

The Treasury

Budget 2024 Information Release

September 2024

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Treasury Report: Setting the Social Investment Work Programme

Date:	19 April 2024	Report No:	T2024/992
		File Number:	ST-4-11

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Nicola Willis)	<p>Note that your paper and Budget initiative for an accelerated social investment approach are being considered by Cabinet on 29 April</p> <p>Agree to the proposed work programme for Treasury as outlined in this report</p>	24 April 2024
Minister for Social Investment (Hon Nicola Willis)		

Contact for Telephone Discussion (if required)

Name	Position	1st Contact
Siobhan Duncan	Senior Analyst, System Transformation	[39] ✓
Oliver Parsons	Manager, System Transformation	

Minister of Finance's Office Actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Setting the Social Investment Work Programme

Executive Summary

You are consulting on a Cabinet paper for discussion on 29 April that seeks agreement to the institutional and funding arrangements needed to accelerate the implementation of the social investment system. This supports a key Government priority to embed social investment as the organising framework for funding and delivering social services.

Your Budget initiative to accelerate social investment is being considered on the same day by Cabinet as a part of the Budget package.

A new Ministry for Social Investment and Social Investment Fund are a core part of your approach. The Treasury will work with other agencies to provide advice on the detailed implementation of the social investment approach. We suggest that focusing on getting the right institutional arrangements for the new Ministry and Fund should be the key immediate priority. This is because the two workstreams are closely interdependent and need to be delivered as quickly as possible to enable other work to scale up and proceed.

You are working towards an ambitious timeline of 1 July to establish the new Ministry. To minimise risks to the Budget production, we recommend that at this stage you keep the transition simple by transferring the existing arrangements over to the Ministry for Social Investment now, with the opportunity to make more detailed changes to appropriations as you draw down funding. We have structured recommendations between this paper and the Budget Cabinet paper to provide flexibility for Joint Ministers to put in place any arrangements required to implement your preferred approach. This will support delivery at pace.

As the new Ministry and Fund are set up, the Treasury can also advise you on wider institutional settings that can support your approach including arrangements for the Social Investment Board, the Social Investment Ministers Group and system changes.

The new Ministry will be responsible for ensuring data infrastructure is fit for purpose and investigating alternative operating models and devolution of social service provision, in order to deliver better outcomes. The Treasury can support early thinking on this workstream so that the new Ministry can make progress quickly once it has the right capabilities.

We are also considering how the social investment workstream can be integrated into your wider work programme. Work is underway on the approach to Budget 2025 (including setting key priorities for social investment spending,^[33] and evidence standards, supporting the evidence base including cohort analysis and review of existing spend in certain areas). Following Budget 2025 there are further opportunities to consider linkages to your fiscal sustainability program including any changes that may be needed to the public finance system to support your social investment objectives.

Recommended Action

We recommend that you:

- a note** that you are planning to take a paper to Cabinet on 29 April on your proposed approach to social investment
- b note** that we recommend keeping the changes to give effect to a new Ministry for Social Investment simple in your paper because there will be opportunities after Budget to make more detailed decisions

c note that a Budget bid for social investment has been agreed for inclusion in the Budget 2024 package

d agree that the main components of the broader social investment work programme are:

Work programme			
Developing the approach to Budget 2025 (including setting key priorities for social investment spending, [33] and evidence standards, supporting the evidence base including cohort analysis and review of existing spend in certain areas).			
Settings for the Social Investment Fund including funding and financing, and governance.			
Wider institutional settings including the detailed functions for the new Ministry for Social Investment.			
Alternative operating models and devolution of social service provision, in order to deliver better outcomes.			
Ensuring data infrastructure is fit for purpose, including governance and funding settings.			
Ensuring the Public Finance system supports your Social Investment Approach			

Oliver Parsons
Manager, System Transformation

Hon Nicola Willis
Minister for Social Investment

_____/_____/_____

Treasury Report: Setting the Social Investment Work Programme

Purpose of Report

1. We understand you are planning to report to Cabinet on your proposed approach to social investment on 29 April. Your paper seeks agreement to the institutional and funding arrangements needed to accelerate the implementation of the social investment system.
2. This report provides you with advice about:
 - a elements of the Cabinet paper, particularly around the establishment of the new Ministry for Social Investment, Social Investment Fund and associated financial arrangements
 - b the recently agreed Budget bid “Funding to accelerate social investment”, and
 - c key work needed to support your social investment approach, further advice the Treasury will provide, and when you need to make decisions to ensure your objectives are achieved.

