

# The Treasury

## Budget 2015 Information Release

### Release Document July 2015

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## **Budget Report: Social Sector Budget Package: Treasury Advice**

<b>Date:</b>	13 March 2015	<b>Report No:</b>	T2015/464
		<b>File Number:</b>	BM-2

### **Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Bill English)	<b>Note</b> contents.	For the meeting with Social Sector Ministers on 16 March.
Associate Minister of Finance (Hon Steven Joyce)	<b>Note</b> contents.	For the meeting with Social Sector Ministers on 16 March.
Associate Minister of Finance (Hon Paula Bennett)	<b>Note</b> contents.	For the meeting with Social Sector Ministers on 16 March.

### **Contact for Telephone Discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
[4]			
Ben McBride	Manager, Health	04 917 6184 (wk)	021 869 450 (work) 021 295 391(mob)

### **Actions for the Minister's Office Staff (if required)**

Return the signed report to Treasury.

Enclosure: **Yes** [Social investment CBA A3 for Social Sector Priorities Ministers meeting 16 March 2015 \(Treasury:3131977v1\)](#) [Add to worklist](#)

## **Budget Report: Social Sector Budget Package: Treasury Advice**

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### **Executive Summary**

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This report sets out the Treasury's advice on a social sector package for Budget 15, ahead of your meeting with Social Sector Ministers on Monday, 16 March. Specifically, we outline our recommended package, costing around \$650 million a year. We understand that Social Sector Ministers have prepared their own (more expensive) package, which they want to discuss on Monday.

Budget bids from social sector agencies totalled around \$0.9 billion in 2015/16 (\$1.2 billion in 2018/19 and out years). Cost pressure bids alone totalled \$0.4 billion in 2015/15 (\$0.7 billion in 2018/19 and out years). These figures do not include the \$275 million a year already earmarked for district health boards. So a significant number of bids will have to be turned down, scaled back or deferred in order to deliver a social sector package that is consistent with the Government's fiscal strategy.

The Treasury's advice is that a social sector package with a net annual cost of around \$650 million is achievable. This will allow agencies to manage their cost pressures within current policy settings, while also providing a reasonable amount of headroom for discretionary spending to meet manifesto commitments. We discuss our recommended package in section 2 of this report. Table 2 provides a summary.

From a fiscal perspective, a slightly smaller package (around \$600 million per annum) might be preferable. For this reason, we present the recommended package in two parts. The first part focuses on funding necessary cost pressures: this costs about \$560-570 million per annum in years 1 and 2, and about \$520-530 million in later years. The second part deals with manifesto commitments: this costs about \$80-90 million per annum in years 1 and 2, and about \$60 million in later years.

If you want to reduce costs, our advice would be to focus on cutting back the second part of the package. Note that costs for a number of manifesto bids have already been scaled back. Health's bids have not been scaled back, so reducing these may be your best option. This could also be considered if you wanted to provide more funding to help Health meet its wage and other cost pressures.

A number of material pressures have had to be deferred to subsequent Budgets. These are discussed in section 3. They are likely to account for a significant proportion of future social sector Budget allocations.

Section 4 discusses social sector investment initiatives. The recommended package includes a range of initiatives that will, to some extent, address the issues raised in responses to the social investment RFI. We have assessed three additional measures using the Treasury's CBAX model: Year 9; Social Sector Trials; and Whānau Ora Navigators. Our advice is that none of these initiatives should receive funding in Budget 2015. Agencies have agreed to fund Social Sector Trials from within baselines.

Section 5 provides high-level advice on possible savings options. [8]

## Recommended Action

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We recommend that you:

- a **note** that the Treasury considers a social sector Budget package with a net annual cost of around \$650 million to be achievable. This will allow agencies to meet cost pressures while also leaving space for manifesto commitments
- b **note** that a package of this size is broadly consistent with the Government's fiscal strategy, although a slightly smaller package (around \$600 million a year) would be a better fit
- c **note** that the Treasury has prepared the recommended package in two parts: (i) cost pressures (around \$560-570 million a year); and (ii) manifesto commitments (around \$80-90 million a year). Costs fall away somewhat below these amounts from 2017/18 onwards
- d **note** that Social Sector Ministers have prepared their own (more expensive) package, and
- e **discuss** next steps with Treasury officials following your meeting with Social Sector Ministers on Monday.

