

The Treasury

Public Finance (Wellbeing) Amendment Bill Information Release

September 2019

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Treasury Report: Embedding wellbeing in the Public Finance Act - Proposed changes following public consultation

Date:	13 November 2018	Report No:	T2018/3048
		File Number:	BM-2

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Agree option for progressing changes to the Public Finance Act to embed wellbeing.</p> <p>Agree to take an oral item to Cabinet on 26 November, outlining your preferred option.</p> <p>Refer this report to Hon James Shaw.</p>	<p>Thursday 22 November, decision on preferred option.</p> <p>Timing is tight to draft and agree material for Cabinet and for the Budget Policy Statement by the end of November.</p>

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Cara Palmer-Oldcorn	Senior Analyst, System Design and Strategy	[39]	N/A (mob) ✓
John Marney	Manager, System Design and Strategy	[23]	

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

Return the signed report to Treasury.

Refer the report to Hon James Shaw, the Associate Minister of Finance.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Embedding wellbeing in the Public Finance Act - Proposed changes following public consultation

Executive Summary

Public consultation on the discussion document, *Embedding wellbeing in the Public Finance Act 1989 (PFA)*, closed on 12 October. This report sets out the key themes and feedback from submissions, and a revised set of options for progressing PFA changes for your decision.

Key themes from submissions:

- The majority of submitters supported the proposal for the Government to report its wellbeing objectives in the Budget, as a positive step in bringing a more balanced and long-term approach to the Budget process.
- The proposal to require reporting by officials on wellbeing indicators sparked a wider range of reactions, from very supportive through to strongly opposed.
- Submitters opposed to the proposed changes either did not think that PFA change was necessary or did not support the approach (e.g. opposed to broadening focus of PFA or thought wellbeing measurement was immature and did not help make trade-offs).
- A number of submissions, even when supportive of the focus on wellbeing, cautioned against legislating until the approach (including the set of indicators) is further developed, tested and piloted in accountability documents.
- Bi-partisan support was recommended, to support enduring change and to help mitigate risks around constraining Governments' ability to set their own priorities.

Recommended approach for progressing PFA changes to embed wellbeing

In response to this feedback, we have reviewed the options set out in the discussion document, and recommend that you progress a modified approach that meets the objectives of introducing requirements on both the Government and the Treasury, but mitigates some of the risks raised by submitters around reporting on wellbeing indicators.

This involves amending the PFA to introduce requirements for:

- The Government to report annually on its wellbeing objectives in the Budget documents, including how it plans to make progress against those objectives; and,
- the Treasury to report periodically on current and future wellbeing (at least every four years). This is modelled on the existing requirements for the Statement on the Long-term Fiscal Position (LTFPS) and the Investment Statement.

The proposed requirement on the Government is unchanged from what was consulted on. 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 and fiscal policy.

The proposed requirement on the Treasury has changed in response to risks raised by submitters, particularly in relation to potential confusion between the respective roles of the Treasury, other departments, Ministers and the Parliament. The changes also reflect lessons from our development of the Living Standards Framework (LSF) Dashboard – the first version will be published in December 2018. The development of the Dashboard has highlighted that

annual reporting on wellbeing indicators in the Budget documents runs into some practical difficulties and would not add much value compared to less frequent reporting. Many of the Dashboard indicators are based on non-annual data collections, and/or are not expected to change much year-to-year. Non-annual reporting would support a focus on the medium-term data trends, and mitigate risks around publishing data that the Government of the day may have limited ability to influence in short-term.

Next steps

The timing for seeking decisions, and consulting your colleagues – through Cabinet or separately – is very tight if you want to make an announcement in the Budget Policy Statement (BPS) on 13 December. We recommend taking an oral item to Cabinet on Monday 26 November, outlining your preferred option, and then making a high-level announcement in the BPS.

Recommended Action

We recommend that you:

- a **note** that, following the public consultation, we have developed a revised the set of options for progressing changes to the Public Finance Act (PFA) to embed a wellbeing focus, that address the key risks raised by submitters.
- b **agree** to amend the PFA to introduce requirements for the Government to report annually on wellbeing objectives, and for the Treasury to report periodically on current and future wellbeing (at least every four years).

Agree/disagree.

