, Property, Plant and Equipment are projected to account for 43% of total Crown assets.

Sound management of the Crown's capital assets and liabilities is important for raising the living standards of New Zealanders. Not only is cost effective management of assets important from a fiscal perspective, but Crown assets also make an important contribution to the effectiveness of public service provision and, more generally, the social and economic infrastructure of the country. It is therefore important that the Treasury, and other agencies with responsibility for monitoring crown entities, consider the quality of the reporting and monitoring framework around capital asset management.

Efficient and effective management of capital assets requires long-term planning that addresses all aspects of capital management – including acquiring new or more suitable assets, maintaining and recapitalising current assets, and appropriately disposing of those assets that no longer meet requirements. The lifecycle nature of capital asset management has implications for the types of information required for monitoring purposes. Furthermore, the Treasury has a range of other roles that it plays in relation to capital asset management, which each has specific information requirements.

There are good reasons for maintaining a keen eye on the performance of capital asset management across the public sector:

- Large number in absolute terms – significant deadweight costs from mismanagement – and projected to grow in line with GDP, thereby maintaining its relative importance on the balance sheet

⁸ This figure includes all crown agencies, and is the net carrying cost after deducting accumulated depreciation.

⁹ These projections are based on a "top down" assumption that the value of fixed assets will grow in line with GDP growth. At least for the ten year horizon adopted for the Fiscal Strategy Report, it may be worthwhile to adopt a "bottom up" based projection of new capital spending based on capital asset management plans for the largest capital managing entities.

- Key part of the infrastructure underpinning the delivery of key public services, many of which are important for growth and productivity (e.g. education)
- Key part of the economic infrastructure for the economy as a whole (e.g. roading, energy assets etc.)

3.3 TREASURY ROLES IN CAPITAL ASSET MANAGEMENT

The Public Sector reforms of the late 1980s and early 1990s devolved responsibility for financial management to Chief Executives of government departments and boards of crown entities. These changes were legislated through the Public Finance Act 1989 and Crown Entities Act 2004. As a result of these changes, government agencies became responsible for the management of fixed assets. Funding for maintenance and replacement of fixed assets is provided to departments and to a limited extent crown entities through annual appropriations by the funding of depreciation expense as part of the cost of delivering outputs. Chief Executives have delegated authority to approve capital expenditure up to \$5 million per item or project, Responsible Ministers up to \$10 million, and Cabinet or Cabinet Committees for amounts above \$10 million¹⁰. Additional funding for new asset purchases (or “capital injections”) may be sought by government departments or crown entities through the yearly budget process. The capital charge regime, introduced in July 1991, was intended to create commercial incentives around the management of physical assets by requiring departments and crown entities to meet the funding cost of their organisations.

As a consequence of these changes, the Treasury has played a relatively limited role in the management of fixed assets at the organisational level. In general Vote Analysts have not become involved in CAM issues unless proposed expenditure exceeds the prescribed limits, a budget bid is submitted for additional funding, or there are concerns regarding the financial management of an agency. In relation to its role as advisor to the Minister of Finance on the Government’s fiscal strategy, Treasury’s CAM roles are limited to assessing and prioritising budget bids for additional capital. However, if Treasury activity around CAM is to support achievement of its outcomes and the thrust of the “Stepping Up”¹¹ initiative, the emphasis and degree of proactivity given to each role may need to be reviewed.

The “Stepping Up” proposal signals a change in focus for Treasury. “The objective of the Treasury’s interventions in the public sector is to maximise performance or “value for money”¹². To do this it is proposed that the Treasury needs to:

- Understand and anticipate critical issues

¹⁰ Refer Cabinet Office Circular CO (89) 22.

¹¹ The “Stepping Up” initiative is an internal programme proposed by the Treasury Chief Executive in June 2006 to lift the performance of The Treasury.

¹² Public Sector Performance Gameplan, June 2006, Treasury:861016v1, page 2.

- Improve the quality of our advice
- Engage effectively with stakeholders
- Prioritise better ¹³.

The implications for CAM are:

- Better information and analysis will be required
- Mechanisms will need to be in place to highlight developing issues
- Lower level of engagement with “lower priority” departments will require increased levels of assurance that systems are in place to effectively manage assets and/or monitoring to identify issues
- For capital intensive agencies with large and/or strategically important assets, the level of monitoring and advisory effort may need to be increased.

The outcome framework provides a useful lens through which to identify Treasury’s Capital Asset Management roles. The high level outcomes are ¹⁴:

- 1. Improved Economic Performance**
- 2. Stable and Sustainable Macroeconomic Environment**
- 3. Public Sector Performance**

¹³ *Stepping Up presentation, Town Hall, 30 June 2006, slide 5*

¹⁴ *Stepping Up presentation, Town Hall, 30 June 2006, slide 7*

| Treasury Outcome | Potential Impact of CAM on Treasury Outcome | Treasury Roles in CAM | Other Monitoring Agency Roles |
|---|--|--|--|
| Improved Economic Performance | <p>Growth in the economy will need to be supported by a strong public sector, resourced appropriately</p> <p>Public Sector capital assets (eg infrastructure) need to support economic performance</p> | <ol style="list-style-type: none"> Provision of Fiscal Advice Provision of consolidated information (eg EFU) to document planning decisions & to support policy development & decision-making | |
| Stable and Sustainable Macroeconomic Environment | <p>Sustainability requires a strategy to fund maintenance and replacement of existing capital assets</p> <p>Funding available for capital expenditure needs to be allocated effectively across the Public Sector</p> | <ol style="list-style-type: none"> Provision of Fiscal Advice Provision of consolidated historical information (eg Crown Accounts) for accountability purposes Funds Management to ensure that funding at appropriate debt/equity mix and risk profile is available when needed | |
| Public Sector Performance | <p>Adequate controls should be in place over capital expenditure and management of capital assets</p> <p>Investment in capital assets should meet the needs of public sector agencies and support the delivery of services</p> <p>Capital assets should be effective and efficient for the purpose they were intended.</p> | <ol style="list-style-type: none"> Monitoring of performance against plans and standards to identify issues or changes to plans Assurance to ensure controls and processes are in place Evaluation to maximize effectiveness of expenditure Leadership in CAM to promote best practice | <ol style="list-style-type: none"> Monitoring of performance against plans and standards to identify issues or changes to plans Assurance to ensure controls and processes are in place Evaluation to maximize effectiveness of expenditure Leadership in CAM to promote best practice |

The seven roles¹⁵ for Treasury in Capital Asset Management are not necessarily of equal significance - the emphasis given to each role and the nature of Treasury activity within each role will be tempered according to the department or crown entity being considered, for example:

- A higher level of monitoring and assurance will be warranted by departments or crown entities with significant investment in capital assets.
- In general the requirement for Treasury to monitor and advise will be higher for departments than for crown entities due to differences in accountability arrangements.
- A higher level of monitoring will be necessary for departments and crown entities where the level of assurance around CAM is low.
- More detailed information will be required to support the roles which link to the Public Sector Performance outcomes than the roles that link to the higher level strategic outcomes.

Treasury will also need to consider its role in relation to the roles of other agencies with an interest in CAM, for example:

- The State Services Commission has a role to monitor and report back to Cabinet on significant IT projects.
- Agency auditors have a role in providing assurance to Chief Executives on CAM, which represents a possible duplication of the Treasury role.

In addition, the inherent tension between Chief Executive responsibilities and the broader interests of the Crown/Ministers will need to be managed. While Chief Executives are responsible for the management of fixed assets, the Crown as owner also has an interest in protecting and maximising the return from its investment.

The nature and information requirements of each role is outlined in the following section.