Ben McBride  
**Manager, Health**

Hon Bill English  
**Minister of Finance**

## Budget Report: Social Sector Budget Package: Treasury Advice

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### Purpose of Report

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1. This report sets out our advice on a social sector package for Budget 15, ahead of your meeting with Social Sector Ministers on Monday, 16 March.
  - Section 1 briefly summarises bids received from social sector agencies.
  - Section 2 outlines a recommended social sector package for Budget 15.
  - A number of bids that are not included in the recommended package are likely to come back in Budget 16 and subsequent budgets. Section 3 discusses the likely impact of the operating allowance in future years.
  - Section 4 discusses possible initiatives to support social sector investment in Budget 15.
  - Section 5 notes that savings options could be used to generate additional headroom within the social sector Budget package, or to reduce its net fiscal cost.

### Section 1: Background

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2. Table 1 provides a (very) high-level summary of all Budget bids received from social sector agencies. These totalled around \$0.9 billion in 2015/16, reaching \$1.2 billion in 2018/19 and out years. Cost pressure bids alone totalled \$0.4 billion in 2015/16, reaching \$0.7 billion in 2018/19 and out years. These figures do not include the \$275 million a year already earmarked for district health boards.

Table 1: Summary of social sector Budget bids (excluding DHB funding signal)

\$million	2015/16	2016/17	2017/18	2018/19+
Cost pressure bids	415.3	489.0	609.1	664.6
Manifesto bids	205.1	231.7	168.1	163.3
Other bids	262.4	341.1	356.6	355.8
<b>Total</b>	<b>882.8</b>	<b>1,061.9</b>	<b>1,133.9</b>	<b>1,183.7</b>

### Section 2: Treasury's recommended package

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3. The Treasury's advice is that a social sector package with a net annual cost of around \$650 million looks realistic. A package of this size would allow agencies to manage their cost pressures without significant changes to policy or service settings, while also allowing sufficient headroom for discretionary spending to meet manifesto commitments and other objectives. It is also broadly consistent with the overall fiscal strategy, although a slightly smaller package (around \$600 million) would be a better fit.
4. Our recommended package is set out in table 2. This has been informed by our discussions with individual agencies and the Social Sector Board, but it represents Treasury advice only. The package is divided into two parts.
  - The first part of the package deals with cost pressures and has a gross cost of about \$613 million in year 1, rising to just over \$650 in year 4. We have assumed that Crown savings from MSD's simplification programme are available to offset this gross cost. We have also netted out the Ministry of Education's MBU 2014 impacts, as these were included in the HYEPU forecasts. This brings the net cost of this part of the package down to just over \$550 million in year 1 and about

\$570 million in year 2, with a slightly lower net cost in later years. This declining cost profile is helpful given that a number of material pressures have been deferred (see section 3).

- The second part of the package deals with discretionary spending, focusing on manifesto commitments. Once these are included, the net cost of the package increases to about \$650 million in years 1 and 2, falling below \$600 million in later years. If you wanted to reduce costs, particularly in the first two years, we would suggest cutting back this part of the package. Note that costs for a number of manifesto initiatives have already been scaled back. Reducing the level of funding for Health's manifesto bids is an option, but unless the commitments themselves are also scaled back, this will add to reprioritisation and efficiency requirements facing the sector. We return to these issues below.

