

The Treasury

Budget 2024 Information Release

September 2024

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- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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Treasury Report: Social Investment Funding and Financing Options

Date:	20 December 2023	Report No:	T2023/2002
		File Number:	#4,902,033

Action sought

	Action sought	Deadline
Hon Nicola Willis Minister of Finance Minister for Social Investment	Agree to the recommendations	None

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
James Adams	Analyst, Welfare and Oranga Tamariki [39]	[35]	
Oliver Parsons	Manager, System Transformation		✓

Minister's Office actions (if required)

<p>Liaise with relevant office staff about linking this report with other advice being provided by the Social Wellbeing Agency.</p> <p>Return the signed report to Treasury.</p> <p>Refer this report to Minister for Social Development and Employment and the Minister of Statistics, if agreed.</p>

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Social Investment Funding and Financing Options

Executive Summary

The purpose of this report is to describe your options for implementing a social investment approach and to seek your feedback on next steps, with a particular focus on funding and finance options, and the Treasury's role.

The report should be read alongside advice from the Social Wellbeing Agency and the Public Service Commission. Their reports cover:

- Key elements, enablers, and opportunities for social investment, and
- Initial thinking on roles and responsibilities.

It will be important to confirm the outcomes you want to achieve from a social investment approach upfront. For example, if there are particular problems or areas of spend you are concerned about, we can provide more targeted advice on your options, with a focus on what approach is likely to have the greatest impact in a particular area.

Your options fall on a spectrum, from efforts to improve the effectiveness of baseline spending generally at one end, to targeted but more innovative methods at the other. Within this spectrum are options to look in more detail at outcomes and evidence in priority areas of spending.

We recommend progressing a small number of options from across the spectrum. This approach acknowledges current funding and capacity restraints and preserves your ability to change the emphasis in the future. For the next six months in particular, we recommend you prioritise:

- Working with the Social Wellbeing Agency to determine your overall objectives for social investment, agreeing agency roles, and establishing a work programme, and
- Identifying 2 – 3 priority areas of spend, and beginning work to improve the quality of impact measurement and the alignment of funding decisions with evidence in these areas.

We support further exploration of a Social Investment Fund and Social Impact Bonds, but, given funding and capacity constraints, we suggest deferring decisions on these initiatives to later in 2024. This would allow for consideration at Budget 2025 or 2026. At future Budgets, you may also wish to consider how social investment could inform the design, monitoring and evaluation of initiatives more generally.

This work would need to be supported by appropriate data expertise, technology, and system leadership. We can see a significant role for SWA in supporting agencies and potentially managing a Social Investment Fund, if you choose to pursue this option. The Treasury would focus on integrating social investment into broader budgeting, funding and financing, and performance reporting systems.

Based on your feedback on this report and any discussions with officials, the Treasury and SWA can provide further advice on social investment objectives and a related work programme in early 2024. You may also wish to take a paper to Cabinet to test these ideas with your colleagues.

Recommended Action

We recommend that you:

- a **note** that this advice focuses on funding and finance options for implementing a social investment approach, and officials will provide further advice based on your feedback and any early discussions

Noted

- b **note** that the Treasury recommends prioritising a small number of options to implement a social investment approach, which need to be traded off against broader Government priorities

Noted

- c **indicate** which options you wish to begin work on in the next six months (or defer into the future), and which topics you wish to receive further advice on:

Considering your objectives for social investment, agreeing agency roles, and establishing a work programme (<i>recommended</i>)	Prioritise / Defer / Not interested	Further advice
Applying a social investment approach in priority areas of spending (<i>recommended</i>)	Prioritise / Defer / Not interested	Further advice
Improving the use of evidence in the Budget process	Prioritise / Defer / Not interested	Further advice
Incorporating social investment thinking in other broad-based work, such as spending reviews and agency performance reporting	Prioritise / Defer / Not interested	Further advice
Implementing a Social Investment Fund	Prioritise / Defer / Not interested	Further advice
Exploring a Social Impact Bond	Prioritise / Defer / Not interested	Further advice
Other areas:		

- d **indicate** whether you wish to meet with officials to discuss this report

Yes / No

e **refer** this report to the following Ministers:

Hon Louise Upston, Minister for Social Development and Employment	Yes / No
Hon Andrew Bayly, Minister of Statistics	Yes / No

Oliver Parsons

Manager, System Transformation

Hon Nicola Willis

Minister of Finance

Minister for Social Investment

_____/_____/_____

Treasury Report: Social Investment Funding and Financing Options

Purpose of report

1. This report provides initial advice on social investment, which should be read alongside advice you will receive from the Social Wellbeing Agency (SWA) and the Public Service Commission (PSC). It outlines a range of actions that could be considered to be part of a social investment approach, and recommends prioritising a small number of options to begin implementation.
2. Your feedback on this report will inform the development of further advice on particular aspects of a social investment approach.

Context

3. As Minister of Finance and Minister for Social Investment, you have a range of options for delivering a social investment approach. For further discussion of what 'social investment' means, what issues it can be used to address, and how you might go about doing so, please refer to the advice provided by SWA. To supplement this analysis, our report focuses on your options for implementation (particularly funding and financing options), as well as the role of the Treasury.
4. The implementation of a social investment approach will depend on your definition of the term and your objectives. For instance, some social problems are more amenable to particular interventions, including options that are beyond the scope of a social investment approach (such as regulatory changes). We recommend that you discuss your priorities for social investment with officials, in particular the outcomes you want to achieve. Further work, led by SWA, can develop more specific steps towards achieving these objectives. In the meantime, this report describes a range of implementation options, which can also inform your approach.

Recommended approach

5. A social investment approach can be delivered through a spectrum of options, from broad-based to targeted (see **Figure 1** on the following page). Broad-based options focus on lifting evidence, monitoring, evaluation and reporting expectations generally. These options will tend to impact a large proportion of government expenditure (and a large proportion of the population). However, some areas of spending are less amenable to social investment approaches (for instance, because funding cannot easily be moved to other areas, or because outcomes cannot be easily evaluated). There is also a risk that focusing solely on broad-based options will fail to demonstrate tangible successes.
6. By contrast, targeted options can help to identify what works for specific subgroups who may be facing more persistent challenges. Narrowly targeted options are often more amenable to measurement and evaluation, helping to grow the public sector's analytical capability. Targeted options typically have limited overall impact relative to government expenditure, but in some cases, may be scalable and can inform broader system design. There are also likely spill-over effects on broader capability.
7. Overall, we recommend taking a 'portfolio' approach – that is, progressing a few different options across the spectrum to begin with, and potentially changing the emphasis later on, depending on the results achieved. A portfolio approach ensures there is no implication that social investment is confined to niche issues, while also demonstrating tangible progress in specific areas.

Figure 1: Spectrum of possible social investment actions



<p>Broad-based: Improving the value for money of baseline spending and new initiatives across the board</p> <p><i>e.g. setting improved monitoring, evaluation and reporting standards, including through the Budget process</i></p>	<p>Priority areas: A focus on specific areas of expenditure in defined portfolios</p> <p><i>e.g. management of portfolio of employment programmes, preventative funding by Oranga Tamariki, Police, etc.</i></p>	<p>Targeted: Smaller but more innovative demonstration projects</p> <p><i>e.g. Social Investment Fund, Social Impact Bond(s)</i></p>
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8. There is a risk that spreading your attention across multiple areas, little progress is made in any one of them. There will be significant funding constraints in Budget 2024 and across the term, and agency capacity and capability are also limited. For these reasons, careful prioritisation will be needed. We recommend prioritising the following in the next six months:
 - a. Working with the Social Wellbeing Agency to determine your overall priorities for social investment, agree agency roles, and establish a work programme, and
 - b. Identifying 2 to 3 priority areas of spend, and beginning work to improve the quality of impact measurement and the alignment of funding decisions with evidence (see paragraphs 18-22 below).
9. We support further exploration of a Social Investment Fund and Social Impact Bonds, but are conscious of the constraints noted above. Therefore, we suggest deferring decisions to later in 2024, allowing for possible consideration at Budget 2025 or 2026. This could also enable further discussion on possible novel approaches to financing (such as reinvesting realised savings, as happens in some Australian states). However, deferring these actions may impact your ability to receive evidence from a Fund, or have a Bond established, within the current Parliamentary term.
10. The actions we recommend you prioritise are only a selection of the possible options. The full list of options that are discussed in the next part of this report are summarised below. Given both funding and capacity constraints, these options will need to be traded off against other priorities for your Government. We seek your direction as to which of these you wish to prioritise and/or receive further advice on.

