

# The Treasury

## Budget 2017 Information Release

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## Treasury Report: Budget 2017 Track 1 Advice

<b>Date:</b>	10 March 2017	<b>Report No:</b>	T2017/547
		<b>File Number:</b>	BM-2-4-2017-12-2

### Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	<p><b>Note</b> the contents of this report and discuss with officials at Fiscal Issues on Monday 13 March.</p> <p><b>Agree</b> that the fiscal impact of Track 1 initiatives are treated outside of the allowance.</p>	Monday 13 March
Associate Minister of Finance (Hon Simon Bridges)	<p><b>Note</b> the contents of this report and discuss with officials at Fiscal Issues on Monday 13 March.</p> <p><b>Agree</b> that the fiscal impact of Track 1 initiatives are treated outside of the allowance.</p>	Monday 13 March
Associate Minister of Finance (Hon Amy Adams)	<p><b>Note</b> the contents of this report and discuss with officials at Fiscal Issues on Monday 13 March.</p> <p><b>Agree</b> that the fiscal impact of Track 1 initiatives are treated outside of the allowance.</p>	Monday 13 March

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[34]			✓
Kamlesh Patel	Team Leader, Budget Coordination	[39] (wk)	N/A (mob)

**Actions for the Minister's Office Staff** (if required)

**Return** the signed report to Treasury.

Note any  
feedback on  
the quality of  
the report

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**Enclosure:** [ANNEX ONE: OVERVIEW OF TRACK 1 INITIATIVES \(Treasury:3680685v1\)](#)

[Annex Two: Key Messages to Ministers on Track 1 \(Treasury:3680699v1\)](#)

### Executive Summary

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#### *Overview of recommendations*

This report sets out the Treasury's recommendation on Track 1 initiatives. We recommend funding those initiatives that met the three criteria: case for change, value-for-money and implementation and effectiveness. All Track 1 initiatives have been reviewed by the Social Investment Panel and we took their views into consideration when we assessed the initiatives.

Consistent with the purpose of Track 1, we applied a high bar when we assessed the initiatives. Following the Social Investment Panel, all initiatives were moderated to ensure consistency. The moderators came from Superu, the Social Investment Unit (SIU), and the Treasury's Analytics and Insights and CBAX teams.

[33]

**13 initiatives have made it over the threshold based on the Treasury's assessment with recommended funding of \$55.2 million operating per annum.** [33]

This amount does not include a potential contingency option for mental health and NEETs which the Treasury will provide further advice on in the coming week (see below).

There is still a choice for Ministers on how much to fund through Track 1. Meeting the threshold was a necessary but not sufficient requirement for Track 1 funding. Cabinet agreed that initiatives over the threshold will be given a higher weighting by the Minister of Finance in discussion with Budget Ministers. If initiatives that are above the line are not funded, there is a risk this will create a disincentive in future years to agencies putting effort into using evidence as a core component of designing initiatives.

#### *Mental Health and NEETs*

**Those with mental health issues and the NEET population are key priority areas for Ministers.** There are a number of initiatives related to these population groups that have been submitted across both Track 1 and Track 2. The key concern across the initiatives (also emphasised by the Social Investment Panel) was the lack of coherence between agencies in understanding the current service landscape and taking a more client centred approach to the delivery of services.

- **NEET population:** Ministers have directed agencies to develop a common understanding of the population, current services and how agencies can work together. You will be receiving advice on a potential package from these agencies for the Skilled and Safe Workplaces (SSW) Ministers meeting on 14 March. The Treasury has provided advice to you on the proposed package [T2017/550 refers].
- **Mental health population:** Agencies are yet to develop a shared understanding of the target population, existing services and what a package of effective interventions would look like. The strong recommendation from the Social Investment Panel was to develop a cross-agency narrative on mental health before making any large investments. The

Treasury will provide further advice on options in this space ahead of the health bilateral with Minister Colman on 16 March.