Table 2: Treasury's recommended package

\$million		2015/16	2016/17	2017/18	2018/19+
<b>Part 1: Cost pressures</b>					
<b>Demand pressures</b>					
Education	Forecast MBU / OBU changes	79.5	87.8	85.0	89.8
	Other demand	16.9	35.0	37.4	39.5
Social Development	Participation & inclusion	1.7	3.7	5.4	5.4
	OSCAR	3.5*	2.1	2.1	2.2
	CYF High needs	1.4	1.4	1.4	1.4
	Other CYF demand pressures	8.0	-	-	-
	Post-Ashburton security	12.0	-	-	-
Health	DHBs	275.0	275.0	275.0	275.0
	Other demand pressures	33.8	39.8	39.8	39.8
<b>Sub-total</b>		<b>432.0</b>	<b>444.8</b>	<b>446.1</b>	<b>453.1</b>
<b>Wage pressures</b>					
[12]					
<b>Sub-total</b>			[12]		
<b>Other pressures</b>					
Education	Education payroll	15.9	12.4	12.4	12.4
	Education insurance	8.5	8.5	8.5	8.5
	Earthquake resilience	4.9	-	-	-
Social Development	Implementing the CYPF Act	3.3	-	-	-
Social Housing	Community Group Housing	7.0	7.4	7.7	8.1
Cross agency	GUINZ				
<b>Sub-total</b>			[11]		
<b>Gross cost excluding manifesto bids</b>		<b>613.1</b>	<b>643.4</b>	<b>643.9</b>	<b>652.2</b>
Forecast Changes MBU 2014		(45.6)	(61.5)	(71.3)	(71.3)
MSD simplification Crown savings		(10.7)	(12.0)	(53.4)	(53.4)
<b>Net cost excluding manifesto bids</b>		<b>556.8</b>	<b>569.9</b>	<b>519.3</b>	<b>527.6</b>
<b>Part 2: Discretionary spending</b>					
<b>Manifesto bids</b>					
Education	Additional in class support	5.7	5.8	5.9	6.0
	[8]				
Health	\$50m for electives	18.0	27.0	5.0	0.0
	Additional 2000 electives	12.0	12.0	12.0	12.0
	Expand hospice services	13.0	13.0	13.0	13.0
	Palliative care nurses	3.5	7.0	7.0	7.0
	[8]				
Social Development	BPS 1 target	8.5	-	-	-
	CYF modernisation	5.8	-	-	-
Social Housing	Reform programme	[8]			
Cross agency	Children's Action Plan	9.9	8.1	7.1	7.1
	[8]				
<b>Net cost of package - including manifesto bids</b>					

\* Includes \$1.5 million for a forecast shortfall in 2014/15.

## Non-wage pressures

5. The recommended package covers most demand-driven cost pressure bids from Health, Education and Social Development. The amount included for Education's demand pressures is lower than the amount for which it bid. This reflects the deferral of capital expenditure in new schools, with a consequential reduction in operating expenses.
6. Inflationary (price-driven) cost pressures are generally not included in the package for any agency, with the exception of \$8.5 million a year for the Ministry of Education in respect of increased insurance premiums. The implications of this are that:
  - Health is expected to absorb around \$56 million (over four years) of non-DHB price pressures for which it bid.
  - Education is expected to absorb around \$85 million over four years. [8]
7. The package includes funding for a limited number of additional cost pressures which appear to be both unavoidable and too large for agencies to easily absorb. These are itemised separately in table 2. Key points as follows:
  - Additional cost pressure bids for Education and Social Development are included. However, we have suggested only funding part of MSD's additional security costs (\$12 million [8] , and for one-year only. We want the Ministry to look at ways to manage down or absorb these costs between now and 2016/17.
  - We have not included any funding for specific cost pressure bids from Health (\$92 million over four years) or Justice (\$8 million in 2015/16) so these costs will need to be managed within baselines. This is relevant when considering the level of funding needed to allow Health, in particular, to meet manifesto commitments without impacting on other services.
  - The package includes funding for the Growing Up in New Zealand longitudinal study ([11] ) as we see value in continuing this. Our first best advice is that it should be funded from agency baselines as it will benefit their businesses. However, there has not been agreement between agencies on reprioritising for this initiative, so we have included it in the package. If Ministers are concerned about the size of the package, agencies could be directed to fund this themselves.
  - Funding for social sector trials has not been included. Chief Executives have to agree to fund social sector trials from baselines. Minister Tolley will take a paper to SOC on 18 March to get agreement to this approach. For the relevant agencies, this will increase the level of efficiencies and reprioritisation required.

## Wage pressures

8. The package includes some funding for short-term wage pressures, but still implies efficiencies in parts of the social sector. Some wage-pressure bids have been deferred and can be expected to come back in future Budgets.

- [12]

- [12]

- For Health, the package includes \$14 million a year fund in-between travel for home care workers (approved by Cabinet last year). [12]

## Manifesto commitments

9. We have included funding for a number of manifesto commitments. Recommended funding for a number of initiatives has been scaled back based on Treasury analysis (this has already been signalled to agencies). Details are set out in Table 3.

