



DISCUSSION DOCUMENT

Embedding wellbeing in the Public Finance Act 1989

September 2018

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Message from the Minister

Our Government believes that economic growth is a means to an end, not an end in itself. The actual purpose of growing our economy is to improve the wellbeing and living standards of New Zealanders, and the natural resources that sustain us. To make this a reality we need to do things differently and we need to measure our success differently.

While measures like gross domestic product (GDP) remain important indicators of economic activity, they do not paint a full picture of people's wellbeing. Delivering a Wellbeing Budget in 2019 is an important first step towards showing how a wellbeing approach can be used to measure New Zealand's success more broadly, and inform the Government's investment priorities and funding decisions.

Changes to the Budget in 2019 will include reporting New Zealand's progress in Budget documents against a wider range of wellbeing indicators, alongside the well-established macroeconomic and fiscal indicators.

The proposal in this document would amend the Public Finance Act to create an enduring requirement for every Government to use this broader framing in the development of their Budgets and fiscal policy, supported by meaningful and consistent reporting on wellbeing indicators. This work is an important part of this Government's commitment to put people's wellbeing and the environment at the heart of our policies, and to be more transparent about the wider impacts of our fiscal choices.

I encourage you to submit your views on this proposal, and be a part of the wider conversation on how governments can use a wellbeing approach to support strategic decision-making.

A handwritten signature in blue ink, appearing to read 'Grant Robertson', is positioned above the printed name of the Minister of Finance.

Hon Grant Robertson
Minister of Finance

Foreword by the Secretary to the Treasury

The Treasury's ambition is to recognise the breadth of economics and its value in the everyday work of public policy. Traditionally, economists have focused their thinking around the factors of production, like land and labour, and how they are combined to create goods and services. The Treasury's Living Standards Framework is an adaptation of this notion: the four capitals – natural, human, social and financial/physical – are the stocks that combine to generate flows of wellbeing.

The Living Standards Framework is simply part-and-parcel of the Treasury's role in advising the Government. New Zealand governments have always had broader objectives than just growth, productivity, and fiscal discipline. What the Treasury is trying to do is help bring greater rigour to the way we provide advice on how well government rule-making and public investment decisions meet these wider objectives in a consistent way.

The Treasury's aim is to have a practical and meaningful set of indicators of living standards that can improve the quality of policy advice and, ultimately, the decisions made by governments.

If you have an interest in improving living standards and public finance management, I encourage you to submit on this proposal to ensure your views are heard and considered.

A handwritten signature in black ink, appearing to read 'G. Makhlouf', with a horizontal line underneath.

Gabriel Makhlouf
Secretary to the Treasury

Executive summary

A wellbeing approach to decision-making

This Government believes that economic growth, as important as it is, will not alone guarantee improvements to people's lives, particularly for the most vulnerable, or the ongoing health of the natural resources that sustain us.

A wider framing is needed to measure New Zealand's progress, to develop and assess fiscal policy and support decision-making. This means looking beyond well-established measures like gross domestic product (GDP) – which remains an important marker of economic activity, but does not capture important facets of wellbeing for the environment, people, and communities.

To achieve the Government's vision, New Zealand needs a public sector that is more strongly focused on improving current and future wellbeing. This Government has committed to delivering a Wellbeing Budget in 2019, as an important first step towards showing how the wellbeing approach can be used to inform our investment priorities and funding decisions, and to measure our success.

Changes to the Budget will include using the Living Standards Framework to inform the development of Budget priorities, and taking a more collaborative approach to setting those priorities. It also means reporting New Zealand's progress in Budget documents against a wider range of wellbeing indicators, alongside macroeconomic and fiscal indicators.

Proposal to embed wellbeing in the Public Finance Act

As well as taking a wellbeing approach through Budget 2019, we also need to look at how we can make this focus on wellbeing enduring.

This document sets out a proposal to amend the Public Finance Act 1989 to embed wellbeing (in the Act). This proposal is part of a wider package of State Sector Reforms, including proposed changes to the State Sector Act 1988 and the Public Finance Act.

The proposal would create new requirements for:

- ▶ the Government to set out how its wellbeing objectives, along with its fiscal objectives, will guide its Budget decisions, and
- ▶ the Treasury to report on wellbeing indicators, alongside macroeconomic and fiscal indicators.

Under this proposal, it would be up to the Government to select the specific priorities (*wellbeing objectives*) which will inform its fiscal policy, spending, and other decisions. At the same time, the Treasury would report annually on wellbeing indicators, which would track aggregate, national-level movement, and long-term trends in wellbeing, and which could be used by the Government to identify areas which may need attention.

