collective wellbeing
Carnegie UK

Budgeting for Wellbeing: International approaches

Acknowledgements

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Report for Carnegie UK

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Foreword

Governments and societies across the globe are increasingly recognising the importance of improving the wellbeing of their citizens and making this the central goal of their economic and policy ambitions. At Carnegie UK, we believe that putting wellbeing approaches at the heart of decision making can focus public policy on ensuring everyone has what they need to live well now, and into the future. However, we also know that turning this ambition into reality is not straightforward.

This report was commissioned because systemic and tangible changes to how governments raise and allocate their financial resources remain limited, despite significant domestic and international progress in developing frameworks and measures for wellbeing policy aims. There is a pressing need for practical and actionable guidance to support governments in this respect. We identified a critical gap: how can fiscal policy - through revenue raising, spending, and budgetary processes - be reimagined to prioritise and deliver improved wellbeing for people? This paper examines global examples, innovative tools, and emerging practices that have the potential to transform public spending from an all too often reactive, short-term and siloed exercise into a lever for the proactive, holistic pursuit of long-term wellbeing.

Three core themes emerge from this work:

1. The potential (and the challenge) of aligning government activity and spending with shared, whole-of-government priorities. Current fiscal structures are often fragmented, leading to duplication or even counterproductive efforts. This report provides valuable lessons in how budgetary practice can be harnessed to drive alignment, break down silos, and support transformative progress on wicked problems that do not fit neatly into single departmental boundaries.

2. The imperative of prevention and early intervention. Too often, public spending focuses on mitigating harms after they have occurred rather than preventing them in the first place. A genuine wellbeing approach requires us to look upstream, investing in addressing the root causes of societal challenges and supporting initiatives that foster resilience and opportunity from the outset. Such investment is still the exception rather than the rule.

3. The need for new tools and approaches within budget processes. Achieving wellbeing outcomes demands a more nuanced and integrated fiscal analysis, one that takes account of complexity, interdependence, and impact over the long term. This report highlights promising efforts by governments to design and implement tools that place wellbeing at the core of policy analysis but also underscores the challenges of usability and some of their limitations.

Carnegie UK is grateful to Dr Cressida Gaukroger for her authorship of this report. We hope the research provides both inspiration and practical guidance to policymakers across the UK and internationally who are grappling with how to embed wellbeing approaches into public finances. The journey to improving our collective wellbeing is complex and ongoing, but by redirecting and deploying the levers of government spending and fiscal decision-making, we can take meaningful steps to realise this vision.

Sarah Davidson. CEO, Carnegie UK

Introduction

Over the last two decades, important progress has been made in establishing wellbeing measures and building public and political momentum for locating wellbeing at the centre of government and the economy. However, there is a clear need for greater action by governments and more practical guidance on what form that action should take. Revenue raising and spending are among the most powerful levers a government has. Government budgets and fiscal rules shape the activities that are carried out; how proposals are developed; and how government departments, ministers and institutions work (or do not work) together. Beyond being the means through which the government carries out most of its activities, spending and revenue raising signal government priorities; steer business, innovation and investment; and can be used to bring about positive cultural change, shifting power and building democracy.

It is well known that the principles that underpin a wellbeing approach to government – such as prevention, resilience and long-termism – are also sound fiscal principles, implicitly used by many private businesses. However, despite the public sector increasingly struggling to keep up with the growing need for services, and record levels of government spending, most governments have not meaningfully adopted these principles in their fiscal activities and processes. This report explores activities and tools adopted by governments around the world that aim to improve outcomes for people and the environment by improving the decision-making processes around spending.

Section 1 looks at how budgets have been used to align the activities of government with whole-of-government priorities. The current disjointed and siloed practice of government budgeting and spending is at best undermining its effectiveness. At worst, it directly undermines efforts to address 'wicked problems' and make significant progress on wellbeing goals. Practice in this area is in its early stages, but there are valuable lessons in how to use budget structures and practice to improve long-term outcomes.

Section 2 looks at the challenge of increasing the proportion of government policies and initiatives that take a preventative and/or early intervention approach to prevent harms, as opposed to only responding to those harms once they have emerged. Steering governmental focus towards prevention creates an opportunity to use public spending more effectively to improve wellbeing, and to leverage improved wellbeing to support fiscal sustainability. To be successful in pivoting towards prevention, governments must address barriers to holistic, integrated and long-term decision-making.

Section 3 focuses on the tools that can be employed as part of the budget process to improve policy analysis, and to inform and support holistic budget decision-making in the service of wellbeing goals. A wellbeing approach to government requires building more deliberation into government decision-making, considering impacts along a longer timeframe, and focusing on the causes of and solutions to problems that fall across and between multiple portfolio areas. Many governments have tried to build tools to incorporate wellbeing impacts into budget analysis. These tools must be designed and delivered with a focus on usability, and governments must recognise their limitations.

This report analyses international wellbeing-focused budget practice to provide a basis for guiding government fiscal practice. It focuses on wellbeing-aligned steps that national, state and regional governments have taken to build budget and fiscal structures and practices. While local government practice is sometimes mentioned it is typically beyond the scope of this research.

Photograph: Dr Cressida Gaukroger

Section 1:

Aligning the activities of government with whole-of-government priorities

1.1 The opportunity

Making progress on wellbeing in government requires holistic thinking underpinned by better cross-departmental links. The components of wellbeing - such as social, economic, environmental and democratic thriving - are deeply intersectional. In any domain of wellbeing the levers for tackling the root causes of issues rarely lie within the portfolio area of the department that addresses the symptoms of those issues once they arise. Genuine change cannot be built through a thin network of one-off and often contradictory policies.[1] Instead, all government institutions must work towards shared goals to have the power to go beyond any initiative in isolation.[2]

Aligning government activities with whole-of-government wellbeing goals or 'missions' cannot be achieved within Treasury practice alone, but how budgets are structured and managed can play a key role in facilitating and supporting this shift. Government budgets are a touch point for all central departments' activities. This creates a juncture for whole-of-government reform. Because resource allocation plays a crucial role in motivating and enabling ministers and government departments, effective budget reform can also help drive the cultural changes necessary for the government to use its resources strategically for the wellbeing of current and future generations.

1.2 Challenges

Governments typically struggle to align their activities and spending with broader priorities, objectives or goals. While some jurisdictions (typically sub-national or local) have made progress on particular areas of wellbeing - such as sustainability and carbon emissions, governments tend to find little success when they attempt to broadly steer their activities towards a particular goal.

This challenge is not unique to wellbeing approaches, but it is a significant barrier to improving wellbeing outcomes. Complex problems cannot be addressed without coherent, integrated, and sustained approaches. Despite the desire of governments across the world to shift the dial on complex problems, most attempts to do so remain fragmented, creating only small pockets of success rather than widespread change.[3] Government activities remain focused on trying to address the symptoms of problems through siloed departments, agencies and services. Current budget practices such as adversarial and department-driven funding allocation reinforces siloing, undermining the ability of governments to take a strategic and coordinated approach to making progress on whole-of-government priorities. Addressing this problem is incredibly difficult, and cannot be achieved without significant reform. There is no jurisdiction that stands out as having solved this challenge so far.

1 For example, school meal programs may help lift the nutrition of disadvantaged children, but if at the same time a government limits or reduces child benefits, any gains will be offset if not eradicated entirely. Similarly, low-emissions energy transition strategies often end up fighting against high-emissions transport strategies in achieving progress towards a government's carbon goals. See Section 2 on the impact that having government programs working at cross-purposes can have on government finances.

2 This is also true of all levels of government.

3 Cairney, P. (2025). Policymaking integration, policy coherence, and whole-of-government approaches: a qualitative systematic review of advice for policymakers. Open Research Europe, 5(75), 75.

Box 1: Policy and budget sequencing

The sequence of wellbeing reporting, policy analysis, policy design, and spending plans matters. Making coordinated wellbeing goal-oriented decisions on spending priorities and approaches requires a good understanding of current problems that a jurisdiction is facing and the opportunities available to address these problems. Spending cannot come before strategy, and yet spending processes and strategic development are often kept separate. To reform budget processes, governments need to:

1. ***Set goals:*** First identify wellbeing goals, ideally through public dialogue.
2. ***Develop an understanding of the current state of play:*** Map where the jurisdiction stands in relation to these goals including the distribution across the population. This must be done early enough in the policy and budget cycle to enable planning to address negative or flatlining trends.
3. ***Analyse the cause of these outcomes:*** As areas of priority emerge, governments should identify and understand the 'problems' that they are trying to solve. The more time spent on understanding the problem, the better the solutions will be. People and communities with first-hand experience of wellbeing challenges will have insights into how to tackle them that will likely fall outside of siloed departmental boundaries. Analysis should also involve a strong focus on the upstream conditions that have led to these problems to understand where and what change needs to happen.
4. ***Develop policy based on this analysis:*** To positively advance wellbeing outcomes, policy development should focus on co-benefits, long-term impacts, second-round fiscal savings and costs.
5. ***Set spending plans:*** Once policy is scoped, spending plans can be developed to resource and shape services and activities accordingly. Annual budgets should be recast not as discrete junctures, but as steps towards longer-term wellbeing goals that are pursued across parliamentary terms. Budgets are therefore annual opportunities to refine strategy and approach, making a proactive effort to move interventions upstream.
6. ***Assess spending:*** Government plans and delivery should be assessed against the progress on improving wellbeing outcomes, recognising the interdependent nature of policy goals. Oversight, audit and evaluation should review and assess how well policies and budgets are supporting progressive change. Regular reporting cycles will foster continuous improvement.

1.3 How this has been tackled internationally

Some jurisdictions have sought to bring a cross-cutting lens to priority wellbeing areas (such as sustainability and gender equality) through the budget process. For example, departments can be required to demonstrate how they considered particular issues or goals in the development of their budget bids, or to carry out impact assessments that focus on wellbeing or other areas such as gender, sustainability, first nations peoples (see Section 3). The most common step governments have taken to bring wellbeing into budgets explicitly is the inclusion of wellbeing indicators as part of the budget process. Canada's Quality of Life Framework and Scotland's National Performance Framework are both examples of wellbeing dashboards that are intended to help critically assess government budget decisions. However, while wellbeing dashboards highlight outcomes that sit outside departmental boundaries, there is little evidence that they are sufficient on their own to drive sustained change in budget practice. A requirement to regularly report on wellbeing outcomes as part of the budget process, for example, does not in itself provide government departments with guidance on how to improve the indicators being reported on. Assessing budget bids on the grounds of their coherence with wellbeing indicators cannot overcome siloed budget allocation processes.

Wellbeing budget: This term is often used by governments and even more often by media to refer to any budget that has a 'wellbeing component' such as a statement, metrics, or requirement that governments report on the state of wellbeing as part of the budget process. For example, the inclusion of a wellbeing index or dashboard within a budget can be enough to get a budget categorised as a 'wellbeing budget', as can a budget paper discussing the concept of wellbeing or recommendations for its consideration.

The title 'wellbeing budget' is far less important than whether budgets proactively embed wellbeing into budget structure, expenditure, revenue generation, and policy design and analysis. However, such a title does not have much value if it is used so broadly that a budget qualifies for the term without including a shift towards practice that is more preventative, holistic, long-term, integrated and participatory (or some combination of these). For this reason, this paper does not use the term 'wellbeing budget' to refer to a budget that simply includes a wellbeing measure. After all, one would not refer to a budget that includes a measure of GDP within its papers as a 'GDP budget'.

