International Budget Partnership

New Zealand’s “Well-Being Budget”:

A New Model for Managing Public Finances?

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Paper

CONTENTS

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Introduction

> *"For Budget 2019 we will be using the Living Standards Framework developed by the Treasury to create New Zealand's first Well-Being Budget. We will look beyond the normal GDP measures to measures which show how what we do improves the health and well-being of our people, our environment, and our communities. Improving intergenerational well-being will drive our priorities and how we measure our success."*

In December 2018, Prime Minister Jacinda Ardern issued this call to New Zealand's people and their leaders as she announced that the upcoming 2019 budget would attempt to align the country's budget with a planning and policy approach built explicitly around indicators of critical components of social, economic, and environmental well-being and sustainability. New Zealand's "Living Standards Framework" (LSF) – a key element of this approach – was over a decade in the making and is one visible marker of an ongoing but important shift from the country's previous approach to economic management and governance that was largely focused on measures of economic growth and enhancing government efficiency.

A longstanding leader of public finance management reform and a poster child of New Public Management reforms several decades ago, New Zealand once again is charting a path for other governments to consider, but this time in a new direction. The 2019 Well-Being Budget was presented at a time when it was becoming clear globally that a singular focus on economic growth had not reliably or automatically delivered equal benefits and opportunities for all people and was increasingly threatening the natural systems that support our societies, economies, and lives. The global context included dramatic and increasing levels of inequality, persistent pockets of poverty, and worsening threats of environmental breakdown. It is within this context that many countries around the world were experiencing growing discontent, loss of faith in democratic institutions, and political upheaval.

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In response to these challenges, the global community has come together around initiatives like the Sustainable Development Goals (SDGs) and the Paris Climate Agreement that are intended to reverse course in order to build more equitable, just, and sustainable societies for the benefit of present and future generations. Governments are now faced with translating these lofty goals and commitments into concrete plans and policies.

Public finances are at the center of these efforts. Governments' decisions about whom or what to tax and who will benefit from public spending impact people's incomes and well-being and to a great extent determine whether a society will be more equal or remain divided and whether people — including the disadvantaged — will have real opportunities for a better life.[1] A deeper look at New Zealand's trajectory up to the introduction of its first Well-Being Budget can be instructive in this regard.[2] There are important lessons to be learned for governments that are looking to reform their budget systems and practices to support progress on the SDGs and on climate change commitments, as well as for international organizations and domestic civil society that support these shifts and work to hold governments to account.

Background

New Zealand/Aotearoa is a high-income country with a population of 5 million in the southwestern Pacific Ocean which, before the COVID-19 pandemic and global recession, had near full employment and high levels of subjective life satisfaction.[3] This, however, masks important fragilities. Over recent decades, compared to other OECD countries, New Zealand's income and productivity growth have been low and lagging, while inequality was high and rising.[4] The average outcomes for Māori (the *tangata whenua*, indigenous people of New Zealand) and Pacific Islanders in many areas trail those of New Zealanders of European descent and reflect barriers to opportunity erected by historical and structural discrimination, engrained in both public policies and individual behaviors.[5]

Compared to other developed countries, New Zealand has a small government (measured as net public spending or revenues as a share of GDP) and redistributes less than the average OECD country through taxes and transfers.[6] The government, pre-COVID-19 crisis, ran an operating surplus and maintained very low levels of debt relative to other countries—as a small, open economy that is highly exposed to international shocks and disasters, this relatively conservative fiscal position may be warranted. Like many high-income countries, New Zealand faces long-term fiscal pressures from an aging population and growth in healthcare costs, as well as from climate change and environmental degradation.[7] Structural economic weaknesses, such as labor utilization that is already high and sluggish productivity growth, add to the nation's challenges.

New Zealand's fiscal year runs from 1 July to 30 June. The December Budget Policy Statement (BPS) usually announces the general direction of the budget, while the full budget proposal is released in May. The New Zealand

Treasury has strong operational independence and is central to the budget process, advising the Minister of Finance on budget policy and developing the budget's economic and fiscal forecasts.[8] New Zealand's budget process prior to the Well-Being Budget scored high on the Open Budget Survey, with a score of 87 (out of 100) on transparency and 81 on oversight. It scored lower on participation (54 out of 100), even though this is still well above the global average.[9]

From growth to well-being: a shift in focus

New Zealand is currently a world leader in adopting an explicit well-being approach to public policy. That was not always the case, however. In fact, the country was previously considered a world leader in adopting institutions and policies much more focused on promoting economic growth and driving efficiency through the introduction of private sector practices in government. From 1984 into the 1990s, New Zealand rapidly introduced radical reforms, including privatization, deregulation, trade liberalization, independent monetary policy, broad-based and low-rate taxation, reduced welfare transfers, and conservative fiscal policies. In doing so, the nation transitioned quickly from a highly centralized economy to a highly deregulated one. Lawmakers at the time reportedly implemented the reforms very quickly, avoiding broad consultation to prevent opposition from mobilizing.[10]

New Zealand's "experiment" was seen as a success by such measures as growth in GDP per capita and was held up as a model for other countries.[11] But GDP per capita and productivity growth have since been poor relative to other countries, and critics contend that the reforms caused many of the human hardships and inequalities that are among New Zealand's key challenges today.[12] This context is important to understanding both the drivers of the shift toward an approach more explicitly framed around well-being and the challenges in shifting budget processes, systems, and practices established over several decades.