Table 3: Summary of manifesto bids included in the package

<b>Education</b>	Additional in class support	Continue extra support to existing 1500 students. The full manifesto commitment is for 4,000 students.
	[8]	
<b>Health</b>	\$50m over three years for electives	Fully funded
	Additional 2000 Electives Procedures	Fully funded
	Community palliative care	Fully funded
	Palliative care nurses	Fully funded
	[8]	
<b>MSD</b>	BPS 1 target	Scale back and fund for one year only.
	CYF modernisation	Minor scaling to reflect a lower estimate of assurance costs.
<b>Other</b>	Children's Action Plan	Fund directorate, existing teams plus Hamilton and one other site, scaled workforce, and VIKI
	Social Housing reform	Scaled based on Ministers' decisions. [8]
	[8]	[8]

10. Health's manifesto bids are included without scaling, which provides more scope for the sector to manage its unfunded cost pressures through efficiencies and reprioritisation. You could reduce these amounts if you wanted to lower the overall cost of the package or provide a larger contribution to wage and other cost pressures in the health sector. However, unless the manifesto commitments themselves are also revisited, this would increase the size of the efficiency requirement implied by this package. For example, primary and community services for high-need populations are arguably a higher priority for new money than additional elective services; but if the sector is required to deliver additional electives without funding, this would further skew the system towards hospital-based services.

11. Note that the Whānau Ora bid is not included in the package. [8]

## Some (Treasury) observations on the package, by sector

### Education

12. The recommended package largely funds Education's non-discretionary pressures, leaving \$1.3m unfunded in 2015/16 and \$2.2m a year from 2017/18. Relative to the size of the Vote, these pressures are manageable without having a significant impact on the Ministry's business. Around 88% of Vote Education relates to workforce costs, ECE subsidies, school operations grant, and property management. The remaining \$1.1 billion is more discretionary as it does not require policy changes to the underlying funding model.
13. The recommended package does not fully fund the in-class support manifesto commitment. Nor does it fund a number of other education priorities. Specific items that the Minister of Education is likely to want to fund are: (i) increases to the school operations grant [8]  
[8] ; (ii) continued support for the implementation of the youth guarantee, and (iii)  
[8] Together these three initiatives would cost [8]  
[8]
14. We do not have good visibility of the available savings and reprioritisation options within the "discretionary" \$1.1 billion, or of how much of this expenditure is contractually tied in 2015/16. Our assessment is that there will be some options available that will be relatively easy to agree. For example, school transport efficiencies could generate savings of \$1.3m in 2015/16 and \$9.5m by 2018/19. [8]
15. If room could be found within the package to fund additional education pressures, Treasury would favour prioritising system/data initiatives [8]  
which align with a focus on outcomes.  
Of the items mentioned above that we think will be priorities for the Minister of Education, we suggest giving priority, first, to continuing the youth guarantee as there is evidence of its effectiveness. The next cab off the rank would be the school operating grant, to balance wider sector objectives. [8]

### Health

16. Overall, under the recommended package, the Health sector would receive funding as shown in table 4. This is a similar level of funding to that provided in recent Budgets. (The Budget 2014 allocation was \$250 million for DHBs and \$100 million for other services.).
17. The \$275 million for DHBs covers demographic pressures and makes a partial contribution to wage and price pressures. In 2015/16, total pressures for DHBs are estimated to be \$441 million. This analysis takes baseline expenditure as its starting point and says nothing about the effectiveness of this spending or the scope for reprioritisation. Nevertheless, it does make clear the level of efficiencies expected of

DHBs (about 1.45% of their baseline expenditure). Note that these are Treasury estimates of implied efficiencies (Ministry estimates are slightly lower, at 1.25% of baseline expenditure).

18. National services are purchased by the Ministry at a cost of about \$2.8 billion per year. They are subject to similar demographic and cost pressures faced by DHBs. These pressures are estimated at \$74 million in 2015/16, rising to \$95 million in 2018/19. This implies that under the recommended package, these service lines will be expected, collectively, to generate efficiencies of between \$20 and \$30 million per year (0.7% to 1.1% of baseline expenditure). These are Ministry estimates.
19. As noted above, asking the sector to deliver unfunded manifesto commitments would reduce the overall cost of the package but add to the pressures faced by the sector. Therefore, if a smaller overall package is required, we would suggest that some commitments are explicitly scaled back or deferred.