<p>Broad-based</p>	<ul style="list-style-type: none"> • Developing and introducing stronger evaluation and monitoring requirements for baseline spending. • Developing and introducing stronger requirements for evidence, evaluation and monitoring through the Budget process. • Improving performance reporting by agencies (you will receive future advice from the Treasury on public accountability performance reporting more broadly).
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	<ul style="list-style-type: none"> Requiring agencies to report on progress through proposed savings and performance plans supported by monitoring and review mechanisms and a programme of spending reviews (as outlined in T2023/2024).
Priority areas	<ul style="list-style-type: none"> Using 'priority portfolios' of defined areas of spending to improve the quality of impact measurement and the alignment of funding decisions with evidence, as well as public reporting (e.g. preventative spend by Oranga Tamariki and/or Justice, employment programmes). Working with iwi groups, community organisations, and/or businesses to deliver more effective social supports.
Targeted	<ul style="list-style-type: none"> Establishing a Social Investment Fund to address issues poorly served by agency silos, improve knowledge of what works and to grow public sector capability. Exploring Social Investment Bonds to bring in expertise and financing from outside government.

Broad-based approaches

Getting more value from baseline spend

11. In general, social investment will not produce large-scale savings to meet your short-term fiscal objectives. There are other tools for achieving these objectives and you have received advice on a fiscal sustainability programme, which includes broad-based savings and performance plans and thematic reviews of spending [T2023/2024 refers]. Further advice on performance reporting will also be provided shortly.
12. These initiatives have broader objectives than a social investment approach, given they are largely driven by fiscal sustainability or relate to public accountability more broadly, and they do not focus on specific subgroups.
13. However, broad-based changes can still have a beneficial impact on people experiencing the worst outcomes. Although more targeted interventions can address concentrated social issues, so can wider changes, including regulatory changes. For instance, changes to housing regulation can help address homelessness, and improvements to MSD's frontline services can help address material hardship. Such an approach may be particularly effective where it hard to identify the individuals or groups experiencing the worst outcomes.
14. Broad-based changes also have the potential to drive reprioritisation, improve outcomes in specific areas, and support innovation. They can also be used to leverage what is learned from more targeted social investment work into broader areas of spend that are amenable to an investment approach (discussed at paragraphs 18-22 below) provided that appropriate links are made to expectations that are being set for social investment.

Improving the use of evidence in the Budget process

15. The Budget process is another lever for implementing a social investment approach. The Budget process played a central role in the past, culminating in a social investment 'track' at Budget 2016. Initiatives on this track were reviewed by a Social Investment Panel (for more information on this process, see **Annex I**).
16. ^[33]

17. Over subsequent Budgets, you could consider incorporating features to imbed a social investment approach, such as:
 - a. a social investment panel to recommend a pipeline of suitable investments and assess Budget initiatives
 - b. expanded ex-ante evidence standards (for example, making greater use of the Treasury's CBAX tool)
 - c. ongoing ex-post monitoring and evaluation requirements for funded initiatives
 - d. a separate funding track or fund after an investment pipeline is sufficiently established, and/or
 - e. a process for third parties to submit funding initiatives.

