

The Treasury

Budget 2024 Information Release

September 2024

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Treasury Report: Advice on Social Investment Initiative at Budget 2024

Date:	15 April 2024	Report No:	T2024/1033
		File Number:	ST-4-11

Action Sought

	Action Sought	Deadline
Associate Minister of Finance (Hon Chris Bishop)	Agree to include funding to begin implementing a social investment approach in the Budget 2024 package.	17 April 2024

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		✓

Associate Minister of Finance's Office Actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (Social Investment Budget Bid 2024 4942524:3)

Treasury Report: Advice on Social Investment Initiative at Budget 2024

Executive Summary

On 14 March, you agreed with Hon Nicola Willis (the Minister of Finance and Minister for Social Investment) to invite a late Budget 2024 initiative, which would seek funding to begin implementing a social investment approach.

An initiative has now been developed. It seeks \$49 million (operating) and \$1.5 million (capital) over the forecast period for a range of actions: establishing a new Ministry for Social Investment, establishing a Social Investment Fund, devolving social services, and improving data arrangements. Further funding will be sought in the future to implement these changes.

As Associate Finance Minister, you are responsible for deciding whether this initiative should be included in the Budget 2024 package. We recommend you support the initiative, as the social investment approach has significant promise, and this initiative would accelerate its implementation. However, significant questions remained unresolved, so we recommend that the majority of funding should be held in tagged contingency subject to further advice.

Recommended Action

We recommend that you:

- a **agree** to include the initiative “Funding to accelerate social investment” in the Budget 2024 package, with a cost of \$49 million (operating) and \$1.5 million (capital) over the forecast period.

Agree/disagree.

- b **note** the Treasury recommends holding the majority of funding sought in a tagged contingency, subject to further advice, as set out at **Annex 1**.

- c **refer** to the Minister for Social Investment.

Refer/not referred.

Oliver Parsons
Manager, System Transformation

Hon Chris Bishop
Associate Minister of Finance

____ / ____ / ____

Treasury Report: Advice on Social Investment Initiative at Budget 2024

Purpose of Report

1. You have been asked to decide whether funding for a late 'social investment' initiative should be agreed through Budget 2024. This report provides further context and advice to support this decision.

Background

Defining 'social investment'

2. The Government has committed to taking a social investment approach, especially in the delivery of social services. Speaking at the New Zealand Economics Forum, the Hon Nicola Willis described social investment as:

... using data, evidence and modern analytics to invest in earlier and better intervention that can effectively break cycles of disadvantage, dependence and despair. It's about moving beyond good intentions towards hard evidence about what works...

3. There is substantial overlap between this understanding and the previous National Government's definition, which included:

- *Setting clear, measurable goals,*
- *Using information and technology to better understand the needs of people who rely on social services and what services they are currently receiving,*
- *Systematically measuring the effectiveness of services, so we know what works well and what doesn't, and*
- *Purchasing results rather than specific inputs, and moving funding to the most effective services irrespective of whether they are provided by government or non-government agencies.*

Implementing social investment

4. The Treasury has previously recommended progressing some broad-based options (such as improving data and institutional arrangements), while also progressing some targeted interventions. These can help to demonstrate tangible successes, test interventions at a smaller scale, and improve the public sector's capability (T2023/2002 refers).
5. At the time, Hon Nicola Willis indicated that her priorities were (1.) agreeing objectives for social investment, agreeing agency roles, and developing a work programme; and (2.) beginning work on applying a social investment approach in priority areas of spending. The 'priority areas' have not yet been agreed.
6. The Minister for Social Investment has also received advice from the Public Service Commission (PSC) on institutional arrangements, as well as from the Social Wellbeing Agency (SWA), which was previously the lead agency for delivering a social investment approach.

Overview of Initiative

7. Although no social investment initiatives were initially invited for consideration at Budget 2024, on 14 May this year, you agreed that a late initiative should be developed. It seeks \$49 million (operating) and \$1.5 million (capital) over the forecast period to begin implementation, with the following component parts:

a [33]

b

c

d

8. A table showing the breakdown of financial impacts is attached as an annex to this report.

The Treasury's view

We recommend you support this initiative, which will enable the Government's social investment work programme to proceed.

