

The Treasury

Budget 2020 Information Release

July 2020

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Treasury Report: Budget Scene Setting Discussion: Digital, Data and ICT initiatives

Date:	25 November 2019	Report No:	T2019/3656
		File Number:	BM-2-4-2020-10 (Cost Pressure Initiatives)

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Discuss the contents of this briefing with the Government Chief Digital Officer and the Government Chief Data Steward at the Budget scene setter session on 27 November 2019	27 November 2019
Minister for Government Digital Services (Hon Kris Faafoi)	Note the contents of this briefing	27 November 2019

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Isabelle Jarvis	Senior Advisor, Strategic Performance Improvement	[39]	N/A (mob) ✓
Megan Taylor	Manager, Strategic Performance Improvement		N/A (mob)

Minister's Office actions (if required)

Forward a copy of this report to the Office of the Minister for Government Digital Services.

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Budget Scene Setting Discussion: Digital, Data and ICT initiatives

Executive Summary

This report provides the following material for you Budget scene setting discussion with the Government Chief Digital Officer (GCDO) and the Government Chief Data Steward (GCDS):

- Agenda (attachment one)
- Context (this report)
- Digital, Data and ICT Investment Principles (attachment two)
- Digital and ICT Investment Strategy/Plan (attachment three)
- Data Investment Plan (attachment four)
- System overview of digital, data and ICT cost pressure initiatives (see paragraph 9 of this report).

Recommended Action

We recommend that you **discuss** the contents of this briefing with the Government Chief Digital Officer and the Government Chief Data Steward at the Budget scene setting session on 27 November 2019.

Megan Taylor
Manager, Strategic Performance Improvement

Hon Grant Robertson
Minister of Finance

Treasury Report: Budget Scene Setting Discussion: Digital, Data and ICT initiatives

Purpose of Report

1. You are meeting with the Government Chief Digital Officer (GCDO) and the Government Chief Data Steward (GCDS) on Wednesday 27 November. This is one of a series of scene setting discussions you are having on Budget 2020 and will focus on the advice that GCDO and GCDS have been invited to provide through the Budget process.

Background

2. In Budget 2018 you expressed disappointment in the extent of duplication and lack of coordination of ICT-related bids. Following the Budget process you wrote to the Minister for Government Digital Services asking to work with the Minister to develop an all-of-government view of ICT-related spending, including bids for new projects and upgrades in the pipeline.
3. In response, the Government Chief Digital Officer (GCDO) and the Government Chief Data Steward (GCDS), jointly with the Treasury presented Digital, Data and ICT Investment Principles ("Investment Principles") for Budget 2019 which were endorsed by Cabinet in February 2019. The Investment Principles provide a mechanism to encourage and support the submission of bids which:
 - come together as a coherent suite that avoids duplication and aligns with the agreed strategic direction for the digital and data system,
 - consider the extent to which an initiative delivers value beyond a single agency (i.e. a 'system-win'), and
 - provide important component parts needed to address critical system gaps and build the digital and data system in a sustainable and enduring way.
4. The expectation is that the Investment Principles will continue to evolve over the coming years and be applied to both existing baseline and to new Budget investment, resulting in more coordinated and efficient investment. For Budget 2020 a refreshed set of Investment Principles (attachment two) were developed with the input of agency experts and stakeholders and endorsed by the Digital Government Leadership Group.

Process for Advising on Budget 2020 Digital, Data and ICT Initiatives

5. In Budget 2020, the GCDO and GCDS will provide advice to decision-makers on initiatives using the Investment Principles; covering:
 - how well initiatives align with the Investment Principles,
 - the relative priority of initiatives from an overall system perspective using existing frameworks like the Data Investment Framework where appropriate,

- the achievability of the proposed solution and how confident they are that it can be delivered based on their understanding of market and workforce constraints, technology maturity, delivery approach, and organisational readiness, and
 - identifying where agencies could benefit from coordination and collaboration using existing forums, for example the Digital Government Partnership working groups.
6. To help prepare this advice, the GCDO and GCDS undertook a data collection exercise in August to understand the current state of investment in digital, data and ICT systems and what investment agencies are intending to make over the coming years (called “investment intentions”). The data collection showed:
- the asset value of current systems to be \$4.4 billion (with a 69% depreciated asset base, representing \$3 billion accumulated depreciation), and
 - investment intentions of \$8.1 billion over five years from either baseline or to be sought through the Budget process.
7. The intentions data has helped to identify agencies investing in similar systems. There are opportunities to explore ways to coordinate and collaborate investment to achieve better value for money and avoid duplication. Using the investment intentions data, the GCDO has developed a draft investment strategy/plan (attachment three) which outlines future direction and focus areas. The goal of the investment strategy is to:
- take an all-of-government view to ensure future investment is targeted, efficient and creates public value,
 - ensure that digital public services are designed around people with improved access, transparency and trust, and
 - help government manage digital investments at a system level by facilitating greater knowledge sharing, collaboration and co-creation throughout the public sector.
8. GCDS are also in the process of developing a Data Investment Plan (attachment four).