These changes would require the Government to describe how its wellbeing objectives have shaped its Budget and fiscal strategy in its *Budget Policy Statement* (generally published in December) and its *Fiscal Strategy Report* (presented on Budget Day). The Treasury would report annually on wellbeing indicators, for example, as part of the *Budget Economic and Fiscal Update*.

The effect of requiring reporting on wellbeing indicators and objectives would be to augment the discussion of macroeconomic and fiscal indicators, and broaden the framework that the Government uses to develop and assess its Budget and fiscal policy.

This proposal seeks to build on New Zealand's existing fiscal framework, focusing on macro- and national-level reporting on wellbeing (under Part 2 of the Act). Implementing this proposal would have a positive impact on both transparency (through expanding public reporting) and accountability, by requiring every Government to draw a connection between its wellbeing objectives and its fiscal policy, and requiring the Treasury to report on wellbeing indicators.

It is also proposed to require the *Statement on the Long-term Fiscal Position* and the *Investment Statement* (which are produced by the Treasury every four years) to include a wellbeing focus.

Next steps?

The Government wants to hear your thoughts on this proposal to embed wellbeing in the Public Finance Act. Your submissions will help inform the final proposal that the Government takes forward.

As part of delivering its *Budget Policy Statement* (expected in December 2018), the Government intends to announce the outcome of this consultation, and how it will embed wellbeing in the Public Finance Act 1989, along with more specific detail on how the Government is developing the Wellbeing Budget.

How to make a submission

We invite interested people and organisations to submit **written submissions** on the proposal in this document to embed wellbeing in the Public Finance Act 1989.

How to have your say during the consultation process

The consultation period runs for four weeks **from 12 September 2018 to 12 October 2018**. Questions for submitters are included in boxes throughout this document, and summarised in the Annex.

Here is how you can have your say:

- ▶ Open and save a copy of the submission template at:
<https://treasury.govt.nz/public-finance-system/embedding-wellbeing>.
- ▶ Make submissions on any of the questions. Clearly indicate which question number your submission is responding to. This will help you collate your views and help us with our analysis.
- ▶ Email your submission to us at pfareview@treasury.govt.nz.
- ▶ If you cannot use the template, you may email or write to us. Our postal address is:

Proposal to embed wellbeing in the PFA
The Treasury
PO Box 3724
Wellington 6140
NEW ZEALAND

The deadline for submissions is 5pm on Friday 12 October 2018

What happens after you have submitted your views

Treasury officials will analyse all submissions received by the closing date. They will consider the views of submitters when developing final proposals for Cabinet to consider.

The Government intends to develop a Bill for introduction to Parliament **in 2019**. Members of the public will be able to comment on the Bill when the select committee considers it.

For further information

Website: <https://treasury.govt.nz/public-finance-system/embedding-wellbeing>

Email: pfareview@treasury.govt.nz

Official Information Act 1982

Submissions received by the Treasury are subject to the Official Information Act 1982 (OIA). Please set out clearly with your submission if you have any objection to any information in the submission being released under the OIA. In particular, clearly state which part(s) you consider we should withhold, and the reason(s) for doing so.

The OIA sets out reasons for withholding information. Reasons could include that the information is commercially sensitive or that you wish us to withhold personal information, such as names or contact details. An automatic confidentiality disclaimer from your IT system is not a reason to withhold information.

We will consider your objections when responding to requests under the OIA.

Inclusion of names with published summary

We will use any personal information you supply while making a submission **only** for matters covered by this document. Please clearly indicate in your submission if you do not want your name included in any summary of submissions that we may publish.

1 Introduction

A wellbeing approach to decision-making

Fundamentally, a wellbeing approach is about reflecting the way we think about success as a country, and the role that the government plays.

This Government believes that economic growth, as important as it is, will not alone guarantee improvements to people's lives, particularly for the most vulnerable, or for the ongoing health of the natural resources that sustain us. It wants measures that capture important facets of wellbeing for the environment, people, and communities.

A wider framing is needed to measure New Zealand's progress, to develop and assess fiscal policy and support decision-making. The Treasury's Living Standards Framework is an example of how we can formalise a wellbeing approach and broaden our definition of success in a way that rigorously captures a wider range of factors, such as the interplay between the country's resources for the future, and the current and future state of the country's wellbeing.

To achieve the Government's vision, New Zealand needs a public sector that is more strongly focused on improving current and future wellbeing, and which supports Governments' decision-making. There are significant gaps in the measurement and monitoring of wellbeing and sustainable development, in the coherence of policy development to support Ministerial decision-making, and in collective action by delivery agencies in the pursuit of wellbeing.