It has long been recommended that governments adopt shared budgeting in order to drive a joined-up approach. Rather than having budgets allocated first to departments and units, greater progress can be made by instead adopting mission- or objective-based funding allocation.[4] This recognises the value of moving out of rigid silo-based budget allocation, and instead aligning spending and budget practices with cross-cutting themes, issues or outcomes.

4 McQueen, D. V., Wismar, M., Lin, V., Jones, C. M., Davies, M., & World Health Organization. (2012). Intersectoral governance for health in all policies: structures, actions and experiences.
J. Rossiter (2024). Cenhadaeth Cymru: Mission Wales, Governing with purpose - achieving progress. Institute of Welsh Affairs.

This is sometimes referred to as 'phenomenon-based budgeting' (budgeting that is structurally centred around phenomena, such as wellbeing, inequalities or climate change, rather than conventional sectoral boundaries). Phenomenon-based budgeting usually combines a set of tools and reforms to drive a more holistic budget-led approach to improving wellbeing-focused policy decision-making. Lessons can also be learnt from associated forms of phenomenon-based budgeting such as 'green budgeting' and 'gender budgeting', of which there are widespread examples.[5]

In practice no single reform has been used to systematically restructure government spending and policy approaches to improve policy coherence and aid in delivering whole-of-government strategic priorities. Instead, leading jurisdictions bring together complementary sets of reforms and spending commitments to guide, engineer and support connected working towards wellbeing goals and/or priorities. For example, Ireland is piloting a programme within its Treasury that tags public expenditure in line with Ireland's Well-being Framework. The programme requires departments to tag each line of expenditure with the policy goal and relevant categories or dimensions from the wellbeing framework, that it serves.[6] This has the potential to support whole-of-government strategic alignment via the data it generates, and creates an opportunity for relevant central agencies to work with departments to encourage ways of working that help to meet the goals of the Wellbeing Framework (for example, considering how the activities of a department could best serve the objectives of the framework in the policy generation stage).

Other reforms include:

- Setting wellbeing budget priorities as seen in New Zealand and Iceland. This approach seeks to address a small number of urgent current wellbeing deficits, such as child poverty, youth mental health, or lack of access to affordable housing.
- Requiring departments and or cabinet to show how wellbeing has been used to determine spending requests or allocation decisions.
- Supporting phenomenon-based budgeting through structural reform such as setting up inter-organisational steering groups and executive boards to create more opportunities for cross-cutting policy approaches.

Highlighted are three examples of jurisdictions that have combined a range of budget process reforms to drive progress on cross-cutting wellbeing goals.

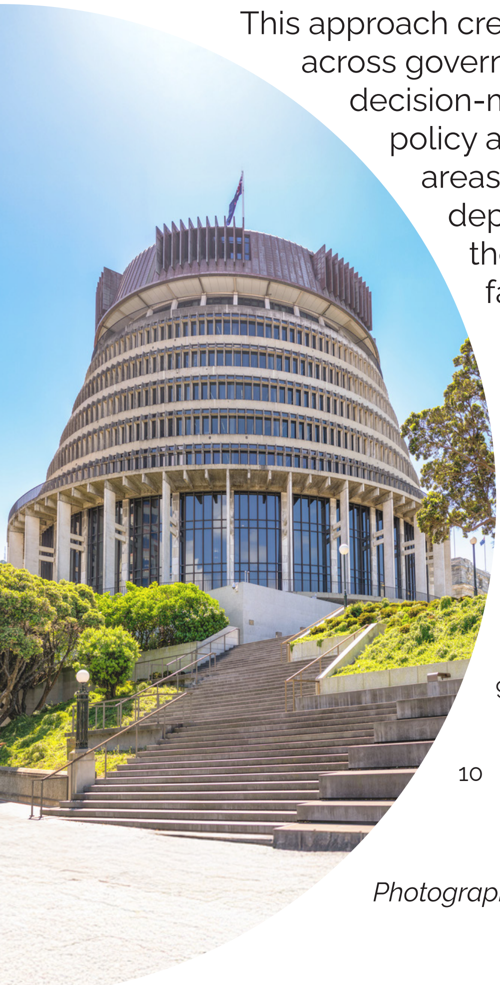
5 OECD (2024), Green Budgeting in OECD Countries 2024, OECD Publishing, Paris.
6 Department of Public Expenditure and Reform, Ireland (2022). Well-being and Public Policy Utilising a well-being perspective to inform the budgetary process. Irish Government Economic and Evaluation Service.

New Zealand

New Zealand's 2019 'wellbeing budget' sought to align whole-of-government decision-making and spending with wellbeing through a combination of spending commitments, new ways of working (including requirements for departments when allocating existing funds), a dedicated pot of money that departments could bid for, and reporting on wellbeing. The 2019 budget included:

- A wellbeing outlook that included wellbeing indicators and measures of social, natural, financial, and physical capitals.
- Five wellbeing priority areas: selected based on areas of wellbeing deficit identified by their Living Standards Framework (wellbeing measure), advice from government agencies, and agreement of the full Cabinet.[7]
- New spending equivalent to 5% of total expenditure committed to making progress within the five priority areas.
- A requirement on each department to show how their proposed spending contributed to wellbeing or to one of the five wellbeing priority areas.[8]
- A requirement on each department to identify 1% of their baseline expenditure that could be reallocated to initiatives more closely aligned with New Zealand's wellbeing objectives.[9]
- Supporting legislation, the Public Finance (Wellbeing) Amendment Act (2020), requiring that all future government Fiscal Strategy Reports include detail on how the government's budget decisions have been guided by wellbeing objectives.[10]

This approach created new opportunities for collaboration and holistic thinking across government, and it motivated whole-of-government strategic decision-making because Cabinet needed to agree on the integrated policy approach they judged would best address the five priority areas. The additional funding for priority areas also encouraged departments to collaborate on budget bids that would address these priorities. For example, one bid that aimed to address family and sexual violence was collaboratively developed by ten different agencies. These reforms were further supported by the Public Services Act (2020) which established interdepartmental executive boards called 'interdepartmental ventures' to carry out functions that relate to the responsibilities of multiple departments.



7 New Zealand Treasury Official Information Act release 20190853.

8 Unless it represented a cost over which they had little discretion or could be shown to reflect the government's election promises.

9 New Zealand Treasury, "Budget 2019: Guidance for Agencies" 19 September 2018. The Cabinet approved around $700 million of the $2bn identified for reprioritisation.

10 This legislation may soon be repealed: https://www.regulation.govt nz/assets/RIS-Documents/Regulatory-Impact-Statement-Public-Finance-Act-Amendment-Bill-Strengthening-Fiscal-Responsibility.pdf

Photograph: New Zealand's National Parliament building in Wellington

Joint operational agreements further provided a formal structure for co-operative and collaborative working arrangements between public service agencies.[11] While the priority areas were the main focus of media reports on, and criticism of, this budget (with concerns being raised that they were not ambitious enough in scope or approach to have a transformative impact), it is the innovative changes to the budget process that showed particular promise. The budget guidance to departments to show "evidence of cross-agency and/or cross-portfolio collaboration" for new initiatives[12], for example, was highlighted as fostering collaboration between departments.[13]

While the approach taken in the first wellbeing budget and supporting reforms showed promise, it is difficult to fully assess its success as many of the components were relatively short-lived. The COVID-19 pandemic shifted budget priorities to crisis response, recovery, and rebuilding. The change of government in 2023 further ended many components of the wellbeing budget approach. Some have suggested that a lack of citizen engagement in setting the priority wellbeing areas lessened public engagement with the reforms and made it easier for them to be quickly removed by subsequent governments.[14] The scope of reforms is also considered to have been limited by the fact that fiscal targets were set independently from the wellbeing budget process, and structural budget responsibility rules and spending limits curtailed the potential to increase spending commitments on priority areas and, consequently, the impact of the approach.[15]

Wales

Wales's wellbeing government approach centres around its Well-being of Future Generations (Wales) Act (2015). The Act places a statutory requirement on specified devolved public bodies to work towards all seven of Wales' wellbeing goals in all of their activities, using five ways of working also outlined in the Act. Various mechanisms support the embedding of the requirements of the Act in the budget process including:

- The Budget Improvement Plan: a five-year plan, updated annually, aimed at improving the Welsh Government's budget process by using the Well-being of Future Generations Act and the five ways of working.

11 As with many of these reforms, this Act will likely be changed by the new government, though the Amendment Bill which is slated to be introduced in July 2025 does have "utilise and improve tools to reduce silos" listed as a targeted aim. https://www.beehive.govt.nz/release/back-basics-public-service

12 New Zealand Treasury, "Budget 2019: Guidance for Agencies" 19 September 2018.

13 https://internationalbudget.org/wp-content/uploads/new-zealand-well-being-budget-may-v2-2020.pdf

14 Hughes, G. (2023) From Wellbeing Budgets to a Wellbeing Economy—A View from Aotearoa New Zealand. New Economy: Vol. 4.

15 The fact that, in doing so, the budget was seen to prioritise financial targets over wellbeing targets garnered it the nickname 'wellbeing on a budget'. https://newsroom.co.nz/2019/05/30/what-the-wellbeing-budget-should-have-been/

Photograph: The Senedd - Welsh Parliament building

- Strategic Integrated Impact Assessments (SIIA): as part of the annual budget cycle in Wales, the Welsh Government Draft Budget undergoes a SIAA to identify key trends, strategic and cumulative impacts of the Draft Budget, and ensure it gives due consideration to a number of statutory requirements including the Well-being of Future Generations Act.
- The Future Generations Commissioner, who has a duty to review draft budgets and assess the extent to which they align with the Act.

The work to improve the integration of Wales' long-term, whole-of-government goals into the budget process is continuing: in June 2024 it was announced that the next Welsh Spending Review (conducted every two years) would extend "beyond short-term priorities to focus on the key medium to longer term challenges and opportunities that we face, setting the foundations for longer term settlements and embedding a whole-Government approach to identifying priorities and supporting delivery of outcomes for Wales".[16] While Wales is considered a world-leader in embedding wellbeing into government decision-making, its budget structures continue to act as a barrier to greater progress in collaborative and whole-of-government approaches towards its mandated wellbeing responsibilities.

Iceland

Iceland has a long history of investment in welfare and sustainability. In 2019 the government carried out a wide-scale public and expert consultation process that identified six wellbeing emphases for the Icelandic government and informed a new set of wellbeing indicators. These priorities served as the basis for the government's five-year fiscal strategy, which is required to align with a broader fiscal framework, and annual budget. The budgets for central and municipal governments must align with the fiscal strategy. The strategy for addressing the wellbeing priority areas included increased funding for acute needs (for example, for mental health services) and prevention (recognising the impact that violence reduction and supporting leisure activities has on mental health); strategic plans (such as a parliamentary resolution on housing strategy alongside a five year housing action plan); legislation (such as an Act aimed at strengthening long-term strategic planning in science and innovation); and a range of other activities (such as establishing a working group on strengthening trust in politics and public administration).

Iceland has benefitted from a cross-cutting approach to wellbeing-focused government decision-making, which has drawn in particular on aspects of its existing budget structure - for example, the decision to place wellbeing priorities at the heart of Iceland's five-year fiscal strategy.