3.4 INFORMATION REQUIREMENTS FOR TREASURY ROLES

1. FISCAL ADVICE

Treasury has a role to “build the Government strategy and priorities into the budget process so that resources can be allocated in a way consistent with Government’s Strategy and

¹⁵ The analysis also identified an 8th role – the Provision of Economic Advice – however this was not seen to have strong links to CAM. Advice to the Government on the quantum and allocation of funding for the purchase of capital assets is provided through the Provision of Fiscal Advice Role.

priorities”¹⁶. In relation to CAM, this role operates at two levels: the first is to advise the Government on the appropriate overall level of investment in Public Sector assets; the second is to provide advice on whether the total available funding is allocated effectively to competing needs across the public sector.

Treasury also has a wider role to advise the Government on the development of fiscal strategy. In this role, forecast future funding requirements for capital management, including cash inflows from asset sales will impact on the setting of fiscal objectives, such as gross debt targets. Therefore CAM information is necessary to support the development of short, medium and long term fiscal strategy. A short term perspective of 1 year is necessary for the budget cycle and preparation of the Estimates of Appropriations. The medium term of 5 years is used for longer term budget planning. However the effective management of capital assets should take place over the economic life of the asset, which could be long as 90 years in the case of roading infrastructure.

To perform these roles from a CAM perspective, Treasury undertakes the following activities:

| Treasury Activity | Information Required |
|--|--|
| <ul style="list-style-type: none"> Provide advice to the Government on significant capital asset funding proposals of government agencies, and possible funding options | <ol style="list-style-type: none"> Proposed spending on new capital initiatives (including amounts and timing of payments) Detailed business cases for proposed new capital initiatives which link to government goals and provide minimum agreed information on which to assess the proposals¹⁷ Potential funding sources for capital spending on new capital initiatives and existing capital assets (eg existing baselines, estimated proceeds from the sale / disposal of significant public sector assets, new funding, third party funding). |
| <ul style="list-style-type: none"> Assess how future capital funding requirements / proposals contribute to Government goals (ie linkage of assets to outcomes) | <ol style="list-style-type: none"> Proposed spending on new capital initiatives (including amounts and timing of payments) Detailed business cases for proposed new capital initiatives which link to Government goals and provide minimum agreed information on which to assess the proposals |
| <ul style="list-style-type: none"> Advise the Government on total funding and prioritisation of funding requests | Activity is a consequence of analysis of above information <u>and</u> requires information on the effectiveness of expenditure ¹⁸ |
| <ul style="list-style-type: none"> Advise on a budget strategy to support | Activity is a consequence of analysis of above information <u>and</u> requires input from effectiveness |

¹⁶ Treasury's Central Agency Role, June 2006, Treasury: 865796v1, page 1.

¹⁷ Defining an appropriate standard for business cases should be provided under the leadership role

¹⁸ Information on the effectiveness of expenditure on capital assets will be provided by the

| | |
|--|---------------------|
| the Government's capital spending priorities, within agreed fiscal constraints | of expenditure role |
|--|---------------------|

2. PROVISION OF CONSOLIDATED INFORMATION

Treasury publishes consolidated historical information (ie the Crown Accounts) for accountability purposes and forecast fiscal information (ie the Economic and Fiscal Updates, NZ's Long-term Fiscal Position) to document planning decisions and to provide information for planning / strategy development and decision-making purposes¹⁹.

The minimum information requirements for the Crown Accounts are specified in the Public Finance Act 1989. In particular, section 27 (2) requires that "the annual financial statements of the Government must be prepared in accordance with generally accepted accounting practice". In relation to fixed assets this requires the reporting of capital expenditure and detailed fixed asset schedules which include opening balances, movements and closing balances by asset class and segment.

In addition, section 29 (A) gives the Secretary to the Treasury the power to "obtain any information that is necessary to enable the preparation of [the Crown] financial statements". Both government departments and crown entities are required to provide historical and forecast financial information to the Treasury through CFIS.

To perform this role from a CAM perspective, Treasury undertakes the following activities:

| Treasury Activity | Information Required |
|---|--|
| <ul style="list-style-type: none"> Provide aggregate consolidated historical information (ie Crown Accounts) | 2.1 Historical details of movements in fixed assets (including opening balances, movements, revaluations, depreciation, write-offs, disposals and closing balances by asset class and segment) 2.2 Expenditure on capital purchases over the preceding accounting period including sources and uses of funds 2.3 Capital expenditure commitments |
| <ul style="list-style-type: none"> Provide aggregate consolidated medium term forecast fiscal information (ie Economic & Fiscal Updates) | 2.1 Historical fixed asset information is needed at a consolidated level to provide a basis for forecasts. 2.3 Capital expenditure commitments 2.4 Fiscal risks for development of Specific Fiscal Risks report 2.5 Out-year baselines |

¹⁹ The Crown Accounts are produced yearly. The Economic and Fiscal updates are produced twice yearly. NZ's Long Term Fiscal Position is produced at least every 4 years as required by the PFA.

| | |
|--|--|
| | 2.6 Significant medium-term forecast funding requirements for capital assets (above baselines) |
| <ul style="list-style-type: none"> • Provide long term fiscal forecasts (ie NZ's Long Term Fiscal Position) | 2.7 Significant long term forecast funding requirements for capital assets (above baselines) |

3. FUNDS MANAGEMENT

Through the Debt Management Office (DMO), Treasury has a funds management role in relation to CAM to ensure that funding is available to meet the future capital expenditure requirements of the public sector. DMO provides advice on appropriate debt/equity funding and how best to align liabilities (Crown Debt) with assets to manage Crown risk. DMO also raises capital to fund expenditure on capital assets by issuing Government Bonds and has a key role in executing transactions, for example by transacting in the FX market to cover capital purchases from offshore or to meet the requirements of debt funding the Crown provides to crown entities.

The role has both a short and medium term perspective. In the short term (0 – 1 years) Treasury manages funding and associated risks to meet agreed baselines and new initiatives. Over the medium term (1 – 5 years), there is a need for Treasury to forecast and plan to meet the funding requirements of the public sector within the context of the Government's fiscal strategy.

To perform these roles from a CAM perspective, Treasury undertakes the following activities:

| Treasury Activity | Information Required |
|---|---|
| <ul style="list-style-type: none"> • Forecast net short-term funding requirements across the public sector for capital assets (including maintenance and replacement of existing assets and new initiatives – amounts and timing of funding requirements) | 3.1 Short-term (0 – 1 year) forecast funding requirements to maintain and replace existing assets, and for new initiatives (including amounts and timing of funding requirements) |
| <ul style="list-style-type: none"> • Forecast net medium-term funding requirements across the public sector for capital assets (including maintenance and replacement of existing assets and new initiatives – amounts and timing of funding requirements) | 3.2 Medium-term (1 – 5 years) forecast funding requirements to maintain and replace existing assets, and for new initiatives (including amounts and timing of funding requirements) |
| <ul style="list-style-type: none"> • Advise on appropriate debt/equity levels and raise crown finance to fund net capital requirements (eg issue Government Bonds) | Activity is a consequence of analysis of above information - no additional CAM information required |

4. MONITORING

The objective of Treasury’s monitoring role in terms of Capital Asset Management is to assess the performance of government agencies against plans and performance measures, and thereby identify whether there are:

- (a) significant issues which need to be raised to the attention of the Minister of Finance, and
- (b) adjustments which need to be made to financial plans and/or capital management processes or procedures. Planning adjustments at an agency level may impact on funding requirements and therefore affect financial planning at a consolidated level.

The key questions include:

Are capital projects being implemented to plan (on time and within budget)? Do adjustments need to be made to plans? Are forecasts accurate? Are the agency’s assets meeting service delivery expectations? Are the operational measures for capital assets being achieved? Are new assets realising the expected benefits?