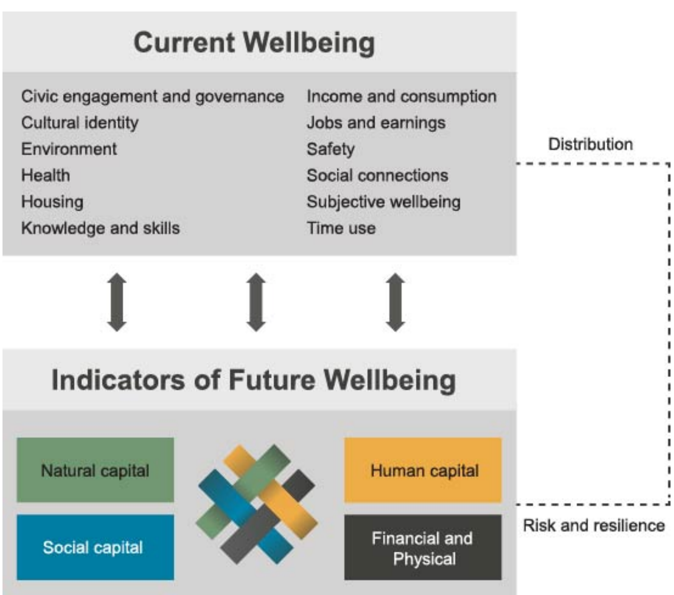
Governing for "well-being" demands a clear definition: the evolution of the Living Standards Framework (LSF)

New Zealand's approach to governance after its reforms of the 1980s and 1990s meant that the budget process focused on reporting transparently on various measures of economic growth, the overall fiscal position, and other measurable outputs. Economic growth was a key goal of economic management, reflecting a key underlying assumption that strong economic growth and transparent fiscal management would provide benefits to all. Policy making, including fiscal policy, was often focused on limiting government intervention in the economy and on removing regulations that could impede the functioning of free markets as the main engine for economic growth. But by the mid-1990s, this focus was starting to be challenged, even within government, by growing concerns about poverty and inequality and by new empirical analysis that questioned whether the reforms had in fact helped growth.[13]

In trying to move toward a governance approach that explicitly put intergenerational well-being of all people at the center, the government needed to identify the factors that contribute to well-being and the measures that would enable it to monitor progress. The New Zealand Treasury had developed the Living Standards Framework (LSF) over the preceding decade, and when the current government called for a Well-Being Budget for 2019, it placed the LSF at the core of the process.[14]

Work on developing the LSF began in 2009 in order to prompt "thinking about policy impacts across the different dimensions of well-being, as well as the long-term and distributional issues and implications."[15] The current version of the LSF brings together 12 "domains" considered important for *current* well-being and four "capitals" seen as affecting *future* well-being. It identifies a stock of capital required for well-being now and into the future, and it monitors how changes in the various domains contribute to an increase or reduction of capital stocks. The LSF also considers risk and resilience and distributional impacts across people, places, and generations (see Figure 1). The LSF does not include specific policy recommendations or targets, but it can inform both.

FIGURE 1: New Zealand's Living Standards Framework (LSF)



Source: New Zealand Treasury, 2019 Budget Policy Statement, p. 7.

The LSF prioritizes measurement and the use of evidence and is supported by a dashboard of data on 61 indicators "to track changes in the level and distribution of the main elements of the Living Standards Framework."[16] The dashboard indicators were chosen to be slow moving to enable assessment of New Zealand's long-term performance, and they include available income distribution information, such as household disposable income by decile over time. Interestingly, information on household disposable income is used rather than GDP or other common indicators of aggregate economic activity. The Treasury, however, does recognize the continued value of broader growth measures, noting that the LSF is to enrich policy analysis, not supplant GDP.[17] As a result of all of this, the LSF and its related dashboard are intended to support "a comparable degree of analytical rigor to assessing the expected benefits (monetary and non-monetary) of policy interventions as to the fiscal costs."[18]

The LSF approach was driven by both internal and external factors

While emphasizing that improving living standards has long been part of its mission, the New Zealand Treasury acknowledged that its previous approaches tended to focus mostly on increasing income separate from consideration of wider well-being objectives.[19] Hence, it described the LSF as "a response to external criticisms about the lack of clarity surrounding Treasury's vision," a reference to a 2009 external review of its fiscal and economic strategy.[20] The review found that while policy advice was often based on high-quality analysis, Treasury did not use an explicit framework to consider relationships between different policy options or distributional issues, and its policy advice was not well integrated across areas.

The LSF and Treasury's well-being work since 2011 was also greatly influenced by international discussions, with the OECD noting that "the emergence of an international body of research on the need for government policy to look 'beyond GDP' . . . including the recommendations of the Commission on the Measurement of Economic Performance and Social Progress . . . was particularly influential."[21]

In turn, New Zealand institutions and experts have actively contributed to the global "beyond GDP" debate, and some have engaged with unique Aotearoa New Zealand perspectives, such as *Te Ao Māori* (loosely, the Māori world view) and *Tikanga Māori* (loosely, a Māori way of doing things), which pose deep challenges to the predominant focus on economic growth.[22] The New Zealand government has also been involved in several international efforts, including the OECD's Better Life Index, the SDGs, and the U.K. government's What Works Centre for Wellbeing initiative.[23]

The transition to a well-being approach

By the mid-1990s the focus on measure of growth and fiscal health within the Treasury and in New Zealand's budget process was starting to be complicated by distributional concerns and new evidence that questioned whether the previous reforms had worked.[24] By 2005, the Minister of Finance in a Labour-led government was publicly dismissing Treasury's advice (specifically, to cut tax rates to support economic growth) as "ideological."[25] In 2001, the Labour-led government had also combined three departments into the new Ministry of Social Development (MSD), which became a key source of policy advice with an explicitly broader social focus. MSD's first "Social Report" in 2001 collated indicators of "Social Well-Being" in nine domains, an early example of a well-being framework. In addition to the MSD reports, there were other agency and civil society efforts to identify and measure drivers of well-being in New Zealand. These include the Environmental Reporting Act; the work of the Productivity Commission; Statistics New Zealand's *Te Kupenga* surveys of Māori well-being; and work by the Salvation Army and the New Zealand Institute, among others, to stimulate public discussion about living standards and policy priorities.[26]

Early versions of the LSF focused on five areas Treasury thought were important drivers for improving living standards: economic growth, reducing macroeconomic vulnerability, sustainability for the future, growing social capital, and increasing equity. These sat on top of a "stock-and-flow" model of well-being drivers — very similar to the OECD's approach and to today's LSF.[27]

Work on the LSF accelerated dramatically in 2018 and early 2019, after a Labor-led government came to power in October 2017 and decided to frame the 2019 budget in terms of well-being.[28] An important part of this work was the development of Indicators Aotearoa New Zealand (IANZ), a suite of more than 100 indicators of well-being in 22 domains that feed into the LSF Dashboard (developed and launched in December 2018).[29] So much work in such a short time probably would not have been possible without the more than a decade of prior work on well-being across government. The current LSF and Dashboard emerged from this phase of experimentation and ultimately converged much more closely with the OECD's "Better Life Index" approach and framework, adapted for the New Zealand context.