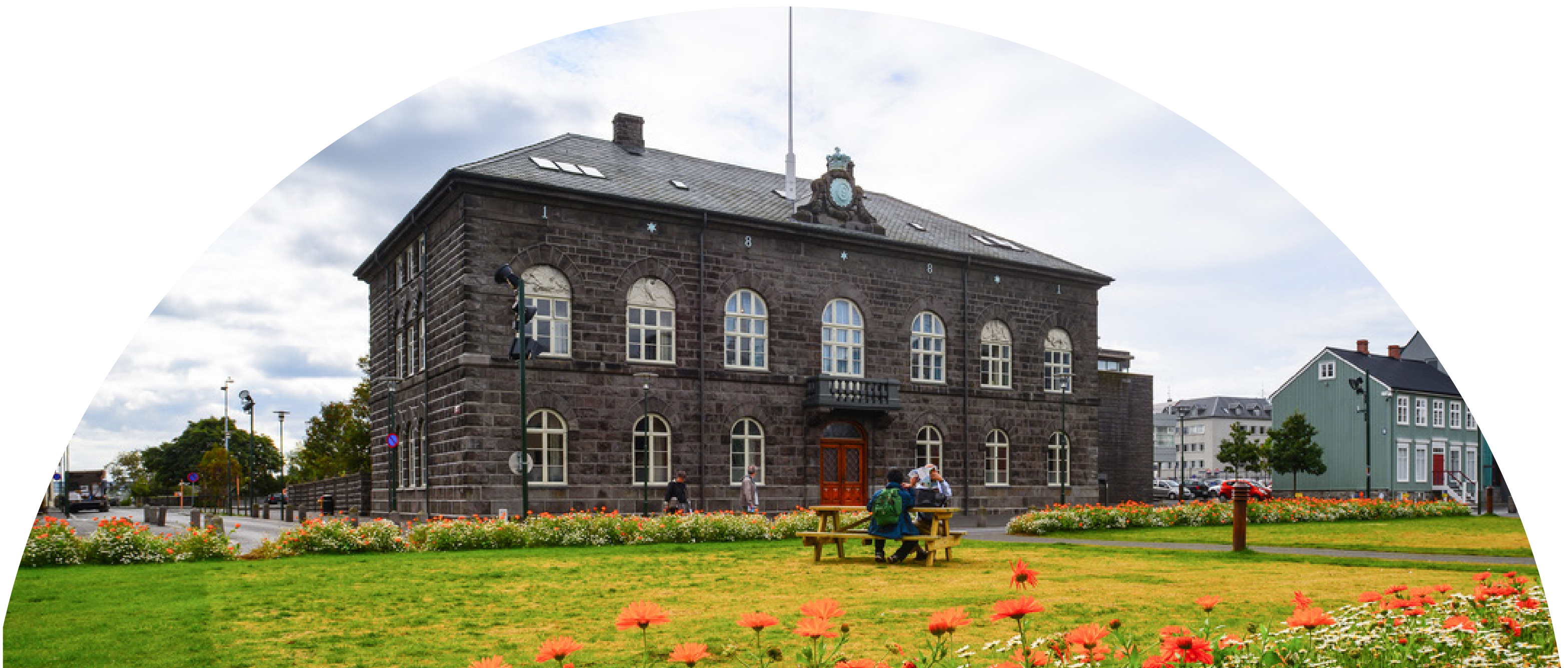
16 https://record.senedd.wales/Plenary/13947#A88742
See also https://wcpp.org.uk/project/welsh-government-spending-review/

It is likely, however, that just as much progress is being driven by non-budget supports for a whole-of-government approach, such as:

- The decision to locate responsibility for overall coordination of advancing the well-being economy agenda in the Prime Minister's Office.
- The establishment of the Council for Sustainable Iceland, chaired by the Prime Minister, that brings together "representatives of local governments, industry, businesses, labour unions, Parliament and nongovernmental organisations (NGOs), together with all government ministers" to formulate, deliver and coordinate a sustainable development strategy for Iceland.[17]

17 https://iris.who.int/bitstream/handle/10665/369105/WHO-EURO-2023-7415-47181-69111-eng.pdf?sequence=1
https://www.government.is/topics/sustainable-iceland/

Photograph: Icelandic Parliament building in Austurvollur Square in Reykjavik Iceland



Box 2: Barriers to change

Much of the reason governments struggle to adopt the components of a wellbeing approach from working in a joined-up, whole-of-government way, to making decisions that adequately incorporate long-term and preventative strategy is not a lack of relevant tools or arrangements, but rather the barriers thrown up by existing rules, processes, and practices. Barriers to better practice can be found across every area of government from departmental structures and legislative requirements, to internal culture and career incentives. The landscape of budget and fiscal rules, processes and practices contains a multitude of them.[18] This can be seen, for example, where (as Section 2 explains) the formulation of offset rules acts as a barrier to collaboration and investment in prevention and early intervention.

Budget and fiscal processes that concentrate on fiscal targets and budget allocations prior to consideration of goals or missions, necessarily limit the ambition and resources of governments in pursuing whole-of-government wellbeing goals. This makes it much more likely that governments will fall back into old patterns, assigning inadequate (however big they seem at the time) and time-limited funds, into an existing siloed and short-term system, to tackle difficult problems that have repeatedly resisted previous efforts. In New Zealand, for example, the fact that fiscal targets and tax policy were set independently from the Wellbeing Budget was a constraining factor on the ability for the government to use fiscal policy to achieve its wellbeing goals.[19] Even where countries announce new spending commitments in order to make ground on cross-cutting wellbeing priorities such as in New Zealand and Iceland, budget spending on wellbeing priority areas still represent a small proportion of overall budget expenditure.

Comprehensive spending reviews can be powerful potential tool to coordinate the activities of government towards strategic goals or to take a holistic and long-term view on government investment. However, they are currently limited to setting expenditure limits and making savings. This can be turned around: in the UK, it has been recommended that, to ensure that the Starmer government's 'missions' are sufficiently resourced the UK's spending review should start with mission priorities and their required resources, rather than with the usual departmental negotiations.[20]

Legislation relating to borrowing and revenue raising can also lead to inflexible and short-term budgeting. Many devolved or sub-national jurisdictions (for example, the devolved UK governments) legally have no or highly-constrained borrowing capacity. As the majority of their budgets are pre-committed to necessary public service delivery, this severely limits their ability to resource transformative reforms or initiatives.[21]

18 Gaukroger, C., Koh, E. and Phillips, T. (2025). Embedding Progress: How to align public institutions with a better future, Centre for Policy Development.
Trebeck, K. (2024). Getting wellbeing economy ideas on the policy table: theory, reality, pushback and next steps. The Club of Rome.

19 https://internationalbudget.org/wp-content/uploads/new-zealand-well-being-budget-may-v2-2020.pdf

20 https://www.newstatesman.com/the-weekend-essay/2024/11/keir-starmer-must-remember-his-mission
https://www.civilservicereformuk.com/single-post/the-avoidable-demise-of-mission-led-government
https://www.instituteforgovernment.org.uk/sites/default/files/2024-09/Five-steps-labour-government-missions_2.pdf

21 https://www.iwa.wales/wp-content/media/IWA_-Fiscal-Firepower-and-Effective-Policy-Making.pdf

Box 2: Barriers to change cont.

Further, the annuality of budgets limits flexibility between years, meaning that jurisdictions often cannot 'save up' for investment as an alternative to borrowing.

Governments cannot effectively reform the budget process without analysing its current component parts to understand which of these need to be removed or changed. A well resourced process should consider everything from the templates that departments are required to use, to rules relating to fiscal calculations and management, to the cabinet handbook. A revision or realignment of any one of these has the potential to bring about far more significant change than the introduction of a new tool or process that does not address the existing blockage points in the system.

1.4 Conclusion

Driving and supporting a whole-of-government approach to wellbeing goals needs to be an objective of budget design and reform. Very few jurisdictions have budget processes and structures that were deliberately, strategically designed. Instead they arose as a hodge-podge of different parts and practices, which were combined and added to incrementally over long spans of time. A real way to improve whole-of-government coordination and long-term thinking would be to fundamentally re-design and reorient the budget process. Failing this, investing in analysing what an ideal budget structure would look like, even if an exhaustive budget transformation is too challenging, would help provide a blueprint for the direction and shape of more gradual reform.

In practice, jurisdictions have recognised the importance of implementing an interconnected network of budget-related changes. These include: legislation, reporting requirements, budget tagging, directives, steering groups and cross-cutting groups. The adoption of such changes will be more effective when designed by a team mindful of the power of fiscal incentives for departments and civil servants. For example, new spending that lies outside of departmental budgets can be an incentive to try out new processes such as multi-portfolio budget bids. In some cases, there may be existing structures that can be redirected towards taking whole of government approaches to wellbeing such as the instituting five-year fiscal strategies in Iceland.

Setting priority goals or areas of focus can, in principle, ensure that important issues that fall across and/or between portfolios are sufficiently financed, and retain momentum across government. However, priority goals cannot be treated as quick-fixes - budget strategy needs to embrace a longer-term view and acknowledge that big-picture goals or missions take time to deliver well, and will require maintenance once in place. Involving the public in setting these goals can also contribute to the political longevity they need in order for governments to pursue them over a useful time-frame. Action on priorities needs to include changes to process, to encourage or require cross-cutting collaboration. New spending alone, however, is not sufficient for transformative change. Any government that wants to orient budgets towards joined-up and long-term approaches must adopt structural reform and change ways of working.

Further, budget reform aimed at aligning the activities of government with whole-of-government priorities, must have buy-in from every level of leadership. Cabinet and the final budget decision-makers need to be involved in the strategy early on. They should be part of the process of strategically aligning budget spending and procedures with wellbeing goals and/or priorities.

Finally, governments must recognise the fiscal barriers the budgets pose to real change within budgets. If fiscal restrictions and limits are set before the strategies needed to address cross-cutting government goals or missions are identified, it is unlikely that significant change can be realised, particularly in the absence of consideration of the future savings and benefits of making real progress against such goals

Section 2:

Increasing investment in prevention and early intervention

2.1 The opportunity

A wellbeing approach to government recognises that, where possible, wellbeing outcomes will be served better by preventing harms from arising, than by only alleviating or treating such harms when they arise. Prevention also becomes more effective the further upstream you look for the root cases of problems. However, within a system that is not designed to look upstream or focus on prevention, particularly where preventative initiatives will take a long time to work and will likely involve high levels of collaboration and holistic thinking, the opportunities to achieve broader and longer-lasting wellbeing outcomes are often overlooked. Though the proportion of government investment in prevention remains small, governments are increasingly recognising the value of investing in prevention and many have recently committed to establishing funds focused on intervening early to improve outcomes.[22]

It is well known that a significant proportion of government spending goes towards addressing problems that could be addressed or mitigated far more cheaply if tackled early on.[23] An increasing body of evidence has shown that a range of initiatives that work to prevent problems or intervene early lower the severity of individual and social problems, and have the potential to generate significant savings for government - in some cases savings that far outweigh the costs of delivering these initiatives.[24]

Meanwhile, demand for public services is growing, so governments are spending more than ever on acute services such as hospitals and policing, driven by factors including inequality, poverty and increased climate breakdown. Despite this investment, overall outcomes are often declining.[25] This is only forecast to accelerate if current trends continue. Taking a prevention and early intervention lens to government spending is a vital opportunity for governments to improve outcomes for the people they represent, while also improving the ongoing fiscal condition of government.

22 These include the UK's £500 million Better Futures Fund (launched July 2025), Australia's AUD 100 million Commonwealth Outcomes Fund (launched May 2023), and Ireland's commitment of a €330,000 investment to strengthen prevention and early intervention services for children and young people (announced July 2025).