Advice on Cost Pressure Initiatives

9. Over the last few weeks, GCDO and GCDS have been working with the Treasury to provide advice on cost pressure initiatives with a digital, data and/or ICT component. They have provided advice on 22 initiatives¹. The initiatives assessed were rated using a green/amber/red rating. From this analysis GCDO and GCDS have noted the following:
- Almost half of the twenty digital/ICT cost pressure bids were rated green. Most of these have recommended conditions attached to continue working with GCDO on the solutions and implementation.
 - There were two data cost pressure bids which were both rated amber and had recommended conditions about capability.
 - Most of the cost pressure initiatives assessed were not included in the investment intentions data collection information provided by agencies in August. This could be due to information silos within agencies, lack of adequate financial planning or misunderstanding the type of information requested.

¹ As digital, data and ICT are usually a sub-component of a Budget initiative, information cannot be provided on the amount of funding sought solely in relation to digital, data and ICT.

- There is limited evidence of collaboration and coordination in the bids. Anecdotally GCDO and GCDS know of collaboration but it hasn't always been mentioned in the bid.
- The initiatives assessed show some alignment to the Investment Principles through the intention to use application programming interfaces (APIs), cloud-based solutions and common capabilities. GCDO recommend agencies continue to engage with them on solutions and implementation of initiatives.
- Many agencies have no accumulated depreciation remaining to replace the asset associated with that depreciation. Accumulated depreciation in theory represents the amount that should be set aside for reinvestment and replacement of the asset but in practice agencies use the accumulated depreciation to manage other cost pressures.

Discussion with the GCDO and GCDS

- At the scene setting session we have proposed the following discussion topics (agenda attached):
 - Development of a Digital and ICT Investment Strategy/Plan (see attachment three)
 - Development of a Data Investment Plan (see attachment four)
 - System overview of digital, data and ICT initiatives (see paragraph 9 above).
- At the discussion you could ask the following questions:

On the Investment Principles, data collection and Digital and ICT Investment Strategy/Plan:

- How have agencies responded to the Investment Principles and data collection?
- What is GCDO doing to raise awareness and understanding of the Investment Principles?
- Are there any particular difficulties you are facing in working with agencies?
- What support can Ministers provide to ensure better collaboration and coordination?
- What do you think should be the role of monitoring agencies in respect to encouraging Crown entities to support the application of the Investment Principles?

On the Data Investment Plan:

- What is GCDS doing to raise awareness around the Data Investment Plan?

On the advice to inform Budget 2020:

- What are your views on agency and market capability and capacity to deliver the investment intentions of agencies?
- Are you undertaking, or proposing to undertake, any work on workforce capability and capacity?

Next Steps

12. The Treasury will build the advice provided by GCDO and GCDS into the development on the proposed cost pressures package. When the new initiatives are received on 29 November, the GCDO and GCDS will undertake similar analysis on these initiatives. Given the role of coordinating Ministers and secretariats in developing proposed packages for the Budget priority areas, this analysis will be provided to the secretariats prior to Christmas.
13. You have more Budget 2020 scene setting discussions scheduled focusing on Social Development, Workforce Pressures, Capital, Health, Justice and Education.

Attachment One: Agenda for Scene Setting Discussion on Digital, Data and ICT Initiatives in Budget 2020

Agenda for Scene Setting Discussion on Digital, Data and ICT Initiatives in Budget 2020

27 November 2019, 1.45-2.45pm

Chair	Hon Grant Robertson, Minister of Finance	
Minister attending	Hon Kris Faafoi, Minister for Government Digital Services	
Officials attending	GCDO: Paul James (Government Chief Digital Officer), Anne-Marie Cavanagh and Mike Smith GCDS: Liz MacPherson (Government Chief Data Steward) The Treasury: Megan Taylor, Isabelle Jarvis	
Other attendees	Staff from Ministers' offices	
Agenda items	Indicative times	Objective
Opening remarks by the Minister of Finance	5 minutes	Welcome everyone to this meeting
Overview by GCDO	5 minutes	Explain the history behind the development of the Digital, Data and ICT Investment Principles
Development of a Digital and ICT Investment Strategy/Plan - GCDO	15 minutes	Outline and discuss the draft Digital and ICT Investment Strategy/Plan recently presented to the Digital Government Leadership Group and next steps
Development of a Data Investment Plan - GCDS	15 minutes	Provide an update on the development of a Data Investment Plan and discuss how to manage data as an enduring asset that is invested in and maintained
System overview of digital, data and ICT initiatives – GCDO and GCDS	10 minutes	Provide an overview of the advice GCDO and GCDS are giving on the Budget 2020 cost pressure initiatives, key themes and process moving forward
Conclusion and wrap-up	5 minutes	Ensure a common understanding of what is happening next and the role the Minister of Finance can play in supporting this work

Attachment Two: Budget 2020 Digital, Data and ICT Investment Principles

What is a Digital/Data/ICT initiative?