The 2019 Well-Being Budget

The 2019 Well-Being Budget incorporated policy and budget process changes intended to embed a focus on improving well-being. As mentioned earlier, this marked what could be a substantial shift in New Zealand's approach to public finance management and potentially a valuable example for other governments considering similar reforms.

When looking at the policy and process changes, it is important to keep two things in mind — government budgeting is incremental and inherently political. In most cases, governments' ability to shift significant shares of the budget in a given year is constrained by nondiscretionary cost pressures such as debt service and the public sector wage bill. This does not mean that transformative budget policies cannot be introduced, but, if there are constraints on the ability to significantly redirect existing spending (or that spending is generally well-directed), new policies tend to be at the margins unless they rely on new revenue sources. Political considerations can often be highly significant in terms of finding the fiscal space for new initiatives. This was certainly true for the 2019 Well-Being Budget, which was presented by a new coalition government that had been formed on the basis of a number of policy promises that significantly constrained possible budget policy choices, including limits on new taxes and levels of debt.[30]

The government announces a well-being approach for the budget

In December 2018, the government publicly released its Budget Policy Statement (BPS) setting out the government's broad direction for the 2019 budget to be tabled in May 2019, including:

1. A well-being outlook, summarizing performance on measures of social, natural, financial, and physical capitals.

2. Five policy priorities for the 2019 Budget:

    a. creating opportunities for productive businesses, regions, *iwi* (loosely, tribes), and others to transition to a sustainable and low-emissions economy;

    b. supporting a thriving nation in the digital age through innovation and social and economic opportunities;

    c. lifting Māori and Pacific incomes, skills, and opportunities;

    d. reducing child poverty and improving child well-being, including addressing family violence; and

    e. supporting mental well-being for all New Zealanders, with a special focus on under 24-year-olds.[31]

    To determine these five budget priorities, the Treasury applied the LSF and advice from other agencies to identify 12 potential well-being priority areas. Treasury provided this analysis and its accompanying recommendations to its ministers and then consulted with science advisors and chief executives. Based on that input, the ministers shortlisted seven priorities for the budget, and the full Cabinet then decided on the final five Budget 2019 priorities. The Treasury has released extensive information on the analysis and advice that supported this priority-setting process.[32]

3. Process changes for the 2019 Budget that guided line ministers on how to present their budget proposals for the Treasury's review. Specifically, each new (operating expenditure) spending initiative should be:

    a. focused on the five policy priorities; or

b. explained in terms of LSF measures and of how a priority contributes to well-being; or

c. shown to be a cost over which there is little discretion; or

d. shown to reflect coalition promises.

Furthermore, ministers were asked to identify 1 percent of the spending in their portfolio that is *not* aligned with well-being for "reprioritization" (i.e., to become a source of potential cuts to be redirected to other areas). Agencies were also asked to show how new funding requests were aligned with government priorities and aims, to present evidence of how they support well-being, and to offer a rationale for the intervention, as well as detailed cost and risk assessments and evidence of cross-agency/portfolio collaboration.[33]

4. <u>Longer-term policy and institutional change processes</u> to "embed wellbeing in the state sector" that included changes in reporting requirements under the Public Finance Act of 1989, along with the intention to amend the State Sector Act of 1988 to make it easier for the public service to mobilize quickly around government priorities and to embed well-being in agency reporting across government. These measures are part of the government's broader push to move budget and economic governance and reporting measures beyond measures of growth and fiscal stability.[34] Another major initiative in this area was the Child Poverty Reduction Act 2018, which requires government to report rates of child poverty in each budget and to set targets for reducing them. The Treasury gave detailed guidance to agencies for preparing their budget requests, and agencies then began preparing budget proposals to present to the Minister of Finance.[35] Treasury had also reviewed other tools used for budget policy across the government, including its cost-benefit analysis spreadsheet and model (CBAx), to align them with a well-being approach.[36]

The 2019 well-being budget process in practice

In September 2018, the Treasury gave all government agencies advice on how budget proposals would be assessed and what types of analysis and tools agencies could use to make their case. What happened during the budget negotiations can be gleaned from the briefing papers for the ministerial budget meetings that are prepared by the Treasury.[37] First, Treasury noted that some agency proposals showed rigorous analysis and strong alignment with well-being, while others presented little or no well-being analysis. This may reflect, in part, the uneven and varied approaches to well-being analysis that the agencies used or already had in place. Treasury then used the LSF and the other stated budget process priorities in making recommendations to accept or reject agency proposals.[38]

A number of ministers failed to identify the 1 percent of baseline spending that was not well aligned with well-being for reprioritization. Ultimately, ministers identified more than $2 billion for potential reprioritization (most in underspending, accounting adjustments, and out-year changes), and the Cabinet approved about $700 million for actual reprioritization.[39]

It was also found that many budget policy choices were made for reasons other than a well-being analysis or alignment with the policy priorities, such as to meet election or coalition promises. This was allowed by the Well-Being Budget process, but agencies did not have clear guidance on choosing *between* the government's various priorities (i.e., the five well-being priorities, other initiatives with a strong well-being justification, coalition promises, cabinet priorities, nondiscretionary cost pressures, and avoiding "risks").[40] In practice, it appears that Treasury prompted ministers and agencies to consider tradeoffs *within* their portfolios, applying whatever policy analysis framework they were using in their policy areas.