To perform this role from a CAM perspective, Treasury undertakes the following activity:

| Treasury Activity | Information Required |
|---|---|
| <ul style="list-style-type: none"> • Assess the performance of government agencies against asset management plans and performance measures and identify any significant issues or requirements to change plans | <p>4.1 Forecast capital requirements and key implementation milestones for new capital initiatives (including amounts, dates and approval references)</p> <p>4.2 Delivery against implementation plans and budgets for new capital initiatives (ie achievement of milestones, budgets and performance measures identified business cases)</p> |
| <ul style="list-style-type: none"> • Identify and assess any significant fiscal risks | <p>4.3 Fiscal risks to identify significant funding pressures</p> |

5. ASSURANCE

The objective of Treasury’s monitoring role in terms of Capital Asset Management is to ensure that systems and processes are in place at the agency level which allow for best practice asset management and therefore achievement of the objectives of capital asset management identified in section 3.1 above. In addition, the Public Finance Act 1989 gives Treasury a specific responsibility in relation to the Crown Accounts “for establishing and maintaining a system of internal control designed to provide reasonable assurance that the transactions

recorded are within statutory authority and properly record the use of all public financial resources by the [[government reporting entity]]”²⁰.

The assurance role has four perspectives:

- Stewardship – *Are the agency’s assets maintained in good operating condition and replaced at a cost effective point in their life cycle? Are they protected and held securely?*
- Governance – *Are appropriate control systems in place? Are asset management controls appropriate for the agency and the nature of its assets? Is capital expenditure within appropriation and financial delegations? Is physical asset transaction processing and reporting accurate and complete?*
- Probity – *Were all fixed asset transaction legitimate and appropriately authorised?*
- Risk management – *Are fixed asset related risks being identified and managed?*

To perform this role from a CAM perspective, Treasury undertakes the following activity:

| Treasury Activity | Information Required |
|---|--|
| <ul style="list-style-type: none"> • Provide assurance that systems, processes and policies are in place in government agencies to ensure that the stewardship, governance and risk management responsibilities relating to CAM are being met. | <p>5.1 Evidence that an appropriate capital asset management plan²¹ is in place to guide the acquisition, maintenance and disposal of fixed assets</p> <p>5.2 Evidence that appropriate policies, procedures and controls are in place to ensure that fixed assets are protected, held securely, maintained, and purchased & disposed of within appropriations and delegated authority.</p> |

6. EVALUATION

The objective of this role in terms of CAM is to ensure that government agencies are using capital funding in the most effective way by assessing the effectiveness of expenditure in relation to both proposed new capital initiatives and capital assets funded within existing baselines. Key questions include:

How does the capital asset support the outcomes of the agency? Are there more cost effective options for capital assets to provide the same level of outputs? Do existing capital assets meet the needs of the department or crown entity? How does the investment in capital assets compare with other similar organisations? Is the organisation maximising the use of available capital?

To perform this role from a CAM perspective, Treasury undertakes the following activity:

²⁰ Public Finance Act 1989, section 29(2)(b)

²¹ Defining appropriate asset management plans should be covered under the leadership role

| Treasury Activity | Information Required |
|---|--|
| <ul style="list-style-type: none"> Assess the effectiveness of proposed expenditure on new capital assets | 6.1 Detailed business cases for proposed new capital initiative expenditure to an appropriate standard ²² 6.2 Evidence of options analysis (eg in asset management strategy, assets management plans and/or business cases) |
| <ul style="list-style-type: none"> Assess the effectiveness of the Crown's investment in existing capital assets | 6.3 Details of existing significant capital assets 6.4 Explanation of links between significant capital assets, outputs and agency and Government outcomes 6.5 Information to assess effectiveness of capital assets (ie bench-marking, output and utilisation information linked to significant capital assets) |

7. LEADERSHIP IN CAM

As a central agency, Treasury has an overarching role in the design, maintenance and operation of a Capital Asset Management framework for the public sector. This role includes setting clear expectations, providing tools and guidelines, promoting best practice, providing advice and initiating remedial action when problems arise. To perform this role, Treasury needs to assess the state of current practices and issues in agencies, identify the needs for CAM, and develop or commission the development of tools and guidance material. Treasury may also want to be proactive in improving CAM by developing focussed programmes which target assistance to high priority agencies and those most in need of assistance²³.

To perform this role from a CAM perspective, Treasury may need to undertake the following activity:

| Treasury Activity | Information Required |
|--|---|
| <ul style="list-style-type: none"> Promote best practice in Capital Asset Management including setting clear expectations, developing CAM frameworks, providing tools and guidelines, providing consistent advice and modelling best practice | 7.1 Information on CAM practices at agency level to identify issues and provide examples of frameworks, tools, guidelines and best practice |

²² Defining an appropriate standard for business cases should be covered by leadership role

²³ These agencies may be identified under the assurance role

4. INFORMATION SOURCES

4.1 EXISTING INFORMATION SOURCES

Existing sources of CAM information available to Treasury to support its roles are identified in the following table. The information sources are divided into two groups: the “primary” sources are those which are easily accessible and regularly used by Treasury; “other” are those sources which are not readily accessible, are inconsistent across the public sector, or do not exist in some government departments or crown entities.

| Treasury Role in CAM | Existing Information Sources | Frequency of Information required to Support Treasury Role |
|------------------------------------|---|--|
| 1 Fiscal Advice | <i>Primary Sources:</i> CFIS SOIs Estimates Budget Submissions <i>Other possible sources :</i> Capital Asset Management Plans, Property Plans, Business Plans, Quarterly Reports, Ad Hoc Reports/Reviews | Yearly |
| 2 Economic Advice | <i>Primary Sources:</i> CFIS SOIs Budget Submissions Business Cases <i>Other possible sources:</i> Capital Asset Management Plans, Property Plans, Business Plans, Quarterly Reports, Ad Hoc Reports/Reviews | Yearly |
| 3 Consolidated Info | <i>Primary Sources:</i> CFIS Annual Reports SOIs | Half-yearly and Yearly |
| 4 Cash Management/ Planning | <i>Primary Sources:</i> CFIS (esp cash payments schedule, and expense & capital transfers) SOIs | Monthly |

| | | |
|---------------------------------------|---|--|
| | Estimates | |
| 5 Monitoring | <p><i>Primary Sources:</i> CFIS Annual Reports SOIs Estimates <i>Other possible sources:</i> Capital Asset Management Plans, Property Plans, Business Plans, Quarterly Reports, informal sources</p> | Cyclical (monthly, quarterly, half yearly, yearly) |
| 6 Assurance | <p><i>Primary Sources:</i> Annual reports SOIs DICE <i>Other possible sources:</i> Audit reports, Audit Management Letters, Capital Asset Management Plans, Property Plans</p> | Yearly |
| 7 Effectiveness of Expenditure | <p><i>Primary Sources:</i> Annual report SOIs Budget Submissions Business Cases Business Plans <i>Other possible sources:</i> Capital Asset Management Plans, Property Plans, Business Plans, Quarterly Reports, Ad Hoc Reports/Reviews</p> | Yearly and Ad hoc |
| 8 Leadership in CAM | <p><i>Primary Sources:</i> Annual Reports (to identify issues and agencies needing assistance) DICE (to identify issues and agencies needing assistance) <i>Other possible sources:</i> Capital Asset Management Plans, Property Plans, Ad Hoc Reports/Reviews, International Developments/ best practice</p> | Yearly |

4.2 REVIEW OF EXISTING INFORMATION SOURCES

The following section outlines the existing information sources and presents findings on the nature and quality of information provided by these sources. The documents reviewed are included in appendix 2.