9. This is a late initiative, and so the Treasury has not completed a full assessment, nor been able to balance this initiative against others through the usual Budget process. Nonetheless, we consider that implementing a social investment approach has the potential to significantly improve outcomes for New Zealanders. We strongly agree that there are many opportunities to better use evidence to invest more effectively, and that this requires leadership across the public service. This initiative would help to achieve that goal.
10. Additionally, the initiative is closely aligned to the Government's priorities, given your public commitment to implementing a social investment approach. The establishment of a Social Investment Fund was a National Party manifesto commitment at the 2023 General Election.
11. If you decide not to support the initiative, the Treasury will advise as to how the social investment work programme can be scaled back. This could involve further planning for a similar initiative, to be considered at Budget 2025. A key question would be the role of the Social Wellbeing Agency (SWA), which could be renamed without substantial new funding being agreed, but SWA is unlikely to be able to lead cross-agency efforts effectively, given its existing form and resources.
12. Not supporting this initiative would also delay cross-agency efforts to establish the parameters of a Social Investment Fund, to devolve social services, and to improve data arrangements. This means that, if Ministers wish to consider substantive social investment initiatives through Budget 2025, the quality of initiatives is likely to be poorer, and agencies' submissions to be less joined-up, were you not to agree to this initiative.

¹ This consists of \$12 million in annual funding sought through this initiative, in addition to SWA's existing funding of \$6 million annually. According to the latest PSC data, SWA employs 36 FTEs at present.

However, significant questions remain unresolved, so we recommend you hold most of the funding in a tagged contingency.

13. Despite our support in principle for this initiative, we consider that further work is required before funding can be appropriated. A paper seeking Cabinet's agreement to the high-level social investment work programme is currently under development and we anticipate a sequence of papers from the Treasury and other agencies to follow that provide more detailed advice on each aspect.

14. In respect of the components of this initiative:

For the establishment of the **Ministry of Social Investment (MSI)**, the new entity's form has not yet been agreed (although we understand that the Minister for Social Investment's preference is for the MSI to be a standalone agency). In the Treasury's view, further advice from PSC on MSI's governance and functions, as well as how to disestablish SWA and transfer funding, assets and/or staff should be considered, ahead of establishment.

In the meantime, funding for this purpose should be held in a tagged contingency. This would also give you a further opportunity to consider, based on more detailed costings, whether the proposed funding for the MSI is appropriate (including the balance between employees and consultants and the cost of consultants over time). As it stands, the additional funding sought represents a significant increase (compared to SWA's existing baseline), without more detailed justification.

For the establishment of a **Social Investment Fund**, we consider that the Treasury is best placed to lead this work. We recommend appropriating \$0.5 million in the current financial year, and a further \$0.5 million in the 2024/25 financial year, holding the remainder in a tagged contingency.² Our current view is that a unit could be established within the Treasury to design and establish the fund, but the Treasury should not necessarily be responsible for its ongoing management. If appropriate this unit could be spun off to form a new entity. A similar approach was used for the establishment of the New Zealand Green Investment Fund.

On **Devolved Social Services**, there are already a range of arrangements in place (or being developed) between agencies, providers, iwi/Māori, and other partners. Non-financial barriers (such as outdated systems and processes, misalignment within central government, and between central and local government) may be more impactful than a lack of funding.

There is also a risk of creating an expectation that new funding will continue to be provided, whereas the Treasury considers that devolved services (if they prove more effective) should generally replace existing services, rather than duplicate them.

For these reasons, short-term funding to pilot further devolution may have some merit, but more detailed planning would be required, so we again recommend holding this funding in contingency.

On **Improved Data Arrangements**, we again recommend holding funding in contingency. Further work can be carried out using baseline funding to identify how this funding could be used most effectively – for instance, which existing initiatives should be expanded, or which new work should begin.

15. For the funding held within tagged contingency, we would recommend that drawdown be subject to agreement by the Minister of Social Investment and Associate Minister of

² We also recommend an in-principle expense transfer, so that any unused funding can be carried forward. Note that this funding would meet the cost of additional work, rather than (for instance) supporting the Treasury to provide policy advice as usual.

Finance. Agreement would be subject to Joint Ministers' satisfaction that the detailed work programmes are sufficiently well-specified and represent value-for-money.

Next Steps

16. Your decisions on this report will be incorporated in the draft Budget package, to be considered by Cabinet on 29 April 2024.
17. Subject to funding, decisions will be announced on Budget Day (30 May 2024). You will have a choice as to the extent to which you wish to announce some details, such as the funding to be held in tagged contingency.