The Cabinet approved the proposed budget on 15 April 2019, and the government released the full Well-Being Budget proposal on 30 May 2019. It included new spending in the five priority areas of about 5 percent of total expenditure, including both operating and capital expenditure. The budget extensively referred to the use of the LSF, and summary tables grouped new initiatives by the government's five stated priority areas, in addition to the usual presentation by other budget classifications.[41] The budget also included the first budget report on child poverty required by the Child Poverty Reduction Act of 2018 and finalized rigorous and ambitious official targets for reducing child poverty.[42] The completion of this report marked the first time that reporting and target-setting on an aspect of wellbeing outside of fiscal and economic targets has been integrated into New Zealand's budget process.

Building on the 2019 Well-Being Budget

The government said the 2019 Budget would be the first step in embedding well-being in the budget process and included funding for some of this work in the budget itself. Ongoing efforts include:

1. <u>Refining the LSF and reviewing the dashboard</u>. Treasury plans to review the LSF and release an updated dashboard in 2022.[43]

2. <u>Building the data, evidence, and research base</u>. Statistics New Zealand says it reviews and refines IANZ regularly and has specific plans to address data gaps in the environment and child well-being indicators and to better apply *Te Ao Māori* principles.[44]

3. <u>Embedding well-being in the public service.</u> The government is undertaking a series of legal and policy changes, such as:

a. The Public Finance Act (Well-being) Amendment has been introduced and is currently being considered by parliament, after a process that included public submissions on a Treasury discussion document.[45] The current bill would require the government to state its well-being objectives in each budget and Treasury to report on the overall state of well-being in New Zealand every four years, starting in 2022. This, along with the Child Poverty Reporting Act budget requirements, extends to non-economic and non-fiscal domains a parallel approach to explicit transparency and accountability that New Zealand adopted for fiscal settings in the mid-1980s.

b. A bill to repeal the State Sector Act of 1989 and replace it with a Public Service Act is due to be reported to the full parliament later in 2020.[46] The government describes the bill as a way to break agency silos and foster collaboration across areas of public service, in part, by explicitly articulating the role and purpose of public service and allowing for two new interdepartmental organizational structures, interdepartmental "executive boards" and interdepartmental "ventures."[47]

c. The Local Government (Community Well-being) Amendment Act 2019 reverses a 2012 decision by the prior government to remove well-being from the purposes of local governments.[48] The Local Government Act now states that the purpose of local government is "to promote the social, economic, environmental, and cultural well-being of communities."

d. Policy analysis tools, such as CBAx, continue to be reviewed and refined to align with a well-being approach.[49]

e. Work is under way to help agencies adopt a well-being approach in agency reporting, including Statements of Intent (formal multi-year strategic plans) and Annual Reports.[50]

As this paper is being finalized, the Treasury is getting ready to release its second Well-Being Budget in the 2020 Budget proposal. The 2020 Budget Policy Statement, published in December 2019, stated the government's intention to stick to the five priority areas already identified, with some minor tweaks and some additional investments. Finance Minister Grant Robertson stated, "These priorities focus on long-term challenges and opportunities. They cannot be resolved in one budget, therefore they continue to be the core of the priorities in the 2020 Wellbeing Budget."[51] Since the COVID-19 crisis hit, however, the government has signaled that those five priorities have been temporarily suspended, in order to allow the 2020 Budget to focus instead on crisis response, recovery, and rebuilding. Nevertheless, he continued, "Our work is still guided by the wellbeing approach, ensuring we balance the needs of our economy, our people, our environment, and our communities. These principles are more important than ever in getting our response to Covid-19 right." In particular, the government stated the 2020 Budget will focus on investments in core government functions and services because the COVID-19 crisis highlighted that "strengthening and improving [core government] services is crucial to the ongoing protection of our collective wellbeing."[52]

Can the well-being budget approach deliver improved policies and processes?

The new policies included in the 2019 Well-Being Budget were still too small to be transformational. However, that is not the case for the innovations that were introduced in the budget process. These changes, coupled with others needed to make the process more robust, have the potential to ultimately improve policy, particularly for some of the most disadvantaged New Zealanders.

Small but sound policy changes. Policy initiatives in the 2019 Budget's five priority areas went in the right direction, even if they may have been too small to have a transformative impact, and they were decided upon without any broad consultations (see Box 1). While experts and advocates have argued that the investments in child poverty and health care were insufficient, some recognized that the Well-Being Budget approach did bring about policy improvements compared to previous budgets, particularly around mental health and the environment.[53] It was also noted that the budget's policies show a willingness to make investments that may take a long time to produce benefits, such as those for training and supervising mental health professionals.[54]

Potentially transformative changes in the budget process. The Well-Being Budget's most innovative aspect was the changes it introduced to the budget process, with which government intends to embed a focus on well-being across the government and in future budgets.[55] If successful, these process innovations may ultimately deliver transformative policy change over a longer time frame. Several of the changes already made to the budget process have the potential to support further improvements, including:

1. <u>Tapping existing capacity</u>. The well-being budget and LSF drew on work and expertise that agencies had developed over many years, which enabled the government to move quickly in the more intense phase of implementing budget process changes and will be an asset in designing and implementing further process and policy changes.

2. <u>Raising the visibility of what was prioritized</u>. Even if determined with limited consultation, the five well-being priorities set for assessing agency budget proposals made policy priorities explicit and highlighted potential tradeoffs.

3. <u>Emphasizing and fostering collaboration between departments</u>. The five priorities for the 2019 Budget focused on outcomes that may require collaboration to succeed, and agencies preparing budget proposals were instructed to show "evidence of cross-agency and/or cross-portfolio collaboration" for new initiatives.[56]

4. Holding agencies in the budget process accountable. Treasury used the budget process to push some agencies to better demonstrate how their budget proposals were linked to well-being, and this affected which initiatives were ultimately included in the budget.

Addressing remaining gaps in the budget process. The 2019 Well-Being Budget was clearly an initial step in what, if it continues, is likely to be a long process of reimagining and redirecting budget policies and processes. While what the New Zealand government has done so far is already impressive, there are a number of areas that deserve further attention in order to broaden the scope of current reforms and make them even more likely to deliver transformative policy change.

