Cost Benefit Analysis Template

All initiatives for Budget 2016 need to be supported by a cost benefit analysis (CBA), except for cost pressure initiatives. To meet this requirement, agencies should fill out this CBA Template for each significant initiative. The analysis here should also be summarised in the impact analysis section of the Budget Initiative Summary Template.

This template is a way of organising whatever information you have in a consistent and systematic way. It should be relevant for all initiatives. The level of detail required depends on the size of the initiative and the information available. Impacts should be quantified where possible, but the template can also be used to analyse descriptive, unquantified impacts.

The CBAx tool and database can help you estimate a dollar value for quantified impacts. CBAx analysis is required for social sector initiatives, apart from cost pressures. The tool and supporting information is available via CFISnet or email. Contact CBAx@treasury.govt.nz for support.

Contact your Vote Analyst if you have questions about the template or how much detail to include. Treasury's Cost Benefit Analysis Guidance has more information on how to do CBA. Refer to the Budget 2016 Initiative Guidance (page 18) for more detail on the expectations and process for CBA in Budget 2016.

Section A Descriptive Information

Vote	Social Development
Responsible Minister	Hon Anne Tolley
Initiative title	Community Finance Scale-Up from Pilot

Funding Sought ($m)	2015/16	2016/17	2017/18	2018/19	2019/20 & outyears	TOTAL
Operating	-	0.8	1.2	1.1	1.1	4.2
Capital	-	-	-	-	-	-

Problem Definition

Access to safe and affordable credit plays an important role in whānau and individual financial well-being. It enables the accelerated purchase of relatively expensive services/assets and helps provide resilience from life shocks. However, some individuals are financially incapable. While (in)capability exists across all groups and income levels, the effects of low capability are particularly severe at lower income levels. A subset of people gets into unsustainable levels of debt, often with predatory lenders. Debt repayments, fees and penalties become chronic and unmanageable – sometimes leading to a spiral of increasing indebtedness. Perversely, the cost of purchases (through mobile retail trucks for example) and borrowing increases as income decreases. Mainstream lenders, which charge the lowest interest rates, discourage low income clients through conservative lending policies and risk assessment, and also inadvertently through their institutional style. Taken together, these problems lead to hardship for families and poorer outcomes for 0-5s in particular, making it less likely that they will thrive, belong and achieve their potential. Taking an investment approach, the opportunity to alleviate the risk of lifelong poor outcomes makes Community Finance an effective approach.

Initiative Description

This initiative will expand the existing Community Finance Pilot private-public partnership with additional providers, sites and frontline workers to assist people vulnerable to unsustainable debt.

Community Finance builds personal/ whānau resilience through access to safe, affordable personal credit. It facilitates the accumulation of assets/services for education or parental work-readiness. Low-income families access safe and fair loans that contribute to asset building and reduced hardship. They can access wider choices (eg: to leave violent relationship, move house or job, take up training.) Financial capability for approved *and* unsuccessful applicants is built through 'teachable moments' incorporated into face-to-face Financial Conversations. Referrals, if needed, to further budgetary assistance or social support are integrated into the initiative. This aspect is being further explored through a financial capability sector co-design process being led by MSD in 2015-16.

$4.2m over 4 years will provide operational funding to 4 community providers. The funding mechanism is expected to be a continuation of the existing arrangement: one lead provider, currently Good Shepherd New Zealand, will sub-contract and jointly manage (with MSD) three community providers (the existing Salvation Army with additional sites, and two new NGOs).

Funding will be used primarily for the employment (plus overhead) of a professional full-time workforce of dedicated Community Finance Workers.

The key population outputs (projected) will be -

- 3,270 low income families/individuals, who will be approved to receive no-interest/low-interest loans
- 9,400 loan applicants, who will receive financial capability education through Financial Conversations with the Community Finance workers.

year	Total providers	Total workers	Investment sought	Financial Conversations	Approved loans
2016-2017	2	6	$0.800m	1,45[illegible]	380
2017-2018	3	8	$1.200m	[illegible]80	620
2018-2019	4	12	$1.1[illegible]m	2,470	970
2020 and >	4	12	$[illegible]00m	3,600	1,300
			$4.200m	**9,400**	**3,270**

The investment sought will also fund the lead provider to provide reporting, quality control, and IP licensing and accreditation to the partnership.