- c **agree** to take an oral item to Cabinet on 26 November, outlining your preferred option.

Agree/disagree.

- d **refer** to the Associate Minister of Finance, Hon James Shaw.

Refer/not referred.

John Marney
Manager, System Design and Strategy

Hon Grant Robertson
Minister of Finance

Treasury Report: Embedding wellbeing in the Public Finance Act - Proposed changes following public consultation

Purpose of Report

1. This note sets out options for progressing proposed changes to embed a wellbeing focus in the Public Finance Act 1989 (PFA), following public consultation.
2. A decision on how you would like to proceed, based on your preferred option, is required by late-November, so that you can make an announcement in the Budget Policy Statement (BPS) on 13 December.

Recap of the proposal in the discussion document

3. We publicly released the discussion document, *Embedding wellbeing in the Public Finance Act 1989*, on 13 September, and consultation closed on 12 October. The document outlined a proposal to amend the PFA to create new requirements for:
 - a the Government to set out how its wellbeing objectives, along with its fiscal objectives, will guide its Budget decisions;
 - b the Treasury to report annually on wellbeing indicators as part of the Budget process, alongside macroeconomic and fiscal indicators,
 - c the Statement on the Long-term Fiscal Position (LTFS) and the Investment Statement, which are produced by the Treasury at least every four years, to have a focus on wellbeing.

Feedback on the discussion document and lessons from the LSF Dashboard

4. We received 16 submissions on the discussion document, from individuals, academics, economic consultancies, health sector associations, and public sector agencies. We 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 (public sector chief executives).
5. Feedback is summarised below, with more detail in Annex 1. We have also gained some practical experience from developing the LSF Dashboard

Feedback on the discussion document

6. The majority of submitters supported the proposal for the Government to report its wellbeing objectives in the Budget, noting that a focus on wellbeing leads to a “more balanced approach” and is something that Governments should already focus on (e.g. “overarching policy goals” in the BPS).

7. The proposal to require annual reporting on wellbeing indicators by officials sparked a wider range of reactions, from very supportive through to strongly opposed.
 - Kōtātā Insights was the most supportive, but noted that Treasury’s judgment works in the area of fiscal and economic policy because the GAAP and System of National Accounts provide external reference points and recommended that Stats NZ should lead the development of an external framework for wellbeing.
 - The Office of the Auditor-General recommended developing two distinct sets of measures: long-term, universal indicators (with choices about ownership); and medium-term, more focused indicators (owned by the Government rather than officials).
 - The PFA expert group and the New Zealand Initiative strongly opposed the proposal to create a statutory role for the Treasury to select and report wellbeing indicators. They argued that Ministers should remain responsible for deciding how (and for what) Government is held accountable. A number of other submissions also raised concerns about this option potentially confusing the respective roles of the Treasury, other departments, Ministers and the Parliament.
8. Those opposed either did not think that PFA change was necessary (e.g. already able to do this reporting, prescribing in legislation is premature or problematic), or did not support the approach (e.g. wellbeing measurement immature and/or does not help make trade-offs).
9. A number of submissions, even when supportive of the focus on wellbeing, cautioned against legislating until the approach (including the set of indicators) is further developed, and reporting can be tested.
10. Bi-partisan support was recommended, to support enduring change and to help mitigate risks around constraining Governments’ ability to set their own priorities.

Lessons from developing the LSF Dashboard

11. The development of the LSF Dashboard has highlighted risks around seeking to introduce annual reporting on wellbeing indicators in the Budget documents. Many of the Dashboard indicators are based on non-annual data collections (e.g. the General Social Survey), and/or are not expected to change much year-to-year (e.g. high-level, lag between policy changes and any data movement).
12. Non-annual reporting would support a focus on the medium-term data trends, and mitigate risks around publishing data that the Government of the day may have limited ability to influence in the short-term.

Options for progressing this work

13. In response to this feedback, we have reviewed the proposed approach and options set out in the discussion document and identified three options for taking this work forward. These are:
 - a **Option 1: (*Treasury preferred*)** Introduce requirements for the Government to report annually on wellbeing objectives in the Budget documents, and for the Treasury to report periodically on current and future wellbeing (at least every four years).