23 For example, a 2016 report estimated that nearly £17 billion per year – equivalent to £287 per person - was being spent by the State on the cost of not taking an early intervention approach for child services in England and Wales. Similar analysis from 2018 estimated this cost for Northern Ireland at £536 million per year.
Chowdry, H., & Fitzsimons, P. (2016). The cost of late intervention: EIF analysis 2016. London: Early Intervention Foundation; Fitzsimons, P., & Teager, W. (2018). The cost of late intervention in Northern Ireland. London: Early Intervention Foundation.

24 Feinstein, L., Chowdry, H., & Asmussen, K. (2017). On estimating the fiscal benefits of early intervention. National Institute Economic Review, 240(1), R15-R29.

25 For example, despite UK spending on health has grown by 114 per cent in real terms since 2001/2, over the last decade healthy life expectancy at birth has declined in England and Wales. Carnegie UK (2025). Discussion Paper: Financing the Future. Carnegie UK: Dunfermline.

Upstream prevention and early intervention: In the context of this report, we use the phrase *early intervention* to refer to an intervention that happens shortly after a problem presents in order to reverse the problem, or stop it from becoming more acute. In health contexts this is sometimes referred to as 'secondary prevention'.[26] In contrast, *upstream prevention* aims to tackle the root causes of an issue to prevent it from arising in the first place.[27] *Prevention* that is not considered 'upstream' sits on the gradient between these two.

For example, in addressing youth crime:

- An *early intervention* approach may work with young offenders to provide support and alternatives to re-offending.
- A *preventative* approach may work with younger children from communities where youth crime is an issue to address the effects of disadvantage through early childhood education and care programmes.
- An *upstream prevention* approach may try to address the reasons those youth are at high risk of offending by working to address the broader economic drivers of poverty in their community.

While 'prevention' is most commonly used in the domain of health and 'early intervention' is often applied specifically in the context of early years policy, each of these concepts is applicable across all areas of wellbeing and government activity.

2.2 Challenges

Even where political will exists in support of greater investment in prevention and early intervention, structural features of government such as budget and spending rules stand in the way of this being achieved.[28] For example, within normal budget processes, the cost of funding these initiatives is typically set up to compete with existing operational funding and funding for acute services.[29] While preventative initiatives will often have a lower cost - or even represent a saving - over their lifespan when their impact on reducing demand for government services is factored in, typically only their upfront cost is represented in budget calculations. The savings they have the potential to generate, also known as their *second round fiscal savings*, are treated as theoretical. They are not used to offset the cost of the initiative.

26 Hogan, S. (2017). Assessing the merits of early intervention. Social Investment: A New Zealand Policy Experiment, 133.
27 See Trebeck and Bolton (2025) Heading upstream to tackle the economic root causes. The Next Economy.
28 Noting that an expression of political will to invest in early intervention does not always correspond to a commitment to do what is really required to make a real shift towards prevention.
29 For a summary of other barriers see: Puttick, R. (2012) Innovations in Prevention. Nesta: p.14.

Second Round Fiscal Effects: The costs or savings for government due to increased or decreased demand for government services.[30] For example, improvements in public health can reduce demand for health services. This means the government can meet the same proportion of demand at a lower cost - a *second round fiscal saving*. Similarly, cuts to social services can increase crime levels, increasing the need for policing and justice services and thereby increasing the cost to government of meeting the same proportion of demand for these services - a *second round fiscal cost*. In contrast, direct cuts to services or increasing a revenue stream will have fiscal effects for government, but these are not second round effects. Second round fiscal effects are not the same as second round *economic* effects - see p 24.

Typically, when a new policy initiative is funded, the department proposing the initiative must find room in their existing budget to cover its costs. This is often done through cuts to other programmes or lines of spending. This creates *the offset problem* where a department delivering preventative or early intervention policy proposals must find offsets for the entire upfront cost of an initiative from within their own departmental budget, not factoring in any savings it is likely to generate within or beyond its portfolio. The *offset problem* is a barrier to greater investment as such initiatives compete with the funding used to run core operations and address acute need. When prevention initiatives are viewed in the same way as any other expenditure, the costs are deemed immediate and obvious, while potential savings may not be realised until much later and hence are not captured in decision making.[31] For this reason, departments can be hesitant to propose preventative or early intervention policies.

The 'Offset Problem': This occurs when departments are required to offset the full upfront costs of an initiative, even when it generates savings elsewhere in government budget lines or proves more cost-effective than alternatives over its lifespan. The offset problem acts as a barrier to investment in more effective and fiscally prudent policies such as those which intervene early to address issues before they develop or escalate.

This budgeting bias against prevention and early intervention has deeper implications than simply disincentivizing wellbeing initiatives. It represents a barrier to long-term and holistic government decision-making.[32] The typically adversarial nature of the budget process further exacerbates the issue of departmental siloing and reduces the likelihood that many promising preventative initiatives will be proposed or funded. Civil servants are aware that it is in their interest to develop policies that *their* minister can 'announce'.

30 Gaukroger, C., & Phillips, T. (2024). Banking the benefits: better aligning budget process rules with Measuring What Matters.

31 Savings are also harder to estimate and measure than upfront costs. Trebeck, K., & Grant, L. (2024). Reflections on Why Upstream Change Is Hard but Absolutely Necessary. The University of Edinburgh Futures Institute.

32 For example, the challenge of representing the 'real' costs of initiatives that will have high upfront costs but lower costs over their lifespan is one of the barriers to investment in the net-zero transition.

Disagreements about who is going to pay for an initiative are responsible for many valuable initiatives being overlooked or scrapped.

The levers for preventing problems from emerging often fall outside of the departments that address the problems once they have arisen and that would accrue the savings if those levers were deployed. For example, an effective homelessness intervention in the housing department can generate savings for health services, and an increase in family benefits in the welfare department can generate savings in education and youth justice. When the upfront cost of an intervention falls to a different department than its resulting savings, there is no clear incentive for the department implementing the intervention to fund it. This is also a challenge for initiatives that create benefits that accrue to a different level of government, such as social initiatives delivered by local government that reduce demand for NHS hospital care.[33]

Furthermore, those departments who benefit from any second round fiscal saving may not even recognise them as savings, as they are often just 'absorbed': if departments aren't currently meeting all of the demand for their services, then a reduction in demand may just mean they can serve people who would not otherwise have been served.

Fiscal 'savings': When used in this context of this report, 'savings' refers to the ability of government departments or institutions to meet the same level of demand with fewer resources.

These savings are often masked or absorbed by unmet demand. In many cases, governments do not meet 100% of demand for services. When demand decreases, services usually continue at the same level, allowing a portion of those who would have previously been unable to access the service to do so (reducing waiting lists). While it may seem that no savings have been made, the ability to serve more people comes from a decision to use the savings from reduced levels of need to meet a higher proportion of overall demand.

Consider the following analogy: Phillis can only afford to spend £100 a month on heating her home. This equates to having her central heating set at 17°C. After a small windfall, Phillis installs insulation which she is promised will save money on her power bills. It now only costs her £60 a month to heat her home to 17°C, and she can get to her ideal of 21°C for £100 a month. If Phillis chooses to have her home at 21°C this does not mean that insulating her home did not save her money - it saved her £40 a month. She chose to spend that saving on heating her home to a higher temperature.

Similarly, if an intervention means that it costs a department less to meet their current level of demand, they may still continue their current level of spending, but this is a choice that they get to make - just as they could choose to increase spending in order to meet an even higher level of demand for services. Conversely, if demand goes up, the same department may have no available funds to meet the proportion of demand that they were meeting before. This is still considered as a cost because the cost of meeting the same proportion of demand has gone up - it is just that this is a cost that a department is unable or unwilling to pay.

33 Puttick, R. (2012) Innovations in Prevention. Nesta.

Even where funded, broad initiatives like earmarked funds are usually time-limited, and even the most successful individual programmes are rarely scaled up. Any savings such funds and programmes generate are treated as theoretical: they are rarely tracked, and even more rarely reinvested into the fund or used to grow successful programmes.

When second round fiscal savings are not formally factored into the cost of funding a programme, commitment to scaling a good initiative always involves re-making the case for why it is worth investing in its upfront costs. The government's assessment process then typically compares the upfront costs of these initiatives to other options for spending the same amount of money, without formally including calculations of their true or long-term cost - which is often significantly lower. Further, when they appear to represent a greater burden on government budgets, debates surrounding funding preventative initiatives are more likely to enter the public discourse. This can lead to underinvestment in areas that would have the biggest wellbeing and financial returns but are not always seen as 'vote-winners' because they serve the most marginalised and stigmatised sectors of the population, such as those experiencing homelessness, drug users, or young offenders.

It should be noted that it is not uncommon for governments to carry out analysis on the projected growth effects of public investment - sometimes simply referred to as 'second round', 'indirect' or 'dynamic' effects.[34] These differ from second round fiscal effects (see explainer box, below) as they do not focus on whether interventions will decrease demand for government services by improving wellbeing. Rather, they focus on the projected effect of interventions on economic activity.[35] Increased economic activity is typically understood as a way of improving future budgets. However, economic effects are typically difficult to estimate reliably, involve a high level of uncertainty, and carry a risk of double counting - unlike fiscal effects, they are not well suited for factoring into offsetting policy proposals.[36] Further, the economy can grow in GDP terms at the expense of wellbeing (through labour exploitation or stripping environmental resources), and can shrink as a result of improved wellbeing (for example, an increase in community volunteering reduces the need for paid services).[37] In contrast, second round fiscal effects are good proxies for wellbeing as savings represent a reduced need for the kinds of government services that address wellbeing deficits (like health or housing services), and costs represent an increased need for such services.[38]

34 For example, this kind of analysis is included by the UK's Office for Budget Responsibility in its Economic and Fiscal Outlook: https://obr.uk/docs/dlm_uploads/OBR_Economic_and_fiscal_outlook_March_2025.pdf

35 Noting the exception of unemployment transfer payments as a second round fiscal effect that is typically tied to levels of growth.

36 Parliamentary Budget Office. (2017). Including broader economic effects in policy costings. Australian Commonwealth Government: Canberra.

37 See, for example, analysis of the 'Wigan Deal': https://centreforpublicimpact.org/public-impact-fundamentals/the-wigan-deal/

38 Gaukroger, C., & Phillips, T. (2024). Banking the benefits: better aligning budget process rules with Measuring What Matters. The Centre for Policy Development.

Economic effects, fiscal effects, and social value:

'Economic effects' refers to the costs or benefits to the economy of increased or decreased economic activity or effects on prices. For example: a tariff introduced overseas may reduce demand for British cars, causing the automobile industry to shrink and lowering GDP.

'Fiscal effects' refers to direct savings or costs to government. For second round fiscal effects - the focus of Section 2 - these savings or costs are due to a reduced or increased demand for government services, activities or benefits. For example: a programme that reduces homelessness has the effect of reducing hospital bed stays, decreasing the cost to government of meeting the same level of demand for hospital beds.

'Social value' refers to the outcomes of a policy that extend beyond monetary value, but which governments often try to capture in monetary terms (to enable the comparison of different social impacts). For example: if two local redevelopment proposals cost the same, but one generates better outcomes for mental health and social connection, the social value of this proposal is greater, so it represents better value for money.

These three concepts are often conflated, but they are not equivalent. Particularly important for the recommendations in Section 2 is the distinction between economic and fiscal effects.

