

The Treasury

Budget 2017 Information Release

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Treasury Report: Track 1 Initiatives and the Investment Threshold

Date:	6 December 2016	Report No:	T2016/2356
		File Number:	BM-2-4-2017-12

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<p>Agree to set the investment threshold for the assessment of Track 1 initiatives.</p> <p>Sign the attached letters to portfolio Ministers which provides feedback on Track 1 initiatives and information on the investment threshold.</p>	Discuss with officials at Fiscal Issues on Wednesday 7 December 2016
Associate Minister of Finance (Hon Steven Joyce)	<p>Agree to set the investment threshold for the assessment of Track 1 initiatives.</p> <p>Sign the attached letters to portfolio Ministers which provides feedback on Track 1 initiatives and information on the investment threshold.</p>	Discuss with officials at Fiscal Issues on Wednesday 7 December 2016
Associate Minister of Finance (Hon Paula Bennett)	<p>Agree to set the investment threshold for the assessment of Track 1 initiatives.</p> <p>Sign the attached letters to portfolio Ministers which provides feedback on Track 1 initiatives and information on the investment threshold.</p>	Discuss with officials at Fiscal Issues on Wednesday 7 December 2016

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[34]			✓
Ben McBride	Manager, Health and ACC	[39] (wk)	N/A (mob)

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

Return the signed report to Treasury.

Note any
feedback on
the quality of
the report

Enclosure: Yes

[\(Feedback Report: Social Investment Panel November Checkpoint \(Track 1\):3623661\)](#)

[November checkpoint feedback letters \(Treasury:3627554v1\)](#)

Treasury Report: Track 1 Initiatives and the Investment Threshold

Executive Summary

The Treasury received indicative Track 1 initiatives for Budget 2017 on Friday 4 November. The purpose of this was to assist agencies in the further development of initiatives and provide feedback on their consistency with social investment principles. Final Track 1 initiatives are not due until 31 January 2017, however Ministers must choose whether to submit initiatives into Track 1 or Track 2 by 14 December.

This report provides an overview of these initiatives and sets out key feedback provided by the Social Investment Panel. It also provides advice on the investment threshold. **We will be discussing the contents of this report with you at Fiscal Issues on Wednesday 7 December.**

Overview of Track 1 Initiatives

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A key insight from the Panel was the lack of alignment between initiatives across and within sectors. Initiatives focussed on overlapping target populations and did not demonstrate a client centred focus. The Panel has encouraged all agencies to collaborate and ensure initiatives are more joined up ahead of final submission in January. The Treasury will also be working with the Social Investment Unit (SIU) and the Social Sector Board (SSB) to help coordinate initiatives across agencies.

The attached draft report outlines feedback from both the Treasury and the Social Investment Panel on each initiative. This feedback will be shared with agencies to help inform Ministers decisions on which initiatives should be progressed through Budget 2017 in Track 1. We also propose that you send a letter to each portfolio minister providing a summary of the feedback on their Track 1 initiatives. If you wish, these letters can be used to provide stronger feedback by indicating your preference for which initiatives should be progressed through Budget 2017 in Track 1.

Investment Threshold

Initiatives in Track 1 will be subject to an investment threshold. This reflects the higher expectations on the level of evidence and expected returns for initiatives in this track.

The Treasury (in consultation with social sector agencies, Superu and SIU) have developed an assessment framework which underpins the investment threshold for Track 1 initiatives. This is consistent with the key requirements for Track 1 agreed to in the Budget Strategy Cabinet paper. The assessment framework is based on three criteria covering case for change, value for money, and implementation and effectiveness. Initiatives will be scored from 1-5 for each criteria, with a maximum score of 15.

It is proposed that the investment threshold is set as a minimum requirement. Initiatives will need to achieve a score of at least 3 for each criteria to meet the threshold. Judgement will need to be applied when assessing initiatives and a moderation process will be carried out to ensure consistency across initiatives. The assessment framework and investment threshold has been designed to help balance the need for judgement and objective analysis. We propose that the feedback letters are used to communicate the investment threshold to portfolio Ministers.