1. CFIS

The Crown Financial Information System (CFIS) is primarily a financial reporting tool which consolidates the financial reporting of crown agencies. CFIS provides the full range of financial reporting information to comply with generally accepted accounting practices (GAAP) and financial reporting standards (FRS) including:

- Statement of Financial Performance (Operating Statement)
- Statement of Financial Position
- Cashflow
- Notes to the accounts

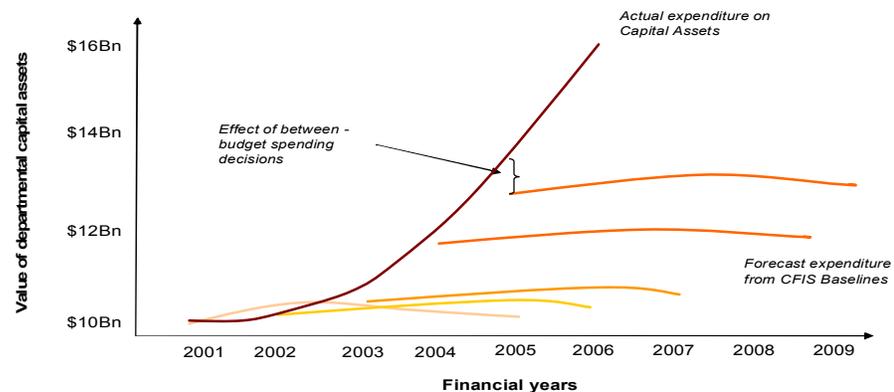
Data on capital assets is broken down to acquisition cost, accumulated depreciation, depreciation charged for the period and revaluation by asset category. Financial data is provided for 5 periods (current year plus 4 out years). The database contains financial information dating back to 1994 for departmental and Crown accounts and dating back to 2001 for crown entity accounts. Data can be analysed by:

- Agency
- Vote
- Appropriation type (crown/departmental)
- Actual, budget, forecast
- Period
- Update or forecast track.

Central government agencies (ie departments & ministries) provide financial information on a monthly basis while information from crown entities, CRIs and SOEs is consolidated on a half-yearly basis.

Findings

1. CFIS meets the need for which it was designed - to provide consolidated financial reporting for the Crown.
2. CFIS information is completed by departments on a monthly basis and by crown entities on a half-yearly basis.
3. Forecast information is provided for 5 years forward, however it is based on existing baselines plus any cabinet approved expenditure, rather than forecast funding requirements. Therefore the actual expenditure on capital assets has varied significantly from CFIS forecasts as illustrated by the following graph:



The usefulness of CFIS forecasts to determine estimates of future funding requirements for capital assets is therefore limited and vote analysts may need to draw on supplementary information from informal sources.

4. Proposed new initiatives are entered into CFIS at the start of the budget process. However on completion of the budget, the forecast information carried forward includes only approved expenditure. There may be an opportunity to use proposed new initiatives information further for forecasting capital asset requirements.
5. Information is provided at a summarised level and fixed asset information is provided by asset class. There is no detail at individual asset level and therefore no information on asset expiry or the requirements to refurbish or replace assets. This limits the usefulness of the information for the purposes of forecasting funding requirements or monitoring performance in relation to fixed assets.
6. The use of CFIS information within Treasury depends on the analyst's knowledge of the information available and familiarity using the system. The central teams within Treasury have access to detailed information, but this may not be routinely available to vote analysts.

Summary

CFIS is primarily a financial reporting system and meets the role of Treasury to provide consolidated financial information. However it is of limited value to support Treasury's CAM roles because:

- information is at a consolidated level
- forecasting is relatively short term (maximum of 5 years)

- forecasts are based on existing baselines plus any cabinet approved expenditure
- crown entity information is provided ½ yearly.

2. ANNUAL REPORTS

Government departments are required by the Public Finance Act 1989 (section 43) to provide an Annual Report on operations at the end of each financial year. crown entities have a similar requirement under the Crown Entities Act 2004 (section 150). As a formal accountability reporting document, Annual Reports are audited and provide a source of consistent, reliable information to stakeholders. The minimum reporting requirements are specified in legislation.

Findings

1. Annual Reports meet the legislative requirements for government agencies to report performance against their Statement of Intent. Information is historical (ie backward looking).
2. In general, information is provided at a summarised level with fixed asset information being provided by asset class (ie motor vehicles, furniture & fittings, plant & equipment, buildings and land). Details of significant fixed asset purchases may be provided if the project has been identified as a key performance indicator in the statement of service performance. Otherwise there is no detail at individual asset level and therefore no information on asset expiry, the requirements to refurbish or replace assets ²⁴. This limits the usefulness of the information for the purposes of forecasting funding requirements or monitoring performance in relation to CAM.
3. Information on outputs delivered is provided, but there are typically no links to the key assets which support the outputs.
4. There is no specific reporting in Annual Reports of capital asset management plans, although some reports had limited information scattered throughout which indicated that asset management plans might be in place ²⁵.

Summary

Annual Reports meet the legislative requirements for government agencies to report on their performance. However Annual Reports are of limited value for monitoring capital asset management performance because:

- information is at consolidated levels
- information is historic (ie backward looking)
- reports contain little or no CAM information.

²⁴ Although this level of detail is not required or expected in an Annual Report.

3. STATEMENTS OF INTENT

Government departments are required to produce Statements of Intent each year under the Public Finance Act 1989 (section 43) and crown entities under the Crown Entities Act 2004 (section 139). The minimum reporting requirements are specified in legislation.

Findings

1. Despite the intention for SOIs to provide a medium to long term strategic planning document, in general they have continued to be focussed on the short term. The SOIs of government departments reviewed as part of this paper (refer appendix 3) focused on appropriations for the following year and provided forecast financial data for 1 year only²⁶. The SOIs of crown entities reviewed as part of this paper (refer appendix 3) provided consolidated forecast financial data for the following 3 years, as required by section 141 of the Crown Entities Act 2004.
2. SOIs are published before the beginning of each financial year as formal ex ante accountability documents to meet the requirements of the PFA and CE Acts. Therefore the value of this information for planning and forecasting purposes diminishes as the year progresses.
3. Forecasts are based on existing baselines plus any cabinet approved expenditure, rather than forecast funding requirements which take into account existing capital assets and demand for services. In addition, forecasts are at an aggregate level. Therefore the usefulness of the information to forecast funding requirements for CAM purposes is limited.
4. As with Annual Reports, in general information is provided at a summarised level which limits the usefulness of the information for the purposes of forecasting funding requirements or monitoring performance in relation to CAM.
5. Information on outputs delivered is provided, but there are typically no links to the key assets which support the outputs.
6. Information on capital expenditure is reported at a summarised level over the previous 5 years (as required under section 24 of PFA 1989).

Summary

SOIs meet the legislative requirements of the PFA and Crown Entities Act. However they are of limited value for monitoring the performance, or forecasting the funding requirements, of capital assets because:

- information is at a consolidated level

²⁵ For example the DoC Annual Report reports on Hut maintenance - page 73

- forecasts are short term (1 year for departments and 3 years for crown entities), and
- forecasts are based on existing baselines plus any cabinet approved expenditure.

4. ESTIMATES

The Estimates detail the appropriations sought from Parliament by Vote Ministers by output class. The Estimates also state how output classes are linked to the Government's high level outcomes ²⁷. CFIS is the main input source for both the Main and Supplementary Estimates.

Findings

1. The Estimates report appropriated revenue and expenditure at gross output class level for the coming year only. No breakdown of input expenditure is provided.
2. Revenue and expenditure is also forecast at an aggregate level over a 5 year time horizon. Forecasts are based on existing baselines plus any cabinet approved expenditure, rather than funding requirements. Therefore the usefulness of the information to determine required future for capital or operating purposes is limited.
3. The Estimates identify approved funding for significant new capital initiatives, but does not include milestones or performance measures.