Background

We provided initial advice on social investment in December

3. Social investment is a key Government priority and intended to be the organising framework for the approach to funding and delivering social services. You are working towards a system of evidence-based decision making to target interventions towards groups that experience the highest level of need. We provided advice in December 2023 about your options for implementing a social investment approach [T2023/200 refers]. You signalled that your immediate priorities are:
 - a considering your objectives for social investment, agreeing agency roles, and establishing a work programme, and
 - b applying a social investment approach in priority areas of spending.
4. So that you could focus on your immediate priorities, you agreed to defer work on the following issues until mid-2024:
 - a improving the use of evidence in the Budget process
 - b incorporating social investment into other work like spending and performance reviews
 - c implementing a Social Investment Fund, and
 - d exploring a Social Impact Bond.

You are taking a paper to Cabinet on 29 April seeking agreement to your work programme

5. You are taking a paper to Cabinet on 29 April outlining your approach to social investment. The key elements of the paper are:
 - a replacing the Social Wellbeing Agency (SWA) with the Ministry for Social Investment, a central agency with a remit to lead change across the public service and provide support to Government to achieve better outcomes from our social service expenditure
 - b establishing a Social Investment Board to provide external challenge and guidance as we undertake the significant system shift towards social investment
 - c establishing a Social Investment Fund (the Fund) to commission outcomes for vulnerable New Zealanders
 - d establishing a group of Ministers (Social Investment Ministers) to support a social investment approach across the system, and
 - e over time, changing the way we deliver and commission social services, with a clear view to achieving better outcomes, investing smarter and having greater impact.

This will build on a number of workstreams already underway

6. A small team in the Treasury will provide advice on the detailed design and implementation of the social investment approach [Public Service Commission report 2024-0026 refers]. This will draw on expert advice to set-up the new central agency, board and Fund structures. Any outstanding work will transfer to the new Ministry for Social Investment.
7. The SWA has been supporting the Child and Youth Wellbeing Unit, the Joint Venture on Family and Sexual Violence, and Te Puni Kokiri to review the effectiveness of spend for the first 2,000 days of children's lives, Family and sexual violence and Whānau-based programmes. They have proposed a range of areas of social sector spend for review [SWA2324082 refers] with a view to informing Budget 2025.
8. The Public Service Commission is providing advice about change processes and machinery of government implications in parallel to this report.
9. The work programme proposed in this report largely follows the work outlined above but also includes long-term institutional arrangements including role, size, mandate, powers and organisational form of a new Ministry for Social Investment. We understand that exploring a social impact bond is not an immediate priority for you so this does not form a part of our proposed work plan for the next few months. However, we expect that any enabling requirements to support social impact bonds in the future will be considered as part of work on the Fund.

Cabinet Paper and establishment of the new Ministry for Social Investment

We have worked with your office and provided feedback on the draft Cabinet paper

10. We have provided feedback that for this initial Cabinet paper, coverage of the work programme can be relatively high-level. This enables you to signal the direction and pace that you expect, but preserves your options so you can consider further advice on detailed implementation. We believe this is particularly important for aspects such as the legal form of the Fund.