For the purposes of Budget 2020; digital/data/ICT bids are investments which fall into the following categories:

Investment category	Definition
Service Delivery	Core systems and tools for delivering or managing services to customers, including customer relationship management and case management. Or, core line of business systems, e.g. the Passports and Courts Management Systems
Information and Data Services	Initiatives which have a significant data component, information management element, look to share data, provide data related insights, or use data for innovation. Or, the systems to support the management of data, including business intelligence, data warehouse, enterprise content management, and other data and information systems.
Corporate (Back Office)	Corporate systems including payroll, financial management information systems (FMIS), human resource information systems (HRIS), enterprise resource planning systems (ERPs), and other corporate systems for internal communications and intranets
Digital Foundations and Infrastructure	Enabling digital technologies including digital government platforms, identity and access management services, end user computing, and core ICT infrastructure and networks
Specialist	Specialised hardware including the software operating this hardware. (e.g. medical equipment or passports printers and the software operating that equipment). The hardware should be unique to an agency or to only a few agencies across government.

Investment Principles

The revised Investment Principles for Budget 2020 were endorsed by the Digital Government Leadership Group on 26 September.

Service delivery initiatives will be prioritised if the initiative:

- Prioritises the use of open application programming interfaces (APIs) to expose business functions, rules and data
- Uses innovation and design thinking to solve complex problems, including:
 - taking a collaborative approach by co-designing and co-delivering solutions across sectors and clusters;²
 - prototyping solutions that can be scaled around customer-centric outcomes;

² The combination of government agencies, NGOs, and private sector entities, that together create public value.

- adopting digital technologies and components to enable flexibility and deliver value for money; and
- valuing consistency, through utilising government digital and data standards and guidance (e.g. identity and digital design standards).
- Invests in flexible and reusable systems, components and rules, and includes design considerations for responding to unpredictable future business, environment and government priorities.

Information and Data Services initiatives will be prioritised if the initiative:

- Focusses on the development of an enabling data system, as described by the Data Investment Framework, which prioritises investment within the following focus areas for Budget 2020:
 - the delivery of data and analytics for decision-making with an emphasis on meaningful measures of progress which deliver value to address current government priorities, and seek to enhance capability in the use of data for policy and decision-making;
 - the design of data for system re-use, where a system mind-set and culture provides the environment for data to be designed with all-of-government needs in mind, with an emphasis on a shared process for the collection of common data variables, and a common approach to embedding Māori perspectives about data into the way data is managed and used; and
 - stewardship of the system to ensure the moving parts, and key actors enable a system where activity builds on existing and parallel work to add value, with emphasis placed on system infrastructure to meet the needs of its users – providing access to meet demand and facilitate sharing.

Corporate (Back Office) initiatives will be prioritised if the initiative:

- standardises back office functions under the all-of-government common process model;
- invests in a fit-for-purpose solution, considering size and functionality; and
- uses existing all-of-government contracts or commodity services and takes a collaborative system procurement approach.

Note: Payroll initiatives should also be made known to the “Improving Government Payroll Systems” programme led by the Government Chief Digital Officer, which covers the monitoring regime for payroll investments, project assurance and Holidays Act remediation.

Digital Foundations and Infrastructure initiatives will be prioritised if the initiative (new principle):

- is supported by multiple agencies to create system assets or enablers;
- invests in components for a digital public service (e.g. digital identity, marketplaces, service innovation labs); and
- prefers cloud-based infrastructure services or all-of-government common capabilities, when investing in ICT infrastructure or telecommunications.

Note: Capital (or asset ownership) investment in infrastructure will only be supported by exception; e.g. the underlying infrastructure to support a key system is owned by the agency for reasons of national security or critical service delivery.

Specialist initiatives are considered on a case-by-case basis.

Note: Investments that extend legacy business models and technology assets will not be prioritised. Exceptions may exist for critical systems that require investment to prevent imminent system failure or loss of significant service delivery.

STRATEGY
FOR A DIGITAL
PUBLIC SERVICE

Ensure future investment in digital, data and ICT systems are targeted, efficient and creates public value

Develop a digital and ICT investment strategy and long term plan (Lead for MoF)

What is digital, data and ICT investment?

Digital, data and ICT investments are investments that broadly fall into the following five categories.