To address these gaps and make the most of the opportunity to achieve durable and substantial positive change for wellbeing, the Government and public sector will need to:

- ▶ establish a comprehensive set of indicators that provide transparency around the wellbeing of current and future New Zealanders
- ▶ take a broader and more rigorous approach to consider the different components that contribute to wellbeing, recognising the trade-offs and dependencies across these different components, both in the short and longer-term
- ▶ make strategic and collectively-owned choices on complex issues, including for those who are less well-off or have multiple needs, and balance provision for current wellbeing with investment for future wellbeing, and
- ▶ consider how the public sector operates to deliver wellbeing improvements for current and future New Zealanders.

Embedding a focus on wellbeing in the Budget

This Government has committed to delivering a Wellbeing Budget in 2019, as an important first step towards showing how the wellbeing approach can be used to inform our investment priorities and funding decisions, and to measure our success.

The bedrock of this approach is the development of wellbeing indicators through:

- ▶ Stats NZ's development of Indicators Aotearoa New Zealand – Ngā Tūtohu Aotearoa, a comprehensive suite of economic, social, cultural and environmental indicators to provide an independent picture of New Zealand's progress through a wellbeing and sustainable development lens, and
- ▶ the Treasury's development of the Living Standards Framework, with the publication of a Living Standards Dashboard (largely drawn from Indicators Aotearoa New Zealand – Ngā Tūtohu Aotearoa) by the end of 2018.

Changes to the Budget will include using the Living Standards Framework to inform the development of Budget priorities, and taking a more collaborative approach to setting those priorities. It also means reporting New Zealand's progress in Budget documents against a wider range of wellbeing indicators, alongside macroeconomic and fiscal indicators.

Embedding a focus on wellbeing will take time, requires careful phasing, and will continue to be developed beyond Budget 2019. The proposal in this document aims to make this focus on wellbeing an enduring part of the economic and fiscal management framework.

Current programme of legislative reform

The proposal in this document to amend the Public Finance Act 1989 to embed wellbeing is one part of a wider package of State Sector Reforms. Those reforms include proposed changes to the State Sector Act 1988 and to the Public Finance Act.

The State Services Commission is leading a review of the State Sector Act 1988, which is out for public consultation: www.havemysay.govt.nz. Its aim is to assist the public service to deliver better outcomes and services, support the Crown and Māori working together, respond in a more flexible and agile way to new circumstances and demands, work as a unified institution, and fulfil its role and responsibility, as part of the Executive Branch, to support and enable New Zealand's democratic form of government.

The Government is also proposing four sets of changes to the Public Finance Act this Parliamentary term. These include:

- ▶ embedding a focus on wellbeing (covered in this discussion document)
- ▶ establishing an independent fiscal institution (also out for public consultation: <https://treasury.govt.nz/public-finance-system>), and
- ▶ amendments to reflect the changes being made as a result of the review of the State Sector Act.

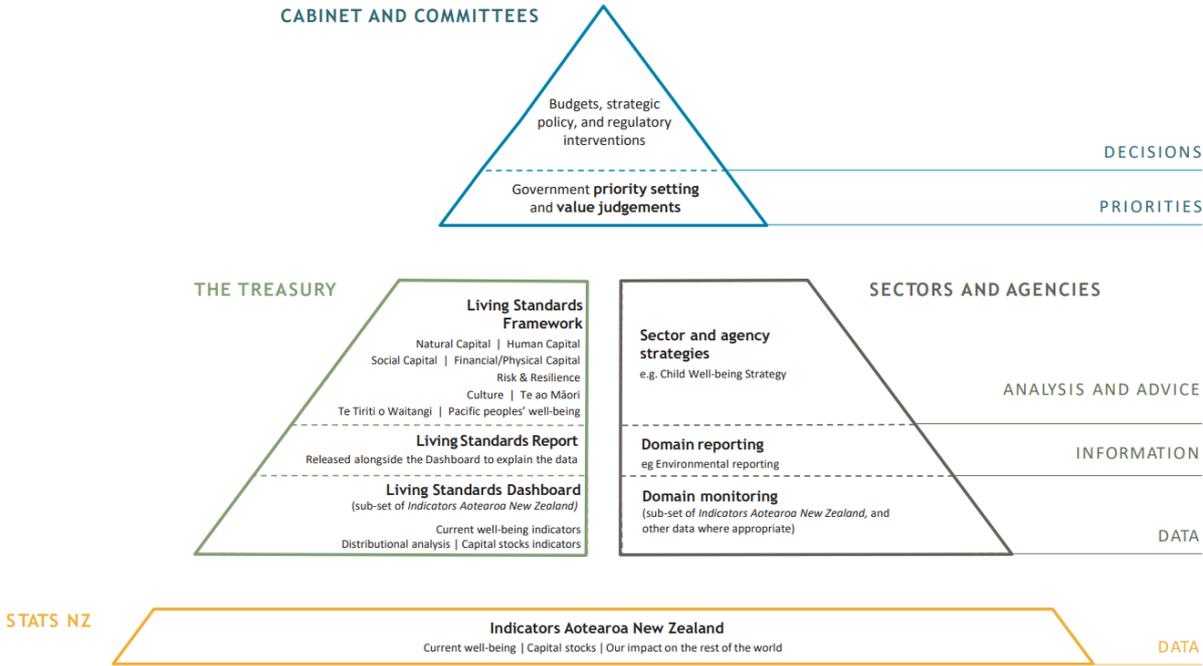
The Child Poverty Reduction Bill will also amend the Public Finance Act to require successive Governments to report on child poverty as part of the Budget documents.