Recommended Action

We recommend that you:

Indicative Track 1 Initiatives

- a **note** the Treasury received indicative Track 1 initiatives on Friday 4 November with the purpose of providing early feedback to agencies on consistency with social investment principles and Track 1 expectations;

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- d **note** the Social Investment Panel also reviewed the initiatives and provided feedback to agencies on key areas of further development;
- e **note** that feedback from both the Treasury and the Social Investment Panel will be provided to agencies and portfolio ministers to help inform decisions around which track initiatives should be progressed through Budget 2017;

Setting the Investment Threshold

- f **note** that all Track 1 initiatives will be subject to an investment threshold reflecting the higher expectations on initiatives in this track;
- g **note** the Treasury has consulted with social sector agencies, the Social Investment Unit and Superu in developing an assessment framework for Track 1 initiatives;
- h **note** this assessment framework covers three key criteria including case for change, value for money and implementation and effectiveness;
- i **note** that each of these criteria will be scored on a scale of 1 – 5, with each initiative receiving a total score out of 15;
- j **agree** to set the investment threshold as a minimum requirement where each initiative will need to receive a score of at least 3 in each criteria in order to meet the threshold;

Agree/Disagree
Minister of Finance

Agree/Disagree
Associate Minister of Finance

Agree/Disagree
Associate Minister of Finance

- k **note** that initiatives which meet the threshold will be weighted favourably by the Minister of Finance in discussions with Budget Ministers and Cabinet; and
- l **sign** the attached letters which communicate the investment threshold to portfolio Ministers and provide a summary of feedback on indicative Track 1 initiatives.

Agree/Disagree
Minister of Finance

Agree/Disagree
Associate Minister of Finance

Agree/Disagree
Associate Minister of Finance

Ben McBride
Manager, Health and ACC

Hon Bill English
Minister of Finance

Hon Paula Bennett
Associate Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Treasury Report: Track 1 Initiatives and the Investment Threshold

Purpose of Report

1. Treasury received indicative Track 1 initiatives on Friday 4 November as part of the assistance stage of the Track 1 process. Final Track 1 initiatives are due on 31 January 2017. The purpose of the November Checkpoint was to receive early visibility of proposals and provide feedback on their consistency with social investment principles and appropriateness for Track 1.
2. This report covers:
 - a. An outline of the Track 1 initiatives and indicative fiscal cost.
 - b. Key insights and feedback from the Treasury and the Social Investment Panel on these initiatives.
 - c. The assessment framework for Track 1 initiatives and advice on where the investment threshold should be set.

Context and Process for Track 1

3. The key purpose of Track 1 is to encourage effective social investment proposals which will deliver results for New Zealanders and ensure these are not crowded out by other business-as-usual pressures. The track is “uncapped” with respect to the spending allowances (but still subject to the Government’s net debt target). Track 1 places higher expectations on the level of evidence supporting an initiative, the expected returns and the ability to track and deliver these returns over time.
4. Initiatives in this track will be subject to an investment threshold which takes into consideration the quality of information and evidence presented. Initiatives which can meet the investment threshold will be weighted favourably by the Minister of Finance in discussions between Budget Ministers and Cabinet (who will continue to have the final decision rights on funding).
5. Each Track 1 initiative will need to cover off the key elements set out in Diagram 1 when they are submitted for assessment on 31 January 2017. The assessment framework and investment threshold draw on these key elements and are discussed further in the last section of this report.

