

Reference: 20190596

26 September 2019



s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received on 2 September 2019.
You requested:

Aide Memoire T2019/1781: Wellbeing 2020

Information being released

Please find enclosed the document you requested, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

John Marney
Manager, System Design and Strategy

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<https://treasury.govt.nz>

OIA 20190596

Table of Contents

1.	T2019/1781 - Aide Memoire: Wellbeing 2020	1
2.	Annex 1-4	3

IN-CONFIDENCE



Reference: T2019/1781

BM-2-1-2020

Date: 20 June 2019

To: Minister of Finance (Hon Grant Robertson)

Deadline: Tuesday 25 June 2019, 3 pm.

Aide Memoire: Wellbeing 2020

You are meeting officials on Tuesday 25 June at 3 pm to discuss the next steps for the Wellbeing 2020 agenda. The focus of this discussion will be our initial thinking on changes to the budget process and proposed changes to appropriation and accountability structures.

This is part of our work to modernise the public finance system, on which you are due to speak to a PFA conference on 26 July. As we are also anticipating that you will wish to take a budget strategy paper to Cabinet in August, which will require further work to refine whatever approach you decide upon, there is some pressure to confirm the direction of travel promptly.

Attached are four annexes which will form the basis for the discussion on 25 June. These cover:

- a. the need for change (Annex 1)
- b. a reformed process for Budget 2020 and implications for you to think about (Annex 2)
- c. indicative timeline for the reformed Budget process (Annex 3)
- d. options to change the appropriations structure and accountability requirements (Annex 4)

In the final Budget 2019 Cabinet paper (ref: CAB 19 MIN 0174) and public statements you have made, it has been signalled that the five priorities used for Budget 2019 will remain. Treasury supports this approach. ^{s9(2)(f)(iv)}

IN-CONFIDENCE

The aim of the Budget process proposal in Annex 2 is to further the Wellbeing agenda by getting your Cabinet colleagues fully engaged in the process in a more collaborative arrangement. At the same time, it should free up Budget Ministers to focus on the key strategic decisions needed to advance wellbeing (as expressed in the new policy packages to emerge from the five priorities), and refocus agency analytical capabilities onto the key policy areas rather than on hundreds of often diffuse bids. This should reduce wasteful transaction costs for both Finance and spending Ministers, and for agencies. The intention to continue with baseline reviews and the thinking around changes to appropriations and accountability arrangements (Annex 4) is to help ensure that all government expenditure is aligned with the Government's objectives (not just the small fraction that constitutes new spending) and to give agencies scope to operate more flexibly and think more strategically about how to improve wellbeing.

Following your feedback from Tuesday's discussion, we will report formally to you in July seeking your agreement to changes to the Budget process for 2020, and separately, on the appropriations structures and accountability requirements. Your decisions on changes to the Budget process will then be incorporated into your Budget Strategy paper for August.

Your decisions about changes to the appropriations structures and accountability requirements will be incorporated in the report back to Cabinet on the work to modernise the public finance system (also in August). You can use your PFA conference speech on 26 July to signal the direction of travel with a reasonable level of specificity.

Robert Barton, Senior Analyst, System Design and Strategy, ^{s9(2)(k)}
John Marney, Manager, System Design and Strategy,

Taking Wellbeing to the next level

Annex 1

Why modernise the public finance system?

Over the past decade, various issues have been identified, including:

1. Focus on fiscal control, with limited sight of value creation, risk and resilience
2. Heavy focus on marginal expenditure, with a lack of understanding of baselines
3. Cost pressure noise dominating the Budget process, distracting from a strategic view and creating large transaction costs
4. Public finance structures emphasise detail over strategy, with large compliance burden
5. Poor incentives for collaboration, resulting in missed opportunities