11. The Treasury will ensure you receive commercial and legal advice on your options as required, to ensure that the chosen form can achieve your objectives – particularly that the Fund has sufficient flexibility to invest in the way that you want, and that Ministers have the desired degree of control over (or distance from) investment decisions.
12. The draft Cabinet paper sets an ambitious timeline of 1 July for establishing the new Ministry for Social Investment. The timing of your paper is partly driven by the Budget moratorium where Cabinet cannot consider any papers with financial implications between 29 April when the Budget package is agreed until Budget Day on 30 May. This is in place to ensure that Budget documents accurately reflect all Cabinet decisions and includes fiscally neutral changes to appropriations.
13. The tight timeframe introduces some risk of error in production of the Estimates, Budget Legislation and Fiscal Forecasts. To mitigate this risk as far as practicable, we have provided guidance on the approach to financial recommendations and process. In particular we have advised the following:
 - a. Aside from the creation of a new Vote Social Investment, the only change to appropriations for the Estimates for 2024/25 should be a 'lift and shift' of the current SWA Departmental Output Expense appropriation, with a similar scope. This keeps the changes simple to reduce risk. Any initial expenditure by the new agency will have to fit this scope.
 - b. The Public Service Commission will draft the Estimates for the new Vote using existing supporting information for the SWA appropriation.
 - c. The Cabinet Paper recommendations cross-reference to the Budget Cabinet paper, which will recommend setting aside additional funding for the new Ministry in a tagged contingency, subject to further detailed work on the roles and responsibilities of the new Ministry.
 - d. The Treasury will provide you with further advice on the detailed functions of the new Ministry. Once these are agreed in sufficient detail, new appropriations can be established for the new Ministry to draw down funding. For example, if the new Ministry is commissioning services, it will likely require an additional non-Departmental appropriation or Multi-Category Appropriation, and it will likely require a capital appropriation for expenditure related to office fitouts or IT purchases. New appropriations and funding drawdowns can be implemented by Joint Ministers anytime after the Budget moratorium is concluded, with the changes to be reflected in the 2024/45 Supplementary Estimates.

Budget bid for accelerating social investment

A Budget bid for social investment has been agreed for inclusion in the Budget 2024 package

14. Associate Minister of Finance Hon Chris Bishop agreed (under a delegation from Budget Ministers) on 16 April 2024 to include the initiative “Funding to accelerate social investment” in the Budget 2024 package. It comprises \$49 million (operating) and \$1.5 million (capital) over the forecast period.

The majority of the funding will be held in a tagged contingency, subject to further detailed advice on implementation and costing

15. Some funding for the establishment of a **Social Investment Fund**, is proposed to be appropriated immediately by the Treasury (\$1 million total across this year and next). This will enable work to begin immediately on establishment of the Social Investment Fund. The remaining \$2.5 million for this component will be held in tagged contingency.

16. The following components will be fully held in contingency:
- a [33]
 - b
 - c
17. For the funding held within tagged contingency, drawdown will be subject to agreement by the Minister for Social Investment and Associate Minister of Finance. Agreement would be subject to Joint Ministers' satisfaction that the detailed work programmes are sufficiently well-specified and represent value-for-money.
18. We have also included recommendations within the Budget Cabinet paper to delegate authority to Joint Ministers for the establishment of new appropriations or entities for social investment. This means that you can act quickly to implement the key points of your agenda outlined in your Cabinet paper, and will only need to go back to Cabinet if you wish to seek support for further substantive policy proposals or to lift the profile of key elements with your colleagues.

Ongoing Work Programme

19. You have indicated your work programme will be comprised of four key pillars:
- a changes to the way we deliver and commission social services
 - b social sector government agencies become outcomes focused
 - c changes to enabling institutional arrangements, data and evidence infrastructure and system architecture, and
 - d changes to the public finance system.
20. Treasury has a role in advising on all four of these pillars. We propose the following streams of advice:
- a Budget 2025
 - b Social Investment Fund
 - c New Ministry for Social Investment and broader institutional arrangements
 - d Devolution of social services
 - e Data infrastructure
 - f Other changes to the Public Finance System.