### *Key messages on Track 1*

Overall, Track 1 has encouraged agencies to provide higher quality information and evidence to support initiatives. The Social Investment Panel noted that there was a big improvement from initiatives submitted in Budget 2016 and agencies have demonstrated an improved understanding of their target populations. The key gap, however, is agencies taking a more client centred approach and thinking of alternative/innovative solutions to support vulnerable populations.

In your bilaterals with Ministers they are likely to raise concerns about how Treasury assessed Track 1 initiatives. Agencies put extra effort into Track 1 initiatives on the basis that it was a high expectations and high reward process. Page 13 of this report provides you with some key messages to emphasise at these meetings regarding the expectations and purpose of Track 1.

The investment threshold is a new and untested tool. We would expect that the learnings and practices developed through Track 1 are applied more widely across the Budget process in future years in order to continue to embed and incentivise taking a social investment approach, and an investment approach (for non-social sector agencies).

### *Allowance impact and treatment*

The Budget Strategy Cabinet paper agreed that the Track 1 process will be “uncapped” with respect to the spending allowances, subject to fiscal strategy. **The Treasury recommends that the funding for Track 1 initiatives (\$55.2 million) are in addition to the current operating allowance in order to remain consistent with the intentions of Track 1, maintain credibility with agencies and to maintain the incentives for developing high quality Budget initiatives in the future.**

## Recommended Action

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We recommend that you:

- a **note** that the Treasury has assessed 13 initiatives <sup>[33]</sup> as having met the threshold with recommended funding of \$55.2 million per annum;
- b **note** that the Budget Strategy Cabinet paper agreed that initiatives over the threshold will be weighted favourably by the Minister of Finance, but not guaranteed funding;
- c **note** that not agreeing to fund initiatives which have met the threshold and are strong social investment proposals risks dis-incentivising agencies in putting forward evidence based interventions in future Budgets;
- d **agree** to support the Treasury recommended funding amount of \$55.2 million per annum which reflects initiatives which have met the required investment threshold; and

*Agree/disagree.*  
*Minister of Finance*

*Agree/disagree*  
*Associate Minister of Finance*

*Agree/disagree*  
*Associate Minister of Finance*

e **agree** that conditions on funded initiatives be applied through the Budget Cabinet paper to ensure effective evaluation and reporting;

<i>Agree/disagree.</i>	<i>Agree/disagree</i>	<i>Agree/disagree</i>
<i>Minister of Finance</i>	<i>Associate Minister of Finance</i>	<i>Associate Minister of Finance</i>

f **agree** to manage the fiscal implications of your decision in recommendation d) above outside of the current operating allowance.

<i>Agree/disagree.</i>	<i>Agree/disagree</i>	<i>Agree/disagree</i>
<i>Minister of Finance</i>	<i>Associate Minister of Finance</i>	<i>Associate Minister of Finance</i>

Kamlesh Patel  
**Team Leader, Budget Coordination**

Steven Joyce  
**Minister of Finance**

Hon Simon Bridges  
**Associate Minister of Finance**

Hon Amy Adams  
**Associate Minister of Finance**

## Treasury Report: Budget 2017 Track 1 Advice

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### Purpose of Report

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1. The purpose of this report is to provide advice on which Track 1 initiatives have met the investment threshold for funding. The Social Investment Panel has reviewed all the initiatives and the Treasury has been through an internal moderation process to determine which initiatives are “over the line” with respect to the high bar that was set for initiatives in this track.
2. This report will:
  - a outline key messages and general comments made by the Social Investment Panel and how the initiatives were assessed;
  - b provide an overview of which initiatives have reached the investment threshold and are recommended for funding;
  - c set out the Treasury’s advice on how to progress with the package of initiatives (across both Track 1 and Track 2) related to mental health and NEETS; and
  - d seek decisions from Ministers on the fiscal treatment of Track 1 with respect to the allowances.
3. The expectations for initiatives in Track 1 were high and only 50% of initiatives made it over the threshold. Given the time and effort some agencies spent on Track 1, you are likely to receive push back on the overall recommended funding from the Treasury. This report provides some key messages for you on the purpose and intent of Track 1 ahead of upcoming bilaterals with Vote Ministers.