Longer-term wellbeing vision for the public sector

While developing the framework, indicators, and changes to budgeting and public financing are important, broader changes are required across the public sector.

Figure 1 shows how a wellbeing approach will improve strategic decision-making by drawing on advice that is underpinned by indicators that track the wellbeing and sustainable development of New Zealand. It illustrates that Government priorities and decisions are informed by a range of inputs – the Treasury, Stats NZ, and other sectors and agencies all have a role to play in developing and applying a wellbeing approach.

Figure 1: Using a wellbeing approach to improve strategic decision-making



Sectors and agencies, individually and collectively, help to enrich the advice and information available to Ministers through the development of:

- ▶ domain monitoring – drawing from Indicators Aotearoa New Zealand – Ngā Tūtohu Aotearoa, complemented by other domain-specific indicators (such as health)
- ▶ domain reporting – using commentary and visualisations to tell the story of progress within a domain (such as environmental reporting), and
- ▶ sector and agency strategies – using specific strategies designed to achieve a long-term goal for a sector, agency, or population group (such as the Child Wellbeing Strategy).

An example of this cross-agency lens is the Government’s focus on reducing child poverty. The Child Poverty Reduction Bill will require successive Governments to set targets to reduce child poverty, and report on progress against those targets as part of the Budget documents. This will be an important priority for delivering wellbeing improvements, and for this Government’s economic policy.

2 Proposal to embed wellbeing in the Public Finance Act

Current requirements under the Public Finance Act

A main objective of a robust fiscal responsibility regime is to ensure that every Government takes into account and publicly discusses all the relevant dimensions of fiscal policy.

Part 2 of the Public Finance Act promotes sound fiscal policy and fiscal transparency by:

- ▶ requiring that every Government pursue its policy objectives in accordance with the principles of responsible fiscal management (s.26G)¹, and
- ▶ imposing regular economic and fiscal reporting obligations on the Treasury and the Minister of Finance, which promote accountability to Parliament for the use of public financial resources.

While macroeconomic and fiscal indicators will remain at the core of New Zealand's public financial management and the Budget, these indicators provide limited information on New Zealand's progress on improving wellbeing and limited support for decision-making that considers the broader wellbeing effects of the Government's spending decisions.

Information published as part of the annual Budget cycle is based on the Public Finance Act requirements that:

- ▶ the Government sets out (in the *Budget Policy Statement*) the broad strategic priorities that will guide its Budget preparation, including the overarching policy goals, policy areas that the Government will focus on, and how the Budget aligns with its fiscal strategy.
- ▶ the Treasury publishes (in *Half Year and Budget Economic and Fiscal Updates*) macroeconomic and fiscal forecasts, including gross domestic product and an analysis of its major components, consumer prices, employment levels, and the current account position of the balance of payments. They also include a statement of tax policy changes and commentary on the outlook, key assumptions, risks, and alternative scenarios for forecasts.
- ▶ the Government sets out (in the *Fiscal Strategy Report*) its long-term fiscal objectives and short-term intentions, focusing on fiscal aggregates (revenue, expenditure, debt). It also covers how each of these relate to the other, and to the principles of responsible fiscal management, and an assessment of the extent to which the fiscal performance of the Government is consistent with its previous *Fiscal Strategy Report*.

¹ Which are: reducing total debt to prudent levels; once prudent levels have been achieved, maintaining those levels; achieving and maintaining levels of total net worth which provide a buffer against adverse factors; managing prudently fiscal risks facing the Government; when formulating revenue strategy, having regard to efficiency and fairness, including the predictability and stability of tax rates; when formulating fiscal strategy, having regard to: the interaction between fiscal policy and monetary policy, its likely impact on present and future generations; and, ensuring that the Crown's resources are managed effectively and efficiently.