- 21. We recommend that the immediate focus of the Treasury over the next few months be:
 - a ensuring Budget 2025 is a successful social investment Budget, and
 - b advice on institutional arrangements (including detailed functions of the new Ministry for Social Investment) and design of the Fund.
- 22. Design of the Fund and the detailed functions of the Ministry are closely interdependent and need to be delivered as quickly as possible to enable other work to scale up and proceed. Once these elements are agreed the new Ministry can begin to draw down funds to grow into its new role, and establishment of the Fund (including any necessary legal, commercial and analytical work) can begin in earnest.

The Treasury has begun work on Budget 2025

- 23. Initial planning for Budget 2025 is already underway and we will provide initial advice around how the Budget design can support the embedding of an investment approach. Treasury will also provide advice on phase two of the Fiscal Sustainability Programme this week, including its overall direction, strategy, objectives, and workstreams.
- 24. Key areas of focus are:

Strategy and Planning	<ul style="list-style-type: none"> • Links to wider Budget strategy including fiscal and economic objectives and the interactions between social investment and other government priorities such as the fiscal sustainability programme. • Determining key social investment priorities that will inform the criteria that investments need to meet. This could include outcomes sought for specific target populations, working in collaboration with the Ministry for Social Investment. • Developing an approach for social investment invites at Budget 2025 (or a pipeline of potential investments), including from deferred manifesto initiatives that have the potential to support your social investment objectives. • Improving incentives for applying investment approach principles across the public sector.
Decision making	<ul style="list-style-type: none"> • Designing a process to support decision making including ^[33] • Considering expectations and information requirements (including cost-benefit analysis and value for money frameworks to assess and compare expected impacts across different initiatives), and the options for raising those expectations over time. • Drawing on the lessons of previous examples of Budget design, for example the 2017 Budget social investment track, to ensure that specific social investment initiatives are well-integrated into the Budget process.
Performance Reporting	<ul style="list-style-type: none"> • Setting ex-ante evidence requirements for estimating benefits – building off the current SWA Value and Impact Measurement standards. • Setting ex-post monitoring arrangements, linked to tracking of major spending decisions and social investment ‘priority area’ monitoring. • Determining how Budget information is communicated to the public.

- 25. We are planning to provide you with further advice on these matters in June, as part of early advice on Budget 2025 approach and strategy.

The new Ministry for Social Investment and broader institutional arrangements

31. You are seeking Cabinet agreement to establish the Ministry for Social Investment a central agency which will replace the SWA from 1 July 2024. You are also seeking high-level agreement to its role which includes managing and reporting on the Fund, setting standards, supporting data infrastructure and reviewing social sector spending.
32. In the short term, the Public Service Commission will lead work on the legislative process to support this shift and transitional arrangements. A core part of your future work programme will then be further defining the detailed functions and work programme of the Ministry and making system design decisions that support your objectives.
33. You will have specific choices about:

Wider Institutional arrangements	<ul style="list-style-type: none"> • Interaction between the Ministry and social sector agencies and Treasury • Roles in the annual Budget process • Enabling factors to support its mandate including any specific powers to commission or request information • Specific relationship to the Social Investment Fund (e.g. it could be the independent monitor if the Fund is established as an arms-length entity, but if it is more directly involved in management there would need to be other performance monitoring arrangements).
Governance	<ul style="list-style-type: none"> • The Role of Ministers and any supporting infrastructure needed (e.g. secretariat support and regular meetings) to support your newly established group of Social Investment Ministers • Establishing the Social Investment Board which you intend to use to provide robust challenge to existing norms particularly where existing interventions are not getting results.

Alternative operating models and devolution

34. You have indicated you want to consider alternative operating models and devolution of social service provision, in order to deliver better outcomes. This workstream will involve:
 - a developing a framework for decision-making including the options for models for different services
 - b determining the desired level of devolution (e.g. contracting for outcomes through to devolving responsibility for setting outcomes)
 - c developing standards for transparency, accountability and fiscal discipline
 - d developing implementation options, including improving and expanding existing models, and
 - e engaging with potential providers and/or commissioning entities.
35. Your Budget initiative includes ^[33] for seed funding to test a different and more effective operating model in regions with particular social needs. This is expected to include devolution of some social services to regional partners, including iwi.
36. We expect this work stream will be led by the new Ministry and will be one of its first priorities once it is established. To support it to progress quickly, Treasury can provide analytical support – for example by passing on any lessons learnt from previous approaches and collaborating with the new Ministry as it develops the approach.