2.3 How this has been tackled internationally

Some jurisdictions have established institutions to support prevention and early intervention spending through analysis, evidence building, and evaluation - for example New Zealand's Social Investment Agency, and several of the UK's What Works Centres. There are also private social investment funds and initiatives.[39] This section will focus on government mechanisms to fund prevention and early intervention. These include: **Social Impact Bonds** (SIBs) directed towards early intervention initiatives; **earmarked funds** that increase investment in early intervention; and **amending government fiscal rules** so that projected savings from early intervention budget bids can be used to offset delivery costs.

Social Impact Bonds

SIBs use private financing of social initiatives based on a 'payment for results' model, where the amount that the government returns to private bond investors depends on the outcomes achieved by relevant programmes. Though used in countries such as the Netherlands, Australia, France, Canada, Portugal, Germany, Israel and several others, they are most common in the UK and USA.[40] This model privatises the upfront costs of prevention and early intervention, helping to alleviate the *offset problem*.[41] The language around SIBs also typically emphasises the savings value for government of prevention, which is often presented as having the potential to cover all or part of repaying investors' bonds, though these savings often remain theoretical, and are not yet rigorously captured in impact evaluations.[42]

SIBs have their strengths, but they are not the most efficient way to shift a greater proportion of spending toward prevention and early intervention. SIBs can reduce the financial risks to government and overall costs by ensuring governments only have to pay for successful initiatives. This makes them potentially valuable for funding new approaches and testing relatively untried strategies. However, many prevention and early intervention initiatives already have a strong evidence base or history of success.

Despite often being presented as a fiscal 'win' for governments, SIBs offer a less fiscally sustainable option for delivering widespread investment in prevention and early intervention. As the upfront cost of successful initiatives will eventually need to be paid back by the government along with a premium, the bond essentially acts as a loan. It is typically cheaper for governments to directly fund the initiatives in which there is high confidence of success. Repayments are often based on the savings such bonds generate for government, so it is typical that governments using SIBs do not get to keep these savings.

39 These often work in private–government partnership models. One particularly interesting model is the UK's Better Society Capital which invests money from dormant bank and building society accounts in the UK to support social sector organisations.

40 SIBs are used world-wide by at least 26 different countries. https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/employment-services/social_impact_bonds.pdf

41 Carè, R., & De Lisa, R. (2019). Social impact bonds for a sustainable welfare state: the role of enabling factors. Sustainability, 11(10), 2884.

42 Fraser, A., Tan, S., Lagarde, M., & Mays, N. (2018). Narratives of promise, narratives of caution: A review of the literature on Social Impact Bonds. Social policy & administration, 52(1), 4-28.
Fox, C., & Morris, S. (2021). Evaluating outcome-based payment programmes: challenges for evidence-based policy. Journal of Economic Policy Reform, 24(1), 61-77.

Furthermore, SIBs also often sit outside traditional government activities. Driving a greater emphasis on prevention within government can bring about positive change within the culture and ways of working of government and the civil service – but this opportunity may be missed if SIBs are the preferred option.

Earmarked funds

Some governments have set up earmarked funds to support social initiatives that improve social outcomes and reduce costs for government.[43] With a few exceptions, these have typically focused on specific areas such as early childhood, health, community resilience, and crime, rather than offering broad or general-purpose early intervention funding. They are often successful in funding initiatives that deliver positive outcomes and savings for government, and they also get around the *offset problem* by providing extra-departmental funding that does not compete with existing departmental budgets. Such funds also have a higher chance of funding interventions that fall outside or between siloed institutions, and interventions which are delivered by departments who are not the primary beneficiaries of their downstream positive impacts. However, they are typically time-limited or discontinued, even where there is evidence that they are delivering good results.

While some funds estimate the savings they generate (with varying degrees of certainty), it is tracking *and reinvesting* savings that is most likely to facilitate the continuity and growth of effective funds. This is rare, with both the capacity and capability required to track savings, and the politics of reclaiming 'savings' from other programmes to reinvest in these funds acting as barriers. However, there are examples of funds that reinvest the savings they generate.[44] In the 2010s, 20 to 40% of Swedish municipalities allocated resources to Social Investment Funds (SIFs). More than a dozen of these funds banked 'returns' by reducing future internal budgets for programmes or institutions that were projected to see (or actually saw) a reduction in costs attributed to the activities of the SIFs.[45]

Amending government fiscal rules

Early intervention initiatives that prevent problems from arising or getting worse are prudent fiscal investments for governments. However, this is rarely represented in, let alone actively encouraged by, budget or accounting rules. While the social and fiscal benefits of such initiatives are typically included in the business cases for new policy proposals, meaning that they are given as a reason to favour selection, this is not the same as enabling departments to use the savings that such interventions generate to fund the cost of delivering them. While SIBs and earmarked funds (temporarily) avoid the *offset problem* by sitting outside of typical government budget practice, an alternative approach is to amend the budget rules to address the offset problem directly.

43 'Social investment funds' have been run by the World Bank since the 1980s in order to empower communities and improve service provision in low- and lower-middle income countries.

44 The UK's Wigan Deal is another example of a successful "invest to save" approach being applied. Since 2014, Wigan council has used reserves to fund transformative/relational care and increasing community-based care and support options, while reducing traditionally funded case services.

45 Hultkrantz, L., & Vimefall, E. (2017). Social investment funds in Sweden: Status and design issues. Scandinavian Journal of Public Administration, 21(3), 85-107.

The Australian state of Victoria has successfully taken this approach through its Early Intervention Investment Framework (EIIF). The framework provides a model for the Victorian Department of Treasury and Finance (DTF) to assess the likely savings to the Victorian government that will be generated by policies that take a prevention or early intervention approach. Where these savings, which take the form of decreased demand for government services, can be estimated with a high degree of confidence and can be tracked, they can be used upfront to offset part or all of the cost of the policy. Policies 'pay for themselves' through the government savings they generate. As the framework applies to whole-of-government spending, departments are incentivised to develop policies that can be funded through this model, even if the savings that such policies generate fall outside of their portfolio area.

Demand for government services: Second round fiscal savings are described in terms of reducing 'demand' for government services and the spending they would have been associated with. Savings generated simply by cutting services do not reduce demand for those services. Nor does artificially reducing *expressed* demand for services through making services less accessible. For example, reducing service provisions in rural areas may mask the demand for services in those areas, but it is not an example of genuinely decreasing that demand. Demand for services may be better understood as a *need* for those services. A significant proportion of government spending goes towards alleviating harms or wellbeing deficits, and policies that help people live better lives - like making it easier to find stable jobs or reducing housing insecurity - will reduce the need for that spending.

Overall, amending fiscal rules to allow second round fiscal effects to be used for offsetting represents the greatest long-term opportunity for governments to increase their focus on prevention and early intervention. The amendment of budget rules through frameworks such as EIIF can be gradually expanded to a greater proportion of the budget as the number and scale of successful programmes increases. While examples of this approach in practice are scarce, the success of EIIF can serve as a valuable guide to other jurisdictions.

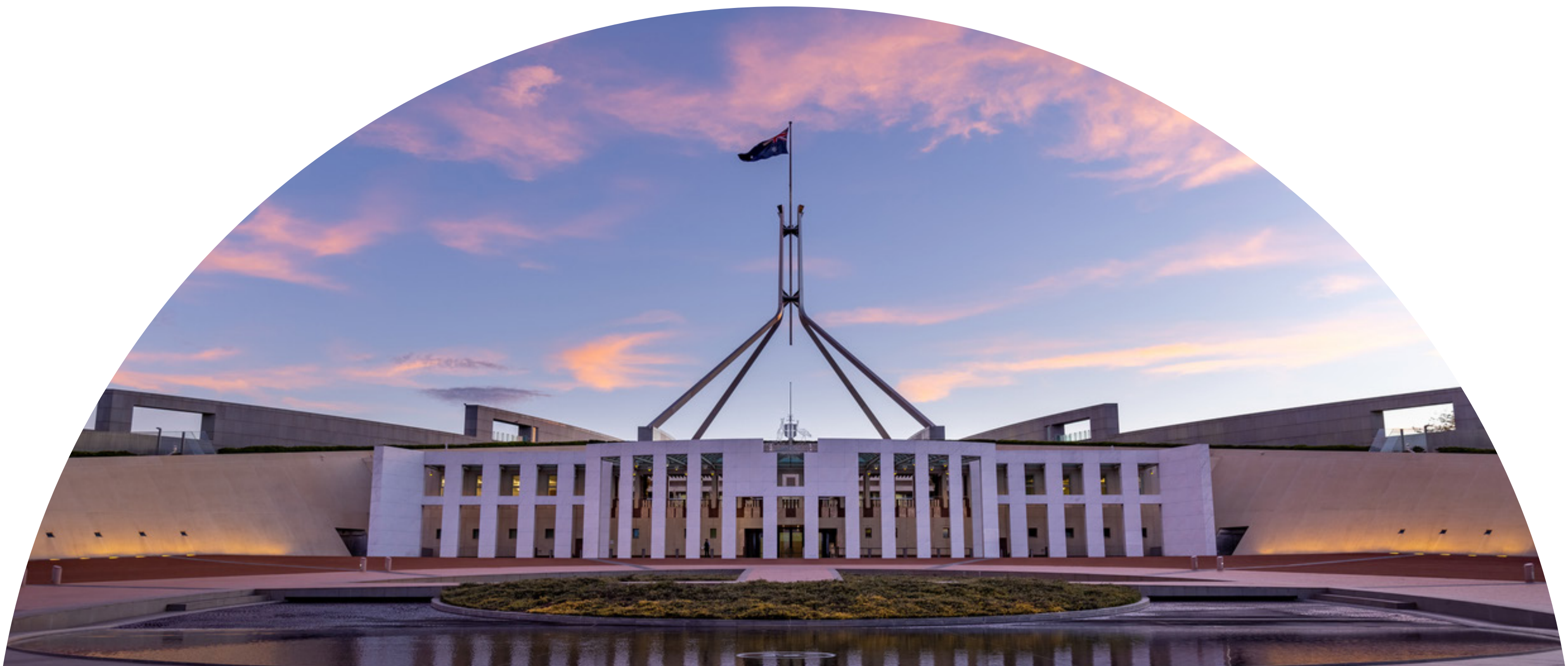
This model is not without its limitations, however. Pre-'banking' future savings requires treasuries to have a high degree of confidence that such savings will occur and the ability to track the impact of funded initiatives on demand for government services. An initial investment is required to start the process (in this respect, it can initially resemble an earmarked fund), alongside investment in modelling and evaluation capability.

Photograph: Parliament House for the state of Victoria in Melbourne, Australia

Some jurisdictions will have significant data assets that can support this process, requiring considerable work with multiple data custodians to enable the use of such data assets (as was the case in Victoria), while others may first need to invest in data assets such as linked service-use data. While the model will naturally grow and strengthen the evidence base for the fiscal impacts of the policies it funds over time, in its early stages the range of initiatives it can fund will be likely restricted by the existing evidence base and the jurisdiction's appetite for risk. Departments and services may lack detailed knowledge of what is needed to achieve preventative outcomes. This situation is exacerbated by the fact that many jurisdictions currently lack incentives and support for individual departments to build on the evidence base of what works in prevention, particularly in relation to generating second round fiscal effects. The many challenges in identifying "credible, rigorous evidence of future budgetary savings" for proposed programmes will also need to be recognised and factored in or addressed.[46] The EIIF model, however, shows that at least some of these barriers can be successfully overcome.

46 Feinstein, L., Chowdry, H., & Asmussen, K. (2017). On estimating the fiscal benefits of early intervention. National Institute Economic Review, 240(1), R15-R29.