These documents (or complementary documents) could be reframed to include discussion around wellbeing indicators and objectives, as well as actions the Government is taking to improve the wellbeing of New Zealanders, and the natural resources that sustain us. The effect would be to augment the discussion of macroeconomic and fiscal indicators, and broaden the framework that the Government uses to develop and assess its fiscal policy.

Why embed a focus on wellbeing in the Public Finance Act?

An important feature of the fiscal responsibility provisions of Part 2 of the Public Finance Act is flexibility for every Government to set out how it is meeting the legislated principles. While, in practice, it is reasonable to expect that wellbeing will continue to be a priority for future Governments, this is not guaranteed. Without legislative change, there will be no enduring requirement for future Governments to consider wellbeing objectives explicitly within the annual Budget cycle, or for the Treasury to report on wellbeing indicators.

The proposed changes are expected to improve both transparency and accountability by requiring successive Governments to draw a connection between their wellbeing objectives and their fiscal policy, and for the Treasury to report on wellbeing indicators, alongside macroeconomic and fiscal indicators.

Proposal to create enduring wellbeing requirements

It is proposed that the Public Finance Act be amended to introduce requirements for:

- ▶ the Government to set out how its wellbeing objectives, along with its fiscal objectives, will guide its Budget decisions, and
- ▶ the Treasury to report on wellbeing indicators, alongside macroeconomic and fiscal indicators.

Under this proposal, it would be up to the Government to select the specific priorities (wellbeing objectives) which will inform its fiscal policy, spending and other Budget decisions. At the same time, the Treasury would introduce reporting on wellbeing indicators into the annual Budget cycle (for example, in one of the Economic and Fiscal Updates) which would track aggregate, national-level movement, and long-term trends in wellbeing, and which could be used by the Government to identify areas which may need attention. An illustration of how this could be reported is in Box 1 on page 18.

Proposed requirement to report on wellbeing objectives

At the moment, statutory requirements on the Government in Part 2 of the Public Finance Act primarily relate to economic and fiscal policy. The proposed change would require successive Governments to set out what they want to achieve in terms of wellbeing, and how that impacts on their Budget decisions.

This change builds on the existing statutory requirements that each Government must consider and report on when developing their Budget and fiscal strategy. It is important in principle that each Government has the flexibility to articulate how it thinks about wellbeing, and what it considers is most important for wellbeing in New Zealand. This is an integral part of the policy agenda of any Government, and should not be prescribed in legislation.

In addition, considerable work is still underway (in New Zealand and other countries) to develop and refine how we measure and embed wellbeing considerations into public policy². It is important that future Governments can adapt their approach to wellbeing in response to changing circumstances or new information. In practice, whatever the Treasury is required to report in terms of wellbeing indicators (discussed in the next section) is going to influence the Government's discussion of wellbeing, even if it does not constrain it.

What successive Governments' reporting on wellbeing objectives looks like will therefore depend on how each Government thinks about wellbeing and its particular approach. *Box 1* on page 18 provides an illustration of what reporting on wellbeing objectives could look like based on this Government's approach for delivering the Wellbeing Budget in 2019.

The Government would have to set out what it considers matters to the long-term wellbeing of New Zealand and how those objectives relate to its Budget priorities and decisions. This would be set out in its *Budget Policy Statement* (required under the Public Finance Act), which is usually published in December each year. The Government would also need to consider its wellbeing objectives when setting its fiscal objectives (for example, its net debt target).

This would then be reflected in the *Fiscal Strategy Report*, which is presented on Budget Day, where the Government would provide an assessment of the consistency of the fiscal strategy with its wellbeing objectives. In that Report, the Government could describe what has been, and will be, done to make progress on those wellbeing objectives, within the Budget.

What do you think?

- ▶ Do you agree with the proposal to require the Government to set out how its wellbeing objectives, along with its fiscal objectives, will guide its Budget decisions? Why or why not?
- ▶ What do you think are the main impacts of implementing this proposal?
- ▶ What else does the Government need to consider when making the proposed changes, eg, to retain sufficient flexibility for future Governments to adapt their approach to wellbeing in response to changing circumstances or new information?

² For example, see *Chapter 8: Countries' Experiences with Wellbeing and Happiness Metrics* in the Global Happiness Policy Report 2018, <http://www.happinesscouncil.org/>

Proposed requirement to report on wellbeing indicators

This proposal would create an enduring requirement for the Treasury to report on New Zealand's progress against wellbeing indicators, alongside existing macroeconomic and financial indicators. There are choices around how prescriptive to make this requirement. Which approach is best depends partly on whether the objective is to require officials (the Treasury) to identify appropriate wellbeing measures, using their best professional judgment, or whether legislation should specify in detail what officials should report on. There is also a trade-off between consistency and flexibility.