Priority area approaches

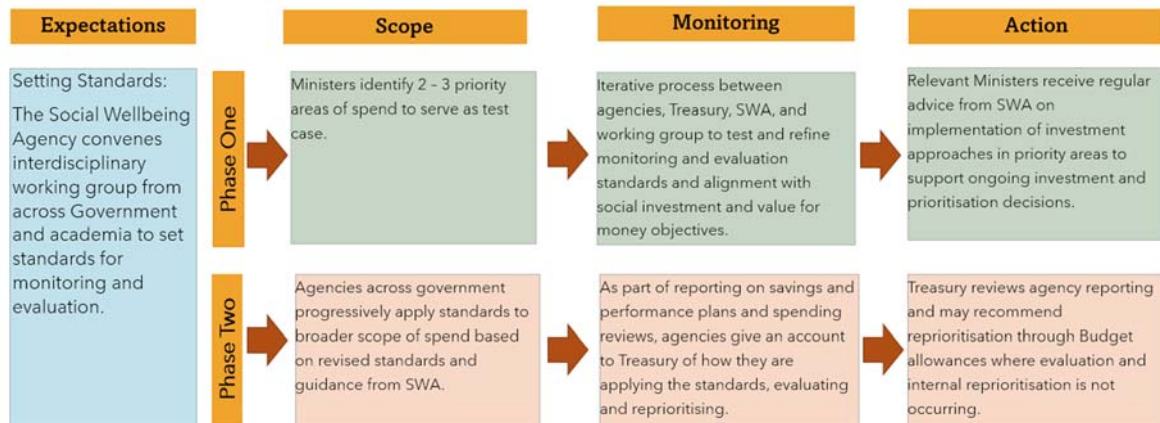
Applying a social investment approach in priority areas

18. SWA and the Treasury could work with relevant agencies to identify areas of expenditure that may be particularly amenable to a social investment approach. If so, we recommend Ministers select two or three initial priority areas to serve as a test case (phase one) for a potential broader work programme (phase two). The goal of the full work programme would be to:
 - a. identify areas most amenable to a social investment approach
 - b. understand and enhance the quality and consistency of impact measurement
 - c. improve alignment of value for money assessment and funding decisions, and
 - d. support agencies in developing their capability.
19. Implementation would be monitored to ensure that agencies are using information to improve impact in these areas. In the event that this is not occurring, funds could be reprioritised through Budget allowances. Decisions on whether funds are returned to the centre should focus on whether agencies are evaluating their programmes and acting on evidence to improve programme design or shift spending to areas with better value-for-money.
20. The Treasury could play a stronger role in monitoring value-for-money in these priority areas. This would require Treasury collecting additional fine-grained financial and non-financial performance information from agencies for these specified areas of expenditure, below the appropriation level. The Treasury has developed the capability to collect financial and non-financial data below the appropriation level that can be cut across agencies, Votes, and appropriations for areas of particular interest (for example, current tracking of Climate Emergency Response Fund, North Island Weather Events and Sovereign Green Bonds expenditure at the initiative level). This data infrastructure is in its infancy but could support reporting on priority areas of expenditure. You will receive further advice on this in the context of the broader performance reporting system.
21. To support agencies to apply a social investment approach in particular areas of spending, we suggest SWA convene an interdisciplinary working group, comprised of

Chief Science Advisors and other experts drawn from government agencies, academic institutions, and the private sector to work with agencies to establish evaluation and impact measurement standards. This working group can also offer guidance and assurance to agencies engaged in evaluation processes outside the focus areas.

22. We expect this would be a staged and iterative process, as shown in **Figure 2** below.

Figure 2: Two phases of ‘priority area’ approach



Targeted approaches

Social Investment Fund

23. We understand that you are interested in creating a Social Investment Fund. In general, we recommend against the establishment of ‘funds’, as they can undermine the competitive nature of the Budget process, which highlights trade-offs to increase the likelihood that initiatives with the highest value for money are funded.
24. However, we recognise there are merits to setting funding aside for specific purposes, especially where funded interventions are novel, high risk and high reward. To the extent you would like to use the social investment approach to quantify and reinvest any realised savings (i.e. an invest-to-save approach), using a Fund may be a practical way to trial options. There are also advantages to a Fund where an explicit cross-government approach is desirable due to costs and benefits being split across agency silos, or people with complex needs not being well-served by individual agencies.
25. Decisions around the structure, objectives and resourcing of a Fund will require time, as will the subsequent work to identify and develop promising initiatives. We understand your preference is for the Social Wellbeing Agency (SWA) to administer a Fund. Their existing evidence and insights role would be helpful in setting an investment strategy, developing and assessing proposals, but there are other capabilities that would need to be built (including procurement, legal, contracting and relationship management). New departmental funding would likely need to be considered to support the development of this capability.
26. Ministers would also need to consider whether to set parameters related to desired outcomes or other criteria. We suggest the fund be used for initiatives:
 - a. that focus on a specific cohort defined by experience of multiple poor outcomes
 - b. where evidence indicates likely cost-effectiveness and the CBAX analysis is based on credible baseline outcomes and assumed impacts
 - c. that can be evaluated for impact (i.e. the change in outcomes is attributed to the initiative/intervention) in a way that supports portfolio-level reporting of value-for-money