Table 4: Summary of Health funding under the recommended package

\$million	2015/16	2016/17	2017/18	2018/19+
DHB funding signal	275.0	275.0	275.0	275.0
Contribution to non-DHB pressures	54.0	60.0	60.0	60.0
Funding for manifesto commitments	47.4	61.5	41.0	40.0
<b>Total</b>	<b>376.4</b>	<b>396.5</b>	<b>376.0</b>	<b>375.0</b>

### *Social Development*

20. The recommended package provides funding for a number of key manifesto commitments and a large share of MSD's cost pressures. It assumes that MSD is not required to absorb any housing-related pressures. The Ministry would still face residual cost pressures of approximately [8]  
[8] This will require a number of departmental efficiencies to be identified in the coming months, which we expect to see developed through the Four Year Plan process. This will be challenging, but we think it is manageable given the significant and unexpected pressures that were able to be funded in 2014/15 through cost saving exercises. Beyond 2015/16, MSD will need to rely on departmental savings from the simplification programme. This will still leave a funding shortfall, so it is important that MSD continues to progress its key change programmes, such as CYF modernisation, Community Investment implementation and welfare reform.
21. [8] Similarly, we recommend that the cross-agency Children's Action Plan be scaled to allow for evaluation and CYF Modernisation to inform any rollout of additional teams, including the four agreed to by Cabinet. Treasury supports \$8.5 million [8] for the BPS 1 Welfare Target earmarked in a contingency for testing what is most likely to contribute to achievement of the target, including cross agency work. These recommendations are all reflected in the package we have outlined above.
22. The package does not include funding to continue the Limited Services Volunteer programme. There is limited evidence of its effectiveness in achieving employment outcomes.

### Section 3: Pressures deferred to future Budgets

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23. The recommended package leaves a number of cost pressure bids and manifesto commitments unfunded. We do not consider any of these bids to be of higher priority than those we have included. However, a number are likely to come back, and need funding, in future Budgets. These are summarised in Table 5. For completeness, we have included indicative figures for Health, based loosely on past increases.
24. The short point is that deferred or anticipated pressures are likely to account for a substantial amount of any social sector allocation in future Budgets, reducing the scope for discretionary spending in the absence of changes to policy settings.

Table 5: Deferred and anticipated cost pressures  
[8]

### Section 4: Initiatives to support social sector investment in Budget 15

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25. The Budget package includes a range of initiatives which to some extent address the issues raised during the RFI process. This includes the material hardship package, as general poverty factors were identified as a determinant of risk and poor child / family outcomes, as well as other initiatives that may be funded such as Children's Teams.
26. We have assessed three additional initiatives through Treasury's CBAX model which will also target at-risk children and families. The preliminary results of our analysis are included in the attached A3. Treasury's overall advice on the three initiatives we have run CBAs on is informed by a wider range of factors than simply the ROI analysis – such as fit with wider policy processes or directions and other funding options. Our assessments are below:
  - Year 9. Do not fund in Budget 15. While we support a focus on children 'at risk' of not achieving NCEA, a stronger case needs to be made that this is the right way to provide that support given the high costs and long term nature of the programme even as a trial. We recommend that further work be undertaken in the next few months on the back of the CBA work. If Ministers choose to fund this initiative in Budget 15, we recommend an in-principle decision only at this stage, so that the CBA work can inform detailed design and scaling decisions, to be approved by Cabinet along with the implementation and monitoring plan.

- Social Sector Trials. Agencies have agreed to fund these trials from baselines, so we have not recommended new funding in Budget 15. Treasury considers that one more year of the trials will provide further evaluation evidence, including analysis of case level data, to inform a decision about their future. The CBA work we have undertaken with the programme office helps to confirm the key questions that need to be answered from evaluation evidence and monitoring for an assessment of the likely return on investment of the programme or similar programmes.
- Whānau Ora navigators (55% of Whānau Ora Bid). Do not fund in Budget 15. While the CBA work identifies the costs and benefits of Navigators in isolation, this does not take into account the operating environment they would be working in. If Ministers wish to fund further investment in Whānau Ora in Budget 15, Treasury suggests providing more funding to Commissioning Agencies to support the next two years of the three year operating model currently underway. This may result in more Navigators if the Commissioning Agencies think this is an effective way to achieve whānau outcomes.