While the initiative could stand alone at this level, the Budget funding is also intended to leverage other funding. Proportionate private-public funding (ideally 50/50) would be sought. The financial capability sector co-design may also identify other funding streams (e.g. a part of Budget Services baseline, if the co-design process identifies synergies).

Alternative Options Considered

The initiative is designed to be scalable, up or down. In August and October 2015, the Community Finance partners submitted proposals for a scale-up totalling $10.2m funding over four years:

year	Total providers	Total workers	Investment sought	Financial Conversations, per year	Approved loans, per year
2016-2017	2	6	$0.700m	1,450	460
2017-2018	3	18	$2.500m	4,000	1,235
2018-2019	4	26	$3.500m	7,200	2,500
2020 and >	4	26	$3.500m	9,000	3,400

And a more extensive investment of $12.5m over 4 years:

year	Total providers	Total workers	Investment sought	Financial Conversations, per year	Approved loans, per year
2016-2017	3	14	$1.400m	2,715	705
2017-2018	4	22	$2.900m	6,235	1,930
2018-2019	5	30	$4.100m	9,535	3,258
2020 and >	5	30	$4.100m	10,290	3,840

At the above levels, the partners' proposals were felt to deliver poor value for money when compared against other hardship-alleviation initiatives. The approach of seeking $4.2m standalone funding, with the possibility of expansion to the above sizes through leveraged public-private funding was preferred.

International comparison: Community Finance as implemented to date is derived from the successful Australian Good Shepherd microfinance programme. If the $33.7m Australian Federal funding over 4 years announced in their 2015 Budget were scaled down to New Zealand size (based on GDP of approx. 15% and population of approx. 19%), Government funding would be approx. $5.05m. However this figure has been discounted further to $4.2m as the Australian funding includes a retail banking facility, 'Good Money', not part of the New Zealand proposal. More information on the Australian provision is available in [5] and [6].

Alternative models: Work and Income provides SNG interest-free loans to beneficiaries (as advance payment of benefit) and low income non-beneficiaries (as recoverable assistance) in particular circumstances. Consideration was given to expanding this provision to second-hand cars, car repairs or additional assets and services. However, this would not provide a pathway to financial inclusion with mainstream financial institutions, nor would it build financial capability through practical learning and development of regular repayment discipline and pride in achievement of ownership. Community Finance will not duplicate or replace this Work and Income provision.

A different model was considered as part of the mid-2013 design phase whereby government would signal a broad role for microfinance and invite initiatives from multiple financial institution/community partnerships in an expression of interest process. This could have encouraged innovation and potentially involved more stakeholders but would have required intensive resources to manage. It would also have required time and planning to achieve suitable agreements. Neither was available at that time.

Section B Impact Analysis

Impact Analysis

Community Finance helps low-income families / whānau access affordable credit and effectively manage debt, helping to build resilience in family environments to deal with both everyday demands and unexpected expenses.

Within the Community Investment Strategy, Community Finance aligns most strongly to the *Vulnerable Children* priority result through the *Early Intervention* level: "reducing financial stress on parents" and the *Prevention* level: "Parents can compete in the labour market and material hardship/financial strain is reduced."

