

# The Treasury

## Embedding Wellbeing in the Public Finance Act 1989: Final Policy Recommendations Information Release

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### Cabinet Document Details

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Chair  
Cabinet Business Committee

## **Embedding wellbeing in the Public Finance Act 1989: Final policy recommendations**

### **Proposal**

1. This paper seeks Cabinet's agreement to amend the Public Finance Act 1989 (the Act) to embed a focus on wellbeing.

### **Executive Summary**

2. As part of this Government's work to apply a wellbeing approach within the public service, I am seeking Cabinet's agreement to amend the Public Finance Act 1989 (the Act) to introduce new requirements for the Government and the Treasury to report on wellbeing.
3. I am recommending that the Act be amended to require:
  - a. the Government to report annually on its wellbeing objectives in the Budget Policy Statement and the Fiscal Strategy Report; and,
  - b. the Treasury to report periodically on current and future wellbeing, at least every four years.
4. These changes would broaden the framework that the Government uses to develop and assess its Budget, and augment the Treasury's existing reporting on macroeconomic and fiscal indicators.
5. Legislation is required to take forward the recommendations in this paper. Subject to Cabinet's agreement, I intend to bring draft legislation to the Cabinet Legislation Committee in August 2019 seeking approval for introduction.

### **Background**

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

6. While macroeconomic and fiscal indicators will remain at the core of New Zealand's public finance system 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 public finance decisions.

7. This Government is committed to developing and embedding our wellbeing approach within the public service. The changes we are making to deliver the Wellbeing Budget in 2019 are an important step in demonstrating why a wellbeing approach matters for improving the lives of New Zealanders.
8. As part of ensuring that these changes will endure, I am seeking Cabinet's agreement to amend the Public Finance Act 1989 (the Act) to require a focus on wellbeing.

#### *Public consultation on proposals to embed wellbeing in the Act*

9. On 12 September 2018, the Cabinet Economic Development Committee approved the release of the discussion document, *Embedding wellbeing in the Public Finance Act 1989*, for public consultation [DEV-18-MIN-0196]. That document proposed changes to the Act to broaden the framework that the Government uses to develop its Budget and augment the Treasury's reporting on macroeconomic and fiscal indicators.
10. The Treasury received 16 submissions on the discussion document, from individuals, academics, economic consultancies, health sector associations, and public sector agencies. The Treasury also discussed the proposal with a group of public finance experts comprising Graham Scott, Prof Jonathan Boston, Iain Rennie and the Hon Sir Michael Cullen, and the State Sector Leadership Team (chief executives).
11. I am satisfied that the final policy recommendations in this paper will achieve the objective of requiring an enduring focus on wellbeing within the public finance system, while mitigating some of the risks raised by submitters (discussed below).

#### **Final policy recommendations to embed a focus on wellbeing in the Act**

12. I am recommending that the Act be amended to introduce requirements for:
  - a. the Government to report annually on its wellbeing objectives in the Budget Policy Statement and the Fiscal Strategy Report; and,
  - b. the Treasury to report periodically on wellbeing indicators (at least every four years).

#### *Requirement for the Government to report on its wellbeing objectives*

13. Each year in the Budget, the Government will be required to explain how its wellbeing objectives will guide its Budget, and how those objectives relate to a range of factors that matter to wellbeing. While the legislation will prescribe some factors that must be considered, namely social,

economic, environmental, and cultural factors, it is intended that each Government will have the flexibility to articulate how it thinks about wellbeing, and what it considers matters to the long-term wellbeing of New Zealand (its wellbeing objectives).