- **Service delivery** – these include core systems and tools used for delivering or managing services to customers
- **Information and data services** – these include systems which have a significant information management element or significant data component
- **Corporate back office** – these include payroll, financial management, human resource information systems and other corporate systems for internal communications
- **Digital foundations and infrastructure** – these are enabling technologies such as identity management, end user computing and core ICT infrastructure
- **Specialist** – specialist hardware that is unique to an agency or few agencies

To work towards our goals we will focus on....

Investment
Coordination

- Identify where agencies could benefit from coordination and collaboration
- Facilitate coordinated investment decisions by linking up agencies considering similar investment proposals, (to explore synergies and avoid duplication).

Investment
Management

- Develop insight into and influence baseline investment decisions.
- Advice Minister of Finance and Treasury on investment decisions at Budget. This includes reviewing the investment principles
- Develop system profiles
- Manage the innovation fund
- Influence investment decisions by providing strategic financial advice as part of the corporate centre

Asset
Management

- Develop guidance around digital, data and ICT asset management practices; this includes guidance on optimising spending, life cycle management and managing legacy systems

Our goals are to.....

- ❑ Take an all-of-government view to ensure future investment is targeted, efficient and creates public value
- ❑ Ensure that digital public services are designed around people with improved access, transparency and trust.
- ❑ Help government manage digital investments at a system level by facilitating greater knowledge sharing, collaboration and co-creation throughout the public sector.

Our approach.....

Sustainable Investment
To influence investment decisions that ...

focus on value
for money,

efficiency through
coordination and
collaboration

alongside
considerations of wider
environmental and
social impact.

Key insights

- ❑ There is a total of **\$8.1 billion of investment** intentions over 5 years in digital, data and ICT systems across government
- ❑ This is made up for **\$5 billion baseline** spending and **\$3.1 billion new funding**; to come from future budgets.
- ❑ The total value of digital, data and ICT **assets** across the system currently is **\$4.4 billion**.
- ❑ This is made up for made up of a **69% depreciated asset base**, (signalling an upcoming needs to reinvest in digital, data and ICT systems)
- ❑ Data collected was from **32 public service department, 7 crown entities, 2 departmental agencies** and **5 non-public service departments**

as a result, we want to see....

De-prioritisation of investment and divestment of legacy systems

Prioritisation of flexible, reusable systems, components and rules

Progressive investment spread over number of years in smaller amounts

Greater access to government data

Greater uptake of all-of-government rules, contracts and commodity services.

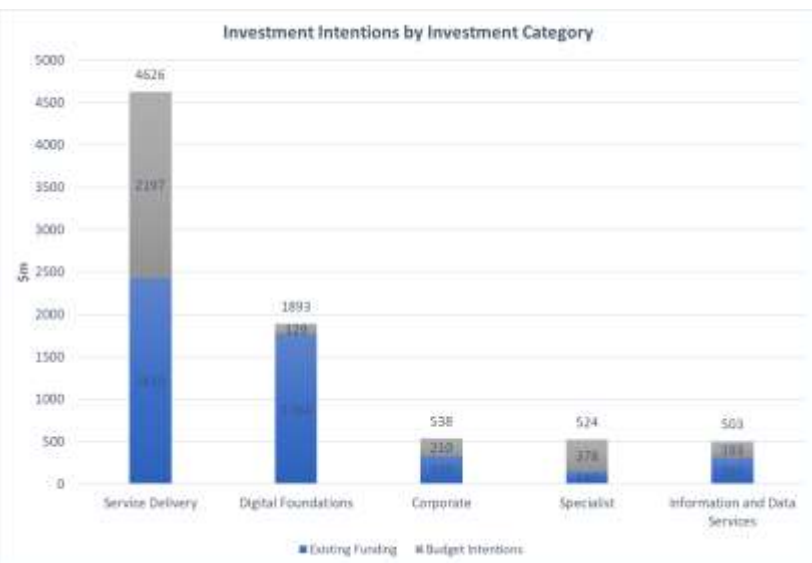
Greater number of interoperable systems within government

At Budget we want to see more multi-agency budget bids and less single agency digital, data and ICT budget bids

More baseline funding decisions involving multiple agencies and coordinated investment proposals resulting in integrated services lead to system benefits

Investment intentions: significant investment planned in digital systems in the next five years.

The intentions data has helped us identify agencies that appear to be investing in similar systems. The breakdown by architectural category (on the right) and investment category (below) show significant amounts being invested in the service delivery space. The breakdowns show significant baseline investment planned in digital system in the next five years.