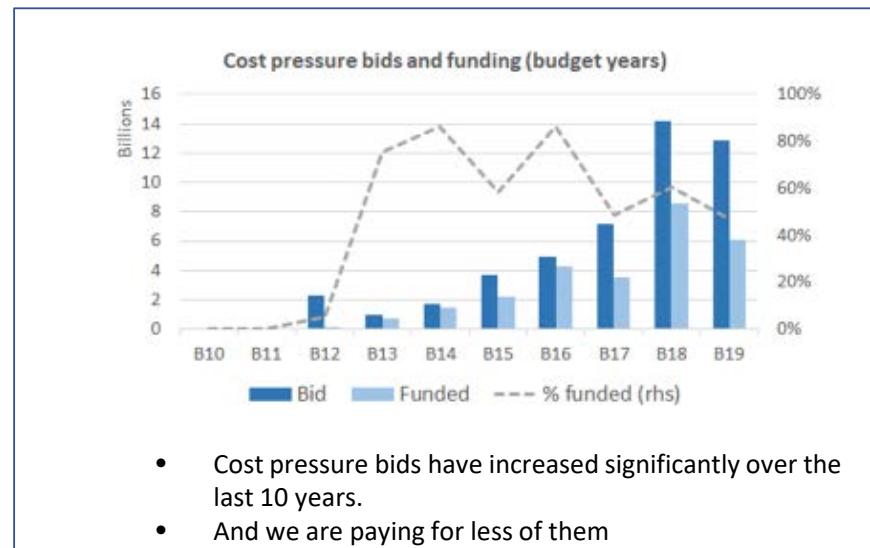
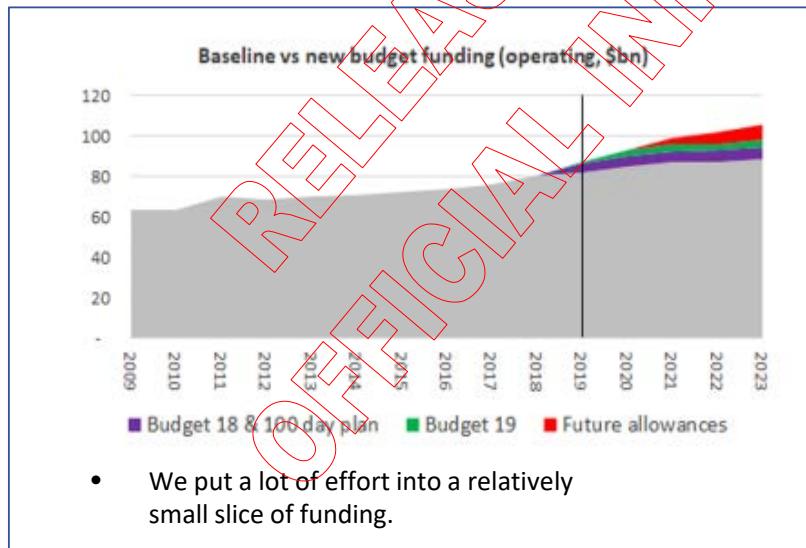
Why reform the budget process? (see annexes 2 & 3)

Current arrangements are not sustainable:

- Heavily focused on marginal expenditure. Ministers have little visibility of what is funded through baselines and what opportunities exist to stop things to fund new things.
- Cost pressures dominate the process. Large transaction costs, accumulating risks, and no time left to talk about the big issues.
- Recent budgets have added new analytical requirements. High costs for agencies (and Treasury Vote teams).
 - Trade offs between quantity and quality of analysis, and questions about whether we are focusing on the right things. (Analytical capacity in Wellington is limited.)
 - The impact of all this work on final Budget decisions is not always obvious.

Objectives for next budgets

- Continue shift to the Wellbeing agenda in Budget 2020 and beyond
- Enable Budget Ministers to focus on their strategic priorities
- Enable strategic choices on baseline and marginal spending
- Encourage better collaboration among Ministers
- Remove noise of cost pressures from these deliberations
- Simplify where possible and reduce transaction costs



What changes will you see?

- Greater collaboration among spending Ministers on the priorities
- Greater focus on cross-cutting Wellbeing objectives

s9(2)(f)(iv)

Why reform appropriation structures and accountability requirements? (see annex 4 for more detail)

The public finance system is too focused on managing large numbers of small appropriations with disproportionate levels of reporting given the amount of financing and planning, and reporting and budgeting requirements that are not well connected.