14. Considerable work is still underway, in New Zealand and in other countries, to develop and refine how we measure and report on wellbeing. It is important in principle that the government has flexibility to adapt its approach to wellbeing over time, for example, in response to new information or changing circumstances. The recommended requirements retain this flexibility by requiring every Government to take a broad lens to wellbeing in its selection of objectives, without locking in a specific wellbeing framework or definition (such as the Living Standards Framework).
15. The recommended requirement on the Government is unchanged from what was proposed in the discussion document. It was well supported by submitters, and aligns with the objective to broaden the framework that the Government uses to develop and assess its Budget.
16. I recommend that the Act be amended to require every Government to:

*In each Budget Policy Statement:*

- a. State its wellbeing objectives; and,
- b. Explain how its wellbeing objectives relate to the range of factors that it considers matters to the long-term wellbeing of New Zealand, including (but not necessarily limited to) consideration of social, economic, environmental, and cultural factors; and,
- c. Explain how those objectives will guide its Budget.

*In each Fiscal Strategy Report:*

- d. Explain how its wellbeing objectives have guided its Budget; and,
- e. Where those wellbeing objectives have changed, since the most recent Budget Policy Statement, indicate any differences.

*Requirement for the Treasury to report on wellbeing indicators*

17. I recommend that the Act be amended to require the Treasury to report periodically on wellbeing, at least every four years, covering the following matters:
  - a. The state of wellbeing in New Zealand, using an appropriate set of wellbeing indicators which are selected by the Treasury; and,

- b. Discuss how those wellbeing indicators have changed over time; and,
  - c. Comment on the sustainability of, and risks to, the state of wellbeing in New Zealand based on the wellbeing indicators selected by the Treasury.
18. The recommended requirement on the Treasury has changed in response to risks raised by submitters, from annual reporting on wellbeing indicators to periodic reporting outside of the Budget process. Submitters were concerned about potential confusion between the respective roles of the Treasury, other departments, Ministers, and Parliament.
  19. The development of the Treasury's Living Standards Framework Dashboard has also highlighted risks around introducing annual reporting on wellbeing indicators. Many of the Dashboard indicators are based on non-annual data collections (such as the General Social Survey), and/or are not expected to change much year-to-year (for example, lag between policy changes and any data movement).
  20. Separating the Treasury's reporting on wellbeing from the annual Budget cycle reduces risks around officials publishing data that the Government of the day may have limited ability to influence in short-term, and the perception that officials are deciding how the Government will be held accountable for its own wellbeing objectives. Although the Government of the day could use the Treasury's wellbeing indicator report to form a view of its wellbeing objectives in any one year, there should not be a statutory obligation for the Government to do so.
  21. Periodic reporting should allow for a more strategic, forward-looking document with a focus on the medium-term data trends, which would complement the Treasury's existing statutory requirements to produce a Long-term Fiscal Statement (LTFS) and an Investment Statement.
  22. The amendments to the Act will not seek to prescribe a specific view of what matters for wellbeing, what the wellbeing indicators should be, or how it should be measured. While more specificity would provide more certainty about what is reported, wellbeing measurement is expected to evolve over time as theory, evidence and data availability develops and improves, along with our understanding of how it can best contribute to policy advice.
  23. It is intended that the Treasury will select an appropriate set of wellbeing indicators using its best professional judgment to provide a comprehensive, balanced and accessible view of wellbeing, which is consistent with the available theory, evidence or data (in New Zealand and overseas). The Secretary to the Treasury would be responsible for the Treasury's preparation of the wellbeing reporting, similar to how they are

responsible for the LTFS and Investment Statement. For example, the wellbeing indicators could be selected from the Treasury's Living Standards Framework Dashboard and Statistics New Zealand's Indicators Aotearoa New Zealand. To this end, the existing power of the Secretary to the Treasury to obtain information under section 26Z of the Act should be extended to enable the Treasury to appropriately report on wellbeing indicators.