- d. where there is agency or organisational capacity and capability to implement the intervention with fidelity to the proposed design, and
 - e. that can be reasonably separated from existing agency activities and are not well-served by agency silos.
27. If Ministers do wish to pursue a Fund, we recommend delaying funding decisions until Budget 2025 or beyond and using the intervening time to consider design options.
28. If a Fund is established, it should include initiative and portfolio-level reporting requirements and an upfront expectation that funds will be returned to the centre if the Treasury and Ministers have concerns about the Fund's performance.

Social Impact Bonds

29. We also understand you would like to introduce a social impact bond (SIB). SIBs are complex financing instruments and domestic and international experience implementing them has been mixed. In general, this approach offers several potential advantages compared with standard contracting models, such as:
- a. providing a strong incentive for all parties to focus on and achieve the intended outcomes
 - b. making use of private financing, reducing the level of up-front government funding required and potentially transferring some of the risk to the investor
 - c. allowing for greater flexibility and innovation in how services are provided (because intermediaries and providers can change how services are delivered and coordinated), and
 - d. leveraging the skills of intermediary organisations who may be better placed than existing service commissioners to contract with and coordinate service providers.
30. Several conditions are needed for an SIB to be viable to all parties, including:
- a. a clearly defined target population
 - b. clearly defined, timely and measurable outcomes
 - c. providers with sufficient capability to enter into a SIB arrangement
 - d. strong evidence that the programme or service can improve outcomes and will be cost-effective
 - e. strong evidence that, if effective, the programme will result in fiscal savings sufficient to cover additional costs, and
 - f. investor interest, understanding and capability.
31. SIBs also are not well-suited for areas where the key obstacle facing the target populations are structural or regulatory in nature. Such challenges typically require more systemic reform. For example, social impact bonds are unlikely to be a useful tool to address housing supply issues.
32. Establishing a SIB can have high upfront costs and require specialist capability. SIBs can also take significant time to set up. For example, while the New Zealand social bonds procurement pilot was launched in late 2013, the first social bond was not agreed until 2017. To ensure a SIB is viable for all parties, we suggest a staged engagement approach before establishing an SIB. At each stage, there is an opportunity to consider whether a SIB is the best approach or whether alternative contracting or funding models would be more appropriate.
33. The first step would be to decide who should be responsible for the exploratory work on a SIB, and how this work should be funded. We recommend these decisions should also be deferred to a later Budget, in co-ordination with decisions on a Social Investment Fund (and potentially investments in analytical capability more widely).

However, doing so could mean that a Bond would not necessarily be in place within the current Parliamentary term.

Critical enablers

Proposed agency responsibilities

34. The proposed approach to social investment described throughout this paper could function under a variety of operating models, with different agency roles and responsibilities. As such, the structure described below could be easily tailored. Most critical is that there is sufficient capability, resourcing, and clarity to deliver your objectives. Further advice to this end will be finalised early in 2024, based on any early discussions and your feedback on this report.
35. We recommend the Social Wellbeing Agency (SWA) takes on a system-wide leadership role, supported by the Treasury, and that social agencies exercise relevant core functions to reflect their existing roles and expertise. Playing to existing strengths is likely to enable faster-paced delivery and better manage costs. See **Annex 2** for further detail on the proposed roles for SWA, the Treasury, and other agencies.
36. Previous analysis¹ of the factors influencing the historical success and failure of various New Zealand public research institutions indicates that (beyond appropriate staffing, management, resourcing and critical mass), key features shared by successful social research institutions include:
 - a. clearly defined research fields and priorities generating information valued by the Government,
 - b. stable long-term funding, and
 - c. effective relations with relevant policy and delivery agencies.
37. Failure to achieve these features has historically been associated with institutional underperformance. Clear alignment of expectations across government is also necessary to manage system resources, drive efficiency and avoid duplication.
38. SWA's objectives in the near and longer-term will need to reflect what is realistic within system resourcing and capability constraints. As such, we suggest early clarity and consensus on the SWA's role relative to other government agencies, giving close direction on its expected focus areas, and ensuring resourcing aligns with expectations. As it will take time to develop, understand, and build confidence in the system, we recommend starting modestly and building over time.
39. The role of the Treasury could be centred around its existing core functions and capabilities. In particular:
 - a. Budgeting, funding and finance: How social investment is integrated into the Budget process, funding, finance and transactions settings to support design and implementation.
 - b. Performance reporting: How social investment supports management within the executive (including Treasury's Vote/second opinion role and general advice on value-for-money) and accountability to the public (e.g. through reporting on Government priorities or targets).
40. There would be some marginal impact on capacity that would have to be managed in line with other Government priorities. The most significant impacts would relate to decisions around a Social Investment Fund and Social Impact Bonds, and how integrated the social investment approach should be with the Budget process.