Summary

The Estimates meet the legislative requirement for the Government to seek Parliamentary approval for expenditure to be incurred in the coming financial year. The information is necessarily at a high level and is therefore of limited use for CAM purposes.

5. BUDGET SUBMISSIONS

Budget submissions (or new initiatives) are prepared by departments and crown entities on behalf of Vote Ministers to request additional funding for new policies, extensions to existing policies or increased costs. The objective of the budget initiatives process is to allow the Government to prioritise funding amongst the competing demands of Vote Ministers. Technical changes may also be considered as part of the budget submissions process, if these are beyond the delegated authority of joint Ministers. A key requirement on departments is to provide supporting information by completing a Budget initiative template. The template is intended to capture all the key information on the proposed initiative including:

- Operating and Capital impacts each year over a 5 year time horizon
- Funding requirements and options

²⁶ Although the IRD SOI did provide a very high level summary forecast over a 5 years timeframe

²⁷ Putting it together, The Treasury, 2001, page 16

- Outputs and outcomes to be supported by the initiative (specific, measurable, achievable, relevant and time-bound)
- Rationale for the proposal and supporting evidence
- Performance measures and/or plans to monitor and evaluate.

Budget initiatives for new capital spending are usually supported by detailed business cases. Completed budget initiatives are uploaded into CFISnet. Once the budget is agreed by the Government, information on approved new initiatives is included at a summarised level in the Estimates.

Findings

1. Budget submissions provide detailed information and analysis and therefore support a number of Treasury CAM roles.
2. The level of detail and quality of information provided in budget submissions is variable.
3. Budget submissions tend to focus on a 1 - 5 year time horizon and rarely extend beyond 5 years.

Summary

Budget submissions provide detailed information and analysis which is critical for assessing budget bids. However the value of the information is limited to the specifics of the proposals, which varies considerably across submissions and agencies.

6. BUSINESS CASES

Capital initiatives usually require additional comprehensive supporting information in the form of a business case. A business case is a detailed investment proposal. It provides an analysis of the costs, benefits and risks associated with a proposed investment and offers reasonable alternatives. A business case provides the information necessary to make a decision about whether or not a project should proceed.

Any new policy proposal seeking additional funding (either operating or capital) should be supported by a set of information as detailed in Cabinet Office Circular CO(02) 17: “All new policy proposals (operating and capital) should be considered where possible as part of the annual Budget process. All proposals should be supported by a business case that is tailored to the size and risks of the proposal”²⁸. The Annex to the Cabinet Office Circular lists 16 high level requirements for a business case. However a business case template and detailed

²⁸ Cabinet Office Circular CO(02)17 annex 1, paragraph 30

guidance are not provided²⁹ in the circular, or by the Treasury. This, and variation in capability at the agency and Treasury levels result in significant variability in the content and quality of business cases.

Findings

1. Business cases can provide valuable information to assess the effectiveness of proposed expenditure on capital assets, however variability in capability at the agency and Treasury levels, and the lack of a business case template and detailed guidance material means that the quality of this information is variable. [It is worth noting that Treasury has a comprehensive internal checklist to assess business cases (refer to the [Business Case Checklist](#)) which could provide a basis for developing guidance material.]

Summary

Like budget submissions, business plans provide detailed information and analysis which is critical for assessing the proposal, but the value of the information is limited to the specific initiatives. Development of a template and guidance material and improved capability at the agency and Treasury levels may improve the quality of information.

7. DICE

DICE (Departmental Internal Control Evaluation) is a set of internal control criteria designed to assess financial management controls in departments³⁰. An assessment against the control criteria is undertaken by each agency's audit service provider and is summarized in a management letter which provides an overall rating and identifies areas for attention. The DICE process provides the Secretary to the Treasury with a greater level of assurance to sign the Statement of Responsibility in the Crown financial statements that departments' internal controls are operating satisfactorily.

The evaluation includes questions (section 14) on property, plant and equipment which cover the management of both departmental and Crown capital assets, including acquisitions and disposals. The control criteria are designed to provide assurance that transactions are authorised, accurately recorded, complete and valid, that assets are actively managed and efficiently utilised, maintained and secured, and that surplus assets are appropriately disposed.

There are five control criteria in the property, plant and equipment section:

1. An asset management strategy / plan, linked to the department's operating and financial management priorities, is in place that guides the acquisition, maintenance and disposal of property, plant and equipment,

²⁹ A business case template could identify key requirements such as an NPV analysis, risk assessment and links to outcomes and government goals.

³⁰ Refer Departmental Internal Control Evaluation, The Treasury, June 2001

2. Repair and maintenance requirements are identified and incorporated into departmental operating plans and budgets,
3. Property, plant and equipment is protected and held securely,
4. The value of all departmental property, plant and equipment is recorded accurately, consistent with departmental depreciation and valuation policies and procedures, and on a timely basis, and
5. Periodic assessment is made of whether existing assets are generating excessive holding costs, and whether alternative assets would improve efficiency.

The questions asked in this section of DICE are:

1. Does the department have a formal strategy (or plan) for managing its property, plant and equipment?
2. Is the department's strategy and policy for managing its property, plant and equipment adequate?
3. Are the process management procedures for carrying out repairs and maintenance of existing property, plant and equipment adequate?
4. Are the process management procedures for maintaining the security and protection of property, plant and equipment adequate?
5. Are the process management procedures adequate for the initial recognition and depreciation of property, plant and equipment?
6. Are the process management procedures adequate for determining the values of property, plant and equipment?
7. Are the process management procedures for maintaining the holding costs of property, plant and equipment adequate ?

The focus of DICE on internal financial controls means that it is unlikely that it will also provide a comprehensive assessment of CAM practices. For example question 1 asks whether a formal strategy is in place, however this is quite different from asking whether an asset management plan (as defined in section 3.1). Assessments against this question will reflect the focus on controls – for example the 2005 DICE assessment of Treasury on property, plant and equipment section was “Yes - Detailed, formal Asset Management Policy on the Treasury's intranet”.

It is worth noting that in the 2005 year assessment, controls around property plant and equipment were not identified as an issue. This element was rated at 4.08 (on a scale of 1 to 5), which was very close to the overall average rating all control elements of 4.11 ²³.

Findings

1. DICE is designed to provide assurance to the Secretary to the Treasury on the adequacy of internal financial management controls in government departments. It does not cover other crown agencies, such as crown entities.
2. DICE provides an assessment of financial management controls, rather than the effectiveness of asset management practices. The nature of the questions being asked and lack of definition around capital asset management plans may limit the usefulness of DICE assessments for CAM purposes
3. Although DICE is an assessment of individual agencies against control criteria, it could assist Treasury's CAM leadership role by identifying examples of best practice across the public Sector and agencies needing additional advice or support.

Summary

DICE provides assurance to the Secretary to the Treasury around internal financial management controls, but does not provide assurance that effective capital asset management plans are in place. The usefulness of DICE to provide information to support Treasury's assurance role in CAM could be increased by extending it to crown entities and reviewing or extending the focus of the assessment. In addition information on best practice and agencies which could benefit from assistance could be extracted to support Treasury's CAM leadership role.

8. INSPECT-A-RISK

Inspect-A-Risk is an internal Treasury database which is used to record and track fiscal risks. Information is entered into the database by Vote Analysts. Fiscal Risks are proposals or events that could happen and would have an impact on the Crown's fiscal position, and/or an agency's baseline, if they did occur. The database is used for both formal purposes (ie the reporting of specific fiscal risks in Economic and Fiscal Updates ³¹) and informal purposes (signaling emerging fiscal pressures).