1. Integrating fiscal targets and well-being targets, including reporting. A key issue that has affected the ability to introduce transformative budget policies emerges from the constraints imposed by the government's commitments regarding fiscal targets and taxes, as well as other cost pressures. The size of the 2019 budget's total new investments in well-being was effectively dictated by the government's deficit and spending targets, based on election promises. Those constraints limited the fiscal room left over after addressing non-discretionary cost pressures. Adopting clear fiscal targets is part of New Zealand's political culture following the Fiscal Responsibility Act 1994 (now part of the Public Finance Act), which requires governments to state their fiscal objectives in specific terms and to report regularly on progress. The prominence of such requirements in New Zealand's budget process and broader political culture may make it more difficult to advocate for the resources needed to further other aspects of wellbeing in areas such as social policy and the environment, without equally visible and rigorous social and environmental indicators and targets to sit alongside the fiscal and economic indicators.

   The Child Poverty Reduction Act 2018 took an important step in that direction by requiring reporting and target setting on child poverty. Proposed amendments to the Public Finance Act will require that, in addition to their fiscal objectives, governments will also have to state broader well-being objectives. Over time, this requirement might reduce the likelihood that fiscal targets are set without a deeper consideration of broader well-being goals and tradeoffs. The 2019 Budget set targets for only one of its five priority areas (the child poverty reduction targets required by the Child Poverty Reduction Act 2018). Setting targets systematically across priority areas could foster accountability and clarify how the government makes tradeoffs between competing needs.[57]

2. Integrating tax policy, including tax expenditures. During the 2017 election, the Labour Party that went on to form the new coalition government had promised not to introduce new taxes in its first three-year term. While the new government commissioned a Working Group on Tax to make tax policy recommendations for it to consider, and this Working Group took a well-being approach by applying the LSF and *He Ara Waiora* ("A

Pathway towards Wellbeing" framework to incorporate *Te Ao Māori*), the government rejected its key recommendations, giving little well-being-based analysis for doing so).[58] The government has not raised additional revenues for new expenditure initiatives, and the Well-Being Budget process did not systematically consider tax expenditures as a potential source of baseline "spending" for reprioritization.[59] The government will need to better integrate tax policy into the well-being budget approach to maximize potential for transformational policy change, or to prevent tax expenditures from becoming a more attractive way to achieve spending that is not aligned with wellbeing.[60]

3. Deepening the review of the baseline spend. The 2019 budget process acknowledged that baseline spending may need to shift substantially over time to ensure that it is most effectively supporting well-being goals, but the directive to identify 1 percent of agency spending for reprioritization fell short. The Minister of Finance has stated to that he intends to explore ways to make the baseline review more rigorous for following budgets.[61]

4. Institutions and non-fiscal policies. Government should further consider how decisions about institutions and policies without direct fiscal effects relate to the well-being framework. For example, the government's proposal for an Independent Fiscal Institution (IFI) has not included a systematic consideration of well-being or of how an institution that is proposed to focus on fiscal costings and not well-being analysis will fit into the government's broader approach to embedding well-being across governance processes. Further, government can consider how the well-being approach relates to policy without a direct fiscal impact. In other areas, such as environmental stewardship, regulatory and institutional policy set outside budget processes or without large budgetary effects may have important impacts on some aspects of wellbeing. The OECD recommends that governments consider how to focus a systematic well-being lens on any analysis of regulatory policy changes.

5. Managing the complexity of well-being data and models. A well-being approach to the budget requires access to large amounts of regularly collected and high-quality data, as well as the use of models and analytical tools that allow such data to inform policy decisions. The LSF will need to continue to be upgraded and improved, and the complexity and multiplicity of existing frameworks and indicators will need to be addressed, all the while balancing simplicity and completeness.[62] Accountability can be weakened under overly complex measurement regimes, as the many indicators and frameworks give governments flexibility to deemphasize those that put their policies in a negative light.[63] What's more, an overload of indicators could make it difficult for the government "to make the LSF meaningful to voters."[64]

6. Ensuring that core structural concerns get the attention they deserve. The relative roles of income, productivity, and inequality should be further clarified in the well-being approach. The current LSF treats inequality as an "overarching" concern, and household income and productivity measures are among its

indicators.[65] But Treasury's experience is that elements in a complex framework that are not obvious at the top level may be ignored.[66] Government will need to ensure sustained focus in these areas, as New Zealand government agencies and international observers have identified productivity and inequality as key challenges. Integrating tax policy into the well-being approach will also be helpful in this respect, given the important distributional issues inherent in decisions about taxation.

7. Promoting citizen engagement in and support of the Well-Being Budget approach. As highlighted in Box 1 below, public participation around the Well-Being Budget and its policy priorities was limited, although consultations happened around the LSF and its indicators. In order to help build a political culture more conducive to transformational change, the government could strive to make its well-being approach more accessible, as well as to create more opportunities for citizens and civil society to participate in its evolution.. This could include a more transparent process of setting policy priorities, in order to strengthen public confidence and accountability. A sound first step toward that end is Treasury's release of substantial information about the government's process of setting the five 2019 Well-Being Budget priorities, as well as the analysis and advice that supported that process.[67]

BOX 1: Public participation in the development and adoption of the Well-Being Budget approach

Living Standards Framework[68]
Treasury's work on the LSF began in 2009 with a series of workshops and the establishment of an advisory committee.[69] As part of early LSF development, Treasury ran two public consultations (an online survey and a call for submissions) on a proposal for the LSF dashboard, from which it received about 500 survey responses and 50 submissions. Treasury released a summary of the inputs received and how they were used in crafting the LSF Dashboard.[70] Public consultation was part of other policy processes that ultimately influenced early versions of the LSF, but the speed of the 2018 revisions needed in order to release a 2019 Well-Being Budget likely limited further public participation.