### Overview of Track 1

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#### *Purpose and intent*

4. The Track 1 process in Budget 2017 was established to incentivise the development of high quality evidence based initiatives that closely follow social investment principles. Cabinet agreed that this track will reward high quality social investment proposals and will be uncapped with respect to the new spending allowances. There was an expectation that the high reward will be accompanied with more rigorous requirements around the use of cost benefit analysis, strong evidence and evaluation [CAB-16-MIN-0496 refers].
5. A key intention behind Track 1 was to provide social investment initiatives with the opportunity to present robust proposals and have a real chance to receive funding in Budget without being crowded out by cost pressures. Track 1 provided a real incentive for agencies to put more effort into understanding evidence and undertaking robust cost benefit analysis. We have seen an overall lift in the quality of initiatives presented through Track 1, even those that did not make it over the threshold.
6. The Treasury worked with stakeholders across the social sector (including Superu, the Social Investment Unit and representatives from key agencies) to develop guidance on the requirements for Track 1 and test our approach to the assessment framework and investment threshold. Track 1 is a new process and therefore there was limited guidance to draw on to determine where to set the threshold to ensure it was a

sufficient stretch target for agencies while not being so high that no initiative would get across.

*How has social investment been defined for the purpose of Track 1?*

7. Alignment with social investment principles was a critical element of Track 1. Cabinet has defined social investment as setting clear and measurable goals for those in need, better understanding the needs of vulnerable populations and the existing services they are receiving, measuring effectiveness to understand what works, and feeding this back into the decision-making process to shift resources to services that are effective [CAB-15-MIN-0280 refers].
8. As discussed further below, there were a number of initiatives which presented strong evidence based value propositions but it was unclear the extent to which they aligned with social investment principles. A clearer definition of social investment is required to help inform discussions and the assessment process for future Budgets. This includes clarifying how we treat system or enabling initiatives which do not directly impact a target population group but are aimed at lifting service quality or the availability of information to help improve long-term outcomes.

*What does a good Track 1 initiative look like?*

9. In order to reach the threshold, agencies were required to meet the following minimum expectations for each of the criteria set out below:
  - a **Case for change:** the initiative should present a clear problem or opportunity for a specified target population and in doing so clearly describe why the preferred intervention is the best option in comparison to any other (including current services provided to this population). The intervention logic should be robust and supported by appropriate evidence to provide confidence that expected outcomes will be achieved.
  - b **Value-for-money:** a key focus here is how the evidence presented is translated into benefit assumptions used to calculate the societal and government return on investment (ROI). The threshold assumes a minimum societal ROI of 2 and government ROI of 1. There is judgement involved here on how assumptions are applied. For example, a ROI of 2 with conservative assumptions closely connected to the evidence provides more confidence compared to a very high ROI with optimistic assumptions.
  - c **Implementation and effectiveness:** initiatives should present a robust implementation and evaluation plan which includes clear outcome measures, details on how evaluation will be carried out (both for the process and intended outcomes) and whether the approach is fit-for-purpose. The plan must also outline how the findings of the evaluation will inform key decisions on the initiative's delivery, scale, and whether it should continue or not. A key focus is on the agency providing confidence that they have the capability to deliver the initiative and have taken into consideration any market capacity constraints and risks.
10. The investment threshold is a new and untested tool and, although the Treasury had provided agencies with detailed guidance, some judgement was inevitably applied in determining which initiatives reached the bar for funding. For these reasons we ran a moderation process to ensure consistent judgements and assumptions were being applied when assessing initiatives. The experiences through Budget 2017 will provide a stronger base to determine where to set the bar for future Budgets and provide agencies with clearer expectations.