Diagram 1



6. The process for Track 1 has broadly been split into two stages:
 - a. Assistance (October - January): Agencies were required to submit initiative scoping documents covering key elements of their proposals and how it is progressing. This has been reviewed by the Social Investment Panel and the Treasury and feedback will be provided to agencies to assist them in the further development of initiatives. Feedback provided will also help agencies and Ministers decide on which track initiatives should progress through.
 - b. Assessment (February – April): Track 1 initiatives are due on 31 January 2017 following which they will be formally assessed by the Treasury and the Social Investment Panel. These will also go through a moderation process. Guidance has been provided to agencies on the criteria and framework that will be used during the assessment process.
7. We are currently in the assistance stage described above. The information provided by agencies for the Checkpoint covered the following key areas:
 - a. WHAT: Description of initiative and problem definition
 - b. WHO: Target population and expected outcomes
 - c. HOW: The intervention logic and implementation
 - d. HOW MUCH: Indicative fiscal costs
 - e. WHEN: Predicted return on investment
 - f. WHY: Evidence base, measurement plan and evaluation

November Checkpoint Summary

Outline of initiatives and indicative fiscal costs

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The costs provided by agencies are estimates only and require further development and testing ahead of final submission in January.

9. [33]

The majority of initiatives have been submitted by key social sector agencies as expected, however there are some initiatives which provide a useful challenge to how the social investment criteria is applied for inclusion in Track 1. [33]

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10. The purpose of the Checkpoint was to provide early feedback to agencies rather than a formal assessment of initiatives. As part of this feedback, the Treasury categorised initiatives into 'showing potential' and 'not appropriate for Track 1'. [33]

11. This recommendation does not reflect Treasury's support as initiatives have not been fully developed yet. It does provide an indication of whether the initiative is consistent with social investment principles and the purpose of Track 1. All initiatives require significant further development over the next two months particularly in the areas of evaluation, implementation and the calculation of a return on investment using the CBAx model. It was expected that the information provided in these areas would be light on detail given the timeframes in which agencies were expected to submit indicative proposals.

12. Annex 1 provides a list of each initiative by sector. It includes a brief description, estimated fiscal costs and the Treasury's initial recommendation based on the categorisation described above.

Key insights from the Social Investment Panel

13. The Social Investment Panel convened on Tuesday 29 November to discuss feedback to agencies on their indicative proposals. Agencies were asked to come and present to the panel and answer any questions, with the purpose of having a 'free and frank' discussion on the merits, short-comings and information gaps associated with each initiative.
14. **Overall, the panel was impressed with the improvement in the quality of information that has come through Track 1 in comparison to previous Budgets.** In particular, the evidence provided by agencies to support proposals (both international and domestic, and learnings from existing pilots), understanding of the social investment approach and which vulnerable populations formed a large proportion of the liability for Government. Agencies are engaging well with the Track 1 process and key requirements and have showed a willingness to collaborate. Agencies will continue to work on their initiatives and the panel's feedback reflects the information presented to them through the Checkpoint.
15. There were several themes that came through consistently as the panel reviewed the initiatives and talked to agencies.
 - a. **Better alignment across initiatives:** There were a number of initiatives across sectors which were targeting the same or similar vulnerable populations but were presented as individual proposals which did not appear to be well coordinated. The overarching feedback from the Social Investment Panel is that the potential overlap between initiatives required further investigation and, where this is the case, initiatives need to be joined up. Initiatives should be focussed on the need of the population group and providing them with a seamless experience rather than a focus on agency specific outcomes.

Reoccurring population groups include mental health clients; youth not in education, employment or training; children aged 0-5 and benefit recipients with a high liability (e.g. those on supported living payments). [33]

The panel provided agencies with exposure to initiatives in other sectors where they considered there was potential overlap and agencies were encouraged to talk to each other. The Treasury and the Social Investment Unit will also be engaging with the Social Sector Board to ensure agencies are coordinated across initiatives. The panel have outlined that, during the assessment stage in February, they will be giving preference to options which demonstrate joined-up thinking.