Opportunities to coordinate investment

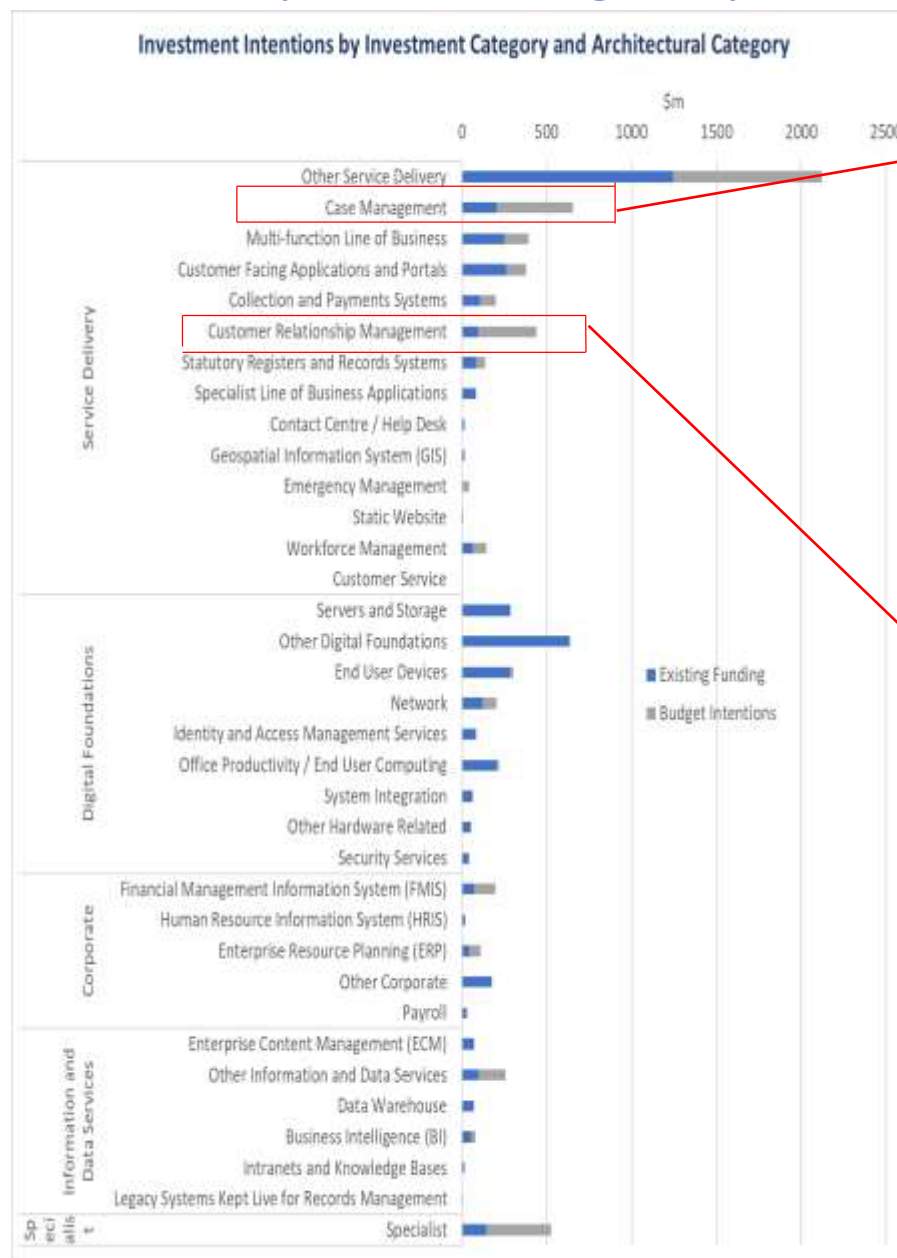
New funding:

- Our advice to Treasury and Minister of Finance on budget bids will consider ways to coordinate investment where possible. We will work with agencies to understand needs and risks in forming this advice.

Baseline spend:

- We could enable coordination of baseline spending by creating greater awareness of investment intentions across the government system. To do this we will share our analysis and findings from data collection exercises with agencies more regularly
- We could also facilitate communities of practice, where agencies could learn from each other and identify others with similar investment intentions.

What else could we do?



Spotlight: Case Management

The intentions data shows:

- 26 investment intentions** for case management, all the service delivery category.
- Only one of those 26 intentions indicated that there was collaboration involved.
- Six agencies are in the 'think' stage** of case management investment, within funding largely coming out of baselines or to come from a future budget bid (not including budget 2020).
- There are at least **six budget 2020 bids** planned and all either in the 'plan' or 'think' stage.
- \$473.5 million** of the investment intentions over five years, relate to case management.