Indicators Aotearoa NZ (IANZ)
The IANZ suite of indicators feeds into the LSF Dashboard's 61 indicators and into analytical frameworks used by other agencies. Statistics New Zealand has produced robust documentation of their consultations and the impact of that consultation on IANZ. The public was able to provide inputs through a variety of platforms, including online submissions, postcards, and community engagements. Statistics NZ reported on these consultations and their results, as well as on stakeholder, peer, and technical consultations. It also acknowledged shortfalls, specifically in its attempt to co-develop IANZ with Māori, and stated its planned future processes to remedy these shortfalls.[71]

The 2019 Well-Being Budget Process

The public participation in the 2019 budget process was more limited. There was no broad public consultation on the government's five well-being priority areas, but the public was able to make submissions on the BPS to Parliament's Finance and Expenditure Select Committee. Unfortunately, that consultation happened well after agencies had been given the five priorities to budget against, so the public input had little opportunity to impact decisions. The Select Committee report on the BPS summarized the 66 public submissions it received in one sentence, and there is no reporting of any specific impacts that these submissions had on the budget.[72] There was no specific public consultation on the novel process that the government adopted for the budget.

Could other countries adopt the well-being budget approach?

There is intense international interest in what can be learned from New Zealand about how to reorient budget processes toward improving citizens' well-being, rather than focusing on narrow measures of economic success. Not all countries will be able to dedicate resources to years of detailed analysis around living standards and well-being, as New Zealand's government did. Adopting a more streamlined process to embed a well-being framework into planning and policy making could have substantial benefits, however. In learning from New Zealand's experience, other countries could keep the following lessons in mind:

Draw on and adapt existing international well-being models and frameworks. After years of research and experimentation, New Zealand ultimately adopted an international (OECD) model with some adaptations for that nation's context. In addition, Statistics New Zealand's IANZ project is directly influenced by the SDGs, and there are other well-being frameworks developed by various international governmental organizations that governments could adopt and adapt. Evaluating and borrowing from existing international models — as well as work in other countries that have relevant experiences — may be a more natural starting point for other countries considering policy and budget process changes focused on well-being.[73] Domestic context will determine which international models or frameworks are most promising for any nation to adapt and use. Some governments may already have data collection, analysis, and reporting systems in place around the SDGs, for example, and these could be further developed and adapted to feed into a national indicator framework. Available capacity in statistical offices and other agencies responsible for policy, planning, and implementation will be a key enabling or constraining factor. The extent to which government agencies and civil society are connected to specific international conversations about well-being and institutions involved in those conversations may be another important consideration.

Building directly on international models may also allow governments to draw on technical assistance from the relevant international organizations that have developed these models over time. Countries may want to draw primarily on domestic expertise for evaluating whether a particular model fits well with the domestic context — or can be modified to do so — but could still leverage international expertise and technical assistance in such areas as measuring and monitoring well-being indicators.

Adopt an incremental, iterative strategy, linking short- and long-term goals. Leading up to the 2019 Well-Being Budget in New Zealand was a decade of work on well-being approaches and analysis. The final stages of creating the process for the 2019 budget saw a fast acceleration, a final sprint dictated by political needs, but plans for future budget process changes that would be incremental, iterative, and focused on long-term outcomes were built in from the start. These included setting in motion the necessary legislative changes that would support and institutionalize the shift towards a well-being approach.

Other countries may be able to achieve substantial process changes without such a long history of previous work on well-being by considering that many agencies may already be doing "well-being" work — conducting analyses and making policy recommendations based on broader measures of well-being — even if it has not been explicitly framed in that way. In many countries, civil society may also be a source of capacity with regard to thinking about well-being. Part of the value of explicitly adopting a well-being frame will be in focusing the government on identifying, learning from, and building on any such existing practices and capacities.

Adopting an incremental and iterative strategy for budget process and policy changes may also help with both managing expectations and allowing for continual evaluation and improvement, as well as building technical capacity. As in the New Zealand model, the intergenerational well-being approach tries to focus policy makers on longer-term outcomes, but this does not mean that policies that take a long time to improve well-being cannot be adopted quickly. Finally, a more even pace of implementation with robust public consultation throughout may be preferred to a rapid process that undermines meaningful engagement and so reduces both public confidence and accountability.

Learn from the challenges in New Zealand's experience and address them from the start. For example, a key issue in the process for New Zealand's 2019 Well-Being Budget was that important decisions about overall fiscal targets and tax policy were set somewhat independently from a well-being approach, creating constraints and limitations on the extent to which fiscal policy could be changed to support other wellbeing aims. Such limitations were partly due to long-standing reforms in budget and policy systems that were strongly embedded in New Zealand's budget process and were focused on measurable economic and fiscal indicators, but did not incorporate a similar rigorous focus on measuring and reporting other aspects of performance that are important to well-being.

Other countries may be able to build a well-being approach into budget processes that are less fixed and so may be able to bring broader aspects of fiscal decision-making into a well-being approach. They could also learn from New Zealand's experimentation with both simpler and more complex LSF tools to understand some of the trade-offs involved and strike the balance that is best for their context.

Invest in building capacity in analysis, evidence, and measurement. While New Zealand policy and statistical agencies are well-resourced relative to those in many other countries, New Zealand has still made further investment in policy, research, and statistical agencies as part of its well-being budget reforms. Such long-term investments in capacity and systems are likely to be a focal point for putting in place a functioning well-being approach in other countries, as well.

Engage civil society to support and help build a well-being approach. In New Zealand, civil society organizations were producing well-being indicator sets and putting forward their own policy targets well before government introduced any official LSF or indicator set. Civil society activity also influenced developments in such areas as *Te Kupenga Māori* and improved environmental and child poverty reporting regimes. While not explicitly mentioned in Treasury accounts of the well-being approach, such efforts have helped foster an informed debate, develop agency capacity, and generate the evidence base needed for a broader approach. In addition, they may well have helped produce a political climate in which a well-being focus was possible.

Endnotes

[1] Paolo de Renzio, "Putting the Public Back Into Public Finance: How Better Budgets Can Save Democracy," International Budget Partnership's Open Budgets Blog, 6 February 2019.

[2] Another emerging example may come from Scotland, where the government is framing its 2020-2021 budget as a well-being budget. For more information, see here.

[3] See http://www.oecdbetterlifeindex.org/topics/life-satisfaction/.

[4] See Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: New Zealand 2019*, pp. 16-19; Figure 17, p. 33.