The Government's intention is to create enduring and meaningful reporting on wellbeing, that is consistent over time. All of these options would create an enduring requirement on the Treasury to report publicly on wellbeing indicators.

Options that require officials to use their best professional judgment about wellbeing indicators

One option would be to introduce a statutory requirement for officials to identify an appropriate set of wellbeing indicators, and to then report on those indicators as part of the Budget process. Officials would be responsible for identifying the best set of measures, using their best professional judgment and reflecting current evidence and available data. The measures could evolve over time as evidence or data availability improved.

New Zealand is world-leading in implementing a wellbeing approach and many practical aspects of the approach are still evolving. In particular, some important data is not collected, or is not collected frequently enough for policy purposes. This means there will be a transitional period of several years where we align data collection practices with policy needs. During the transition the documents and other reporting of the data will mature as we learn more about how to make wellbeing reporting as useful as possible.

The Secretary to the Treasury would have statutory authority for approving the suite of wellbeing indicators used (for example, drawing from the Living Standards Framework) at any particular time, and for the reporting based on them. This would provide the most scope to adapt wellbeing reporting over time, without the need for further legislative change. It would enable reporting on wellbeing to keep up with officials' view of best practice in wellbeing measurement, and for that reporting to be clearly independent of Ministers.

The Secretary to the Treasury would be likely to consult and make themselves publicly accountable for justifying the Treasury's best professional judgment as to what it deems to be the appropriate set of wellbeing indicators at any particular time. The Treasury might seek advice from the Government Statistician and other agencies on the specific wellbeing indicators that would be reported as part of the annual Budget cycle. This also recognises that wellbeing reporting is about outcomes, most of which will be contributed to by multiple, not individual, agencies.

As the wellbeing approach is still being developed, through the Treasury's Living Standards Framework and Stats NZ's Indicators Aotearoa New Zealand – Ngā Tūtohu Aotearoa in New Zealand, we will learn over time how to apply it most successfully. Over time these frameworks may change, supported by the maturing of understanding of wellbeing in New Zealand and overseas.

We expect any changes to the current approach to wellbeing to progress gradually. However, if the risks of giving the Secretary to the Treasury unconstrained discretion to select wellbeing indicators are viewed as too large relative to the benefits, it would be possible for the legislation to specify some criteria that must be satisfied.

This could include some requirements around process – for example, before making any changes to the indicator set, the Treasury must:

- ▶ publish a description of its wellbeing measurement methodology and discussion of the evidence supporting that approach
- ▶ explain how the proposed update to the set of wellbeing indicators reflects best international practice, its best professional judgment, and is appropriate in a New Zealand context, and/or
- ▶ consult on its proposed update to the set of wellbeing indicators and confirm any changes by a particular date (for example, by a certain date each year, or once an electoral cycle).

Another possibility would be to require the Secretary to the Treasury to report on wellbeing indicators in some specified domains (such as environmental or social) which are selected based on national and international best evidence, but leave discretion around the specific indicators. This would require the Treasury to take a consistent approach to the overall scope of wellbeing, and remove the possibility of a different and potentially narrower view of what matters.

There is some precedent for this approach with the Local Government (Community Well-being) Amendment Bill, which aims to reintroduce the four wellbeing domains – social, economic, environmental and cultural – into the Purpose clause of the Local Government Act 2002. While it would still be possible to make changes to meet future needs, which are uncertain, this would likely require further legislative change.

Options where indicators are set out in legislation

An alternative approach would be for legislation to specify particular indicators that officials should report.

This could involve legislating a comprehensive set of wellbeing indicators. For example, the full set of indicators in the Treasury's Living Standards Dashboard (the Dashboard), which is due to be published later this year, could be included in legislation. The Dashboard will be largely drawn from Stats NZ's Indicators Aotearoa New Zealand – Ngā Tūtohu Aotearoa, and will include indicators that describe:

- ▶ the current wellbeing of New Zealanders
- ▶ the distribution of wellbeing across the population, and
- ▶ future wellbeing, through indicators of the four capitals (natural, social, human and financial/physical).

This would embed a specific view on what matters for wellbeing. It would provide the most certainty about what is reported, reflecting our understanding today about how to best measure wellbeing, using currently available data. It is also the most inflexible option and potentially the least likely to endure if future Governments find that the prescribed set of indicators is too constraining for how they wish to present and discuss their wellbeing objectives.

There is some precedent for specifying indicators in the Public Finance Act as some of the existing reporting requirements relating to macroeconomic and fiscal indicators are quite specific (for example, on consumer prices and unemployment forecasts). However, international and domestic practice in reporting on wellbeing indicators is much less established now than the specific macroeconomic and fiscal indicators were when the Fiscal Responsibility Act was passed in 1994. Statutory reporting of macroeconomic and fiscal indicators is also done on the basis of the Treasury's best professional judgment.

