

Simon Upton

Wellbeing Budgets and the Environment

Abstract

Wellbeing budgets have created a need to link the environment to wellbeing. This may seem like a self-evident task, but in practice it is extremely difficult. There is often not enough information to link how a given environmental policy or initiative will impact on the environment, let alone how it will impact on wellbeing. These difficulties are compounded by the fact that many environmental issues are complex, long-term, or characterised by tipping points. So far, decision makers have not had adequate advice to make informed trade-offs between investing in wellbeing now and investing in wellbeing for the future. In order to address these limitations, the government and its advisors should consider whether it is worth treating environmental spending in a different way.

Keywords wellbeing budgets, environmental information, environmental spending

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Do we have the information we need about the state of the environment and how it is changing to make informed decisions about how best to protect it? Over the past four years, this question has spurred three investigations centred on the importance of environmental information. It started with a 2019 review of environmental reporting, followed by a 2020 review of publicly funded environmental research, and culminated last year in a review of how the environment is incorporated into the wellbeing budget process.¹

Environmental information and the annual budget cycle may not seem like obvious bedfellows, but the extension of the original review to an examination of wellbeing budgets flowed from a simple premise unearthed in the 2019 review. Environmental data is not collected for the sake of it. We collect it for the same reason that we collect data about the economy, the education system or people's health: these things matter for our wellbeing.

Since wellbeing budgets are New Zealand's latest effort to erect an overarching goal for the expenditure of public money, evaluating how well the environment is treated in this process is

BOX 1 Core conclusions about the budget process

- Existing budget processes appear to be more useful for allocating investments to short-term, social and economic outcomes than they are for allocating investments to environmental outcomes.
- For a given environmental priority or policy initiative, it is very challenging to make the link with wellbeing, particularly in a way that is measurable. The environmental information required to make this link is not often available.
- Information limitations do not permit an assessment of the level or quality of environmental investment needed to maintain existing environmental quality and existing flows of ecosystem services, let alone what level or quality of environmental investment is needed to maintain current or future wellbeing.
- Advice received by decision makers is insufficient to make informed trade-offs between investing in wellbeing now and investing in wellbeing for the future.
- Scrutiny of environmental expenditure in terms of its contribution to intergenerational wellbeing appears to be lacking.
- Placing desired environmental, social and economic outcomes alongside one another does not necessarily make them consistent or comparable and does not resolve the fact that they are realised over different time frames.⁵

important, as it is likely to have a direct impact on whether environmental initiatives are funded.

What is wellbeing and how is the environment related?

Giving definitive meaning to ‘wellbeing’ is a challenge (Dodge et al., 2012). It is intangible and difficult to define. There is no one wellbeing, only wellbeings, and those wellbeings are distributed through time.

For Māori there is no compartmentalisation of human wellbeing and the environment; they are one and the same (Mika, 2021; Reid, 2021). The whakapapa of people extends to non-human kin groups, including inanimate entities such as the land and the seas. Many Western conceptions of wellbeing are fundamentally anthropocentric. They are concerned with human wellbeing, and only consider the environment relevant to wellbeing as a means to human ends.

No matter how wellbeing is understood, there is an increasing awareness among New Zealanders that the environment is fundamental to their wellbeing.² There is

also broad agreement that the environment is linked to both our economic and our non-economic wellbeing, now and in the future.

To understand the link between the environment and wellbeing in the future, the environment is sometimes described as a stock of natural capital.³ This refers to land, soil, water, flora and fauna, as well as the broader ecosystems they are part of. Without a healthy environment, economic and social wellbeing cannot be sustained into the future. The Organisation for Economic Co-operation and Development notes that:

our ability to sustain economic and social progress in the long run will depend on our capacity to reduce dependence on natural capital as a source of growth, abate pollution, enhance the quality of physical and human capital and reinforce our institutions. (OECD, 2017, p.3)

Having clear and coherent definitions of what is actually encapsulated by the concept of wellbeing is essential if agencies

are to be able to elaborate its connections with the environment and, from there, develop analysis based on those connections.

Establishing a general link between the environment and wellbeing is one thing. Establishing specific links between dimensions of the environment and dimensions of wellbeing is another. Establishing the magnitude of these links and integrating them into wellbeing budgets is another again.