Spotlight: Customer Relationship Management

The intentions data shows:

- 30 investment intentions** for customer relationship management, (from both baseline and new funding)
- 9 agencies are in the 'think' stage** and all from internal funding
- There are at least **six budget 2020 bids** planned and are either in the 'plan' or 'do' stage.
- \$345 million** of the investment intentions over five years, relate to customer relationship management

[33]

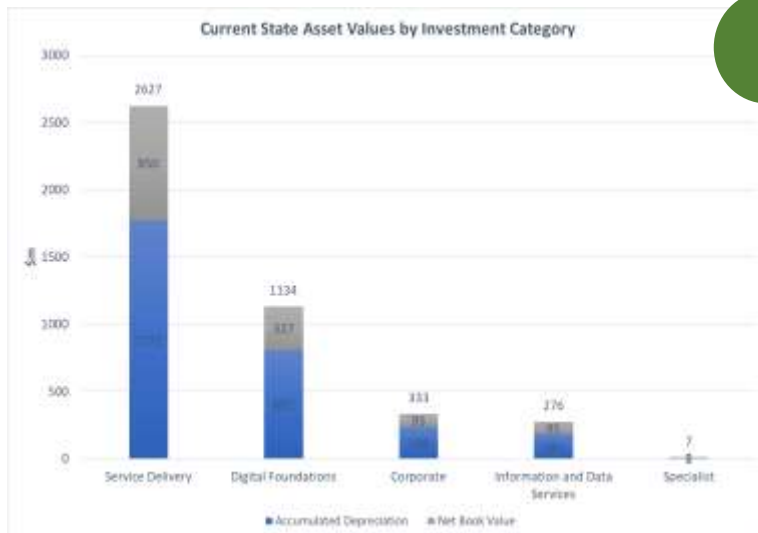
[33]

GCDO advice at Budget 2020

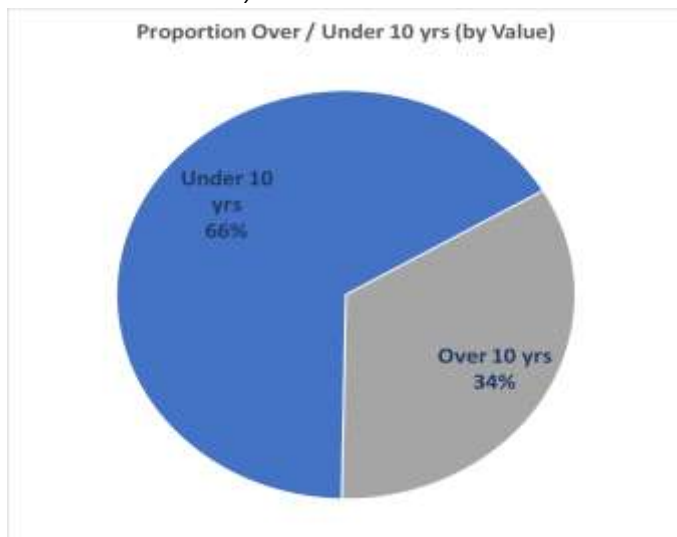
To facilitate coordinated investment decisions GCDO will focus on the following at Budget 2020:

- The intentions data signal that there are agencies looking to invest in similar digital, data and ICT functionality. Our advice to Treasury and Minister of Finance on Budget 2020 bids will include a view of opportunities to coordinate and collaborate to achieve efficiency and effectiveness. We will work with agencies to understand needs and risks, to arrive at this advice, once bids start coming in.
- The intentions data also show some agencies are planning to bid for significant number of digital, data and ICT bids in the same year. For example we have one agency signalling 19 bids/intentions for Budget 2020 and another agency 12 bids/intentions in the same year; all relating to digital, data and ICT. With some of these agencies we have concerns around the agency's capacity and capability to deliver (if all of budget 2020 intentions were funded).
- Part of our advice this year will include a view of achievability (both from an agency capacity and capability point of view and a market view).
- Part of this advice is to try and ensure we, (as government), don't fund projects that the market doesn't have the supply to deliver on, as otherwise there is a risk of driving costs up due to government agencies competing with each other for external resources.
- For the investment proposals that relate to corporate back office the work programme to improve government payroll systems (led by GCDO) and common process model initiative (supported by IR) will help us consolidate common processes, reduce waste and enable greater cross-government collaboration for Budget 2020. We will use the advice and direction coming out of these work programmes and apply them to our Budget 2020 advice.

System health: digital assets – current state



There are currently projects focused on streamlining investment in the corporate back office space i.e. work programme to improve government payroll systems and the common process model initiative supported by IR. The largest category of investment is service delivery.



The assets over 10 years old represent some of the risk across government in digital/ICT assets. 34% of asset value is associated with systems that are over 10 years old. See A3 on 'legacy systems and risks' for further detail.

1

Asset values

The total value of digital, data and ICT assets across the system is \$4.4 billion. This is made up for made up of accumulated depreciation: \$3.0 billion (69% depreciated) and net book value (value after depreciation of \$1.4 billion).

2

What does it mean?