Noting the challenges around embedding a comprehensive set of indicators in legislation, Parliament could instead decide to specify a smaller set of "core" wellbeing indicators. Those indicators would be selected based on what is considered most important or most likely to endure. They would most likely be a subset of the measures in the Dashboard. Examples of possible core indicators are: housing cost overburden (proportion of households with total housing expenditure in excess of 40 per cent of equivalised disposable household income); or, household net worth (the value of a household's assets minus its liabilities).³ However, a selective set of measures will not provide a comprehensive view of wellbeing consistent with the available evidence or international best practice.

³ For examples of other potential measures see 'Annex 1: Evaluation of Indicators' in the following paper *Treasury Living Standards Dashboard: Monitoring Intergenerational Wellbeing*, Conal Smith (Kōtātā Insight), available at: <https://treasury.govt.nz/sites/default/files/2018-06/smith-living-standards-dashboard-jun18.pdf>

Summary of options for selecting wellbeing indicators

This section indicates that there is a spectrum of options for changing the Public Finance Act, which include:

- 1 Giving the Treasury discretion to select indicators based on its best professional judgment, and requiring it to report on those indicators
- 2 Moderating the Treasury's discretion to select wellbeing indicators by:
 - a applying some rules about process, and/or
 - b specifying some wellbeing domains for reporting
- 3 Legislating a comprehensive set of wellbeing indicators, based on what matters for wellbeing now, and
- 4 Legislating a selective set of wellbeing indicators, based on what is most important or most likely to endure.

What do you think?

- ▶ Do you agree with the proposal to require the Treasury to report on wellbeing indicators, alongside macroeconomic and fiscal indicators? Why or why not?
- ▶ Which of the options do you think best meets the objective to create consistent, meaningful and enduring reporting on wellbeing indicators? Why?
- ▶ What do you think are the main impacts of implementing this proposal?

Box 1: What could wellbeing reporting in the Budget look like?

The Government must currently state in its annual *Budget Policy Statement* the broad strategic priorities which will guide its upcoming Budget, including the overarching policy goals that will guide its Budget decisions and the policy areas it will focus on in that year. This requirement could be amended so that the Government must set out how its wellbeing objectives, along with its fiscal objectives, will guide its Budget decisions.

As part of the 2019 *Budget Policy Statement*, the Government will describe how its wellbeing objectives (for example, improving housing quality, reducing child poverty, or reducing greenhouse gas emissions) have informed its Budget 2019 strategy and are expected to guide its Budget decisions.

The *Budget Policy Statement* could then set out how the Government is planning to make progress on its wellbeing objectives through the Budget, while meeting its Budget Responsibility Rules, including its net debt targets. Drawing this connection between wellbeing objectives and fiscal objectives will shape what the Government is working for in terms of its Budget.

The Government could also explain how those wellbeing objectives relate to, or are derived from, analysis of wellbeing indicators. In Budget 2019, the development of the Government's priorities is being informed, in part, by the Treasury's Living Standards Framework.

In the *Fiscal Strategy Report* (presented on Budget Day), the Government must set out its long-term fiscal objectives and short-term fiscal intentions for fiscal policy, and how they accord with the principles of responsible fiscal management (s.26G). The Government also has to explain any differences from the previous *Fiscal Strategy Report* or *Budget Policy Statement*. In this report, the Government would provide an assessment of the consistency of the fiscal strategy with its wellbeing objectives. The Government could also describe what has been, and will be, done to make progress on those wellbeing objectives, within the Budget, alongside existing economic and fiscal objectives.

Alongside the Government's reporting on wellbeing objectives, in Budget 2019 the Treasury will report on wellbeing indicators in the Budget Economic and Fiscal Update. That reporting will be based on the Living Standards Dashboard indicators (largely drawing from Indicators Aotearoa New Zealand – Ngā Tūtohu Aotearoa).

As part of reporting on current wellbeing, the Treasury is also looking to analyse the distribution of wellbeing across different domains (such as health, environment, and social connections). For example, as an input into the development of Budget 2019, the Treasury is expected to include analysis by region, ethnicity, and gender. This could also include reporting on key risks, and how resilient future wellbeing is in the face of change or shocks.

Requiring consideration of wellbeing in other documents required under Part 2 of the Public Finance Act

It is also proposed that the statutory requirements for the *Statement on the Long-term Fiscal Position* and the *Investment Statement* be amended to include a wellbeing focus. Both documents are required to be produced by the Treasury at least every four years.