Wellbeing budgets and the environment

Wellbeing budgets are supposed to ensure that expenditure focuses on those areas that offer the greatest opportunities to improve the wellbeing of New Zealanders. These opportunities are supposed to align with the wellbeing outcomes that New Zealanders value most highly. Wellbeing budgets are also supposed to take a long-term view and ensure that intergenerational outcomes are kept in sight (New Zealand Government, 2018, pp.4–5).

While the limitations of gross domestic product have been widely noted over the last two decades, there is comparatively little discussion about the potential limits of wellbeing and measures of wellbeing. Wellbeing’s value is frequently represented as being self-evident.

Being aware of the potential limits of wellbeing as the lodestar of fiscal policy is essential if it is to be meaningful. Holding up wellbeing as the goal of fiscal policy risks returning us to the same dance that characterised the ‘dominance’ of gross domestic product: everything that is not consistent with a wellbeing approach is expunged from the formal budget process. Decision making in a pluralistic society involves different values that can be linked to different conceptions of wellbeing. But in some instances these do not appear capable of being reduced to wellbeing. If a particular wellbeing approach is not the only lens decision makers actually use to rationalise spending, then tasking officials with framing all spending in terms of wellbeing may not be worthwhile.

A detailed examination of the budget process undertaken as part of the 2021 review found that wellbeing budgets are not currently capable of delivering on their promise, at least as far as environmental

considerations are concerned. This is partly due to fundamental difficulties associated with integrating environmental considerations into wellbeing budgets. These include the absence of a granular understanding of the relationship between dimensions of the environment and dimensions of wellbeing, the difficulty of reducing the values of the environment to considerations of wellbeing, and radical uncertainty about how the environment might contribute to the wellbeing of future generations (see Box 1).⁴

The other reasons wellbeing budgets do not deliver for the environment relate to the limitations of existing environmental information, prevailing wellbeing frameworks and available analytic tools. There is also a lack of clarity about how to implement a wellbeing approach within the annual budget process, at least in the context of the environment.

These findings are based on an intensive analysis of dozens of budget documents totalling several hundred pages, and extensive engagement with officials from both the Treasury and agencies that submit budget initiatives with environmental considerations. Unprecedented access to budget documents makes it possible to open up the 'black box' of the budget process.

These findings are likely to be of relevance beyond the environmental sector.

The wellbeing approach may be better suited to the timelines associated with a structured baseline expenditure review than the pressure-cooker process of assessing new initiatives. However, it appears that the wellbeing approach is largely implicit in the recently completed spending review of the Natural Resources Cluster.

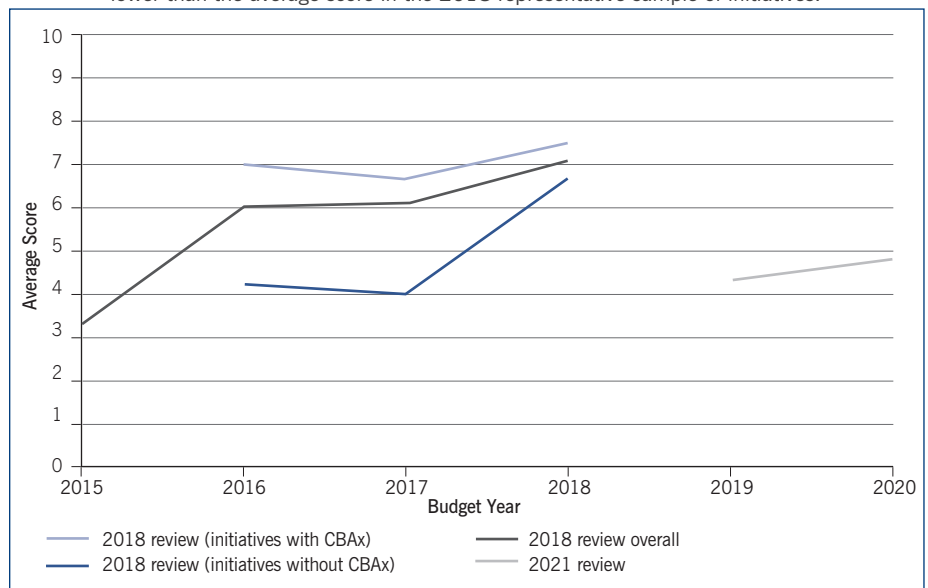
Is the issue 'wellbeing'? Is it 'the environment'? Is it both?

For the environment, relying solely on wellbeing as the justification for spending could end up hindering more than it helps.