## Key Messages from the Social Investment Panel

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11. The Social Investment Panel reviewed all initiatives submitted through Track 1. Rather than asking the panel to score each initiative according to the assessment framework, we asked them to assess the initiatives according to their own perspective, and areas of expertise, and to give us their general view of how well proposals were coordinated, whether they aligned with the principles of social investment and improvements since they last saw indicative proposals through the November Check-point.
12. To help with this, the panel was organised by population groups rather than by Vote and included relevant Track 2 initiatives as well. This was a new approach for Budget 2017 and helped to facilitate a conversation around the client rather than the agency only. However, it also revealed that for many of the key population groups agencies were not joined up and further work was required (e.g. NEETs and mental health).
13. The panel bring an important outsider perspective to the Budget process. Their insights have been a valuable input into the assessment process for Track 1 and will help to shape how taking a social investment approach is progressed through future Budgets.

### *General messages*

14. **The panel noted there was a big improvement from the social investment Budget initiatives submitted last year.** Agencies demonstrated an improved understanding of their target populations, used evidence much more effectively, they were clearer about the services they were proposing and they generally had a well-articulated intervention logic. The check-point in November was very useful for the panel to provide early feedback and shape initiatives.
15. **Although the quality of information and evidence provided was improved, the panel found that the initiatives were generally still taking an agency perspective only.** Very few initiatives demonstrated a cross agency approach which focussed on the client's needs. There was an improvement in the evidence underpinning initiatives, but this was not necessarily connected to the solution and existing service landscape. A more coherent narrative is required across the public sector for vulnerable populations such as those with mental health and NEETs.
16. **The panel also made general observations around the policy process used by agencies.** They wanted to see agencies involving experts outside of the agency (as well as their own in-house experts) when designing policy, and a greater focus on evaluation and monitoring from the outset. The panel's impression was that the voice of users or those at the frontline didn't come through in any of the initiatives that were submitted.
17. **A key criteria of the Track 1 process was alignment with social investment.** A clearer definition of social investment is required to help inform judgements around whether initiatives truly represent social investment or are just strong evidence based propositions.
18. Overall, the Track 1 process encouraged agencies to provide well thought through initiatives. This was definitely the case, however, further work is required to break silos and ensure effective collaboration between agencies around the client.

### *What does good look like?*

19. For the panel, a good initiative had the following characteristics:
  - a reference to external sources and validations (including consultation with the agencies' Chief Science Advisor)

- b an attempt to reach out and making connections with other impacted agencies to take a more client centred approach
  - c a deep understanding of the target population, their needs and where the current service gaps were
  - d robust evidence to support the case for change through an evaluation of an existing programme/pilot.
20. Initiatives which the panel thought didn't meet the mark, generally:
- a did not present a coherent narrative around the problem definition for the target population and why an intervention is warranted
  - b were focussed on doing more of the same thing (for example, case management), rather than digging into alternative/innovative solutions
  - c did not take a holistic approach to the solution (for example, initiatives focussed on the supply side of the labour market only rather than considering employer demand)
  - d did not take into account the wider service landscape or develop initiatives from the target population's perspective.

#### *NEETs and Mental Health*

21. <sup>[33]</sup>
22. **NEETs:** the panel thought the set of initiatives presented were focussed around doing more of the same thing (for example, case management) without looking at how it can be tied to existing initiatives such as Whanau Ora. There was no strong evidence presented on why case management is effective and the skill set required in the workforce to ensure expected outcomes can be achieved.
23. The Panel were concerned that there wasn't much focus on the demand side of the labour market and whether jobs will be available. The initiatives in this space were disjointed across agencies and there was no clear landscape or intervention logic.
24. **Mental Health:** the overriding concern from the panel was the lack of coherence across agencies in demonstrating an understanding of the population and the problem that exists. Although there was some attempt from the Ministry of Health to show how the mental health initiatives were connected, there was agreement from panel members that this needs to be connected to an over-arching mental health narrative grounded in the literature. This narrative would recognise mental health issues across the life-course and be one that all agencies could relate to, and not specifically centred in the health sector.
25. The panel felt that the mental health bids needed a much greater understanding of: the definition of mental health, unmet need and current access to services, workforce capability, alternative methods of delivery such as E-therapy and preventative measures early in the life cycle.
26. The panel received an oral presentation from the Ministry of Health on the mental health strategy it was developing "Rising to the Challenge" and reporting to Cabinet in April (now May). The panel felt strongly that there is a real opportunity to make progress in this space but this requires "the right people getting into the room" and

involvement of experts and users at the frontline. [33]