27. [8]

## Section 5: Possible savings options

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28. As noted earlier, in preparing the recommended package, we have already netted off Crown savings from MSD's Simplification exercise and deducted Education's MBU 2014 impacts (included in HYEJU). We have also assumed that Whānau Ora will be funded [8]  
 [8] All packages also assume some level of savings and reprioritisation by agencies. We have not tried to bank and then reallocate these savings across the social sector. This would be a circular exercise up to the point at which all pressures were fully funded.
29. If you are concerned by the overall cost of the social sector package and/or the size of the deferred cost pressures, and you do not wish to address this by reducing the amount of funding allocated for manifesto commitments, then we recommend asking Social Sector Chief Executives to provide more advice on reprioritisation options and strategic choices to keep the net cost of the package at about \$600m for the 30 March meeting. Options should also be considered that will reduce the likely pressures on the Budget 16 allocation.
30. While agencies are better placed than the Treasury to identify specific savings or efficiencies, we have identified a few options to inform your discussion on 16 March. None of these ideas have been worked up, but they could be developed for the 30 March meeting if you wanted. Options that would more tightly target core services/entitlements to those in greatest need, or alter input mixes while maintaining outcomes, would be the most fiscally significant options. although the latter are not always easy to design. [8]  
 [8]  
 [8]

[8]

# Budget 2015 Social Investment: Cost-Benefit Analysis

## Why is CBA useful in social investment?

- Treasury has been trialling the use of a consistent **cost-benefit analysis tool (CBAX)** across social sector initiatives as part of a shift towards social investment.
- The process of developing a CBA increases the **transparency about the estimated impact and effectiveness** of an intervention. The effectiveness rate assumption that is used in the analysis has a big impact on the benefit cost ratio (BCR) – and this means measuring and quantifying effectiveness is critical once interventions are put in place.
- The tool will be able to be used to:
  - compare the **relative returns across different interventions** (comparisons will be better as we develop more common assumptions)
  - assess how effective an initiative will have to be in order to be worth the spending
  - inform contracting, monitoring and evaluation about what results to measure to see if it is on track to be worth the costs.

## Important Note!

- We have prepared the analysis overleaf in a short amount of time - these are **works in progress**. The purpose of them is to demonstrate how CBAX could be used to inform Budget decisions in future. We have tested CBAX on only three Budget initiatives (Year 9 Plus, Social Sector Trials (SSTs), and Whānau Ora Navigators).

## Interpreting the preliminary results (overleaf)

- A benefit-cost ratio (BCR) of **greater than 1** indicates a positive return on investment (i.e. benefits outweigh costs).
- At this stage, each BCR should be taken on its own merits and **caution exercised in comparing BCRs across initiatives** as the data and assumptions about costs and effectiveness vary in quality.
- Cost benefit models discount future costs/benefits so they are worth less than near-term costs/benefits – this is best practice. This means it is more **difficult to get a positive return on investment where costs are immediate but benefits are long-term**.

## Main similarities and differences between results

- **Time to make an impact:** SSTs and Whānau Ora assume that interventions will lead to benefits after one year. Year 9 Plus is an early intervention that assumes that benefits will not be realised until students achieve NCEA 2 which will take 5 years of intervention. All else equal, if something has a faster impact and is cheaper, it will have a higher return.
- **Effectiveness assumption:** SSTs have some analysis of outcomes to date and Whānau Ora has some self-reported information about the impact of Navigators. Year 9 Plus is a new pilot initiative so effectiveness assumptions are based on international evidence of similar programmes.
- **Payback period:** The three initiatives modelled have payback periods ranging from 12 to 25 years.

## What are the challenges of CBA?

- The output of any model is **only as good as the information and assumptions** in it. The preliminary CBAs have been prepared in a short amount of time so there is more that can be done to improve the input in modelling the benefit cost ratio of these initiatives. *Even so*, the analysis makes transparent the questions that need to be asked about these initiatives in order to work out whether they are good value before and after implementation.
- Some **qualitative benefits are difficult to quantify** – these have been described separately in the material. This additional information about unquantified benefits should also be taken into account. The aim is to quantify as much as possible.