¹ [For Whom the Bell Tolls: The Sustainability of Public Social Research Institutions in New Zealand](#) (Superu, April 2018).

41. Social agencies will have the role of implementing social investment including through new and existing contracting practices. In our view, these new expectations related to social investment delivery can broadly be considered refinements of agencies' existing core functions, however there are varying levels of capability and capacity across agencies. Setting new expectations may be challenging in cases where agencies are already undertaking reprioritisation to manage cost pressures and decreasing baselines.

Analytical and data capabilities

42. The effective and secure collection, cross-government sharing, and analysis of relevant data will be crucial to the government's ability to identify relevant policy challenges and design effective interventions that reflect the agreed principles and objectives of social investment. Significant data is already available to the government, but more can be done to improve its collection and access, analytical capacity within government, and the underlying functionality of data infrastructure.
43. Broadly, the options to improve the public sector's analytical and data capabilities mirror the spectrum of actions outlined above: there are steps that can be taken to improve data capability broadly, as well as specific opportunities to use data in novel ways. StatsNZ and SWA are best placed to provide advice to Ministers on the sufficiency of existing capability relative to Ministerial priorities and objectives.

Next steps

44. We understand that you will be receiving this advice alongside a broader series of papers from the Social Wellbeing Agency and the Public Service Commission. Officials can provide further coordinated advice based on your feedback. You may also wish to take a paper to Cabinet to test your priorities and a proposed work programme with your colleagues.
45. [33]

Annex I: Overview of Budget 2016 Social Investment Panel

Purpose of the Panel: The Social Investment Panel was convened as an advisory group to assist with the development of social sector initiatives for Budget 2016. The Panel process was intended to support the Treasury in making more robust assessments of social sector initiatives, alongside the application of CBAX. The advice from the Panel was provided directly to Social Sector and Budget Ministers and shared with relevant agencies.

The panel was comprised of 11 members representing a balance between NGOs, officials, and Science Advisors with a diverse range of background knowledge and approaches.

How initiatives were selected for Panel consideration: From all submitted Budget initiatives, the Treasury identified a narrower list of social sector initiatives which included:

- only new initiatives (not cost pressures),
- exclusion of pre-commitments,
- initiatives focusing on the priority populations previously decided by Ministers, and
- initiatives that would get the most value from a panel assessment (i.e. initiatives that vote analysts did not consider to be sufficiently well-developed were excluded from the process).

Panel process:

- The Treasury informed agencies which initiatives were selected for the panel process and invited 3 – 4 agency officials to attend.
- A brief overview of each initiative was sent to Panel members two weeks before Panel convening.
- Each initiative received roughly 40 minutes of consideration which included a brief description from the agency, discussion as necessary with Treasury vote analyst, and discussion amongst panel members without presence of agency officials.
- The panel was asked to assess initiatives against key questions and provide overall recommendation (support, support with conditions, defer for further work or do not support).

All of the Panel's advice was shared with all agencies and Ministers involved in the process. Based on the Panel's assessment (alongside Treasury's) Ministers funded a \$641m 'Social Investment Package' in Budget 2016.

Annex II: A proposed operating model for implementing social investment

