



WHAT'S WRONG WITH THE SYSTEM?

Dr Cressida Gaukroger

1. YOU START WITH A GOOD IDEA

- A significant proportion of government spending goes towards treating or alleviating harms.
- Preventing these from arising, or intervening early so they don't get worse, leads to better wellbeing outcomes.
- Prevention and early intervention also represents a cheaper way of addressing wellbeing deficits, and in some cases actively saves governments money.

2. GETTING THE GREEN LIGHT IS NOT THE SAME AS GETTING THE FUNDING

- Department A puts forward a new policy proposal for an early intervention initiative
- The Treasury says: ‘Great idea! Go ahead!’...
- They also say: “You will need to offset the costs of delivering the initiative.”

3. THE 'OFFSET PROBLEM'

- Typically, when a new policy initiative is funded the department proposing the initiative needs to find room in their existing budget to cover its costs. This is often done through cuts to other programs or lines of spending.
- Departments (rightly) see investing in such initiatives as competing with the funding they are currently using to run core operations and address existing acute need.
- For this reason, departments can be hesitant to propose preventative or early intervention policies.

4. THE 'OFFSET PROBLEM' GETS WORSE

- When the department funding the initiative is not the one benefiting from the resulting savings, this creates a further barrier to adoption.
- Just this one little part of the system (the way the budget offset rule is formulated) is full of disincentives to doing policy that is preventative, long term, holistic, or collaborative.

5. THE 'OFFSET PROBLEM' GETS (EVEN) WORSE

- This isn't just a problem for early intervention policies, but for all policies that have high upfront costs but lower costs over their lifespan. (For example, many of the investments in the net-zero transition.)
- The crazy part: good policies that would improve wellbeing are not getting through because of their cost even though they would actually cost the government less or even save the government money!

Men At Arms (1993), Terry Pratchett told the story of a man who, not being able to afford the cost of a decent pair of boots, had to buy a cheap pair that quickly needed replacing. He could only afford to replace that pair with another cheap pair, which in turn soon needed replacing. Pratchett wrote:

But the thing was that good boots lasted for years and years. A man who could afford fifty dollars had a pair of boots that'd still be keeping his feet dry in ten years' time, while the poor man who could only afford cheap boots would have spent a hundred dollars on boots in the same time and would still have wet feet.



6. SOLUTIONS?

Social impact bonds?

SIBs can avoid the *offset problem* and political barriers to government investment in prevention and early intervention though harnessing private finance to cover the upfront costs of such initiatives.

But SIBs do not allow governments to use the savings generated by an intervention to cover its upfront costs or to grow broader funding for such initiatives.


If there is a high level of confidence in an initiative, it will be cheaper for the government to fund it directly.

7. SOLUTIONS?

Earmarked funds?

Earmarked funds avoid the *offset problem* by providing a source of funding that lies outside regular departmental budgets.

But such funds are typically time-limited which reduces their effectiveness and can prevent the longevity and expansion of successful initiatives.



8. SOLUTIONS

Amending government fiscal rules

‘Banking’ savings generated by preventative and early intervention policies such that they can fund the upfront cost of delivering such policies directly addresses the offset problem.

This approach *directly incentivises* departments to develop prevention and early intervention policies, *even if the savings that such policies generate fall outside of their portfolio area*.