Photograph: Canberra Houses of Parliament, Australia



Box 3: Australia's Early Intervention Investment Framework

What is it?

Established in 2021 by the Treasury of the Australian State of Victoria, the Early Intervention Investment Framework (EIIF) is a budget framework that uses high-quality data and analysis to direct funding towards policy initiatives that take an early intervention approach, addressing issues before they escalate and thereby reducing demand for acute government services. The Treasury had previously instituted a social impact bond programme, which helped identify several successful initiatives, but it struggled to scale those initiatives within the programme. It looked into the option of establishing an earmarked fund, but was concerned that such funds are typically time-limited through either design or political change. EIIF was intended to overcome these issues by integrating the savings that early intervention initiatives generated into the budget process itself. The framework is used to:

- Help determine where a proposal has a high likelihood of reducing future demand for acute government services (such as hospitals and justice services);
- Provide a model for how to track these savings.

Where these savings can be determined (and secured) with a high degree of confidence, they are 'banked' - in other words, they can be used by the proposing department to offset the cost of implementing the proposal.

Evidence of success

- Since EIIF was established in 2021, spending on early intervention policies has grown from 1% to 10% of new funding.
- Since the introduction of EIIF, policies that are politically sensitive but morally important and fiscally responsible - such as those addressing homelessness, youth justice, and drug use - have been more likely to receive sustained funding.
- A small but growing number of initiatives are being proposed through EIIF that likely would not have been proposed without the framework, as they involve an initiative being delivered by one department while another department realises the associated savings.

EIIF also succeeded in enabling the Treasury to scale successful early intervention initiatives. One example is a housing-first homelessness intervention paired with three years of wrap-around services: the Treasury used the framework to identify that the programme led to a 90% reduction in homelessness and a 60% reduction in hospital bed stays among the intervention cohort, resulting in savings that exceeded the cost of running the programme. While under the Treasury's previous social impact bond programme there wasn't a clear path to scaling this initiative, under EIIF the programme has been successively scaled and is to be implemented state-wide.

Box 3: Australia's Early Intervention Investment Framework cont..

How does it track savings?

To apply for EIIF funding, departments must model the avoided cost for government that will be generated by the proposal via a reduction in the use of acute services. EIIF proposals must also include a plan for how these savings will be tracked. One contributing factor to the success of this programme is that the Treasury works very closely with departments in doing the modelling and evaluation plans - if needed, the Treasury will do this work for the relevant department.

Tracking of avoided costs and programme effectiveness includes:

- Using linked data to track the interaction of the intervention cohort with a government service (for example, a measure of annual emergency department presentations for those participating in the programme). Effectiveness assessments can also include programme data collected through the initiative, such as surveys of participating individuals.
- Comparing government service usage between the intervention group and a control group of matched individuals not participating in the intervention.
- Where it is not possible to do a matched comparison with a control cohort, comparing the intervention service usage rate to a historical baseline.

How does it make the savings 'real'?

Using EIIF, initiatives use a proportion of the future savings they will generate to offset their upfront costs, regardless of which portfolio these savings will fall under.

- The evidentiary standard for new policy proposals assessed under EIIF is significantly higher than for typical budget bids, ensuring greater confidence that projected reductions in demand for government services - and the associated savings - will be achieved.
- The costs of these offsets come from an initial fund, which is grown as realised savings are 'reclaimed'.
- To ensure a wide margin for error in savings forecasting, only 50% of the anticipated saving is used to offset the initiative.
- When the anticipated reduction in demand for government services is realised, this 50% of the saving is reclaimed through a reduction in the budget of the saving department. The department is allowed to 'keep' any savings over this amount.
- If the actual savings are less than the amount initially offset, the difference is returned to the relevant department.
- So far, only one EIIF bid has fallen short of its anticipated savings.

2.4 Costs not just savings

In the same way that governments often fail to capture the savings policies can generate, governments also systematically under-represent the long-term costs of some policy proposals, particularly when those costs fall outside the department implementing the policy. Ending any initiative that is generating savings will result in future costs to the government. Other government policies can directly contribute to an increased demand for government services. For example: bail reform that makes it harder to seek bail comes with significant costs for prison services; and building new roads can contribute to accident and emergency costs and poorer health and education outcomes for children living nearby due to increased air pollution. Failing to capture second round fiscal costs is not just a challenge for sustainable fiscal management: it also acts as a barrier to aligning internal government incentives with decision-making practices that are geared towards increasing wellbeing. While this section has focused on how to better capture savings – in part because more work has been done in this area - governments who seek to embed wellbeing in budgeting and fiscal rules also need to work towards recognising and taking account of *second round fiscal costs*.

One option is to apply the principles behind a programme such as EIIF, namely, treating second round fiscal effects as 'real' for the purposes of offsetting. Departments proposing interventions that have a high likelihood of generating significant second round fiscal costs for government would be required to offset not just the upfront costs of the intervention, but also the cost of meeting the increased demand for government services that they generate. This would both incentivise policy design that focuses on having the smallest possible negative impact on wellbeing, and ensure that the budget deficits caused by such policies were both anticipated and funded.

While the primary focus of this report is government spending, it is vital to recognise that often one of the surest ways for governments to support wellbeing is by preventing or stopping harmful activities. This means that many potentially impactful wellbeing instruments are not about spending as such, but about reducing the extent of activities that undermine wellbeing via regulation and fiscal disincentives or incentives. Such instruments can play a part in changing the composition of the economic ecosystem in the direction of an economy more aligned with the needs of people and the natural environment, and reduce the avoidable second round costs to governments that certain activities generate. For example:

- France has banned short haul flights for journeys where there are suitable alternative train options
- Wales has a moratorium on building major new roads
- Sweden has reduced VAT on repairs
- The US state of Oregon has increased taxes on intra-firm pay inequality (via its "pay ratio surtax")
- The state of South Australia has banned many single use plastics
- The cities of Sao Paulo, Edinburgh and the Australian Capital Territory are restricting the use of outdoor advertising (either outright or for certain goods, such as SUVs)

Box 4: Risk-based offsetting approaches

'Banking' second round savings using a framework like EIIF will not work for some types of policies. The EIIF model requires a high degree of confidence about rates of projected savings, and the ability to track whether an intervention is causally responsible for those savings. Some policies will have a cumulative or less linear impact on demand for government services, and a different type of model will need to be applied to these.

For example, the impacts of government policies on climate (and by extension on government services such as responding to extreme weather events) are hard to model with specificity. It is almost impossible to determine a direct causal connection between any one action or policy and its impact on the effects of climate change such as extreme weather events. At the same time, we know that carbon emissions increase the severity of climate change and its effects, and that governments are increasing spending to ameliorate the impacts of climate change after the fact.

One solution would be to institute an internal 'carbon pricing' scheme that operates on a risk-based cost model:[47]

- Require all policies to calculate their associated carbon footprint
- Charge a budget premium based on the amount of carbon they are expected to produce (i.e. all policies need to offset *both* their upfront cost and a cost to cover this 'carbon premium')
- Direct this 'carbon premium' into a fund that is used for resilience against, response to, and recovery from extreme weather events.

This model would incentivise departments to select the lowest-carbon version of any policies they bring forward, while ensuring that the programmes that contribute the most to the increasing risk of extreme weather events pay the most for responding to its direct impacts. Setting appropriate levels of carbon pricing can to take into account the need to balance current and future needs.

47 For similar recommendations relating to introducing internal carbon pricing for government procurement, see M. Hammerle, T. Phillips and D. Venning (2024). Green goods: Strategies for decarbonising government procurement in Australia. The Centre for Policy Development.

Box 5: Cross-jurisdictional second round fiscal savings funding arrangements

One challenge in using savings from prevention and early intervention initiatives to fund their upfront costs is that the layer of government responsible for implementing the initiatives is often not the layer of government that benefits from the resulting savings. For example, if one jurisdiction introduces a policy that reduces demand for prisons, but doesn't bear the cost of funding prisons, then any savings from the policy will benefit another jurisdiction rather than the one paying to implement the policy. Where this problem arises for departments within a single government it can be overcome using an EIIF-like model, but the effectiveness of such a model will be limited by the powers and responsibilities of the enacting jurisdiction. Cross-jurisdictional arrangements between different vertical layers of government could be formed to address this problem by agreeing to transfer savings between jurisdictions to offset early intervention or prevention initiatives that deliver second round fiscal savings outside of the enacting department/government's jurisdiction.[48]

This model can be represented using the following scenario: Jurisdiction A wants Jurisdiction B to deliver a policy that would reduce demand for services Jurisdiction A funds. In a cross-jurisdictional agreement, the two jurisdictions agree on the likely savings the policy would deliver, and a plan to track these savings. Jurisdiction A would then either pay Jurisdiction B an amount equivalent to these savings in order to offset the cost of delivering the policy <u>or</u> the two jurisdictions would arrange a 'swap' where the projected savings are used by Jurisdiction A to fund initiatives that would deliver second round fiscal savings in Jurisdiction B.

A lot of early intervention that could be done at the local level cannot get funded because local councils have so little revenue-raising power. If higher level governments (national/state) want to increase and support this work they could potentially offer low- or no-interest loans and/or very long-term loans to local governments for early intervention projects which have the potential to be repaid through the savings they generate for the lending government. This would enable more place-based approaches to early intervention policies, and motivate local governments to focus on delivering highly effective policies. The more effective they are in generating savings for the loaning jurisdiction, the less would need to be repaid on the loan. Where the savings would be made at the local level, repayment schedules could be tied to anticipated timing of local government savings.

48 This concept is apparent in the Scottish Fiscal Framework which outlines conditions for repayments when 'spillover' effects occur between the Scottish and UK Governments. Spillover effects are defined by the Framework as "when one government makes a policy decision that has an impact on the tax receipts or expenditure of the other". https://www.gov.scot/publications/eighth-annual-report-implementation-scotland-act-2016/pages/9/ The experience of the Scottish Fiscal Framework in practice suggests identifying and agreeing to spillover effects is not straightforward. Effective implementation of a cross-jurisdictional arrangement that works to offset second round fiscal effects would need to consider both governance and the methodology arrangements.

2.5 Conclusion

Investing in prevention and early intervention is an obvious choice for governments as it has the double effect of improving wellbeing and reducing the demand for costly reactive services. When people thrive, they have less need for services that respond to problems like poor health, insecure housing, or environmental damage. Despite these benefits, governments struggle to increase the proportion of their spending and activities that focus on prevention.[49] One reason for this is that government budget rules typically fail to capture the 'true cost' of government policies and interventions. This leads to perverse incentives to focus on those interventions with a lower upfront cost even if they represent both poorer outcomes and a less fiscally prudent option over their lifespan.

Approaches that simply increase funding for early intervention initiatives are important, but without capturing or reinvesting the savings such initiatives generate they are likely to be time-limited and unable to grow. Further shifting government focus toward prevention and early intervention is not only about funding or investing in good policies - it is about tackling barriers to better policy making, and driving the ways of working that lead to improved outcomes across the system as a whole.

Some significant success has been driven by the principle that the cost of implementing policies that generate savings through improving wellbeing should be offset by those savings. It is also important for governments to consider what it would look like for the converse of this principle to be applied to government fiscal practice - namely that policies that generate costs by reducing wellbeing should offset those costs. Such approaches not only have the power to direct funding in the right direction, but they enable governments to incentivise themselves to behave better.