- b **Option 2:** Only progress changes to require reporting by the Government on wellbeing objectives. The legislation would be silent about reporting on wellbeing indicators, and work on indicators would continue on a non-statutory basis.
- c **Option 3:** Continue as planned with delivery of Budget 2019, but defer decision on legislation change so that Budget reporting can be tested first. Undertake further policy work on indicators reporting as part of the wider public finance reform programme.

14. Each option is discussed in more detail below, and summarised in this table:

Objectives	Option 1	Option 2	Option 3
Aligns with delivery of Wellbeing Budget in 2019	✓	✓	✓
Legislation change this Parliamentary term	✓	✓	✗
Statutory requirement for governments to report on objectives	✓	✓	✗
Statutory requirement for officials to report on wellbeing	✓	✗	✗
Manages potential confusion about roles of Ministers and officials	✓	✓	✓
Able to trial reporting and develop indicators before legislating	✗	✓	✓

15. Under any of these options, the Treasury will continue to develop and implement its Living Standards Framework, including through the publication of the LSF Dashboard in December. We would also continue to provide advice to Ministers on wellbeing trends and analysis to support the identification of wellbeing objectives and Budget priorities in future Budgets, if appropriate. This means that the already agreed approach to Budget 2019 will continue as planned.

Option 1: Introduce reporting requirements on both the Government and the Treasury

16. This option involves amending the PFA to introduce requirements for:

- a the Government to report annually on its wellbeing objectives in the Budget documents, including how it plans to make progress against those objectives; and,
- b the Treasury to report periodically on current and future wellbeing (at least every four years).

17. The requirement on the Government is unchanged from what was proposed in the discussion document (see recap below). 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 and fiscal policy.

Recap: Government sets out in the BPS what it considers matters to the long-term wellbeing of New Zealand, and how those objectives relate to its Budget priorities and decisions. The Government would also need consider its wellbeing objectives when setting its fiscal objectives. This would then be reflected in the Fiscal Strategy Report (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 also describe what has been, and will be, done to make progress on those wellbeing objectives, within the Budget.

18. The proposed requirement on the Treasury has changed in response to concerns raised by submitters and lessons from our development of the LSF Dashboard. The discussion document included separate proposals for annual reporting by the Treasury on wellbeing indicators and for a new wellbeing focus in the LTFS and the Investment Statement. These proposals have been merged into a single requirement for the Treasury to report periodically on current and future wellbeing at least every four years.
19. Periodic rather than annual reporting on wellbeing by the Treasury is more aligned with the current level of data availability and supports one of the principles of a wellbeing approach which is about taking a longer-term focus (i.e. beyond annual). Separating Treasury reporting on wellbeing from the annual Budget cycle reduces the risk that officials are perceived to be determining how the Government is held accountable for its wellbeing objectives. Periodic reporting should also allow for a strategic, forward-looking document (similar to the LTFS and the Investment Statement).
20. If you choose this option, we will look at how reporting on wellbeing best fits in with the LTFS and the Investment Statement, and whether changes are required to reduce any duplication and/or conflicts between these documents.

Option 2: Only legislate the requirement for the Government to report on wellbeing objectives

21. Under this option, the PFA changes would only introduce requirements for the Government to report on wellbeing objectives (as described under Option 1), without the proposed requirement for reporting on wellbeing indicators. This option would still allow the Treasury to develop its LSF and report on wellbeing, but it would not be legally required to do this.
22. This option would mitigate concerns about officials creating a 'report card' on the Government and would allow time for reporting on wellbeing indicators to be implemented, reviewed and refined, before further legislative change is considered.
23. Introducing a requirement for the Government to set out its wellbeing objectives and explain how these have guided its Budget decisions would still provide a clear signal around the importance of wellbeing and represent a material change to the development of the Budget and fiscal policy.

Option 3: Proceed as planned for Budget 2019, but defer the decision on legislation change

24. This option would re-sequence the PFA amendments so that a decision on legislation change comes after we have gained more experience of what reporting will look like in practice. In order to deliver the Wellbeing Budget in 2019, the Government would still set out its wellbeing objectives in the BPS and FSR, and the Treasury would publish the LSF Dashboard in December.
25. Legislation could be progressed in the next Parliamentary term as part of the planned, broader public finance reform programme, along with any proposed changes to embed wellbeing in agency reporting.
26. This option is the most consistent with previous sets of amendments to the PFA, which were generally made following voluntary changes to reporting. It addresses concerns around legislating before there is enough consensus about what can and should be required. It does not meet your ambition to embed changes to the PFA this Parliamentary term.

