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CAPITAL INTENTIONS OF CAPITAL-INTENSIVE AGENCIES AND SECTORS - 2008 PROFILE

1. Most of this circular affects capital-intensive agencies and sectors only (see table below). However the penultimate section relates to all other (non-capital intensive) departments and Crown agents.
2. Treasury has briefed all capital-intensive agencies and sectors on this matter and has received commitments to provide the requested information. This circular provides formal advice of the information that Treasury seeks from capital-intensive agencies by 30 September 2008. It also outlines the planned approach to identifying the equivalent information for Budget 2010.

Introduction and purpose

3. In December 2007, Cabinet agreed to establish a new state sector capital asset management (CAM) regime to improve the focus on and quality of capital asset management, and deliver worthwhile value for money gains over time. Among the central features of the new regime is the expectation that agencies will provide visibility over their long term intentions and the service or policy justifications for those intentions. This will help government establish long-run investment priorities across different parts of the state sector and give Cabinet and responsible Ministers the best possible opportunity to influence significant investment options and make best value decisions on capital investments.

4. In particular, Cabinet agreed that all capital-intensive agencies or sectors should provide to Treasury information relating to their long term capital intentions in time to inform the strategic phase of the annual Budget process, starting with Budget 2009 (CAB Min (07)44/11 refers).

Affected agencies

5. The agencies and sectors affected by this information request have been agreed by Cabinet and are listed in the following table:

Initial list of capital-intensive agencies for CAM purposes	
Crown agents	Departments
<ul style="list-style-type: none"> • District health boards; • Housing New Zealand Corporation; • New Zealand Transport Authority (formerly Transit New Zealand); • Tertiary Education Commission (for the portfolio of tertiary education institution assets monitored by TEC). 	<ul style="list-style-type: none"> • Department of Corrections; • Department of Conservation; • New Zealand Customs Service; • Ministry of Education; • New Zealand Defence Force • Ministry of Defence; • Ministry of Health; • Inland Revenue Department; • Ministry of Justice; • NZ Police; and • the Ministry of Social Development.

Intended use of requested information

6. The overall intention is to assist the strategic phase of the Government’s annual budget cycle by providing Ministers with timely and comprehensive visibility over emerging asset-related pressures and risks as well as broad options for managing those pressures.
7. We anticipate that this information will help inform Ministers’ strategic thinking on policy and investment trade-offs, and start discussions on options for managing asset-related pressures over time.
8. Importantly, the information provided to Treasury does not constitute a new initiative for budget purposes. As is usual, any new initiatives would be submitted separately through the initiatives phase of the government budget cycle and subject to budget decision-making processes, or subject to existing capital approval processes.

9. We anticipate the requested information will be used in several ways:
- Capital-intensive agencies may use it to generate agency-level summary reports (“capital profiles”) for internal use (for example to further strengthen linkages between assets and service delivery needs) and for discussion with responsible Ministers around medium term plans and priorities (for example as an input to agencies’ statements of intent);
 - Similarly, where appropriate, sector lead agencies (for example in Health and Tertiary education sectors) may generate sector-level summary reports for discussion with responsible Ministers around sector planning and coordination;
 - Treasury will use the information to produce a series of reports for discussion with Ministerial audiences over the aggregate fiscal and economic impact of the capital intentions of the capital-intensive agencies over the next 10 years. Ministerial audiences could include Finance Ministers, Budget Ministers and Ministers with delegated authority to oversee implementation of the new regime; and
 - Central agencies may use the information to help planning for related processes such as monitoring of major ICT investments in departments and Gateway.

Nature of requested information

10. The detailed specification of information requested is available on the PSI portal at <https://psi.govt.nz/cam/default.aspx> or from the Treasury CAM project team.
11. In generic terms, the requested information comprises:
- Brief statements on key policy and operational assumptions that drive or shape asset management in the agency or sector;
 - Data on the anticipated impact on capacity of projected demand for services over a 10 year horizon;
 - Data on the current and projected performance of the existing asset portfolio in each agency or sector;
 - Brief statements of significant asset-related risks that need to be managed;
 - Key information on each project or programme with a whole-life cost of \$25m or more, that will require a Stage Two¹ approval decision over the 10 year horizon; and

¹ Generally, the point when a decision is required by the appropriately authorised party to proceed with an investment, based on a business case with detailed scope, costs, benefits and risks.

- Financial information at agency level or sector on projected capital expenditure, depreciation flows and asset-related operating costs over the 10 year horizon.

Quality of requested information

12. The quality of agency information on capital intentions should be fit for purpose and reflect the core standard of asset management practices in capital-intensive agencies. Generally, the required standard of care would be that consistent with *FRS-42 Prospective Financial Statements*. However we accept that the 2008 exercise is breaking new ground in relatively short timeframes and that some of the information provided might not be as robust as agencies would ideally like.

Next steps

13. As usual, Treasury will use CFISnet as the main conduit for collecting the information and generating standard reports. Agencies with CFISnet access will be able to generate reports from their own information for internal assurance purposes and for discussion with responsible Ministers and relevant monitoring departments during September.
14. New data collection templates and report formats will be available for use by agencies from early September 2008. Treasury will arrange training in the use of these templates and access to associated technical guidance material closer to that time.
15. Our current intention is to provide all agencies with a summary of the capital intentions and advice provided to the strategic phase of the Budget process. We also plan to invite agency feedback on the 2008 capital intentions exercise in order to shape the information and processes for the equivalent process in 2009.

Implications for non capital-intensive agencies

16. Cabinet's intention is that from the start of the budget cycle for Budget 2010, all other departments and Crown agents (in addition to those identified as capital-intensive agencies) will prepare and submit to Treasury, information on their long term capital intentions over a planning period that is consistent with the requirements for their Statements of Intent (i.e. spanning at least three years).
17. At this stage Treasury plans to have a consultation draft available by the end of October 2008 that outlines the capital intentions information we think is necessary to inform the strategic phase of Budget 2010 (i.e. due by 30 September 2009). The exact nature of these requirements will be discussed and agreed with agencies in the light of this year's experience with capital-intensive agencies.

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for Secretary to the Treasury