In the course of conducting my 2021 review, I came to doubt whether constructing budgets around the goal of wellbeing will make much of a difference for the environment. The continuous demand to render long-term environmental considerations in terms of wellbeing may simply end up complicating the budget

Figure 1: Trends in mean scores from NZIER's 2018 review and NZIER's 2021 review of the quality of budget initiatives

The average score from the 2021 sample of environmental initiatives was significantly lower than the average score in the 2018 representative sample of initiatives.



Source: NZIER, 2021

prioritisation process for marginal added value.

I worry that if we become fixated on making that link in a meaningful, evidence-based way, we will only focus on those areas that can be easily linked to wellbeing. This could divert a large amount of energy from tackling environmental issues that are already long overdue for attention.

Our ability to understand the outcomes of intervening in different policy problems also varies significantly. Without much better information about the contribution of the environment to current wellbeing, environmental investments may be discriminated against in favour of investments that are better understood. It is very likely that more direct, quantifiable and monetisable contributions will be seen as superior because they are more richly described and more certain.

This is already happening, at least from a technical standpoint. A review of budget initiatives with environmental considerations conducted by the New Zealand Institute of Economic Research found that the quality was 'very low'. In general, environmental initiatives were found to be 'deficient in a number of quality criteria and needed considerable improvement' (NZIER, 2021, p.5). (See Figure 1.)

Several features of the environment make its integration into the budget process challenging. These include the long-term nature of environment impacts,

the diversity of the environment and the fact that the environment is not traded in markets. Some aspects of the environment – such as those that are critical, life-supporting or characterised by tipping points – are difficult to place alongside other investments with less severe consequences.

If it is hard enough to assess the environment's contribution to the here and now, then doing so over extended time frames is orders of magnitude more difficult. So many environmental issues involve dynamic living systems whose disruption today will lead to unknown perturbations with significant consequences for the wellbeing of younger generations, as well as generations to come. We know even less about what future societies are going to value for their wellbeing.

How can we do a better job in the budget process?

While we have to do a better job of ensuring that the environment receives consistent attention in wellbeing budgets, that doesn't necessarily require a perfect union between a wellbeing approach and the environment.

The budget process needs to change so that the environment is not only considered but embedded at each phase of the process. This requires better measurement and synthesis of environmental information, improved interrogation of expenditure

proposals using purpose-built tools, and better synthesis and communication of impacts throughout the budget process.

In my review, I made four clusters of recommendations that would be useful to any sort of budget process that wanted to take the environment seriously. All of them address wellbeing budgets as they are currently conceived, but could also be applied in budgets with a focal point other than wellbeing. They have been chosen on the basis that they can be progressed without delay and provide the most immediate opportunities to improve the quality of budget making. They included:

- improving the way the environment is handled in the budget's wellbeing analysis templates and other tools;
- improving the quality of information available in the budget process to reflect what is known about future risks, uncertainty and tipping points;
- reviewing the way cost–benefit analysis is applied to budget initiatives to ensure that budget proposals with enduring benefits to future generations are not effectively discounted away to nothing; and
- improving the presentation of critical environmental information in the budget process.

The recommended actions are in no way comprehensive. They should be viewed, rather, as points of leverage to improve a process that is still relatively new and evolving.

Is that enough? Or should 'the environment' be even more distinct in the budget process?

The government and its advisors should consider whether it may be worth treating environmental spending and investment priorities in a different way. This would need to acknowledge the radical uncertainties that surround potential tipping points and the lengthy time frames over which major environmental issues evolve.

Identifying key, long-run, systemic challenges and developing investment priorities to progressively address them is one way to ensure that action on key environmental issues is not neglected by the budget process. This can be done without continually framing the underlying analysis in terms of current wellbeing. Existing approaches to environmental

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reporting (such as the driver–pressure–state–impact–response framework) or natural capital could be used as frameworks to implement this.⁶ While these frameworks can be linked to wellbeing in a granular way, it is not essential to do so to act on what they are telling us.

Challenges such as trying to eliminate fossil fuel emissions to the atmosphere, stop the flow of microplastics into the environment or arrest the decline in native biodiversity all require urgent action. Failure to do so will bring about changes that irreversibly commit current and future generations to a world with greatly reduced options.

This could be expressed as a concern for intergenerational wellbeing. But does that need to be the lens we use?