## What are the limitations of the work so far?

- Much of the data is based on **population averages** (e.g. the average income for a person with NCEA2) which might not reflect the specific characteristics of the target group. This means there is overestimation and underestimation of some costs and benefits.
- **Indirect costs** of increased demand for some services (e.g. schooling) have not been modelled.
- Not all quantifiable benefits are in the model yet so these have been described separately in text.

## What next....

### ...for the model?

- The preliminary work that agencies have done with Treasury shows that there is value in *the process* of CBA as much as the outcome of the analysis (it is a good structure for revealing assumptions about impacts). However, to realise the full benefits of it:
  - we need to do more work on developing **common assumptions** across agencies – building up the database of benchmark costs and outcomes will be a core component of Treasury's work programme
  - we can make better use of the **administrative data** that we hold about the costs associated with certain outcomes – we will be working on using the population analysis that has been done to date
  - we need **more than two weeks** to work through the assumptions and costs/benefits for each initiative. Still, we consider that these demonstrations show that you can get a long way quite quickly – the work completed to date is useful in itself already.
- The CBA work highlights the type of information that would need to be tracked to demonstrate whether the initiatives are effective for **monitoring and evaluation purposes**.

### ...for the preliminary CBA analyses?

- If you want to proceed with any of the three initiatives we can do further work to improve the CBA analysis. This would inform the approach to contract monitoring, evaluation and data collection and the milestone points for review of these programmes (and could help to evaluate existing spending in SSTs and Whānau Ora).

# Budget 2015 Social Investment: Preliminary CBAX results

## Year 9 Plus

### Description

New programme to systematically identify children at Year 9 who have a high risk of not achieving NCEA2. Champions would be based in schools to provide intensive wrap around support throughout school. Funding is being sought for a pilot in Gisborne [8]

Community providers will provide the service.

Funding requested (\$ million)				
	2015/16	2016/17	2017/18	2018/19
Year 9 Plus	[8]			

### Assessment summary

Year 9 Plus is an intensive early intervention working with high risk children from age 13. The analysis captures benefits that occur when these children turn 18. CBA modelling shows a high effectiveness rate (e.g. over 20%) and/or a long timeframe needs to be assumed before benefits exceed costs (e.g. 20 years).

If approved, we recommend that Cabinet should approve the detailed design. The programme's effectiveness should be closely monitored to determine whether the assumed effectiveness rate is feasible.

## Social Sector Trials

### Description

Social Sector Trials (SSTs) are cross-agency initiatives that use a collective impact model to improve existing social service delivery to achieve better outcomes. There are 16 Trials and the funding is to continue operation of them in 2015/16. The nature of the intervention is quite different to a targeted, intensive intervention in that it is a cross-agency collective impact model to improve social service delivery in communities.

Funding requested (\$ million)				
	2015/16	2016/17	2017/18	2018/19
Social Sector Trials	7.61			

### Assessment summary

There is evidence that SSTs may have a positive return on investment. This is likely because they are lower cost and the analysis assumes benefits occur within one year. However, the data that this is based on does not show a statistically significant improvement in outcomes (i.e. there could potentially be no benefits) and relates to a subset of the existing SSTs. There are also difficulties attributing benefits to SSTs rather than other factors or interventions.

We recommend further evaluation and refinement of the SST CBA before making decisions about permanence of SSTs. The current analysis is due to be supplemented by more evaluation evidence in the coming months.

## Whānau Ora Navigators

### Description

Whānau Ora Navigators are part of the Whānau Ora approach. A Navigator is a practitioner who works with whānau and families to identify their needs and aspirations, supports their participation in education, primary health and employment, and coordinates access to specialist services. There are currently 235 Navigators. [8] Navigators as well as exp

Funding requested (\$ million)				
	2015/16	2016/17	2017/18	2018/19
Whānau Ora (current and additional Navigators)	[8]			

### Assessment summary

The analysis shows a positive return is possible on investment for Whānau Ora Navigators assuming they can generate high effectiveness rates in terms of employment, welfare and health.

The benefits modelled are based on self-reported survey data and anecdotal evidence. The modelling does not include broader benefits such as increased cultural competency and self esteem.

If approved, we recommend robust evaluation of the effectiveness of Navigators – the CBA work can support the design of monitoring.