Data infrastructure

37. You are planning to work with the Minister for Statistics to enhance the way government collects, uses, analyses and shares the administrative data. Statistics New Zealand has advised its Minister on the role and readiness of the IDI to support social investment and priority areas for investment.
38. We propose the Treasury work with Statistics New Zealand on early scoping of this work programme, with the new Ministry to lead advice on data and evidence infrastructure required for the social investment approach once it has secured the right capabilities. The first step is to define broader data infrastructure requirements, including potential data-sharing at the frontline, and develop implementation options.
39. Once the requirements have been determined, we can give you options to strengthen institutional arrangements if required. This work must also ensure strong data governance, data privacy, and data security practices are in place.

Other changes to the public finance system (including legislation and the fiscal management approach)

40. We understand that, while it is not your initial focus, you want to consider legislative changes this Parliamentary term. After Budget 2025, and once you have made progress on the workstream areas above, we suggest you consider options to improve levers and incentives across the system that can support your social investment approach.
41. Examples include incentives to evaluate programmes and stop funding for areas that are not delivering results. This could be enabled by legislative or process change to improve existing structures for funding (e.g. appropriations, votes, baseline updates) and considering options to support innovation and encourage joint accountability for cross cutting issues.
42. There are opportunities to link this work with the Fiscal Sustainability Programme [T2024/1102 refers]. Improving the quality of information about value-for-money is a key enabler of the Fiscal Sustainability Programme. Work is needed to drive systematic, long-term improvements in the generation of value-for-money information, the consolidation and sharing of information, and the data infrastructure and analytics required to ensure this information results in changes to how spending is allocated.
43. Treasury is the steward of the Public Finance System and can support analysis of how existing settings support and hinder your desired state. We can see clear co-benefits from aligning this with the work of the new Ministry for Social Investment, which will have a mandate to lead change and support better outcomes from social services spend.
44. It is likely both agencies will be involved in advising on this. We suggest that you do not need to make a decision on the exact split at this point until further details on your immediate work programme have been determined as these may affect the focus and capabilities of the new Ministry.

Next Steps

45. You are taking a paper to Cabinet on your proposed social investment work programme on 29 April. The Budget package including your social investment initiative will be considered at the same meeting.
46. You are meeting with the Prime Minister to discuss this work programme and Cabinet paper on 7 May. That meeting is an opportunity to get a steer on the key upcoming decisions and trade-offs arising out of your work programme, especially any details related to the new Ministry for Social Investment that will be established on 1 July 2024.
47. We are working to the following timelines to progress your broader social investment work programme.

Timeline

Activity	Timing	Lead
You are planning to take a paper to Cabinet setting out the high-level social investment work programme Your social investment Budget initiative will be considered at the same meeting.	29 April	Minister's Office
You will receive detailed advice on further Cabinet processes needed to implement the 1 July establishment date, including formal Order in Council processes and initiating the process for appointing a CE. The Commission will also work closely with relevant chief executives and your office on the practical steps required for establishment.	Early May	Public Service Commission
You are meeting with the Prime Minister	7 May	Minister's Office
You will receive initial advice on how Budget 2025 can support your Social Investment objectives	June	Treasury
You will receive advice about the Social Investment Fund including options around funding, financing and governance.	July	Treasury
You will receive advice on broader institutional arrangements to support the new Ministry for Social Investment and the Social Investment Fund	Early August	Treasury
You will receive advice about alternative operating models and devolution of social service provision, in order to deliver better outcomes	August	Ministry for Social Investment
You will receive advice on broader Budget 2025 design	October	Treasury
You will receive advice on data infrastructure and devolution	October	Ministry for Social Investment
Advice on broader public finance settings including PFA changes	Post Budget 2025	Ministry for Social Investment/ Treasury