27. This option would also allow time for other options, beyond the annual Budget process, to be considered, drawing on international experience. For example, as previously noted [T2018/2754 refers], both Italy and France:
- a Have introduced legislation requiring the government to report annually on wellbeing indicators, aligned with or as part of Budget reporting.
 - b Report on a short-list of wellbeing indicators (12 and 10 respectively), which were selected by specially appointed groups (with political and technical members). The specific indicators were agreed by Ministers, but are not set out in legislation.
 - c Ran comprehensive public consultation processes to select those indicators, including seeking input from public officials, NGOs, employers, employees, international and local experts.

Recommended option

28. Any of these options would still enable you to deliver the Wellbeing Budget in 2019, and drive a focus on wellbeing through the Government's statutory documents and officials' planned reporting on wellbeing indicators.
29. We recommend Option 1 as it best meets the objectives of introducing requirements on both the Government and the Treasury, but mitigates some of the risks raised by submitters around reporting on wellbeing indicators. It would also align wellbeing reporting by officials with data availability and support a longer-term, strategic focus.

Next Steps

30. The timing for seeking decisions, and consulting your colleagues – through Cabinet or separately – is very tight if you want to make an announcement in the Budget Policy Statement (BPS) on 13 December. We recommend taking an oral item to Cabinet on Monday 26 November, outlining your preferred option, and then making a high-level announcement in the BPS.
31. This approach would signal your preferred option, while allowing more time to draft advice to support final policy decisions from Cabinet in early-2019.
32. Working back from an announcement in the BPS on 13 December, the following is recommended:
- Tuesday 20 November – Option to discuss this report with officials at Budget Matters.
 - Thursday 22 November – Feedback decision to officials, and agree plan for Cabinet update and BPS announcement.
 - Monday 26 November – Cabinet item, updating on preferred option and BPS messages.
 - Thursday 13 December – Announcement in BPS.

Annex 1: Feedback on discussion document

Overall feedback on the proposal for reporting on wellbeing objectives

- The majority of submitters were supportive of the Government reporting on wellbeing objectives in the Budget. Support stemmed from seeing it as positive step in bringing a more long-term, balanced approach to the Budget process, or from a view that wellbeing is already within scope of existing requirements (e.g. overarching policy goals in the BPS, artificial to separate wellbeing from fiscal and economic objectives). A ‘focus on wellbeing’ was often interchangeable with a ‘focus on outcomes’.
- There were a range of views about the specific impacts of the proposal, with many submissions noting that it depends on design and implementation choices. For example, “[It] could be a powerful way to focus attention and encourage the government to direct funding to, or make policy and regulatory changes, related to social, environmental, economic and other issues, but could also potentially distort the budget allocation process if not well designed and poorly implemented.”
- One submitter noted that Governments can, and already do, set out what matters for wellbeing (e.g. via manifestos), and entrenching the ‘language of wellbeing’ carries risk.
- In general, if implemented well, the proposal could support a broader focus on the level and distribution of wellbeing over time (counteracting short-termism, gender-responsive budgeting); and increased public engagement in the Budget and how it relates to the Government’s priorities (e.g. aligned with Open Budgeting). A number of submissions recommended further testing of wellbeing reporting, before considering how to embed it in law (or not). Bi-partisan support was also strongly recommended.
- One submitter, who was opposed to the proposal, commented that the changes do not “provide a framework for addressing conflicts between fiscal and wellbeing objectives, or between short- and long-term wellbeing effects”, which could undermine both the achievement of wellbeing objectives and maintenance of fiscal discipline.