## Year 9 Plus – Preliminary CBAX results

### Quantitative assessment

- The main outcomes modelled were the impact on NCEA 1 & 2 achievement over a 40 year period.
- The benefits modelled are theoretical fiscal savings from reduced welfare, custodial and some health costs, and increased tax revenue from higher earnings. It also includes increased employment and earnings from NCEA completion. The counterfactual is those who leave school with no qualifications.
- Welfare and corrections results are based on analysis of administrative data, health savings are an arbitrary assumption, and effectiveness rates are based on evidence from international literature.
- The results are for two scenarios:
  - Scenario 1: assumes that 15 out of 100 participants will get NCEA2, and 7 will get NCEA1, who would not otherwise have done so
  - Scenario 2: assumes that 30 out of 100 participants will get NCEA2, and 10 NCEA1, who would not otherwise have done so.

Discount rate	Scenario 1 BCR	Scenario 2 BCR
4%	0.92	1.82
8% (recommended)	0.49	1.00

**Additional benefits:** the modelling does not include:

- non-fiscal benefits such as some health and justice outcomes
- qualitative benefits that are difficult to quantify such as enhanced self-esteem, and perceptions of safety
- inter-generational benefits associated with outcomes of children with higher educated parents
- benefits from improved attendance of children who do not achieve NCEA 1 or benefits if children proceed to higher level qualifications.

## Social Sector Trials – Preliminary CBAX results

### Quantitative assessment

- The main outcomes modelled were the impact of the programme on NCEA2 achievement and offending.
- The benefits modelled are based on draft analysis of limited administrative data sets for six small communities extrapolated to 16.
- The benefits modelled are fiscal savings of NCEA2 achievement, which includes the benefits as per the Year 9 plus modelling, and the fiscal savings of reduced crime resulting from increased use of family group conferences (FGCs). The counterfactuals are those who leave school with no qualifications, and crime rates in areas prior to the use of FGCs.
- The costs modelled are national support, trial leads and a small amount of funding to fill service gaps and do not include additional funding put in by agencies in SST areas.
  - Scenario 1: assumes that 2 out of every 100 school leavers in a community will get NCEA2 who wouldn't have, and there are 40 fewer crimes per year in each community, with confidence that is below that which provides statistical significance (as per the analysis of trial areas available to date). This therefore includes the possibility that there are no benefits.
  - Scenario 2: assumes that 2 out of every 100 school leavers in a community will get NCEA who wouldn't have, with 100% confidence.

Discount rate	Scenario 1 BCR	Scenario 2 BCR
4%	0 – 1.7	1.85
8% (recommended)	0 - 1.04	1.17

**Additional benefits:** the modelling does not include some direct impacts such as reduced costs of improving housing and health outcomes, or reductions in truancy, or broader benefits such as increased attachment to school and community, enhanced self-esteem.

## Whānau Ora Navigators – Preliminary CBAX results

### Quantitative assessment

- The main outcomes modelled were the impacts of Whānau Ora Navigators on avoiding CYFS intervention, reducing welfare dependence / increasing employment, and reducing smoking / promoting healthy lifestyles. The counterfactual situation reflects the nature of the target group (i.e. high needs and hard to reach whānau with no previous engagement with Whānau Ora and little to no engagement with Government support services).
- The benefits modelled are theoretical fiscal savings from reduced welfare, custodial and health costs, increased tax revenue from employment outcomes and additional training.
- The results of the two scenarios are modelled on an individual basis - although the Navigators work at the whānau level:
  - Scenario 1: assumes that per 100 individuals per year, 10 people will enter employment who would not otherwise have done so, there will be the same custodial, health and benefit outcomes as in scenario 2 but that it takes at least 4 years for benefits to start accruing (as opposed to 1 year for some benefits in scenario 2).
  - Scenario 2: assumes that per 100 individuals per year there will be 20 additional people in work who would not otherwise have been, 7 fewer people on benefits, 36 fewer health interventions, 3 fewer offences and 2 fewer stays in juvenile residential centres.
- Scenario 2 could be augmented to assume that more than one person per family achieves the estimated benefits resulting from the impact of the Navigator, which would produce a BCR of more than 2.0.

Discount rate	Scenario 1 BCR	Scenario 2 BCR
4%	0.89	1.82
8% (recommended)	0.66	1.41