Prior to the Budget Management Branch running a risk report from the database, analysts are asked to update the database. As a general rule, however, BAT recommends updating the database whenever new risk information comes to light. Information held in the database includes:

- Description of risk
- Assessment of likely realization
- Estimated financial impact over a 5 year time horizon if the risk does eventuate.

³¹ Risks are reported externally if they meet certain minimum disclosure criteria.

Findings

1. The Inspect-a-risk data base is used to identify significant fiscal risks, which may be asset related.
2. The data base meets the need of identifying and tracking risks, but relies on the knowledge and pro-activity of the Vote Analyst, the Vote Analyst's relationship with the agency and the quality of information provided by the agency. Consequently there is variability around the quality and consistency of information in the database.

Summary

Inspect-a-risk provides a form of "safety net" which may be used to identify risks around capital assets. However, while the database is useful for CAM to identify risks around future capital requirements, this is a by-product of the system. Information is variable because it depends on the Vote Analyst's knowledge of the entity and what is entered into the system. Therefore Inspect-a-risk is unlikely to provide a comprehensive source of CAM information.

9. INFORMAL INFORMATION SOURCES

Informal information sources provide a valuable mechanism for vote teams and monitoring agencies to gather information on government agencies. Typically these sources rely on the relationship between the Vote Analyst and agency or ministerial office staff. A key advantage of this information is that it may be unavailable through other sources and may be more timely and detailed than formal reporting. However there are a number of disadvantages including:

- Quality of the information may be variable or difficult to verify
- Ongoing supply of information depends on the relationship skills of the vote analyst and agency or ministerial office staff.

Summary

Information from informal sources may be useful to signal potential CAM issues for further investigation. However this should not form the basis of an ongoing source of CAM information due to issues around quality and continuity of supply.

10. OTHER INFORMATION SOURCES

There are a number of other existing information sources which could provide CAM information to Treasury:

1. Capital Asset Management plans

- Treasury does not regularly review or request information from capital asset management plans unless specific issues are being considered.
- Indications from interviews with Vote Analysts and sample agencies suggest that most government departments and crown entities do not have effective capital asset management plans in place, although it is more likely in capital intensive agencies. However even where plans do exist, questions were raised over the quality of the planning mechanisms, or the limited planning horizons.

2. Property plans

- Property plans are a subset of capital asset management plans.
- As with capital asset management plans, Treasury does not regularly review or request information from property plans unless specific issues are being considered and interviews with Vote Analysts and sample agencies suggest that most government agencies do not have effective property plans in place.
- The key disadvantage of this information source is that a property plan by itself will not provide a comprehensive view of asset management in an organisation.

3. Strategic Plans / Business plans

- Government agencies typically have business plans underlying their SOIs. These focus on the projects or initiatives required by business to support the achievement of the agency's SOI. Where asset management is key to a business operation, the business plan will provide CAM information.
- Potentially business plans could provide a wealth of detailed CAM information and could be used on an ad hoc basis. However the key disadvantage of this information source is that there will be no consistency across agencies resulting in variability and quality of information.

4. Quarterly reports to the Minister

- Quarterly reports provide information to the Minister which focuses on delivery of outputs, achievement of key performance measures, and risks. This information may be useful to support Treasury's monitoring and evaluation roles.
- Disadvantages include difficulty in accessing the reports (ie they are a report from the agency to the Minister, not Treasury) and a lack of consistency between agencies.

5. Ad hoc reports

- Ad hoc reviews include Baseline or Value-for-Money reviews, Select Committee Reviews, Cabinet Papers and OAG reports.

6. Audit reports

- Audit reports provide assurance around the financial controls and management practices in an organisation. They may also identify significant CAM issues.
- The annual audit process could provide effective assurance around CAM if this was highlighted as a focus prior to the audit. This could become an option to focus attention on CAM in the short term, although it would need to compete against other audit priorities.

Summary

The most promising sources of additional information on CAM are existing capital asset management plans and property plans. However interviews with Vote Analysts and sample agencies suggest that most government departments and crown entities do not have effective capital asset management plans in place and where they are in place, the quality is variable. Therefore Treasury would need to lead a focused programme to encourage and assist departments and crown entities to implement and develop capital asset management plans. In the short term the annual audit and assurance process could be used to focus attention on CAM.

5. MEETING INFORMATION NEEDS

5.1 INFORMATION GAPS

The eight main information sources were assessed against the information needs of each Treasury CAM role by assigning a score of 1 – 3 (where 1 = “information fully meets need” and 3 = “information does not meet need, or is not available”). The assessment is detailed in Appendix 1. The key information gaps identified through this analysis were:

| | Significant Information Gaps ³² | Treasury Role |
|----|--|---------------------------------------|
| 1 | Details of existing significant capital assets | Evaluation |
| 2 | Explanation of links between significant capital assets, outputs and agency and Government outcomes | Evaluation |
| 3 | Information to assess the effectiveness of capital assets (ie bench-marking, output and utilisation information linked to significant capital assets) | Evaluation |
| 4 | Significant medium-term forecast funding requirements for capital assets (above baselines) | Provision of Consolidated Information |
| 5 | Significant long term forecast funding requirements for capital assets (above baselines) | Provision of Consolidated Information |
| 6 | Delivery against implementation plans and budgets for new capital initiatives (ie achievement of milestones, budgets and performance measures identified business cases) | Monitoring |
| 7 | Evidence that an appropriate capital asset management plan is in place to guide the acquisition, maintenance and disposal of fixed assets | Assurance |
| 8 | Evidence that appropriate policies, procedures and controls are in place to ensure that fixed assets are protected, held securely, maintained, and purchased & disposed of within appropriations and delegated authority | Assurance |
| 9 | Information on CAM practices at agency level to identify issues and provide examples of frameworks, tools, guidelines and best practice | Leadership in CAM |
| 10 | Medium-term (1 – 5 years) forecast funding requirements to maintain and replace existing assets, and for new initiatives | Funds Management |

³² The order of the list reflects the size of the information gaps – the largest gaps are listed first.

| | | |
|----|--|------------|
| | (including amounts and timing of funding requirements) | |
| 11 | Forecast capital requirements and key implementation milestones for new capital initiatives (including amounts, dates and approval references) | Monitoring |

The information gaps arise for the following reasons:

1. There is no systematic collection of information for CAM purposes. CAM information is derived as a by-product of information collected for other purposes. By default CFIS, Annual Reports and SOIs have become the primary source of information on CAM.
2. The limitations of information in CFIS for CAM purposes include:
 - information is at a consolidated level
 - forecasting is relatively short term (maximum of 5 years)
 - forecasts are based on existing baselines plus any cabinet approved expenditure.
3. The limitations of information in Annual Reports for CAM purposes include:
 - information is at a consolidated level
 - information is historic (ie backward looking).
4. The limitations of information provided in SOIs for CAM purposes include:
 - information is at a consolidated level
 - forecasting is short term (1 year for Departments and 3 years for Crown Entities)
 - forecasts are based on existing baselines plus any cabinet approved expenditure.
5. The information available in Budget Submissions, Business Cases and Cabinet Papers contains a high level of detail and analysis, but is only available for the specific initiatives covered by the papers.
6. There are issues around the use and coverage and application of DICE as an assurance tool for CAM purposes.
7. There has been limited promotion or focus on CAM. There are currently no public sector tools or frameworks for CAM, guidelines are outdated (1991) and assurance and audit processes do not specifically focus on CAM.