- **Financial impacts** –there are two key outcome streams, both of which contribute to the Strategy result:
  1. Increasing work-readiness and employability, through loans to make a reliable vehicle available; or for medical/dental treatments, computers and course fees not covered by Special Needs Grants/Loans.
  2. Increasing Financial Capability, including avoidance of predatory lenders.
     - Diverting at least 5,000 individuals/families away from unsafe and predatory lenders. This is derived from 3,270 individuals who will receive loans. Statistics about the size and activity of the predatory lending sector in New Zealand are difficult to obtain because of its marginal nature. However it can be estimated that each average-sized Community Finance loan will save each borrower at least $2,100 compared with predatory lender use.
- **Social impacts** – Poor social outcomes equate to exponential increases in lifetime costs. Reduced household income leads to a range of family breakdown, child health, educational, and developmental deficits, increased hospitalisation and more extensive care. "Currently, the economic costs of child poverty are in the range of $6-8 billion per year and considerable sums of public money are spent annually on remedial interventions." [1] Community Finance contributes to the following positive outcomes for whānau with children 0-5 years.
- Short-term Outcomes: Access, learning, knowledge, skills etc.
  - People can buy essential goods/services (eg: car; dental/medical treatment, educational equipment not covered through SNGs)
  - People have wider choices (eg: can leave violent relationship, move house or job, take up training)
  - People build their financial capability (eg: numeracy and basic contract interpretation, confident dealings with financial providers, reduced dependency on unsustainable lending)
  - People receive referrals to social services and address issues (eg: family budgeting, addictions, family violence)
- Medium-term Outcomes: Behaviour, practice, decision making, social action, etc.
  - Employment: people get or keep jobs or add qualifications
  - Financial capability, people make better decisions about money management and spending
  - Health issues addressed and family stress reduced
- Long-term Outcomes: contributions to social development
  - Financial Resilience and reduced hardship
  - Reduced family violence (including economic) and child abuse
  - Improved Health and Education outcomes
  - Social inclusion.
- Ministry of Consumer Affairs (2007) found that among Pacific consumers in South Auckland, car loans were the second most common form of loan obtained from fringe lenders (after loans for purchase of everyday items). It

noted potentially exploitative lender practice, especially in respect to car loans. Interest rates reported in the 2007 survey and another 2011 survey were over 25%, with significantly higher effective rates (including fees) apparent from reports of repayment schedules (e.g. loans of $9,000 leading to repayment of $21,000).

- RBNZ (*Bulletin*, March 2015) found that a highly indebted household during periods of financial duress can amplify downturns; the current level of household debt in New Zealand is 164 percent of income.

- **Macroeconomic savings to New Zealand Government** – Consultants SPP [4] built on work they carried out in Australia to quantify the broader economic impact of increased financial inclusion brought about (in part) through engagement with Community Finance. By modelling the Australian Community Finance scheme scaled to New Zealand size, they identified a potential increase in household net worth of up to $4.8b. Other benefits were identified, including positive impacts on annual GDP due to a more productive economy of up to $1.5bn per annum, and annual savings in government spending on health, welfare, and criminal programs of $570m per annum.

- **Positive outcomes change** – In the Centre for Social Impact's 2013 Australian research [5], **73.6%** of survey respondents experienced a net positive change in economic and social outcomes after they received the StepUP Loan. Improved employment outcomes [having a fortnightly income of $A1500 or more] were included in the positive indicators, but not specifically quantified. Half of this rate is assumed as the two-year shift to employment after two years, i.e. **36%.**

- **Financial Capability building** – aligns to Government's National Strategy for Financial Capability. The Financial Conversations required as part of lending provide 'teachable moments' in which financial education is delivered in a context where it is more likely to be taken up. Evaluation of StepUP loans in Australia found almost 50% of the borrowers improved their financial management, such as saving for emergencies or paying bills on time. There is some NZ evidence the discipline of regular loan repayments with on-going Community Finance Workers' support and mentoring may help stimulate changes in financial behaviour. [3]

- **Gender implications** – 67% of Community Finance applications were from women (and 11% joint), and 38% of borrowers had Government Sole Parent Support as their income source [2]. Community Finance expansion has the potential to assist low income women to access sustainable, higher-paid employment and improved quality of life.

- **Environmental impacts** – overall positive through removing poor quality pre-2000 cars from the national vehicle fleet. [7] Providing loans for the purchase of reliable second-hand cars may increase the NZ total car population slightly and divert public transport users. However people on low incomes will be assisted to replace older cars which have inferior anti-pollution and vehicle safety equipment with more efficient, safer, better quality vehicles. Loans will be issued for approx 1,500 of these vehicles over the period.

Counterfactual: Without Community Finance some microfinance provision in New Zealand would continue, but at the current low level. Unmet demand would continue to be captured by predatory lenders. The sector ranges from main street nationwide high-profile chains typically charging 20-40% p.a., to payday lender offering short-term loans at an effective 1500% p.a. to underground "loan sharks".

