



Hon Grant Robertson
Minister of Finance
Parliament Buildings
Private Bag 18041
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26 October 2022

Dear Grant,

Thank you for making the time to allow me to present the key findings of my most recent report, *Environmental reporting, research and investment: Do we know if we're making a difference?*¹ I have been reflecting on our exchange and the challenges that a report like this inevitably poses. It was clear from your comments that you too have been considering how we can get public expenditure reporting focused on what really matters. The fact that the Auditor-General has also been commenting in this space suggests that these really are issues worth tackling.

As you know, I think the public finance system as reformed roughly three decades ago has stood us in good stead. We need a system that can manage fiscal risks. But we need to manage more than that, which brings us to the *quality* of expenditure, not just the quantity. And we need to do this with a whole of government lens.

I know how much of a treadmill the budget process is both for you and your officials. It waits for no one, so proposals for change are very much mixed blessings. I worry that for hard-pressed Treasury officials, my proposals may represent a distracting upheaval that they could happily do without. For that reason, I'd like to underline why something along the lines I have proposed should be digestible.

My proposals envisage improving the relationship between environmental information and public expenditure at two levels with very different requirements for granularity. Phasing the implementation of these two levels would permit a progressive deepening of understanding without the need for system-wide upheaval or significant expenditure.

In the first instance we need to establish a high-level understanding of the relationship between environmental challenges identified through state of environment reporting, desired environmental outcomes, government spending and broad measures of progress.

This involves identifying enduring outcomes (something already proposed by Ministers Parker and Shaw in the context of forthcoming amendments to the Environmental Reporting Act 2015) then spelling out the specific outcomes that, for the time being, the Government is promoting. Requiring agencies to identify expenditure that supports these could, with assistance from the Ministry for the Environment, be systematised over a couple of years. I have outlined a simple schema of the steps that might be involved below.

In summary the first step is setting environmental outcomes and barcoding existing and planned expenditure against those outcomes. That will allow us to collate expenditure (and the actions it funds) grouped by desired environmental outcome.

¹ See <https://www.pce.parliament.nz/publications/environmental-reporting-research-and-investment>.

Once that foundation has been achieved we could then expect a progressive move towards tracking more precise links between specific environmental outcomes, particular environmental initiatives and the results of environmental monitoring.

Over time (as monitoring is supplemented by more detailed evaluation of key initiatives), these kinds of links would provide a more detailed tracking of the *effectiveness* of government spending. This is not something that can or should be hurried. Environmental results are rarely delivered overnight, and nor should be the evaluation of environmental initiatives.

There is a trade-off between administrative burden and understanding policy effectiveness that would be best discovered through practical experimentation. For this reason, the system should be designed to allow it to evolve. But even the very first steps outlined above would get the focus in the right place.

There are, in my view, a number of reasons why environmental expenditure could provide a useful pilot for a more outcome-based, whole-of-government approach to thinking about public expenditure.

In the first place, the quantum of environmental spending lends itself to meaningful experimentation. Though significant in absolute terms, it is not large in relative terms. It provides a nice balance.

Secondly, environmental outcomes provide enough variation to serve as a well-rounded test: some outcomes will only be affected over the long term, while others are amenable to measurement in the shorter term. Some outcomes require cooperation between multiple agencies, while others can be delivered with only minimal coordination.

Thirdly, the recommendations in my report could provide some pre-digested, pre-tested thinking that is already ready for deployment. We have engaged closely with the key relevant agencies, in some cases over a period of years, so an initiative in this vein would not be tilling virgin ground.

Finally, it occurs to me that piloting this approach in respect of *environmental outcomes* might be a welcome antidote to the recently completed process involving *natural resource agencies*. While the motivation driving the Natural Resources Cluster exercise was an admirable one, in its execution it ran up against the fact that the agencies in question were pursuing quite disparate outcomes. That of course is something that governments must ultimately face at the level of the budget as a whole. But before that final top-down weighing up of overall priorities is decided, the bottom-up development of a coherent package of responses to a broad thematic area such as the environment would make for a more collaborative process.

I hope these further thoughts are interesting. You suggested we talk again in the presence of the Auditor-General. I would welcome that opportunity and would be happy to discuss how we might find a pragmatic, phased way to make progress.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Simon Upton', with a horizontal line extending to the right from the top of the signature.

Simon Upton

Parliamentary Commissioner for the Environment
Te Kaitiaki Taiao a Te Whare Pāremata

Schema of steps that might be involved and potential phasing

1. In time for 2022/23 annual reports:

- a. Parliament could commit to a series of enduring environmental outcomes, in line with the proposal in Minister Parker's and Minister Shaw's cabinet paper.
- b. Agencies could implement relevant processes to map (baseline and new) spending to these enduring outcomes.
- c. Agencies could produce estimates of environmental spending and show how this spending maps to enduring environmental outcomes.

2. In time for Budget 2024:

- a. The Treasury could produce a budget annex by collating agency-level data about environmental spending, including how spending maps to environmental outcomes.

3. In time for 2023/24 annual reports:

- a. Relevant ministers and senior officials could build consensus around specific, priority environmental outcomes.
 - i. In my view, the primary input into these deliberations should be state of environment reports produced in 2019 and 2022.
 - ii. Other inputs could include the Living Standards Framework Dashboard, long-term insights briefings, and the Treasury's stewardship reporting, as well as additional analysis based on data contained in those reports and underlying systems.
- b. The Ministry for the Environment (in collaboration with relevant agencies) could specify relevant measures for each environmental outcome.
- c. Agencies could further build on their existing processes (see 1.b and 1.c above) so they can provide more granular estimates of environmental spending and show how it maps to both enduring and priority outcomes. Specifically, agencies contributing to each environmental outcome could detail:
 - i. all the environmental outcomes they are contributing to
 - ii. the expenditure they have allocated to those outcomes
 - iii. their understanding of how key initiatives and actions are contributing to those outcomes.

4. In time for Budget 2025:

- a. The Treasury could produce a more granular budget annex by collating agency-level data about environmental spending.
- b. The Ministry for the Environment (or the Treasury) could collate a whole of government report, collating the information found in agencies' annual reports about environmental outcomes, including information about how relevant measures are tracking.
- c. Priority environmental outcomes could drive investment decisions (and facilitate trade-offs).

5. In time for statements of intent/strategic intentions for 2025–2029:

Alongside these strategic documents, relevant ministers and senior officials could build a 'first cut' (whole of government) plan to achieve priority environmental outcomes.