#### *Interaction with the LTFS and Investment Statement requirements*

24. Under the Act, the Treasury is required to produce a LTFS and an Investment Statement at least every four years, and the next versions are due in November 2020 and March 2022 respectively. The statutory requirements around what these documents must cover are very flexible, and the most recent versions of each already incorporated and have contributed to the development of the Treasury's Living Standards Framework.
25. The first statutory reporting on wellbeing indicators would be due before the end of 2022, and then at intervals not exceeding every four years. This would not preclude the Treasury reporting on wellbeing indicators any earlier. The Treasury will be responsible for preparing the new wellbeing reporting, and the Minister of Finance would be responsible for presenting it to the House of Representatives, as is required for the LTFS and the Investment Statement.
26. To reduce any duplication and reinforce the connections between the LTFS, the Investment Statement and the new reporting on wellbeing, I am recommending that changes to the Act also allow flexibility for the Treasury to present these three strategic products in a more cohesive way over time. In practice, that could mean aligning the publication timing or producing fewer reports while still meeting the statutory requirements around content.

#### **Further work to embed wellbeing**

27. In addition to the legislative changes proposed in this paper, I will be undertaking further work to embed wellbeing in our public finance and planning system. This includes, but is not limited to:
  - a. Focusing less on the annual Budget and more on baseline expenditure – Reforming how the Public Service undertakes strategic financial management to drive a focus on wellbeing into the 98 per cent of expenditure that is outside the annual Budget process;
  - b. Longer-term, intergenerational investment – Meeting the needs of present generations at the same time as thinking about the long-term impacts on future generations. Climate change, technological and international shocks, infrastructure costs, and demographic change

mean that we will face significant costs to maintain and enhance wellbeing over the next 20 to 50 years;

- c. Strategic planning and reporting – Developing a new approach to agency strategic planning and reporting to focus on intergenerational outcomes, a greater understanding of choices and promoting more collective effort. Applying a wellbeing approach to agencies' statutory external planning and reporting through guidance to agencies and looking into collective reporting and integrated reporting.

## **Consultation**

28. The policy recommendations in this paper have taken into consideration submitters' views from the public consultation process in September to October 2018. Submitters were generally supportive of the proposal to embed a focus on wellbeing within the Act, but raised concerns around the proposal for the Treasury to report annually on wellbeing indicators as part of Budget day documents. I am satisfied that the final policy recommendations in this paper have appropriately considered submitters' views.
29. The policy recommendations in this paper are consistent and aligned with this Government's broader programme of change to embed our wellbeing approach within the wider public service system.
30. The State Services Commission, Statistics New Zealand, the Office of the Auditor General and the Parliamentary Counsel Office (PCO) have been consulted on the proposals in this paper. The Department of the Prime Minister and Cabinet has been informed.

## **Financial Implications**

31. There are no financial implications from the policy recommendations in this paper. The Treasury will meet any additional costs for wellbeing reporting from within its baselines.

## **Legislative Implications**

32. Legislation is required to implement the policy recommendations in this paper. A Public Finance (Wellbeing) Amendment Bill has been assigned<sup>[33]</sup> on the 2019 Legislation Programme. The Act is already binding on the Crown.
33. I am seeking Cabinet approval of the final policy recommendations in this paper, and to issue drafting instructions to the PCO so that it can draft a Public Finance (Wellbeing) Amendment Bill. I intend to bring draft legislation to the Cabinet Legislation Committee in August 2019 seeking approval for introduction.

## **Regulatory Impact Analysis**

34. The Regulatory Quality Team at the Treasury has determined that the regulatory decisions sought in this paper are exempt from the requirement to provide a Regulatory Impact Assessment, as they are likely to have no or minor impacts on businesses, individuals or not for profit entities.

## **Human Rights Implications**

35. There are no inconsistencies between the proposals contained in this paper and the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993. The recommended amendments to the Act have no implications for human rights, business compliance, gender, or disability issues.

## **Publicity**

36. I intend to announce Cabinet's decision on the final policy recommendations in this paper as part of the Wellbeing Budget announcements on 30 May 2019.