- b. **Segmentation of population:** Initiatives within and across sectors covered a wide range of population groups. In some cases, this was presented on a spectrum – for example, initiatives targeted at those with mild-to-moderate mental health conditions and initiatives targeted at those with severe conditions. Segmentation is useful as it helps to target those with the highest need, however the Social Investment Panel noted that over segmentation can reduce the cumulative effect of initiatives and takes away from the population focus. For some initiatives, the target population was described too broadly which demonstrated a lack of understanding of the problem definition and why an intervention is required.

- c. **Identification of unmet need for target population:** Most initiatives did a good job of identifying the target population, describing the initiative and setting out the expected outcomes. However, further work was required to understand how the intervention aligned with existing services provided to this population. Mapping existing services is a critical first step in determining whether there is an unmet need for the population or gap that needs to be filled.
- d. **Cost pressure components:** There were some initiatives or components of initiatives which were presented as a 'scaling up' or 'expansion' of current services [33]

Feedback from the Social Investment Panel was that these initiatives needed to be clear about where the innovation and enhancement was to justify being in Track 1. The appropriateness for Track 1 also depends on whether the key driver of the initiative is an increase in demand or evidence around its effectiveness.
- e. **Is the idea going to work?** Initiatives coming through Track 1 reflected good ideas, however were less convincing on *why* the proposed intervention was considered the best approach versus other options and *what* will change for the target population as a result of the initiative. This reflects on the nature of evidence presented and how this was linked back to the intervention logic. Agencies were able to talk to the evidence that existed to justify the intervention, but in many cases this was not well presented in the initiative template itself.
- f. **What is being delivered and how?** A reoccurring question from the Social Investment Panel to agencies was what the additional funding requested was going to deliver (e.g. additional staff, case managers, contracting out to NGOs, grants). For a number of initiatives, agencies were not able to articulate this clearly in the scoping templates.

Initiatives were also light in describing *how* the intervention would be implemented. Some key points picked up by the panel were understanding market capacity to deliver specialised services, resourcing and workforce, implementation in the New Zealand context and scalability. The latter point reflects initiatives scaling up too quickly without testing effectiveness through fit-for-purpose evaluation. For one initiative [33], the Social Investment Panel questioned whether the agency was being ambitious enough in terms of the scale of the initiative and the funding requested.

- 16. Feedback received from the panel was consistent with key themes picked up through the Treasury review process. The attached report provides detail on feedback received for individual initiatives.

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Next Steps for Track 1 Initiatives

19. Feedback from the panel and the Treasury on indicative Track 1 initiatives will be provided to agencies by the end of the week. This will help inform decisions around which track initiatives should be progressed through. The ministerial letter outlining all Budget initiatives is due from portfolio ministers on 14 December. Following this date there will not be an opportunity to move initiatives between tracks.
20. We propose feedback on the initiatives be provided to individual portfolio Ministers through a formal letter from you this week. This will include a summary of the Track 1 initiatives submitted by each Minister and the Treasury recommendation (initiative shows potential or initiative is not appropriate for Track 1). Portfolio Ministers still retain the option of which initiatives they would like to progress through Track 1.

Assessment Framework and Investment Threshold

Assessment framework for Track 1 initiatives

21. Final Track 1 initiatives are due on 31 January 2017. The assessment of these initiatives will be based on the following three criteria:

Criteria	Description	Elements considered
Case for Change	<i>The case for change is an evidence based, systematic and reasoned description of why the intervention is required and the causal links between the intervention and the outcomes to be achieved.</i>	<p>TYPE OF INTERVENTION Is this a pilot, scale-up or retargeting of an existing service or a new initiative?</p> <p>CASE FOR CHANGE Why is this intervention required, for whom and what outcomes will it achieve? How does it fit within the current landscape?</p>
Value-for-Money	<i>Value-for-money is based on the marginal impacts and benefits to New Zealanders. The value-for-money judgement is a combination of ROI, absolute NPV, and the confidence in the evidence and impacts being realised.</i>	<p>CONFIDENCE IN EVIDENCE Assessment of reliability and adequacy of evidence used in intervention logic and return on investment calculation</p> <p>EXPECTED RETURNS What are the government and non-government impacts of the initiative and how will it deliver value for money?</p>
Implementation and Effectiveness	<i>Implementation and evaluation plans provide confidence that the returns articulated in the intervention logic and CBA will be realised.</i>	<p>IMPLEMENTATION AND SCALABILITY What changes are required to ensure successful implementation and scalability?</p> <p>UNDERSTANDING AND DEMONSTRATING EFFECTIVENESS How will outcomes be measured and effectiveness evaluated?</p>