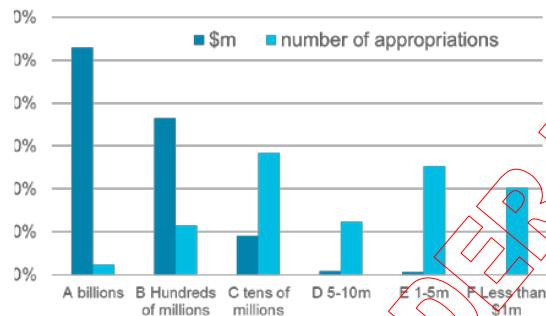
To modernise the public finance system, we propose two steps toward fewer, larger appropriations, more flexible funding rules and more integrated reporting and accountability settings to support a greater focus on performance improvement, collaboration and long-term outcomes.

Appropriations and Accountability

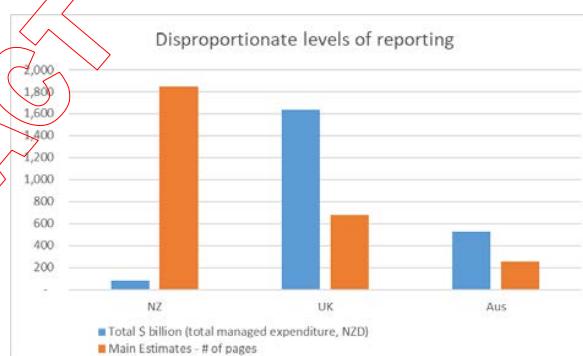
Annex 4

The public finance system is too focused on **managing large numbers of small appropriations...** with **disproportionate levels of reporting** given the amount of financing and... **planning, reporting and budgeting requirements** that are **not well connected**.

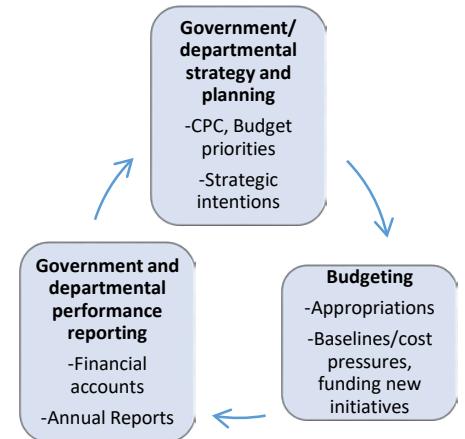
- More than a thousand appropriations (many with multiple Min. portfolios)
- More than 50% of the money is in 2% of the appropriations.
- 45% of appropriations (mostly non-departmental) have less than \$5m in each appropriation (less than 1% of the money) with no performance accountability



- Lots (and lots) of detailed financial information
- Overall story is hard to follow and lacks strategic focus
- Rigid financial rules seen as barriers to innovation and collaboration
- High compliance costs for agencies to shift funding



- CE accountabilities and requirements focus on financial management
- Strategic intentions not obviously connected to financial management
- No necessary link to government (wellbeing) priorities and how Ministers use the system to achieve their objectives or improve wellbeing



To modernise the public finance system, we propose two steps toward **fewer, larger appropriations, more flexible funding rules** and **more integrated reporting and accountability** settings to support a greater focus on **performance improvement, collaboration** and **long-term outcomes**.

Step 1 (for B20) Consolidate small appropriations and improve accountability under current settings

Options	Impacts	Issues
Appropriations		
<ol style="list-style-type: none"> 1. Consolidate appropriations less than \$5m or \$10m unless there is a compelling reason not to 2. Move smaller agencies (1% or less of total overall departmental outputs expenses across system) to a single appropriation for their departmental outputs 	<ul style="list-style-type: none"> • More effective Parliamentary oversight and management of the performance of larger funding pools • Less effort spent by departments and the Treasury to shift funding • Greater flexibility for smaller agencies to manage their overheads 	<ul style="list-style-type: none"> • Consolidating appropriations with multiple Ministerial portfolios may require Ministers giving up control • Less Parliamentary and Ministerial oversight of how small agencies are managing their departmental expenses • Changes need to be in place by the end of the year, which means work will need to start immediately

s9(2)(f)(iv)

s9(2)(f)(iv)

Questions for discussion

1. Do you have any comments on the framing of the issues we have outlined? This will inform your PFA 30 speech draft.
2. What are your views on the Step 1 options, particularly the issues that will need to be faced regarding loss of Ministerial control, parliamentary oversight and shifting decision rights to departments?