The statutory requirements around what these documents must cover are very flexible. As these documents are the responsibility of the Treasury, the most recent versions of both have already incorporated and contributed to the development of the Living Standards Framework, voluntarily going beyond what is strictly necessary to meet the statutory requirements.

It is worth noting that the same tension exists for these documents as for the Budget documents. While the legislation could be amended to require consideration of wellbeing in future, it should not overreach and make the reporting requirements too prescriptive and risk that it fails to meet future needs, which are uncertain.

What do you think?

- ▶ Do you agree that the *Statement on the Long-term Fiscal Position* and/or the *Investment Statement* should be required to have a focus on wellbeing in future? Why or why not?
- ▶ What do you think are the main impacts of implementing this proposal?

Why not require more extensive wellbeing reporting?

While the proposal in this document focuses on changes to Part 2 of the Public Finance Act (Fiscal Responsibility), directly affecting the work of the Government and the Treasury, the work of departments across government is critical to supporting the successful implementation of a wellbeing focus.

Agencies are required under the Public Finance Act to set out their strategic intentions and what is intended to be achieved for each appropriation. This allows them to bring wellbeing into their reporting documents, and we are already beginning to see this happening.

Experience has proven that care is needed when introducing specific and particular reporting requirements on agencies, given the diverse nature of their roles and functions. Alongside this, the wellbeing approach is still being developed and we will learn over time how to apply it most successfully in differing circumstances, how to produce guidance on what it means for reporting at different levels, and how to frame any reporting requirements on agencies.

For this reason, we are taking a phased approach to consideration of what wellbeing reporting requirements might mean at these different levels. As a part of developing our understanding of how to measure and report on wellbeing, the Government is piloting non-legislative options for embedding a wellbeing focus in public sector departments' strategic planning and performance reporting, before considering further legislative changes.

3 What are we doing now?

The Government is taking some practical steps ahead of Budget 2019 to implement the approach outlined in the previous section, which will inform changes to legislation.

Measuring our wellbeing – te ine i tō tātou toiora

A specific priority for this Government is ensuring that how we measure New Zealand's wellbeing reflects what matters to our people, our communities, and our environment. Starting with Budget 2019, reporting on wellbeing indicators will be informed by the development of the Treasury's Living Standards Framework and the development of Stats NZ's Indicators Aotearoa New Zealand – Ngā Tūtohu Aotearoa.

The set of indicators will go beyond economic measures, such as GDP, to include measures of wellbeing and sustainable development. The indicators will build on international best practice and will be tailored to New Zealand, including by incorporating cultural and te ao Māori perspectives, and will support the development of international standards for wellbeing measurement.

Development of the Living Standards Dashboard

An important step in the development of the Treasury's Living Standards Framework is the publication of a Living Standards Dashboard later this year. The Treasury and Stats NZ have aligned their work so that the Dashboard will be largely drawn from Indicators Aotearoa New Zealand – Ngā Tūtohu Aotearoa.

At the same time, the Treasury will also produce a Living Standards report, which will provide a factual, written explanation of the data in the Dashboard. This will be the basis for its reporting on wellbeing indicators in the Budget Economic and Fiscal Update (to be presented on Budget Day).

Incorporating wellbeing into Budget 2019

As part of delivering its *Budget Policy Statement* (expected in December 2018), the Government intends to announce the outcome of this consultation, and how it will embed wellbeing in the Public Finance Act 1989, along with more specific detail on how the Government is delivering the Wellbeing Budget.

Annex – Questions for submitters

Embedding wellbeing in the Public Finance Act 1989

Proposal to create enduring wellbeing requirements:

To report on wellbeing objectives

- ▶ Do you agree with the proposal to require the Government to set out how its wellbeing objectives, along with its fiscal objectives, will guide its Budget decisions? Why or why not?
- ▶ What do you think are the main impacts of implementing this proposal?
- ▶ What else does the Government need to consider when making the proposed changes, eg, to retain sufficient flexibility for future Governments to adapt their approach to wellbeing in response to changing circumstances or new information?

To report on wellbeing indicators

- ▶ Do you agree with the proposal to require the Treasury to report on wellbeing indicators, alongside macroeconomic and fiscal indicators? Why or why not?
- ▶ Which of the options do you think best meets the objective to create consistent, meaningful, and enduring reporting on wellbeing indicators? Why?
- ▶ What do you think are the main impacts of implementing this proposal?

Requiring consideration of wellbeing in other documents required under Part 2 of the Public Finance Act

- ▶ Do you agree that the *Statement on the Long-term Fiscal Position* and/or the *Investment Statement* should be required to have a focus on wellbeing in future? Why or why not?
- ▶ What do you think are the main impacts of implementing this proposal?