[5] A key element of this history is the Te Tiriti o Waitangi/The Treaty of Waitangi, first signed by the British Crown and certain Maori Chiefs on February 6, 1840. A founding document in New Zealand's constitutional arrangements, Te Tiriti has been repeatedly breached by the Crown. For more, see here. For contemporary examples of structural discrimination in the public services context, see Human Rights Commission "A Fair Go for All? *Rite tahi tātou katoa*? Addressing Structural Discrimination in Public Services".

[6] International Monetary Fund, "New Zealand: 2019 Article IV Consultation" Figure 4, p. 24.

[7] New Zealand Treasury, "He Tirohanga Mokopuna: 2016 Statement on New Zealand's Long-term Fiscal Position" 22 November 2016.

[8] OECD Submission on New Zealand Treasury proposal for an Independent Financial Institution, p. 4, available here.

[9] International Budget Partnership, Open Budget Survey 2019, New Zealand Country Report.

[10] Paul E. Atkinson, "New Zealand's Radical Reforms" *OECD Observer 205*, April/May 1997; Brian Easton, "Economic and Other Ideas Behind the New Zealand Reforms", *Oxford Review of Economic Policy*, vol. 10, no 3, 1994, pp.78-94,; and Mahama Tawat, Essay Review, "New Public Management In New Zealand: The Past, Present, and Future of the Great Experiment" *International Public Management Review*.

[11] Atkinson 1997, op. cit.

[12] Jane Kelsey, *The New Zealand Experiment: A World Model for Structural Adjustment* (Wellington, N.Z.: Bridget Williams Books, 1997).

[13] Malcolm McKinnon, *Treasury: The New Zealand Treasury, 1840-2000* (Auckland: Auckland University Press, 2003), pp. 415-17.

[14] Government of New Zealand, Budget Policy Statement 2019, 13 December 2018, p. 3.

[15] What Works Wellbeing, "NZ Government creates a Living Standards Framework" 8 May 2019; and New Zealand Treasury, "Our Living Standards Framework".

[16] Conal Smith, "Treasury Living Standards Dashboard: Monitoring Intergenerational Wellbeing" paper commissioned by New Zealand Treasury from Kōtātā Insight, June 2018, Box 2, p. 5.

[17] Tim Ng, "The Treasury's LSF insights - Tim Ng - complete video July 2019" New Zealand Treasury, at minutes 5:00 to 7:00.

[18] Conal Smith, op. cit., p. 1.

[19] New Zealand Treasury, "History of the LSF"; New Zealand Treasury, "Improving the Living Standards of New Zealanders: Moving from a Framework to Implementation" Conference Paper, June 2012; and David Gruen et al., "Wellbeing, Living Standards, and Their Distribution" Address to Australian Treasury, 9 September 2011, p. 3.

[20] New Zealand Treasury, "Working Towards Higher Living Standards for New Zealanders" New Zealand Treasury Paper 11/02, May 2011, p. 1.

[21] See, for example, New Zealand Treasury, "Improving the Living Standards of New Zealanders: Moving from a Framework to Implementation" Conference Paper, June 2012, p. 16, particularly focusing on Amartya Sen's capability approach.

[22] See, e.g., The New Zealand Sustainability Dashboard, "Māori Values in Sustainability Assessment", NZSD Policy Brief Series, December 2018; and Carla A. Houkamau and Chris G. Sibley, "The Role of Culture and Identity for Economic Values: A Quantitative Study of Māori Attitudes," *Journal of the Royal Society of New Zealand*, August 2019, pp. 118-36 [DOI: 10.1080/03036758.2019.1650782].

[23] Gruen et al., op. cit.

[24] McKinnon, op. cit. pp. 415-17.

[25] Kevin Taylor, "Cut Tax Soon, Treasury Tells Government", *New Zealand Herald*, 17 November 2005.

[26] Ministry of Social Development, Social Reports; Productivity Commission, "About Us"; Ministry for the Environment, "About the Environmental Reporting Act 2015"; Alan Johnson, "Off the Track: State of the Nation Report" The Salvation Army Social Policy & Parliamentary Unit, February 2017; and the New Zealand Institute, "NZ Ahead Full Report" September 2010.

[27] New Zealand Treasury, "An Introduction to Using the Living Standards Framework", 2015; and Tony Burton, Suzy Morrissey and Tim Ng, "Improving Economic Policy Advice" New Zealand Treasury, November 2017, p. 2.

[28] What Works Wellbeing, "NZ Government creates a Living Standards Framework" 8 May 2019.

[29] Statistics New Zealand, "About Ngā Tūtohu Aotearoa – Indicators Aotearoa New Zealand"; and New Zealand Treasury, "Treasury Releases Living Standards Framework Dashboard" Media Statement, 4 December 2018.

[30] Grant Robertson, "Labour and Greens Commit to Rules for Responsible Financial Management" 24 March 2017.

[31] Government of New Zealand, Budget Policy Statement 2019, 13 December 2018.

[32] New Zealand Treasury Official Information Act release 20190853.

[33] New Zealand Treasury, "Budget 2019: Guidance for Agencies" 19 September 2018.

[34] Government of New Zealand, "The Wellbeing Budget 2019" Thursday 30 May 2019, "Child Poverty Report," p. 20.

[35] New Zealand Treasury, "Budget 2019: Guidance for Agencies" 19 September 2018.

[36] New Zealand Treasury, "Guidance for Agencies" Briefing Materials for FEC hearing, (Information Release Document 2), pp. 160-61.

[37] For the full information release, see New Zealand Treasury, Budget 2019 Information Release.

[38] For example, in the various bilateral briefing materials made available in the Budget 2019 Information Release, the Treasury: (a) advised that various environmental initiatives were strongly aligned with announced budget priorities; (b) pressed for greater collaboration in initiatives across the health portfolio; (c) stated that a Pacific Workforce Development proposal was not well indicated by the LSF dashboard; (d) and pressed for well-being analysis of initiatives in the Transportation portfolio, noting that little well-being analysis had been presented to support portfolio bids.