5.2 OPTIONS TO IMPROVE CAM INFORMATION

There are four general approaches to enhancing the information received by Treasury on CAM:

Option 1: Rectify Gaps in Existing Sources

Treasury could take an “across the board” approach and attempt to rectify all key gaps in existing information sources identified in sections 4.2 and 5.1 above. However an across the board approach to rectifying existing information gaps is likely to be high costs in terms of proposed changes and the additional compliance placed on reporting agencies. Moreover altering existing information systems to collect more useful CAM information when they were not intended for this purpose may distort the focus and integrity of these systems. For example Treasury staff have commented that the integrity of CFIS as a financial reporting tool may be compromised by the addition of other sets of forecast information.

The greatest benefits would be achieved by:

1. Extending CFIS reporting to include forecast funding requirements for maintenance and replacement of capital assets (in addition to existing baselines plus cabinet approved expenditure which are currently reported). Consideration should also be given to extending forecast information to at least 10 years (although up to 50 years may be appropriate for some agencies, depending on the nature of their capital assets) to reflect the funding requirements of capital assets over their operational life.
2. Providing Vote Analysts with wider future access to budget initiative information in CFIS. This will give them access to the details of significant capital assets which is necessary for Treasury’s evaluation role. New initiatives are entered into CFIS at the start of the budget process but on completion of the budget, the forecast information carried forward includes only approved expenditure.
3. Encouraging government departments and crown entities to extend the time horizon of SOIs to at least 5 years (although longer timeframes may be more appropriate for agencies in sectors with long life cycle assets such as housing and transport) and to include forecast requirements for maintenance and replacement of significant capital assets.
4. Encouraging government departments and crown entities to include an Asset Management section in both SOIs and Annual Reports to provide assurance around CAM, productivity measures of key capital assets and to identify asset related risks.
5. Developing guidance material and templates for business cases to improve the consistency of information and analysis.

6. Reviewing the DICE questions related to CAM (ie section 14 - property, plant and equipment) and methodology for assessing control mechanisms to increase the level of assurance around Capital asset management plans.
7. Considering one-off assurance reviews of CAM practices.
8. Considering extending DICE to cover crown entities.
9. Considering using DICE to support Treasury's leadership role in CAM by identifying examples of best practice across the public Sector and agencies needing additional advice or support.

Option 2: Other Information Sources

As noted in section 4.2 (10), there are a number of other existing information sources from which treasury might source additional CAM information, although access to some of these sources may not be deemed appropriate (for example Quarterly Reports to the Minister are an accountability mechanism between Departments and responsible Ministers which may be compromised if viewed by Treasury officials). The most promising sources of additional information would be:

1. Existing capital asset management plans
2. Existing property plans.

However as noted above, use of these plans are not widespread and the quality of individual plans is variable. Therefore if this option is pursued, Treasury may also need to:

3. Take more of a leadership role in CAM by developing and promoting tools and guidelines for asset management
4. Focus attention on CAM in the short term by making it a focus of the annual audit process.

Option 3: Develop New Information Systems

Treasury could develop new “fit-for-purpose” information systems to collate information on CAM. The information to be collected would meet the requirements identified in section 3 of this report. This is potentially a high cost option and should be considered only if other options are not pursued. Key considerations would include:

- Development and compliance costs
- Duplication of existing systems
- Whether CAM systems in place at agency level to provide the required information

In order to minimise costs, the development of new information systems could be limited to “capital asset intensive” departments and crown entities and focus on deriving information from existing capital asset management plans in these agencies (refer option 4). For the vast majority of “non capital asset intensive” departments and crown entities, CAM information

could be derived from existing sources, provided information gaps are rectified as noted in option 1 above.

Option 4: Focus on “Capital Asset Intensive” Agencies

The vast majority of the investment in capital assets in departments and crown entities is held by a small number of agencies. Analysis of data in Tranche 2 of the review has shown that as at 30 June 2006, 92% of capital assets in departments and crown entities by value was held by 8 agencies³³. Therefore the most effective way for Treasury to ensure that CAM objectives are met may be to focus its CAM information needs on the 8 “capital asset intensive agencies”. For the vast majority of other departments and crown entities Treasury should take a strong leadership role and encourage good asset management through the operation of capital asset management plans and an increased assurance role to make sure that effective capital asset management plans are in place at the agency level.

To achieve this Treasury should:

1. Encourage all government departments and crown entities to develop and implement capital asset management plans
2. Develop frameworks, tools and guidance material to assist Treasury in its CAM Leadership role to promote and support good capital asset management practices
3. Gain assurance that effective capital asset management plans are in place through audit activity (this could be provided via the yearly audit, one-off reviews, a revamped DICE process, or some other assurance process)
4. Establish a process to regularly collate CAM information from existing capital asset management plans in capital asset intensive agencies and feed this into Treasury’s internal information sources so that it meets the information needs of Treasury’s CAM roles
5. In addition information provided through Annual Reports, SOIs and business cases should be developed as noted in option 1 above.

³³ Transit, Housing NZ, Tertiary Education, DHB’s, TAMU, Education, NZDF, Corrections.- refer to Appendix 2.

6. CONCLUSION

Treasury does not have a single system or process to collate CAM information across the public sector but relies on the information collected for other purposes through a myriad of different sources. As a result CAM information available to Treasury varies in consistency and quality and does not necessarily meet the information needs of its CAM roles. Although the information requirements depend on the roles of Treasury in CAM, the analysis has identified significant gaps in information under six of the seven roles.

There are a number of options to improve the quality of existing CAM information, however an “across the board” approach which aims to rectify the gaps in existing information sources, or which establishes new reporting systems, has high implementation and compliance costs and is unlikely to be a cost effective solution.

Analysis of data on capital assets in Tranche 2 of the review has identified that 92% of the investment in departmental and crown sector assets is held by eight agencies. Therefore it would be logical for Treasury to focus its CAM activities around these eight “capital asset intensive” agencies. CAM information for these capital intensive agencies could be sourced from existing capital asset management plans or systems. For the vast majority of departments and crown entities, which account for the remaining 8% of investment in capital assets, Treasury should concentrate on encouraging effective CAM by taking a leadership role and promoting best practice, and providing frameworks, guidelines, tools, support and advice. Treasury should also increase its assurance roles to ensure that effective CAM systems are in place. Monitoring of CAM performance and evaluation of the effectiveness of CAM should take place on an ad hoc basis.

APPENDIX 1: ASSESSMENT OF QUALITY OF INFORMATION SOURCES

| Information Need | Information Source | | | | | | | | Average Score |
|--|--------------------|----------------|------|-----------|--------------------|----------------|------|----------------|---------------|
| | CFIS | Annual Reports | SOIs | Estimates | Budget Submissions | Business Cases | DICE | Inspect-a-risk | |
| Provision of Fiscal Advice | | | | | | | | | |
| 1.1 | 1 | | 2 | | 1 | 1 | | | 1.3 |
| 1.2 | | | | | 1 | 1 | | | 1.0 |
| 1.3 | 1 | 1 | 1 | 1 | 1 | 1 | | | 1.0 |
| Provision of Consolidated Information | | | | | | | | | |
| 2.1 | 1 | 1 | | | | | | | 1.0 |
| 2.2 | 1 | 1 | | | | | | | 1.0 |
| 2.3 | 1 | 1 | | | | | | | 1.0 |
| 2.4 | | | | | | | | 1 | 1.0 |
| 2.5 | 1 | | 1 | | | | | | 1.0 |
| 2.6 | 3 | | 3 | | | | | 2 | 2.7 |
| 2.7 | 3 | | 3 | | | | | 2 | 2.7 |
| Funds Management | | | | | | | | | |
| 3.1 | 1 | | 2 | 1 | | | | | 1.3 |
| 3.2 | 2 | | 3 | 2 | | | | 2 | 2.3 |
| Monitoring | | | | | | | | | |
| 4.1 | 2 | | 3 | 2 | | | | | 2.3 |
| 4.2 | 3 | 2 | 3 | | | | | | 2.7 |
| 4.3 | | | | | | | | 2 | 2.0 |
| Assurance | | | | | | | | | |
| 5.1 | | 3 | 3 | | | | 2 | | 2.7 |
| 5.2 | | 3 | 3 | | | | 2 | | 2.7 |
| Evaluation | | | | | | | | | |
| 6.1 | | | | | 2 | 2 | | | 2.0 |
| 6.2 | | | | | 1 | 1 | | | 1.0 |
| 6.3 | | 3 | 3 | | | | | | 3.0 |
| 6.4 | | 3 | 3 | | | | | | 3.0 |
| 6.5 | | 3 | 3 | | | | | | 3.0 |
| Leadership in CAM | | | | | | | | | |
| 7.1 | | 3 | | | | | 2 | | 2.5 |