Accumulated depreciation in theory represents the amount that is set aside for reinvestment and replacement of an asset. However the amount can be reallocated to other investments within an agency and used to manage cost pressures.

In practice asset replacement in the digital/ICT space is often not replacing assets like for like. We are seeing a trend in agencies switching from owning assets (capital) to procuring as a service solutions (expense).

This means while the accumulated depreciation doesn't represent cash available for reinvestment or amounts needed for reinvestment, it does represent the upcoming need for reinvestment across the system.

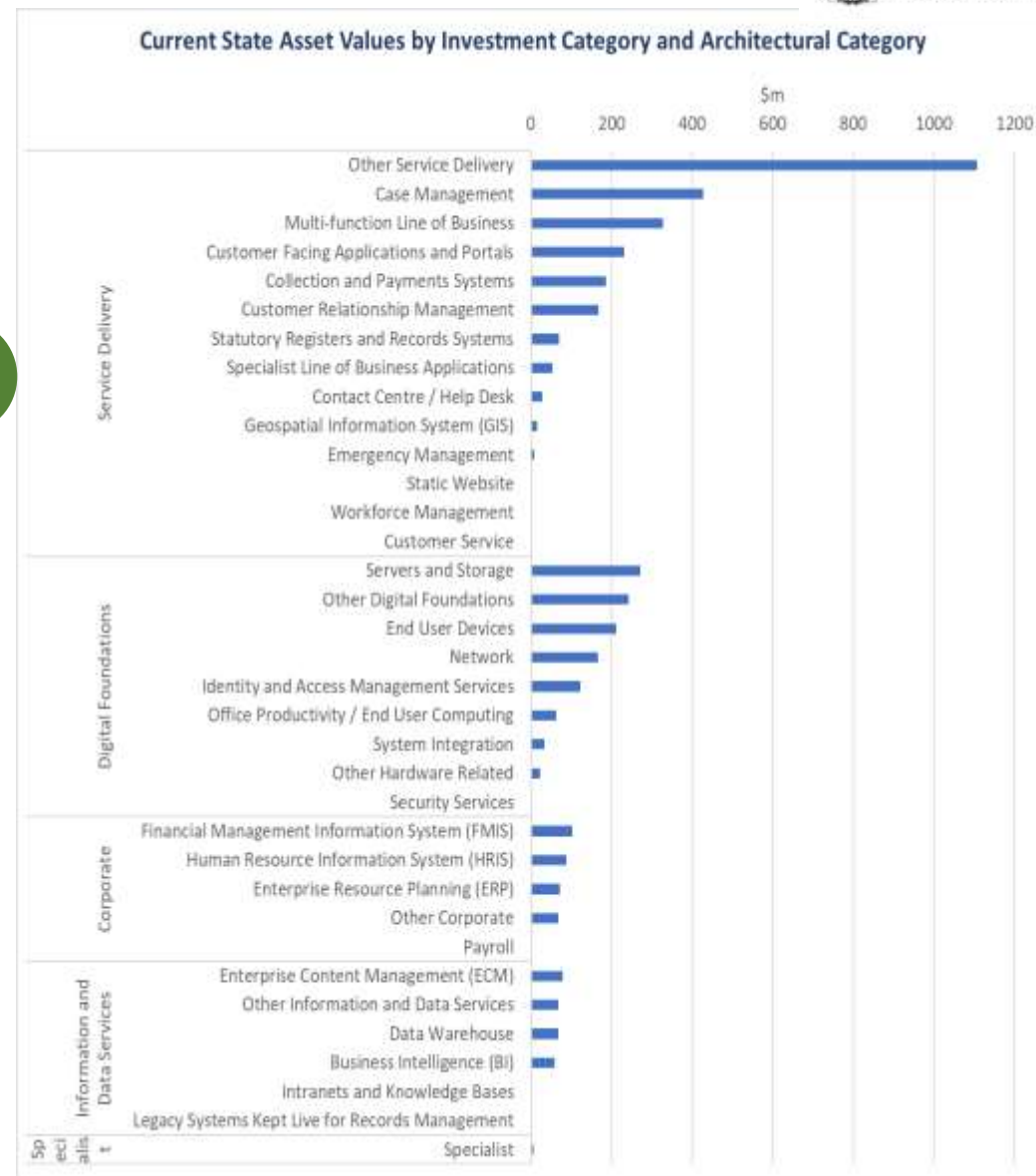
This indicates a need to focus on asset management in the digital/data and ICT space.

3

The opportunity

We think there is an opportunity to explore ways to coordinate investment across the system to achieve better value for money and reusability. This includes exploring ways to use baseline funding to focus on system priorities.

How could we do this?



Note: Within 'Service Delivery', a large proportion of systems and investments are within 'Other Service Delivery' indicating systems / investments that do not easily fit under one of the specific architectural categories. We need to review this, (working with agencies) to better understand the investment intentions in this sub-category.