## Recommending Funding for Track 1

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### Overview

27. [33]

13 initiatives made it over the threshold with recommended funding of \$55.2 million operating per annum. It does not include a potential contingency option for mental health and NEETs which is discussed further in the following section.

Sector	Summary of Initiatives	Funding sought per annum	Recommended funding per annum
Social Development and MVCOT	Key initiatives are targeted around intergenerational welfare dependents, those with mental health and disability issues,[33] Initiatives focus on supporting these people into employment and providing wrap around support. MVCOT initiative aimed at expanding successful programme for vulnerable families.	[33]	\$12.93 million
Education	Initiatives reflect early intervention to lift the quality of ECE and specialist services for children at risk (for example, those with behavioural problems and autism).	[33]	\$11.17 million
Justice Sector	Initiatives include police, corrections and justice and are focussed on improving services for the prison population and reducing youth reoffending.		\$19.27 million
Health	Initiative is focussed on improving access to long-term contraception for women on low income.	\$4.4 million	\$4.40 million
Social Housing	Initiatives target a range of populations which may find it difficult to access social housing. [33]	[33]	\$7.388 million

[33]		
<b>Total</b>	[33]	<b>\$55.20 million</b>

28. **Annex 1** provides detail on each initiative in Track 1 by population group, an overview of the feedback from the Social Investment Panel and the Treasury’s recommendations following the moderation process. It also sets out the ratings provided by the Treasury across the three assessment criteria: case for change, value-for-money, and implementation and effectiveness.

*Analysis and observations*

29. The Treasury’s recommendation for funding reflects the intent and purpose of Track 1 as a very high bar. The initiatives were initially assessed by the Treasury Vote Analysts and then went through a rigorous moderation process involving key experts across the sector (SIU, Superu, the Treasury’s Analytics and Insights and CBAX teams).
30. The moderation took into consideration general feedback provided by the Social Investment Panel as well as going through each initiative in detail. There was a lot of variability across sectors and none of the initiatives received a perfect score. Some of the key themes picked up through the moderation are outlined below.
- a **Case for change:** agencies generally made a good case for funding based on need but this was not followed up with an options analysis and why the proposed intervention was considered the best approach for their target population. For initiatives that didn’t meet the threshold, the existing service landscape was unclear which made it difficult to determine how effective the intervention was likely to be relative to other things targeted at the same population group. This was particularly the case for proposals related to NEETs and mental health.
  - b **Value-for-money:** there was a significant improvement in the use of CBAX from Budget 2016. All Track 1 initiatives completed a CBAX and had used some kind of evidence (local and/or international) to feed into the ROI calculation. However, for initiatives which didn’t meet the mark the assumptions used in the CBAX were very optimistic and not well justified with the evidence presented. The lack of sensitivity analysis around the assumptions provided less confidence that the impacts will be achieved. Initiatives which met the threshold had generally applied more realistic and conservative assumptions (backed up by better evidence) to calculate ROI.
  - c **Implementation and effectiveness:** robust implementation and evaluation plans were a weakness across the board. There has been genuine effort to develop evaluation plans but some uncertainty on the ability to actually implement these remain (particularly for initiatives which are using randomised control trials) and on what measures will be used. In terms of implementation, some initiatives were lacking in demonstrating how the initiative will be rolled out, phased or scaled to ensure success. A key issue was around workforce capacity – initiatives which met the threshold had considered the availability of specialised services in the market (e.g. Cognitive Behavioural Therapy) and scaled the initiative appropriately.