We have no way to say how wellbeing will be construed in the future. Are we really aiming to rid our native ecosystems

of exotic predators by 2050 to enhance the future wellbeing of New Zealanders? In a sense we are. But that rationale does not seem to make the case for investment any more potent, or provide any better guidance on how it might be weighed up against other proposed investments affecting our natural wealth, or, indeed, other aspects of our national wealth.

One way to ensure a steady focus on the issues that continue to eat away at our natural wealth is to have a short but comprehensive list of key standing environmental issues that are raised consistently, year on year. The budget cycle could include a crisp, high-level stocktake of how these key long-term environmental issues are being managed.

Such an approach may also make it simpler for agencies that do not deal with the environment as part of their core business – but still need to take account of it – to approach these issues directly, rather than through a wellbeing lens.

No budget ignores the impact of the Crown's spending on its future liabilities. Why should it be any different with respect to environmental responsibilities? We can estimate the trajectory of public debt with a reasonable level of confidence under different scenarios. We need a similar, though not necessarily monetised, way of estimating the trajectory of accruing environmental liabilities.

One way to do this would be for the Ministry for the Environment and the Treasury to identify tipping points beyond which irreversible change to natural capital may occur. This flags not only the potential loss of ecological benefits that flow from natural capital, but also costly fiscal liabilities that may flow from a failure to grapple with the problem much sooner.

The sort of long-term environmental challenges I have alluded to remain challenges whether politicians choose to acknowledge them as priorities or not. The best we can hope for is that their existence and trajectory is brought consistently into the frame of budget conversations.

Conclusions

Since the publication of my report on wellbeing budgets, I have become even more convinced that the minister of finance should, at the presentation of

the budget, publish a report that outlines how new fiscal initiatives, as well as any changes to baseline expenditure, respond to environmental issues identified in state of the environment reports. These issues are enduring ones and not amenable to finite, short-term solutions. They are largely issues we will live with for the indefinite future.

I am in the process of formalising a recommendation on how environmental reporting and the budget system might be formally linked. That will become part of a short follow-up synthesis report I will publish later this year that will draw together the threads of my three reports on the generation and use of environmental information.

Details aside, the key message is clear: key long-term environmental issues need to be explicitly acknowledged and responded to as part of the budget process.

I take no issue with the decision to align expenditure with the pursuit of wellbeing as the pre-eminent goal of fiscal policy. But *if* wellbeing is to be the central pillar of

public expenditure, and environmental spending needs to be justified in relation to this goal, then the links between the state of the environment and wellbeing need to be understood.

These links are only tenuously developed, if at all. It is not hard to make the connection between the immediate benefits of safe drinking water or access to parks for recreation. But trying to think about the impact of an evolving biophysical environment we understand very incompletely on unborn generations becomes vertiginously challenging. These are not the sorts of questions that are easily accommodated by something as relentless and necessarily truncated as the annual budget cycle.

Trying to fix environmental problems is hard. As things currently stand, the environment is not any better off in a wellbeing budget. It is much easier for decision makers to focus on initiatives that provide short-term, relatively certain outcomes.

Until we have good environmental data and knowledge, and good connections between environmental reporting, research and budget processes, we will continue to make poorly informed spending decisions about the environment. Hopefully, the suggestions presented here provide some options to make the long road a little easier.

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- 1 See Parliamentary Commissioner for the Environment, 2019, 2020, 2021. These three reports will be supplemented by a short synthesis report that focuses on the need for better connections between environmental reporting, environmental research and budget process.
- 2 Country-level analysis confirms the strength of this link. See Vemuri and Costanza, 2006.
- 3 For further information on the genesis of the concept of natural capital, see Missemer, 2018.
- 4 There is ongoing work – for example, Ausseil et al., 2021 – that responds to some of these difficulties.
- 5 This box pulls out findings from chapter three of *Wellbeing Budgets and the Environment: a promised land?* (Parliamentary Commissioner for the Environment, 2021). On the focus on the short term, see pp.69, 73; on difficulties linking the environment and wellbeing, see pp.51, 59, 72; on uncertainty about the level of investment needed, see p.72; on the lack of informed trade-offs, see pp.55, 60, 67; on the absence of scrutiny from the standpoint of intergenerational wellbeing, see pp.60–4, 67–9, 72; on the commensurability of outcomes, see p.59.
- 6 For more information on the DPSIR framework, see European Environment Agency, 1999. For more information on natural capital accounting, see United Nations et al., 2014