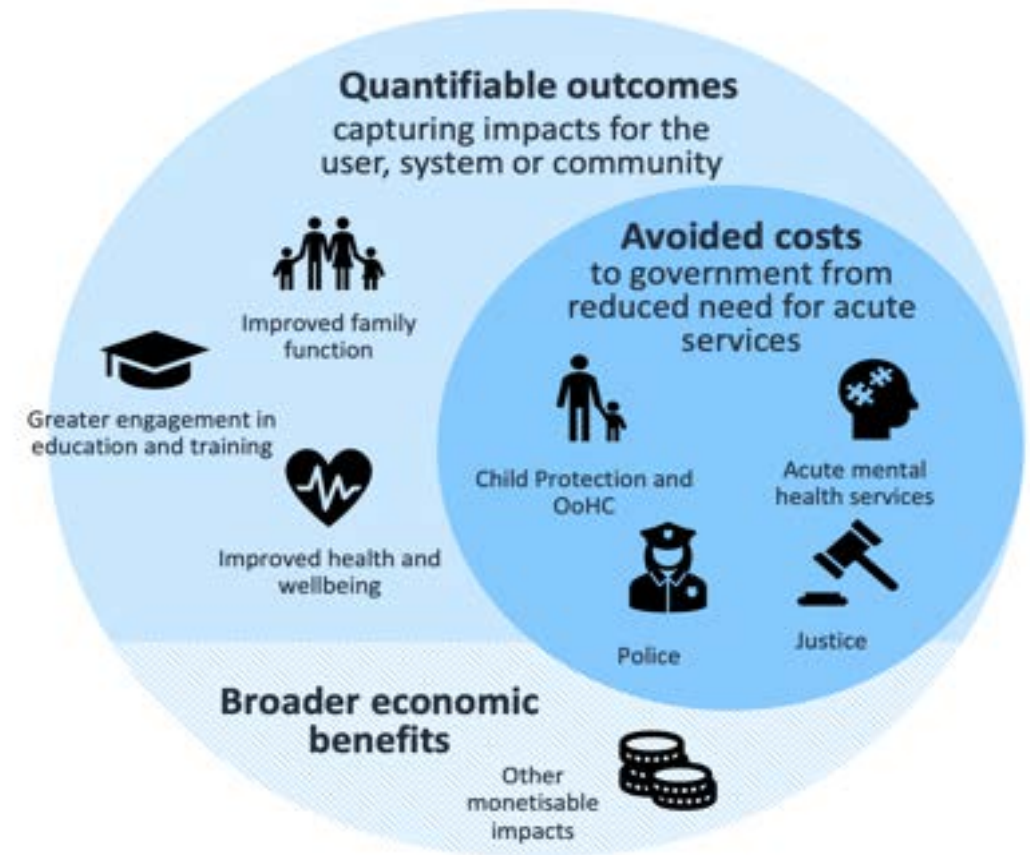
This approach has been shown to lead to an increasing proportion of government spending going to preventative and early intervention policies over time.

9. THE VICTORIAN EARLY INTERVENTION INVESTMENT FRAMEWORK

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.



10. WHAT SUCCESS LOOKS LIKE

- 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.
- EIIF provides a pathway for scaling effective policies (such as J2SI)

But it can't do everything. This is not a panacea, but one small step that needs to be made towards changing the system.

11. WHAT DOES IT MEAN FOR US?

Government (general)

- You have to start addressing barriers (and creating opportunities) in the system.
- Think about:
 - Incentives
 - Usability
 - Culture
 - Psychology

And invest in execution.

12. WHAT DOES IT MEAN FOR US?

Government (specific)

Where a proposal is:

- Likely to have second round fiscal consequences due to increased (or decreased) demand for government services (such as improved health translating into less demand for health services)
- Those consequences can be determined (and secured) with a high degree of confidence...

these should be included in formal budget costings.



13. WHAT DOES IT MEAN FOR US?

Non-government organisations (general)

- If you are recommending a change in the way government works, be really specific (if you can). But be transparent if you know specific recommendations are needed, but you don't know what they are.
- Work with public servants to understand the barriers they face to good practice, and make sure the barriers you face to good practice are well communicated and understood.

14. WHAT DOES IT MEAN FOR US?

Non-government organisations (specific)

When talking about money and value, be clear about the terms that you are using:

- Economic effects refers to the costs or benefits to the economy of increased or decreased economic activity or effects on prices.
- Fiscal effects refers to direct savings or costs to government. For second round fiscal effects - the focus of this talk - these savings or costs are due to a reduced or increased demand for government services, activities or benefits.
- Social value refers to the effects of a policy that goes beyond money, but which governments often try to capture in monetary terms (to enable the comparison of different social impacts).

15. WHAT DOES IT MEAN FOR US?

Non-government organisations (specific) ...

The biggest numbers might grab media headlines, but they are not that useful to government, and they are (usually) not taken that seriously. Instead, try to be conservative, evidence-based and rigorous.

For example, instead of hiring a consultancy to say how much your policy would be worth to the economy, why not invest in building the evidence base needed for estimating and tracking the fiscal savings it could deliver to government?



THANK YOU!

Gaukroger and Phillips (2024), *Banking the Benefits*, Centre for Policy Development.

Gaukroger, Koh and Phillips (2024), *Embedding Progress: How to align public institutions with a better future*, Centre for Policy Development.