31. **For the initiatives that met the threshold, the Treasury recommend that funding is conditional on the agency delivering a sufficient and robust evaluation plan.** This reflects that although the information submitted for evaluation was reasonable and met the minimum criteria, further work is required on the details to provide confidence in the investment. It also reflects the Budget Strategy Cabinet paper intention that funded initiatives be followed to ensure they deliver as outlined. We are currently working through the set of recommendations for these conditions to go in the Budget Cabinet paper.
32. **Over one-half of the proposals submitted through Track 1 were being offered as pilots (or extension of a recent pilot) for the first time in New Zealand.** In some cases, the proposed intervention had not been piloted internationally, or had been piloted on a limited scale.
33. Pilots represent a particular challenge in any assessment, but even more so for Track 1 as we would expect them to show what international evidence indicates could be a successful initiative in New Zealand, translate this into the New Zealand context, make a number of assumptions on how it would work in the New Zealand context and have a higher quality evaluation plan to ensure that sufficient information is gathered to inform the decision on whether to extend or amend a pilot once it is completed. The pilots that were able to demonstrate this were across the threshold.
34. [34]
- 35.
- 36.
- 37.

*Key messages on Track 1 ahead of bilaterals*

38. You are likely to receive push back from Ministers in your bilaterals about those Track 1 initiatives that we have assessed as being not across the line. Agencies put extra effort into Track 1 initiatives on the basis that it was a high expectations, high returns process due to the “uncapped” nature of the process.

39. We recommend that you emphasise the following points if Track 1 is discussed at these meetings:
- a Track 1 was always intended to be a high bar for social investment initiatives with more rigorous expectations around evidence, impact and evaluation compared to the Track 2 process. There are likely to be initiatives in Track 2 which provide less evidence and still receive funding due to the cost pressure nature of the initiative.
  - b We would expect that the learnings and practices developed through Track 1 are applied more widely across the Budget process in future years. Developing a strong investment case which is high value for money and can be evaluated is a standard expectation, and shouldn't be exclusive for Track 1 proposals only.
  - c The Treasury ran a bottom-up moderation process following the Social Investment Panel which went through each initiative to determine whether or not it met the threshold across each of the following three elements: case for change, value-for-money and implementation and effectiveness. This went beyond the consideration of the Panel.
  - d The fiscal implications and impact on allowances was not a factor in the assessment, although it was always clear that the "uncapped" nature of the process was still subject to the Government's fiscal strategy. Where initiatives have been scaled this reflects the Treasury's assessment on the ability of the agency to implement the initiative or the bundling of multiple components within one bid.
  - e The investment threshold is a new and untested tool and provided an opportunity to reward those agencies who demonstrated they can take a social investment approach. Learnings from Budget 2017 will be used to inform and set expectations for future Budgets.

## Approach to Mental Health and NEETs

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40. [33]

There were also a number of Track 2 initiatives in these areas which were considered jointly by the Social Investment Panel.

41. The Treasury's concerns about these initiatives are that agencies have not taken a joined up approach to the development of these (taking a population perspective); limited information has been provided on the current service landscape, including what is effective and what should be stopped; and a number of the initiatives proposed are not based on good evidence (ie there is limited experience, domestically or internationally, that indicates these would work or deliver the returns indicated). The Social Investment Panel have also emphasised these same concerns.

### *NEET-focussed initiatives*

[33]

43. We have expressed concern to agencies about their weak understanding of this population group, of the services they currently receive and their effectiveness; limited intervention logic and evidence; lack of a genuine cross-agency approach; and failure to identify any low-return services that could release funding for reprioritisation.
44. We have previously advised you that we would support a scaled version of the regional economic development initiative. [33]

[33]

47. Please refer to the accompanying Aide Memoire [T2017/550 refers] for further detail on the NEET initiatives and advice ahead of the SSW meeting on 14 March.