Key to scoring: 1 = Information fully meets need
 2 = Information partially meets need
 3 = Information does not meet need, or is not available

Scores are shown for sources providing information, or where the source would be reasonably expected to provide the information

APPENDIX 2: LARGEST PHYSICAL ASSET HOLDINGS

| Net Physical Assets | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| \$ millions | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Departments | 10,281 | 11,555 | 12,484 | 13,618 | 15,845 | 16,744 |
| Crown Entities | 9,664 | 15,343 | 29,736 | 33,612 | 37,699 | 38,763 |
| Total | 19,945 | 26,899 | 42,221 | 47,230 | 53,544 | 55,506 |
| Crown Entities | | | | | | |
| Transit New Zealand | 6 | 4 | 12,560 | 13,091 | 14,919 | 15,425 |
| Housing New Zealand Corp. | 4,357 | 6,901 | 7,530 | 10,089 | 11,427 | 11,637 |
| Tertiary Education Institutions | 932 | 3,865 | 4,312 | 4,559 | 5,125 | 5,150 |
| District Health Boards | 2,035 | 2,181 | 2,839 | 3,082 | 3,212 | 3,436 |
| Schools - TAMU | 736 | 785 | 843 | 890 | 1,001 | 1,004 |
| Departments | | | | | | |
| Education | 5,650 | 6,379 | 7,022 | 7,995 | 9,265 | 9,342 |
| NZDF | 2,563 | 2,844 | 3,016 | 3,035 | 3,493 | 3,476 |
| Corrections | 546 | 577 | 611 | 659 | 995 | 1,439 |
| Total Eight largest CE's and Depts | 16,825 | 23,535 | 38,732 | 43,399 | 49,438 | 50,908 |
| | | | | | | 92% |

APPENDIX 3: SAMPLE AGENCIES

AGENCIES CONSIDERED IN TRANCHES 1 & 2

Department of Conservation
Department of Internal Affairs
Department of Statistics
Housing New Zealand Corporation
Inland Revenue Department
Ministry of Agriculture and Fisheries
Ministry of Economic Development
Ministry of Education
Ministry of Health
Museum of New Zealand Te Papa Tongarewa
National Library of New Zealand
New Zealand Customs
New Zealand Fire Service
Radio New Zealand Limited
TAMU
The Treasury
Transit New Zealand

APPENDIX 4: INFORMATION SOURCES

DOCUMENTS REVIEWED

A Guide to the Management of Departmental Assets, The Treasury, 1991
Cabinet Office Circular CO(02)17
Capital Expenditure & Withdrawals, Martin Lally, March 1994
Crown Entities Act 2004
Cabinet Office Circular CO (89) 22
Cabinet Office Circular CO(02) 17, Guidelines for Changes to Baselines
Budget 2006 Initiatives Template, 801528v2
DICE, Treasury Circular 2005/15, 17 November 2005
Departmental Internal Control Evaluation, The Treasury, June 2001
Department of Conservation 2006-09 Statement of Intent
Department of Conservation Annual Report year ended June 30 2005
Department of Internal Affairs 2006-09 Statement of Intent
Department of Internal Affairs Annual Report year ended June 30 2005
FM Review – Physical Assets, PricewaterhouseCoopers, August 1999
Housing New Zealand Corporation 2006-09 Statement of Intent
Housing New Zealand Corporation Annual Report year ended June 30 2005
Inland Revenue Department 2006-09 Statement of Intent
Inland Revenue Department Annual Report year ended June 30 2005
Management of Physical Assets, Report of the Controller and Auditor-General, second report for 1993
Ministry of Agriculture & Fisheries 2006-09 Statement of Intent
Ministry of Agriculture & Fisheries Annual Report year ended June 30 2005
Ministry of Education Annual Report year ended June 30 2005
Ministry of Education 2006-09 Statement of Intent
Ministry of Health Asset Management plan review and guidance material
Public Finance Act 1989
Public Sector Performance Gameplan, June 2006, Treasury:861016v1
Putting it Together, The Treasury, 2001
Report from Tranche 1 – Empirical Analysis, Simon Gilmore
Stepping Up presentation, Town Hall, 30 June 2006
The Estimates of Appropriations 2005/06
The Treasury 2006-09 Statement of Intent

The Treasury Annual Report year ended June 30 2005
Transit New Zealand 2006-09 Statement of Intent
Transit New Zealand Annual Report year ended June 30 2005
Transit New Zealand 10 year State Highway Plan and Forecast for 2006/07 to 2015/06
Treasury 2006-2009 Statement of Intent
Treasury's Central Agency Role, Internal Paper, June 2006, Treasury: 865796v1
2005 Budget Submissions for the Department of Conservation and Department of Internal Affairs

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APPENDIX 5: TERMS OF REFERENCE

SCHEDULE 1 OF AGREEMENT FOR CONSULTANCY SERVICES:

The contractor will undertake the work required for Tranche 3 of the review by providing an assessment of “the quality of the capital asset management information available to Treasury and other monitoring departments”.

The Services are described in the proposal of Martin, Jenkins & Associates dated 29 June 2006.

In providing the Services, the contractor will:

- Consult with Treasury to determine the “fitness for purpose” criteria
- Provide input (as necessary) to survey questions that will be used as the basis for Treasury interviews of departmental and crown entity representatives between 10 and 24 of July 2006 (part of Tranche 2 of the review)
- Participate (as required) in up to 6 Treasury interviews with external stakeholders
- Assess asset management information available to Treasury and other monitoring departments against the criteria to identify the extent and significance of any gaps in information quality including coverage and reliability.
- Identify opportunities for closing those gaps, and assess the feasibility (costs and benefits) of options for improving the quality of information available to Treasury and monitoring departments for capital asset management purposes
- Consult with Treasury over its findings, assessments and recommendations
- Prepare and present a draft report to the project manager on or before 7 August with practical recommendations for improvement under two scenarios based on its findings and assessments. The two scenarios anticipate different levels of monitoring intensity by Treasury in future consistent with its “Stepping Up” programme of change.
- Prepare and (if necessary) present a final report to the Steering Group on or before 11 August 2006 for input into Tranche 4 of the Review, covering:
 1. An assessment of the “fitness for purpose” of existing capital asset management information available to Treasury or other monitoring departments, along with implications for capital allocations and forecasting requirements.
 2. The nature and significance of changes required to improve the usefulness to Treasury and monitoring departments of information relating to capital asset management within the financial management framework.
 3. The nature and significance of any enhancements required to Treasury and agency information systems (in terms of coverage and reliability) to provide useful inputs for long term financial forecasts

- To assist the contractor to provide the services, Treasury will provide:
 - Access to Treasury material produced in relation to Tranches 1 and 2 of the review by 10 July
 - Detailed asset management information from CFIS and other sources in a timely manner to allow the contractor meet the project deadlines
 - Access to and the co-operation of appropriate Treasury officials;
 - Information from sample agencies during interviews or surveys as agreed with the project team.