Annex 4

Legacy systems and risk

What is a legacy system?

Legacy system can refer to an agency's IT infrastructure and systems, hardware, and related business processes. Technology becomes legacy because of any or all of the following points. The technology now is:

- considered an end-of-life product
- out of support from the supplier
- impossible to update
- no longer cost-effective
- now considered to be above the acceptable risk threshold

Legacy risk

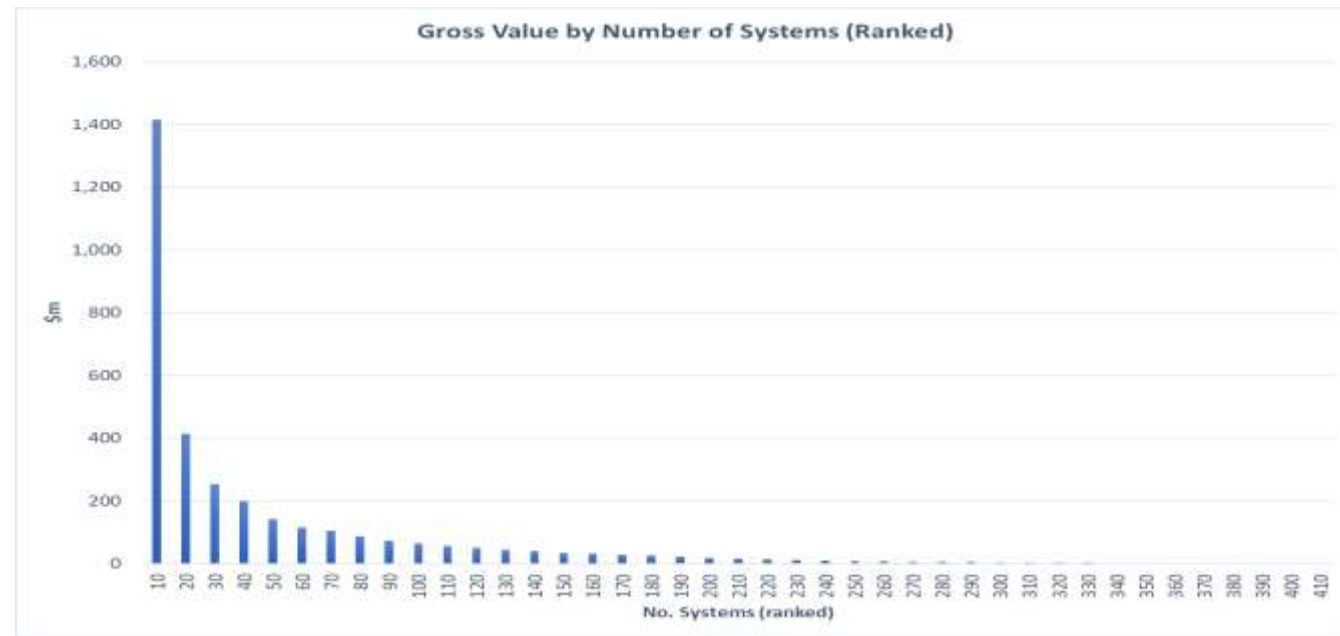
The largest 20 systems represent 47% of the gross asset value across government. 34% of asset value is associated with systems that are over 10 years old, (see table below). The age of a system can indicate the likelihood of a system becoming unstable /out of support from the supplier. [33]

The depreciation % in the table also shows that there are number of large system that are close to reaching end-of-life. Most of the agencies in the table have a plan to eliminate, migrate and manage out their legacy systems. We are working with number of these agencies through the better business case process and the budget process to advice and support them through managing legacy systems.

[33]

What about the smaller agencies and smaller systems?

- More than 50% of the gross asset value across government is made up of 436 separate systems.
- While the top 20 assets in the system show where the biggest spend is it doesn't provide a complete view of the investment decisions in the government system and where the risks and opportunities are.
- We have little visibility of investment in smaller agencies and smaller system and the associated risks.



Opportunities to manage risk and coordinate reinvestment

ICT/Digital asset management and investment decisions

- The Digital, Data and ICT Investment Principles explicitly states that investments that extend legacy business models and technology assets will not be prioritised, with exceptions made for critical systems that require investment to prevent imminent system failure or loss of significant service delivery. We will apply this direction in our assessment of Budget 2020 bids.
- The expectation at Cabinet was that the investment principles will evolve and be applied to baseline funding decisions also. We can proactively work with agencies to help navigate baseline investment decisions.

Guidance on managing legacy systems

- GCDO could release guidance setting out how agencies show manage legacy technology. This could help us reach more agencies (especially the smaller ones).

What else could we do?