49 In Wales, for example, the Future Generations Commissioner, Derek Walker, has called on the government to protect and ringfence prevention funding in all future budgets. https://futuregenerations.wales/news/protect-funding-for-prevention-in-welsh-government-budgets-says-future-generations-commissioner/

Box 6: Procurement as a wellbeing tool

While this report is primarily focused on spending as part of the budget process, procurement is another powerful lever for governments to achieve social and environmental outcomes. The World Bank estimates that public procurement typically accounts for between 13% and 20% of a country's GDP.[50] Outcomes that are sometimes sought via procurement include local employment or employment of marginalised groups, provision of training, affordable housing, and various sustainability goals.

Governments can harness their purchasing decisions for social and environmental goals in ways such as:

- Including social outcomes or certain goals as criteria when assessing tenders (for instance, local employment receiving a higher weighting or score in tender assessments).
- Incorporating certain requirements or delivery as part of the suite of goods and services being contracted by the government (scope of work).
- Ring-fencing contracts for certain organisations that are aligned with sought social outcomes (for instance, Indigenous owned businesses or social enterprises).
- Creating platforms that support certain organisations to partner with each other or with governments to deliver contracts at a scale they might not otherwise be able to reach.
- Setting standards (sustainability or labour rights, for example) in the supply chains of entities they contract.

Governments using procurement to support social and environmental outcomes is a widespread practice.[51] Examples include:

- Wales' Well-being of Future Generations Act: This act requires that government and public body procurement is consistent with furthering Wales' seven wellbeing goals.
- The UK's Procurement Act: This act became operational in early 2025, requiring that all public authorities in England, Northern Ireland and Wales need to position 'Social Value' as a core priority in their procurement decisions. The UK Government also uses its procurement power to compel businesses to publish carbon reduction plans if they bid for large contracts
- Scotland's Fairer Scotland Duty: This requires public bodies to actively consider how they can 'reduce inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions'.
- Australia's Environmentally Sustainable Procurement Policy: This requires that contractors providing major construction services to government adhere to sustainability targets (reducing waste and replacing single-use materials, for instance). In late 2025, this will also apply to contractors delivering textiles, furniture, ICT and so on.

50 https://blogs.worldbank.org/en/developmenttalk/how-large-public-procurement
51 https://www.oecd.org/en/topics/strategic-public-procurement.html

Section 3:

Improving analysis in budget decision-making

3.1 The opportunity

Governments strive to make high quality decisions about spending. However, existing tools and methods for deciding how to allocate spending typically either focus on a relatively narrow economic conception of 'value for money', or are piecemeal in their approach. Prioritising improving wellbeing as the aim of government spending can help combat this problem, and has led to the development of tools and budget approaches that consider outcomes, not just inputs, in order to better capture the wellbeing value of different proposals.

Outcomes have been a central focus of wellbeing approaches to budgeting. If the purpose of government is to improve the wellbeing of the people, then structuring budgets and the budget process around such outcomes is seen as an obvious step. By allocating resources to the programmes and policies that are likely to have the greatest impact, governments can increase their effectiveness and hold departments accountable for the impact they achieve. Departments can also be incentivised to improve their policy proposals and delivery by tying funding to the impact of policies.

3.2 Challenges

Governments face several challenges when trying to prioritise wellbeing outcomes in their spending decisions. Those who argue for wellbeing governance want more detail to be factored into government decisions – for example, consideration of short, medium *and* long-term outcomes. A single decision approached holistically will typically involve considerations across a wide range of portfolio areas. So will thinking about prevention, and addressing the upstream causes of problems beyond their presenting symptoms.

However, factoring in such complexity makes the decision-making process harder. Comparisons between options become increasingly difficult when there are more variables upon which policies can and should be compared. It can be difficult to get consistency in the information and processes needed to make good comparative decisions, and to identify on what basis comparisons should be made. This is not just a data or information problem: it is a human problem. Decision-makers' ability to learn, reflect on, and analyse information is finite and variable. While making better-informed decisions is a laudable goal for the public service, simply gathering more information risks making the decision-making process harder and, paradoxically, can deliver worse results.

Some tools exist to address the problem of introducing more considerations into spending decisions by introducing a focus on wellbeing outcomes. They aim to simplify the decision-making process by translating wellbeing values into comparable terms. Cost Benefit Analysis (CBA) aims to translate wellbeing impacts into monetary terms. Cost effectiveness analysis (CEA) uses standardised measures such as Quality-Adjusted Life Year (QALYs) or Wellbeing-Adjusted Life Year (WELLBYs). The effectiveness of spending is assessed against the degree to which it delivers against these measures.[52] Whatever methodology is used, wellbeing outcomes need a similar status to financial outcomes if they are going to be taken seriously.

52 Layard, R., & De Neve, J. E. (2023). Wellbeing. Cambridge University Press.

How to measure and translate wellbeing outcomes in order for these models to be effective is a question beyond the scope of this report. But a risk common to wellbeing-focused analytical tools is that too strong a focus on evidence can lead to decisions being skewed in favour of those areas that already have an established evidence base, at the expense of new or under-invested areas of policy.[53] It can also lead to a bias towards short-term and narrow impacts which are typically easier to capture evidence for.[54] Indeed, even with good evidence of outcomes, how evidence should be used to make budget decisions is not always clear. If a programme is not delivering results, should its funding be removed (in order to motivate departments to employ more programmes that *do* deliver results)? Or should the programme receive extra funding so that it has the resources to improve?[55] A further challenge for wellbeing analysis tools is that they are typically used only to compare pre-existing policy proposals, rather than being used at the options analysis stage to ensure that the best options are put forward for budget consideration.[56] These tools can represent a valuable addition to the government budget decision-making process, but governments should be wary not to over-rely on them.

3.3 How this has been tackled internationally

The Australian Capital Territory and Scotland have both incorporated versions of **Wellbeing Impact Assessments (WIA)** into their budget processes.[57] Jurisdictions such as New Zealand and the United Kingdom already used **Cost Benefit Analysis (CBA)** and have incorporated wellbeing considerations and wellbeing valuations into this analysis. Bhutan, Wales and South Korea utilise **budget advisory groups** to ensure that wellbeing considerations play a role in either policy screening, policy selection, or the wider budget process.

Wellbeing impact assessments

Impact assessments can aid the evaluation of policies for budget purposes. Ideally, such assessments will guide consideration of aspects of wellbeing, alongside other considerations, so that policy proposals are more responsive to wellbeing impacts. However, in practice, impact assessments are often ignored or become box-ticking exercises. The requirement to apply multiple assessments to budget bids or policy proposals can cause civil servants to feel that such assessments create too much additional work, further contributing to disengagement.[58]

Scotland's Child Rights and Wellbeing Impact Assessment (CRWIA) focuses on taking children's rights into account in government decision-making. They are applied broadly

53 Gaukroger, C., Koh, E. and Phillips, T. (2025). Embedding Progress: How to align public institutions with a better future, Centre for Policy Development.
54 Trebeck, K., & Grant, L. (2024). Reflections on Why Upstream Change is Hard but Absolutely Necessary. The University of Edinburgh Futures Institute.
55 https://www.assemblee-nationale.fr/13/rap-info/i1780.asp
56 Hogan, S., Clough, P., & Yeabsley, J. (2018). Review of CBA advice to support budget initiatives. In Technical Report. NZIER Wellington, New Zealand.
57 Wales's version, the Strategic Integrated Impact Assessment (SIIA), broader in scope than these, is discussed in Section 3.
58 Gaukroger, C., Koh, E. and Phillips, T. (2025). Embedding Progress: How to align public institutions with a better future, Centre for Policy Development.

to all new legislation, policies, and strategic decisions. CRWIAs are now mandatory for Scottish Government Bills and Scottish Statutory Instruments (SSIs), but are optional for public services or policy decisions.

The Australian Capital Territory (ACT) provides an example of a Wellbeing Impact Assessment (WIA), which, while in its early stages, shows a promising level of engagement. Mandatory for all new budget bids, proposals must summarise:

- The proposal's purpose (what it aims to achieve)
- The wellbeing domains it will impact, and how
- The evidence base that supports these projected impacts
- How these impacts will be measured and/or evaluated
- An analysis of who will be impacted, including whether there will be a disproportionate positive or negative impact on a particular group (with a specific requirement to consider impacts on gender, Aboriginal and Torres Strait Islander peoples, and future generations)
- How the proposal will impact climate change mitigation and adaptation
- Consideration and involvement of cross-portfolio collaboration.

The way the WIA was introduced in the Territory is as important for changing practice as the assessment itself. To avoid it becoming a tick-box exercise, the government's dedicated wellbeing team works closely with colleagues to ensure that the assessment is used at the policy inception stage. They run information sessions at all levels of government, including outreach sessions tailored to each department to give concrete guidance and specific, relevant examples about how to use the assessment to understand and improve the wellbeing impacts of the policies they develop.

Wellbeing-informed cost-benefit analysis

Cost Benefit Analysis (CBA) is a policy assessment tool that translates the consequences of a policy into monetary terms, to enable cross-comparison. However, when CBA only accounts for implementation costs and benefits that are already expressed in financial terms, it gives policymakers an incomplete picture of a policy's true value, especially in relation to non-financial benefits, such as a broader contribution to wellbeing. This is why some jurisdictions have worked to incorporate wellbeing considerations into their existing CBA models.

CBA as a tool for wellbeing governance has advantages and disadvantages. It can synthesise a range of complex wellbeing information to inform policies. But the tool is also only as good as its inputs, and adopting this model successfully requires considerable investment in capability building, developing analysis guidance and (in some cases) a database of values, and training civil servants in how to use it effectively. As with WIAs, some jurisdictions also struggle with civil servant uptake of the tool.

New Zealand's wellbeing enriched CBA model (named CBAx) uses a spreadsheet that contains a database of values to enable a relatively simple process of monetising wellbeing impacts for the purpose of CBA comparisons. This tool has been used widely in the NZ Treasury – it was applied to all budget bids in 2023 – and has reportedly led to decisions informed by systematically better CBA analysis.[59] While its usability has likely contributed to its wider uptake, much of its success has been credited to the 'soft' use of this tool by Treasury. For example, using CBAx to start conversations earlier in the policy design process encourages departments to build in wellbeing considerations at the policy inception stage.[60]

The UK has introduced technical guidance on how to consider wellbeing in CBA modelling into its Green Book, the government's manual for policy appraisal. This guidance is informed by internal and external consultation, drawing on the growing body of subjective wellbeing science research. The UK Government continues to work on increasing its use by civil servants, which remains low. The supplementary guidance it contains on wellbeing, while good, is very complex and this can be discouraging to civil servants who are trying to apply it to policy development in a busy department.

59 Hogan, S., Clough, P., & Yeabsley, J. (2018). Review of CBA advice to support budget initiatives. In Technical Report. NZIER Wellington, New Zealand.

60 Gaukroger, C., Koh, E. and Phillips, T. (2025). Embedding Progress: How to align public institutions with a better future, Centre for Policy Development.

Box 7: Analytical tools and cultural change

Analytical budget tools offer a potentially valuable supporting role in the budget process when they are well designed, resourced and embedded into the decision-making process. However, on their own such tools can only play one small role in improving government policy decision-making. For example, in a recent review of the effectiveness of New Zealand's wellbeing-enriched Cost Benefit Analysis model (CBAx), the New Zealand Ministry of Business, Innovation and Employment (MBIE), concluded that CBA and similar analytical tools were not suited to bringing about transformational change in government.[61] In discussing the limitations of CBA, the report concluded: "CBA is more concerned with static efficiency (the efficient allocation of resources at a point in time), whereas transformative change is more concerned with dynamic effectiveness (achieving a goal over time)." (p.iii)

Budgets typically focus on the later stages of the policy development process with analytical tools paying particular attention to informing the choice between already-developed policy proposals. An emphasis on the concept (and language) of 'trade-offs' reflects their focus on selection between rather than development of policy proposals. This risks an over-emphasis on quantification and accounting principles, at the expense of innovation or creative problem-solving.