22. Key points to note on the assessment framework include:
- The framework has been designed in consultation with social sector agencies, Superu and the Social Investment Unit.
 - It is derived from the key information requirements for Track 1 initiatives agreed to in the Budget Strategy Cabinet paper.
 - Each criteria will have a score from 1 – 5 which initiatives will be assessed against. A number of options were considered for how the grading system for Track 1 initiatives should be designed. A score from 1 – 5 balances both objective and subjective considerations.
 - Treasury has developed guidance on what factors will underpin the different scores for each criteria (for example, what factors would differentiate a score of 5 compared to 1). This will be shared with agencies to inform the development of their initiatives.

Proposed investment threshold

23. Track 1 places higher expectations on the level of evidence and information supporting initiatives through the application of an investment threshold. The purpose of the investment threshold is to assess overall confidence in the initiatives ability to deliver against multiple criteria so that well-rounded, high quality initiatives are identified and supported. Initiatives which meet the threshold will be weighted favourably by the Minister of Finance in discussions with Budget Ministers and Cabinet.
24. **The investment threshold will be an accumulation of minimum requirements for each of the criteria set out in the assessment framework above.** It is proposed that each Track 1 initiative will need to receive a minimum score of 3 for each criteria to meet the threshold. This will give a total score of 9 out of 15. The proposed investment threshold has been tested with Treasury Vote teams and subject matter experts (including the Social Investment Unit) and is consistent with the higher expectations for initiatives in this track. We propose that the feedback letters are used to communicate the investment threshold to portfolio Ministers.
25. **Key elements of the minimum requirement include:**
 - a. Case for change – the initiative should present a clear problem or opportunity for a specific target population, supported by evidence. The unmet need or gap should be outlined with respect to existing services provided to that target population. An intervention logic should be presented which links the initiative to clear outcomes/impacts. Any assumptions, limitations and risks should be transparent.
 - b. Value-for-money – the initiative should set out both the monetised and non-monetised costs and benefits for the initiative, and use the CBAX tool to calculate a return on investment (ROI). The societal ROI should be no less than 2 and the Government ROI should show that the initiative breaks even. This is consistent with the intention that initiatives in Track 1 should be self-financing over time. The assumptions and judgement underpinning the ROI should be explicit and appropriate. Sensitivity analysis around success rates, uptake of services, length and size of benefits should be undertaken to provide confidence.
 - c. Implementation and effectiveness – initiative should present a fit-for-purpose evaluation plan which includes clear decision points for evaluation and effective feedback loops to inform scaling of the initiative. The implementation plan should provide confidence in the agency’s ability to deliver the intervention and have consideration to resourcing implications and market capacity. Any limitations, assumptions and risks to implementation should be transparent.
26. **There will be an opportunity at Fiscal Issues on 7 December to further discuss the judgements underpinning the investment threshold.** The minimum requirements discussed above aim to balance setting a high enough bar for initiatives without excluding proposals which may have merit. The assessment process for Track 1 will involve a moderation session with key experts across Treasury, SIU and Superu to ensure initiatives are scored consistently.
27. The investment threshold is a new and untested tool and the application of it in Budget 2017 provides an opportunity to raise the bar for initiatives across the board. The success of Track 1 will, to a large extent, depend on the consistent application of the threshold. Learnings from Budget 2017 should be used to inform and set expectations for future Budgets.

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