Key outcomes not achieved. Without Community Finance:

1. Loss of opportunities to increase parent qualifications and employment readiness through lack of reliable transport or training.

   Flow-on effects of no Community Finance lending are increased family stress leading to increased Family Violence and consequent family breakdown (> foster care, truancy).

2. 3,720 low/no-interest loans not available. Each average-sized Community Finance loan will save each borrower at least $2100, based on the actual loan (cost $4439 @6.99% pa over 3 years with no application or penalty fees) compared with a Third Tier lender loan (cost at least $6550 over 3 years @30% including application fees, with the possibility of default fees of $80 - $100 per missed payment).

The overall direct saving to households is $7.14m over 4 years.

- 9,400 financial conversations would not occur, therefore at least 4,700 people over 4 years [50%] would not improve their Financial Capability (Australian study: "Financial capability of respondents improved. Of 500 respondents, 237 experienced a positive change in financial management.")

- **Note:** All costs and benefits are based on a Community Finance initiative funded solely with the $4.2m sought. Impacts and benefits would be much greater, allowing for efficiencies of scale, using additional leveraged private-public funding and/or access to Budget Services baseline funding, as discussed above.

Impact Summary Table

overleaf

Impact Summary Table | **Community Finance Scale-Up from Pilot**

Impacts - Identify and list ($m present value, for monetised impacts)	Option/scenario 1	Option/scenario 2	Assumptions and evidence (quantify if possible)	Certainty
Estimated impact on key outcomes				
Reduced hardship and better lifetime outcomes for children 0-5 years	Approx. 5,000 children (@3 kids/family)		Evidence [1] that increased family income through access to safe, affordable credit / parents moving into work will lead to a wide variety of improved health, mental health, and educational outcomes for 0-5s	Medium
Improved employment outcomes for 613 people	Total 613 people		Of the approx. 80% of loan recipients dependent on support payments (2,616 people), expect 36% (942) to get into work c.f. counterfactual of 15% (329) after 2 yrs.	Medium
Improved qualifications for 1123 people	Total 1123 people		Expect 25% of all loan recipients to improve their qualifications from No Quals to NCEA L1 after two years (817 people). Expect 5% of people declined loans but who receive referrals to other social services to improve as above (306 people).	Medium
Increased real household incomes for low income families/individuals	$7.14m real income increase		Each average-sized Community Finance loan will increase real income by $2,100 over the life of the loan, c.f. payments to predatory lenders. Total income increase $2100 x 3400 loans = $[illegible]14m over 4 years.	High
Government Benefits/(Costs)				
Fiscal costs of the service	($4.20m)		9,400 Financial Conversations held over 4 years.	High
Reduced welfare liability	$52.3m	-	Assumes 21% reduction in future welfare liability for the people who receive a loan = $52.3m over 50 years	Medium
Increase in childcare subsidies	($7.40m)	-	613 beneficiary parents enter work, 390 use extra fulltime public childcare.	Medium
Increase in tax received	$1,076m	-	Assumes revenue increase from 613 parents moving from benefits to earning average income over 50 years	Medium
Decrease in Violent Offences	$137.8m		Assumes 50% reduced Family Violence incidence through reduced parental stress, (@$17,048) per incident, counterfactual 3 incident p.a.	Low
Decrease in family breakdown	-		Proxy: Assumes 0 Youth Offender custodial sentences to CF families (c.f. 3 counterfactual)	Low
Total Quantified Govt Impact	$1,25[illegible]m	-		Medium
Wider Societal Benefits/(Costs)				
Extra income generated by parents now in work (after tax)	$26[illegible].9m	-	Assumes 613 parents move from sup. living to earning 70% of minimum weekly wage. Assume no offsetting decrease in employment/earnings of other groups.	Low
Improved life outcomes for parents and children	Invest-ment benefit	-	Improved employability, access to qualifications, increases to real household income	Low
Increase in Financial Capability	4700 people		At least 4,700 people over 4 years. International evidence: 74% of StepUP [Community Finance] borrowers improved their Financial Capability skills.	Medium
Improved education outcomes for children	-	-	Having parents who are unemployed for more than 2 years makes children 30% less likely to pass NCEA 2.	Medium
Improved national vehicle fleet	Modest		Replaces or repairs 1600 less-safe/inefficient/illegal vehicles. [7]	Medium
Total Quantified Soc.Impact	$263.9m	-		Low
Net Present Value of quantified impacts	**$447.7m**	-		Medium

Section C Conclusions

Conclusions

The potential benefits of Community Finance far exceed the $4.2 million over 4 years cost. The most easily identified direct benefit, $7.14m increased real household income over 4 years achieved by diversion from the predatory lending sector, achieves almost a 2:1 benefit with little downside (it is acknowledged that even predatory lenders contribute to economic activity).