[39] New Zealand Treasury, Budget 2019 Information Release, Slide pack 3 "Budget Ministers 3, Budget 2019: Final Package" 8 April 2019, p. 26; and Cabinet Paper CAB-19-MIN-0174 "Budget 2019: The Wellbeing Budget", p. 18.

[40] New Zealand Treasury, "Budget 2019: Guidance for Agencies" 19 September 2018, p. 13 for the range of priorities and promises considered. Note that the Minister of Finance approved funding for the budget package if there were "risks attached to not funding," a criterion not explained further.

[41] New Zealand Treasury, "Summary of Initiatives in Budget 2019", Thursday 30 May 2019.

[42] See Arthur Grimes, "The Wellbeing Budget: Is It Enough?" Victoria University of Wellington, Spotlight Series Seminar, 27 June 2019, noting the target for child poverty reduction is "rigorous and very very difficult target to achieve" (at minute 13:30).

[43] Diana Cook, Assistant Deputy Secretary Treasury, "The Treasury's Living Standards Framework" presentation for the 2019 Audit New Zealand Updates, April 2019 (at minute 6:58).

[44] Statistics New Zealand, "About Ngā Tūtohu Aotearoa – Indicators Aotearoa New Zealand".

[45] For current status and timeline, see here. For a summary of how the content of the bill has changed in response to submissions, see Treasury's departmental disclosure statement, available here. The text of the Current Public Finance (Wellbeing) Amendment Bill is available here.

[46] The omnibus bill also makes some amendments to the Public Finance Act. The text of the omnibus Public Service Legislation Bill is available here. The State Service's Commission's Impact Statement for the bill is available here. The bill was formulated after a review of the State Sector Act of 1989, which involved public consultation, and the public may also make submissions on the bill that Select Committee is currently considering.

[47] See the Explanatory Note to the bill for a full summary, available here.

[48] See here.

[49] See New Zealand Treasury, "Treasury's CBAx Tool" for a description of changes made to CBAx for the 2020 budget cycle as of September 2019.

[50] New Zealand Treasury, "Information on Applying a Wellbeing Approach to Agency External Planning and Performance Reporting" March 2019.

[51] See "Priorities for 2020 Wellbeing Budget Outlined", 11 December 2019.

[52] Grant Robertson, Minister of Finance's Pre-Budget Speech, 7 May 2020, available here.

[53] Child Poverty Action Group, "Improving Child Wellbeing? Some Relief, but No Transformation" 30 May 2019; Susan St John, **"Creditable, but Not Good Enough,"** in "Wellbeing Budget 2019: The Great Spinoff Hot-Take Roundtable" 30 May 2019; and Gregor Coster, "The Wellbeing Budget: Is It Enough?" Spotlight Series Seminar, Victoria University of Wellington, 27 June 2019; Patrick Smellie, "NZ Wellbeing Budget an 'Evolution', Not a Revolution" *Acuity Magazine*, 13 June 2019; and David Hall, "Budget 2019: Wellbeing – Expert Reaction" Science Media Centre, 30 May 2019.

[54] Coster, Spotlight Series Seminar, at 33:40.

[55] Grimes, Spotlight Series Seminar, at 10:00. Grimes notes that this government is hardly the first to frame its policies in terms of well-being or welfare; however, the budget was "innovative on the process side as much as the subject."

[56] New Zealand Treasury, "Budget 2019: Guidance for Agencies" 19 September 2018.

[57] Patrick Smellie, "NZ Wellbeing Budget an 'Evolution', Not a Revolution" *Acuity Magazine*, 13 June 2019.

[58] Tax Working Group website with full materials can be accessed at: https://taxworkinggroup.govt.nz/.

[59] The Open Budget Survey has continually recommended that New Zealand strengthen tax expenditure reporting. See https://www.internationalbudget.org/open-budget-survey/country-results/2019/new-zealand.

[60] Gabriel Makhlouf, Secretary of Treasury, "Improving Living Standards: We Need to Talk About Productivity" speech on 7 September 2018.

[61] New Zealand Treasury, Budget 2019 Information Release, Cabinet Paper CAB-19-MIN-0174 "Budget 2019: The Wellbeing Budget", p. 18.

[62]For example, there are plans to review and refine IANZ, including to address data gaps in the environment and child well-being indicators, and to better apply *Te Ao Māori*. The 2019 Budget had new appropriations for Statistics New Zealand and for data collection and research on students and children, as well as for the Treasury to continue working on the LSF. Statistics New Zealand, "About *Ngā Tūtohu Aotearoa* – Indicators *Aotearoa* New Zealand" and New Zealand Treasury "Budget 2019 The Wellbeing Budget", p. 83.

[63] Chris Hutching, "Civil Servant Who Promoted Treasury's 'Wellness' Measures to Head Ireland Bank" May 2, 2019.

[64] Patrick Smellie, "NZ Wellbeing Budget an 'Evolution', Not a Revolution" *Acuity Magazine*, 13 June 2019.

[65] For example, see Makhlouf, "Improving Living Standards".

[66] New Zealand Treasury, "An Introduction to Using the Living Standards Framework" 2015, p. 4.

[67] New Zealand Treasury Official Information Act release 20190853.

[68] For a further discussion of participation around the Well-Being Budget and LSF, see International Budget Partnership, "Open Budget Survey 2019", p. 55.

[69] The Treasury is currently considering a request from the lead author of this brief to release the membership of the advisory committee and any advice it provided, as these materials have not yet been released publicly.

[70] For a brief summary of submissions see New Zealand Treasury, "Living Standards Framework: Background and Future Work" 4 December 2018. Treasury is considering the lead author's request to release anonymized summary survey results and a list of submitters.

[71] Statistics New Zealand, "Indicators Aotearoa New Zealand – Ngā Tūtohu Aotearoa: Key Findings form Consultation and Engagement", p. 8.

[72] "Budget Policy Statement 2019: Report of the Finance and Expenditure Committee" February 2019, p. 7. Submissions can be accessed via the Parliament website here.

[73] See "Mexico's Budgeting for Sustainable Development", Open Budgets Blog, 18 July 2017.