#### *Mental Health*

48. [34]

Agencies are yet to develop a shared understanding of the problem and definition of mental health. As the panel emphasised, an overarching strategy or narrative is required before shifting thinking to solutions.

49. The Ministry of Health (MOH) have started work on this through the *Rising to the Challenge* strategy document, however the timeframes around this are very short which risks only making tweaks to the edges and not fully understanding the extent of the problem. The strong view from the Social Investment Panel is that a more comprehensive consultation process is required which is opened up to externals to participate. Alongside the development of the Strategy, cross agency work needs to be undertaken on the mental health population (and how it overlaps across agencies), including unmet need, the workforce, and the nature of interventions available. A similar successful process had been undertaken on disability, which now has a clear direction for future investment.
50. We recognise that mental health is a common thread across social investment and a priority area for ministers. We will be providing further advice on mental health in advice on the health package for your bilateral with Minister Coleman on 16 March. This is likely to include recommendations to fund a number of initiatives in Track 1, and some in Track 2, with a signal that Government should be prepared to increase funding in mental health once agencies have done the necessary work. There may be a case for a small contingency, but we think that incentives need to be on agencies (particularly the Ministry of Health) to undertake the necessary work. The Treasury will provide further advice on a contingency option.
51. [33]

We support funding for this ahead of developing a narrative/strategy as it represents the piloting of initiatives on a small scale This will help build the evidence base of what works for whom which will help inform future decisions on what a comprehensive package looks like in the mental health areas..

## Allowance Treatment

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52. The Budget strategy paper agreed that the Track 1 process will be “uncapped” with respect to the spending allowances.<sup>1</sup> This was intended to incentivise agencies and encourage them to submit high quality investment proposals.
53. The Treasury recommends that the funding for Track 1 initiatives are in addition to the current allowances in order to remain consistent with the intentions of Track 1 and ensure the expected disciplines remain credible for future Budgets. The initiatives over the threshold total \$55.2 million per annum in operating, however this does not include a potential contingency option for mental health and NEETs which we will provide further advice to you on. This also recognises that there are a number of pressures which need to be accommodated within the [33] operating allowance.
54. There are risks to the credibility of a social investment track should final Budget decisions not reflect the assessment of whether an initiative made it across the line or not:
  - a If initiatives that were below the line are funded this will be seen as unfair and risk creating a disincentive in the future as agencies would think they can still get funding even if they didn’t meet the requirements; and
  - b If initiatives that are above the line are not funded then this will risk creating a disincentive in future years to agencies putting effort into using evidence as a core component of designing initiatives.
55. We have already heard from agencies who feel that they put a lot of effort into the Track 1 process for little return. Some of the messaging in the Annex two is designed to respond to this.

## Track 1 and Future Budgets

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56. Overall, Track 1 has been a worthwhile process. The quality of the Budget initiatives submit to Track 1 was much higher than those submitted through the Track 2 process. The social investment panel was well attended by agencies and, by organising the panel by theme or population group, it created the opportunity to push agencies to take more of a cross agency perspective. The panel was also able to provide some useful reflections on the work agencies need to do to take a truly client-centred approach. We consider this process has helped move the social sector towards taking more of a social investment approach.
57. We consider it is important to send clear signals to agencies about the process for Budget 2018. We think there is value in keeping the Track 1 process in order to build on the progress from this year. It is preferable to communicate this to agencies early so that they have sufficient time to develop high quality Budget initiatives. One of the biggest challenges with the process this year was that agencies had a short amount of time to develop their initiatives.
58. Our preliminary view is that we can also build off the lessons from this year in order to encourage Budget initiatives that are more closely aligned with a social investment approach. There are two main ways in which we could adjust the criteria in order to facilitate better quality initiatives and allow the panel to make more informed assessments of the initiatives:

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<sup>1</sup> Subject to the Government’s net debt target of reducing net debt to around 20% of GDP by 2020.



59. We will brief you separately on key learnings from Track 1 and options for Budget 2018 in the coming months.