Further, taking an investment approach, there is good evidence that programmes to increase parental/household income can provide excellent returns on investment through improved whole-of-life outcomes for children in hardship. At least 73 percent of people receiving a low-interest loan, and to a lesser extent, people rejected for lending but still offered advice and referrals, gain improved employability, access to qualifications, increases to real household income, resilience and increased Financial Capability [3] [5]. This carries through to decreased youth incarceration of their children and reduced family violence call-outs.

Government also receives increased tax revenue and reduced support payments as recipients move to employment.

As the Expert Advisory Group on Solutions to Child Poverty found: "for a very modest government investment, the private banking and voluntary sector can make this a success."[1]

Summary of monetised results [only fill this out if you have monetised costs and benefits]

Calculated using CBAx.

	Discount Rate	
	8% real (default)	**4% real (sensitivity)**
Net Present Value (NPV)[1]	-	-
Benefit Cost Ratio (BCR)[2]	2.25	2.67
Return on Investment (RoI)[3]	2.25 Societal 1.49 Govt only	2.67 Societal 1.75 Govt only

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[1] **Net Present Value (NPV)** - The NPV is the sum of the discounted benefits, less the sum of the discounted costs. This gives a single dollar value representing the net benefit of your initiative, in today's dollar terms.

[2] **Benefit Cost Ratio (BCR)** - The BCR is the ratio of total discounted benefits to the total discounted costs. A proposal with a BCR greater than 1.0 has a positive impact, because the benefits exceed the costs.

[3] **Return on Investment (RoI)** - Calculate the RoI by dividing the net change in societal impact (vs counterfactual) by the cost of the investment proposal. This can be interpreted as the impact on New Zealanders, per dollar the Government spends on the initiative. e.g. *"for every $1 the Government spends on this training programme, the collective living standards of New Zealanders increases by $4".*

Supporting Evidence

To substantiate assumptions and certainty ratings, please include links to supporting analysis or evidence here. This should include references to the research, evaluation and data sources that informed your assumptions, for instance about the effectiveness rate of your initiative and the counterfactual.

1. *Solutions to Child Poverty in New Zealand: Evidence for Action,* Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty, December 2012.
   (See especially Recommendation 48 –"support a public-private-partnership micro-financing model with the banking sector and community groups, with the aim of providing modest low-interest and zero interest loans, as a mechanism to help low-income families access affordable credit and effectively manage debt. for a very modest government investment, the private banking and voluntary sector can make this a success.")
2. *Community Finance Initiative Six-Monthly Report – 1 January – 30 June 2015,* Good Shepherd New Zealand Trust, July 2015.
3. *Community Finance Pilot Report* (report on the Process Evaluation of the Pilot) by David Turner Research and Impact Research Ltd. July – September 2015.
4. *Financial Inclusion – a path to greater wealth for New Zealand's citizens,* Phil Noble, Yixin Li, SPP (Strategic Project Partners), May 2014.
5. *A little help goes a long way: Measuring the impact of the StepUP Loan program* (report prepared by Centre for Social Impact, University of New South Wales), April 2015.
6. *Life Changing Loans at No Interest:* An Outcomes Evaluation of Good Shepherd Microfinance's No Interest Loan Scheme (NILS), (report prepared by Centre for Social Impact, University of New South Wales) March 2014.
7. *Aging of the New Zealand light vehicle fleet,* NZ Ministry of Transport, May 2011
8. The Community Finance Initiative – Notes on Likely Impact and Return on Investment Good Shepherd New Zealand, Centre for Social Impact, and SPP, October 2015
9. CBAx Spreadsheet, as approved by Treasury 18 December 2015.