Overall feedback on the proposal for annual reporting by officials on wellbeing indicators

- Almost all of the submissions supported the proposal for reporting on wellbeing indicators. However, there was little consensus around who should select and report on the indicators, and what the purpose of the set of indicators is.
- Around half of the submissions supported the Treasury reporting on wellbeing indicators, but some supported it on the basis that the legislation would include some constraints (e.g. around consultation, using sector experts), while others supported it on the basis that the responsible departments and Ministers would select the specific indicators (i.e. Treasury reports on behalf of the Government).
- A few submitters thought that reporting on wellbeing indicators should be done by the responsible departments, and some raised concerns about duplication and overlap between the different measurement sets, e.g. LSF Dashboard and Indicators Aotearoa New Zealand.
- Kōtātā Insights was the most supportive of officials reporting on wellbeing, believing that there is “sufficient scientific consensus around the measurement of wellbeing that it is possible to identify a set of measures that are enduring and meaningful.” However, they also commented that “best professional judgment works in the area of fiscal and economic policy because the GAAP and System of National Accounts provide external

reference points”, and recommended that Stats NZ should lead the development of an external framework for wellbeing.

- The Office of the Auditor-General supports reporting on wellbeing indicators as part of overall government performance reporting, but recommend developing two distinct sets of measures: 1) Long-term, universal set of indicators (with choices around ownership); and 2) medium-term, more focused indicators (Government-owned). This approach recognises the tension between “reporting indicators (1) that are consistent over time and independent from the preferences of the government of the day and (2) that are specifically relevant to policies, focus, and initiatives of the government of the day.” They also stressed the importance of linking high-level reporting with sector and public agency indicators, in order to track the achievement of outcomes over time.
- The proposal to create a statutory role for the Treasury to select wellbeing indicators was strongly opposed by the PFA expert group and the New Zealand Initiative, and a number of submissions raised concerns about this option potentially confusing the respective roles of the Treasury, other departments, Ministers and the Parliament.
- The PFA expert group raised the following concerns:
 - a No firmly established or widely accepted approach to measuring wellbeing (in contrast to macroeconomic and fiscal indicators). Sensible to test the wellbeing approach for at least one budget cycle before attempting to legislate in more detail.
 - b It is appropriate for the Government to set out its wellbeing objectives (i.e. ‘what matters’), and to decide how progress against those objectives will be measured, accountability for progress should remain with Ministers.
 - c Constitutional role for officials is to ensure accurate and independent reporting, but that it was for Ministers or Parliament to specify the relevant measures.
- The New Zealand Initiative made similar comments about risks and respective roles, but was also fundamentally opposed to any changes that would broaden the focus of the PFA beyond economic and fiscal matters, and does not think that the LSF (as is) helps make decisions about “trade-offs between contending wellbeing considerations”.

Further notes on the discussion with the PFA Expert Group

(These notes reflect a general summary of the discussion, unattributed to any specific person in the meeting.)

- The group recognised the government’s ambition to fundamentally change how it thinks about the Budget and fiscal policy and the need for a broader, more rigorous and transparent approach to understanding value alongside fiscal control. It was recognised that a wellbeing approach, supported by improved analysis, provides an opportunity to drive a medium-term focus and addressing complex issues. There was consensus that it is appropriate for the Government to set out its wellbeing objectives (i.e., ‘what matters’), and to decide how progress against those objectives will be measured. Accountability to Parliament about the government’s objectives and progress against these objectives should remain with Ministers.
- The group questioned the proposal for the Treasury (or officials generally) to identify the set of wellbeing indicators against which to report: this risks drawing officials into value judgements and potential conflict with Ministers. It was felt that the proper constitutional role for officials was to ensure accurate and independent reporting, but that it was for Ministers or Parliament to specify the relevant measures.

- The group also recommended against introducing overly prescriptive legislation, noting that there is no firmly established or widely accepted approach to measuring wellbeing (in contrast to macroeconomic and fiscal indicators); there are currently multiple frameworks for what human society is seeking to achieve; and the concept of 'wellbeing' could be considered overly narrow in that it does not capture the broader set of outcomes that matter to human beings (e.g., rights, virtues) or non-human outcomes. The group also noted that recent attempts to embed wellbeing in legislation (at the local government level) had not led to enduring change. Challenges relating to identifying attribution and causation were also noted.
- To better ensure enduring legislative change, the group recommended taking an approach that proceeds cautiously, seeks support across Parliament and is flexible. The group recommended that the focus of any legislative change at this stage should be at a high-level and relatively permissive (for example, by amending the purpose clause and possibly provisions relating to particular budget documents). The group felt that it would be sensible to test the wellbeing approach for at least one budget cycle before attempting to legislate in more detail.