In Wales, a conscious move away from the language of 'trade-offs' to that of 'co-benefits' has been intended to shift the mindset of those in government to holistic thinking that looks for opportunities beyond supposedly rigid competing options. However, a shift of this kind requires starting earlier in the policy process. For this reason, some jurisdictions have seen greater success in shifting government practice when analytical tools have been used to aid departments to build a wellbeing approach into their policy development at as early a stage in the policy process as possible. In the case of both the ACT's Wellbeing Impact Assessments and NZ's CBAx, working with departments to guide how the tools could be used to help understand the wellbeing impacts of the policies at the inception stage was critical to their broader success

61 Pells, S. (2023). Which analytical tools are suited to transformative change?. Ministry of Business, Innovation and Employment (New Zealand).

Budget advisory groups

The approaches discussed in this section so far largely consist of analytical budget tools. An alternative mechanism is to bring together experts to assess the value of policy proposals in contributing to (or undermining) a jurisdiction's wellbeing goals. This can overcome some of the issues of balancing complexity with usability of tools, and enable flexibility in approach. Such groups can harness expertise to guide an assessment of the available and contextually relevant evidence used in decision-making, reducing the need for evidence to be translated into cross-comparable terms. However, using such a group to assess all policy proposals would be prohibitively resource-intensive, so there are questions over how they could be best utilised. A further challenge to employing such a group centres around how much power and mandate they should have over budget decisions, particularly if their remit includes the ability to reject policy proposals.

Bhutan uses committees of qualified experts and professionals with knowledge of the relevant subject matter to administer a Gross National Happiness (GNH) screening tool to assess policy proposals. Projects are not pursued if they fall below a threshold (69 out of 100) across the nine wellbeing domains of GNH.[62]

Wales has a Budget Improvement and Impact Advisory Group (BIIAG) comprised of representatives from civil society, the public sector, academia, and other experts. The remit for this group includes embedding the sustainable development principle, Wales' five ways of working, and Wales' wellbeing objectives into spending decisions. The group's role is less focused on individual budget submissions and more on broader tools and approaches as part of the policy and budget process. For example, at the time of writing they are advising on improving Wales' Strategic Integrated Impact Assessment (SIIA). The Welsh Future Generations Commissioner also has a duty to scrutinise the draft budget regarding alignment with the Wellbeing of Future Generations Act.

In South Korea, an expert council plays a role in supporting national participatory budgeting, which in itself could be considered a process that draws on the expert guidance of citizens in identifying the proposals that are most needed by communities (see breakout box 8).

62 Penjore D. (2008). GNH Screening Tool: Frameworks for Integrating Gross National Happiness into Planning Process. Centre for Bhutan Studies.
Ura, K., Alkire, S., Zangmo, T., & Wangdi, K. (2008). The GNH Index. In 4th International Gross National Happiness Conference, Thimphu.

Photograph: National Assembly Proceeding Hall, South Korea

Box 8: Participatory budgeting in South Korea

In South Korea, every local government has employed participatory budgeting since 2011, and the practice was introduced at a national level in 2018. Focused on strengthening democratic engagement and budget accountability, the process includes citizen engagement in project proposal, discussion, and prioritisation. Citizens first submit project ideas for the upcoming budget. After screening via government ministry review, the proposals are sent to a committee for discussion. This committee is made up of 400 citizen representatives chosen to be a demographically representative sample of the South Korean population. An expert support council helps ministries sort proposals and advises the citizen's committee. The citizens committee, alongside 2000 online participants, then votes on which bids to submit to the National Assembly. This decision is 50% determined by the votes of the committee, 50% by the votes of the online participants.

This process has helped improve fiscal transparency in South Korea, and increased the representation of citizens' priorities and lived experience insights into the policy proposal and selection process. Spending allocated to participatory budgeting proposals has increased since the programme was first piloted, and new ways to expand participation are also being introduced, including building more opportunities for debate-style participation.[63]

63 https://www.opengovpartnership.org/members/republic-of-korea/commitments/KR0053/

Box 9: The importance of design and execution: lessons from outcomes budgeting in Australia

Since the 1990s, numerous jurisdictions have used performance information to inform budget allocations, though much of this was driven by the New Public Management movement and a focus on improving public sector accountability rather than as an approach to embedding wellbeing into government.[64] One of the models introduced by many jurisdictions as part of this movement was outcomes-based budgeting (also known as performance-based budgeting). This is not explicitly part of a wellbeing approach, though it has been tied to wellbeing outcomes in some jurisdictions, as these models focus on principles of budget reform aimed at improving government outcomes. Nonetheless, they can offer valuable lessons for those looking to deliver wellbeing budget reform.

A cautionary tale from Australia relates to several unsuccessful attempts to introduce outcomes budgeting in federal and state jurisdictions in the late 1990s and early 2000s.[65] Common challenges included departments struggling to find appropriate performance indicators that could be used within the new system, and the performance measures and data presented failing to be comparable or timely. In some cases, outcomes statements were written in broad terms and lacked the detail needed to show the link between department outputs and outcomes, or how effective the department had been in contributing to outcomes.[66] The stated outcomes for different departments were sometimes too narrow, simply describing the department's remit, and did not specify any concrete aspirations. Evaluation reports were seldom used to advise investment decisions on programmes.[67] In some cases this was due to the annual evaluation schedule, which meant reports were delivered to senior decision-makers too late for them to be useful. In other cases the sheer size of the new reports led to relevant cabinet members only reading the top-sheets, whereas they may once have read the full reports. Many of these issues came down to insufficient investment in designing and delivering a new budget system and insufficient buy-in from leadership. However, a vital feature that was largely missing from these attempts was the development of systems architecture and processes with specific focus on how the new information and ways of working would feed directly into the decision-making process.

These examples show that, whichever policy tool or reform is being adopted, it is critical that execution is forefront in design and adequately resourced and that, particularly with analytical tools, both the utility and quality of the data is vital to their success.

64 OECD (2007), Performance Budgeting in OECD Countries, OECD Publishing, Paris, https://doi.org/10.1787/9789264034051-en.
65 Gaukroger, C., Koh, E. and Phillips, T. (2025). Embedding Progress: How to align public institutions with a better future, Centre for Policy Development.
66 Australian National Audit Office (ANAO) (2007). Structure of the Outcomes and Outputs Framework. Commonwealth of Australia.
67 Audit Office of New South Wales (2016). Implementation of the NSW Government's Program Evaluation Initiative.

3.4 Conclusion

Governments have long tried to better direct budget analysis and decision-making towards outcomes, and a focus on wellbeing can help to define and direct these efforts, while improving the quality of evidence and analysis used in budget decision-making. However, such tools are unlikely to bring about transformational change on their own. Such tools must be designed and used beyond simply comparing pre-developed budget bids. They must shape policy inception, and provide analysis of the long-term impact of spending, over and above analysis of immediate impacts.[68] Further, tools are only as good as the evidence and data they use. Without attention to and resourcing of execution they will not be embraced or effective.

Some lessons emerge to give such tools the best chance of success in supporting good practice:

- There must be direct pathways that ensure that new data, evidence and analysis feed into the decision making process.
- Implementing such tools effectively requires buy-in from leadership, particularly where their success relies on senior decision-makers using the tools or the reports the tools inform.
- There must be an effort to gather evidence systematically and carry out evaluation of significant new initiatives.
- Ease of use, incentives and support in adoption is crucial to encourage engagement that extends beyond box-ticking.
- These tools will be most effective if they are embraced as an opportunity to bring about cultural change in government. Rather than simply enabling more informed choices between policy proposals, they should be used to guide and encourage new approaches to policy inception and formation.
- Not all policies will have a net positive impact on wellbeing. Wellbeing analysis tools should start by being able to answer the question: “Does this policy create more harm than good?”

68 J. Rossiter (2024). Cenhadaeth Cymru: Mission Wales, Governing with purpose - achieving progress. Institute of Welsh Affairs.

Summary Conclusions

Budget rules, tools and processes are currently a significant barrier to effective wellbeing governance. They undermine governments' abilities to invest in prevention, to work to the long-term, and to address problems holistically. This hinders progress on wellbeing outcomes, and erodes government fiscal sustainability. Conversely, governments looking to improve wellbeing outcomes have numerous opportunities to reform budget rules, tools and processes. These opportunities could result in the 'double-win' of improving wellbeing through prevention while reducing the costs for government in meeting growing acute need; making better informed decisions to direct funding to the most effective policies for improving wellbeing; and incentivising and supporting cross-cutting ways of working towards whole-of-government wellbeing goals. The aim of this report is to inform governments and wellbeing advocates on how to approach this task.

From this analysis of existing practice the following broad lessons for governments have emerged:

- Taking a wellbeing approach to budget processes cannot be achieved by one-off changes: multiple, coordinated reforms are needed.
- Any changes must be effectively resourced and well designed to include considerations such as how processes will directly influence decision-making, how they connect to departmental and civil servant incentives, and how easy they are to use.
- Cultural change and 'soft' practice is just as important as hard analysis.
- A key opportunity for changing practice in line with fiscal responsibility is moving to a real-cost accounting model that factors in both the upfront costs of policies and the fiscal effects they create through increasing or reducing demand for acute government services.
- Reforming the existing features of the system can have a greater impact than just adopting new analytical tools or measures.

For those outside government advocating for these changes, thought needs to be given to how to support such changes over the long term. Governments will not bring about a long-term positive shift in wellbeing outcomes without taking risks, looking to broader reform, and adequately resourcing the reforms they do adopt. Political risk-aversion is a significant barrier to much needed government reform, and governments cannot deliver sustained long-term strategies without public trust.[69] But governments will also not commit to such strategies if they cannot trust that they will be given the sustained political support needed to deliver them.

69 Their inability to commit to or deliver on such strategies continues to erode that trust

Effectively advocating for directing second round fiscal savings towards offsetting the initiatives that generate those savings, for example, requires a commitment to not immediately jumping to criticism when those savings are 'reclaimed' through reductions in budgeting for relevant acute spending. It is natural to see budget and service cuts made in line decreased demand as failing the people trying to access over-stretched services. However, the need for additional funding to meet a higher proportion of demand must be seen as separate to the need to 'close the loop' on funding early intervention initiatives through the savings that they generate. If these are not understood as separate then there will continue to be a barrier to investment in early intervention, effectively adding to the growing demand for acute services.

Reforms such as changing fiscal rules, introducing new analytical tools, and reforming budget processes, even where they may not represent a significant ongoing cost for government once established, are often avoided (or poorly delivered) due to their upfront costs. Adequately and sustainably resourcing such measures is a harder political 'sell' than seemingly more immediate policy announcements. Institutions and individuals who can see the value in prioritising these reforms must convey that they will provide ongoing public support for the spending commitments needed, and that they see this as a priority.

Reshaping budget and spending practices to truly support the wellbeing of current and future generations requires sustained commitment to reform that is both ambitious and well-designed. A real opportunity for progress exists - to take advantage of it governments will need to think deeply about what they do, how they do it, and how it can be done better.

Photograph: Big Ben Clock Tower in the Houses of Parliament, London

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