## **Proactive Release**

37. I will align the proactive release of this paper with the introduction of a Public Finance (Wellbeing) Amendment Bill to the House of Representatives, expected in August 2019.

## **Recommendations**

The Minister of Finance recommends that the Committee:

### ***Background***

1. **note** that on 12 September 2018, the Cabinet Economic Development Committee, approved the release of the discussion document, *Embedding wellbeing in the Public Finance Act 1989*, for a four-week public consultation period [DEV-18-MIN-0196];
2. **note** that the final policy recommendations have considered submitters' feedback, and provide a modified approach which will embed a focus on wellbeing, while mitigating some of the risks raised by submitters around the Treasury reporting on wellbeing indicators in the documents presented on Budget Day;

### ***Embedding wellbeing in the Public Finance Act 1989: Final policy recommendations***

#### ***Requirement for the Government to report on its wellbeing objectives***

3. **agree** that the Government will be required to:

- 3.1. In each Budget Policy Statement:
  - 3.1.1. State its wellbeing objectives; and,
  - 3.1.2. Explain how its wellbeing objectives relate to the range of factors that it considers matters to the long-term wellbeing of New Zealand, including (but not necessarily limited to) consideration of social, economic, environmental, and cultural factors; and,
  - 3.1.3. Explain how those objectives will guide its Budget; and,
- 3.2. In each Fiscal Strategy Report:
  - 3.2.1. Explain how its wellbeing objectives have guided its Budget; and,
  - 3.2.2. Where those wellbeing objectives have changed, since the most recent Budget Policy Statement, indicate any differences;

4. **note** that it is intended that each Government has the flexibility to articulate how it thinks about wellbeing, and what it considers matters to the long-term wellbeing of New Zealand (its wellbeing objectives);

*Requirement for the Treasury to report on wellbeing indicators*

5. **agree** that the Treasury be required to report periodically on wellbeing, at least every four years, covering the following matters:
  - 5.1. The state of wellbeing in New Zealand, using an appropriate set of wellbeing indicators which are selected by the Treasury; and,
  - 5.2. Discuss how those wellbeing indicators have changed over time; and,
  - 5.3. Comment on the sustainability of, and risks to, the state of wellbeing in New Zealand based on the wellbeing indicators selected by the Treasury;
6. **note** that it is not intended that the amendments will prescribe a specific view of what matters for wellbeing, or how it should be measured, as wellbeing measurement is expected to evolve over time as theory, evidence and data availability improves;
7. **agree** that the Treasury will be responsible for identifying and reporting on an appropriate set of wellbeing indicators using its best professional judgment, and that the existing power of the Secretary to the Treasury to obtain information under section 26Z of the Act should be extended to enable the Treasury to appropriately report on wellbeing indicators;

8. **agree** that the Minister of Finance will be responsible for presenting the Treasury's reporting on wellbeing indicators to the House of Representatives;
9. **agree** that the first statutory reporting on wellbeing indicators will be due before the end of 2022 and at intervals not exceeding four years thereafter;
10. **agree** that the amendments provide flexibility for the Treasury to align the new wellbeing reporting requirement with its existing statutory requirements to produce a Long-term Fiscal Statement and an Investment Statement;

***Further work to embed wellbeing***

11. **note** that in addition to the legislative proposals in this paper, I am developing a work programme to embed wellbeing in our public finance and planning system;

***Legislative implications***

12. **note** that legislation is required to take forward the proposed changes to the Public Finance Act, and a Public Finance (Wellbeing) Amendment Bill has a <sup>[33]</sup> on the 2019 Legislation Programme;
13. **authorise** drafting instructions to be issued to the Parliamentary Counsel Office for a Public Finance (Wellbeing) Amendment Bill to amend the Public Finance Act;
14. **note** that I intend to bring legislation to the Cabinet Legislation Committee in August 2019, seeking approval for introduction.

Hon Grant Robertson  
**Minister of Finance**

**Date:**