

Extending out-of-home care to youth aged up to 21

Costs and benefits



Parliamentary Budget Office

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In brief

Out-of-home care living arrangements are for young people under 18 years old, who cannot live in their family home. The Victorian government is trialling the *Home Stretch program*, which enables eligible young people to remain in out-of-home care until they are 21 years old.

We consider a single cohort—those young people currently in out-of-home care who will turn 18 in 2020-21—and estimate the long term socioeconomic costs and benefits under two scenarios:

- No program intervention—young people are required to leave out-of-home care when they reach 18 years of age.
- Program intervention—the *Home Stretch program* is offered to all eligible young people until they are 21 years old.

We find that the *Home Stretch program* has a benefit-cost ratio of 1.49, meaning that there is an expected return of \$1.49 for an additional dollar spent on this program. Figure 1 provides the total costs and benefits of extending out-of-home care.

Figure 1 – Present value of costs and benefits of extending out-of-home care

Costs and benefits	No program intervention (\$ million)	Program intervention (\$ million)	Net program impact (\$ million)	Net participant impact (\$ per person)
Total costs	0.09	11.81	11.72	56 631
Total benefits	65.12	82.56	17.45	84 306
Net benefits	65.03	70.75	5.73	27 675
Benefit-cost ratio			1.49	

Notes: This figure estimates costs and benefits over a 40-year period, discounted to 2020-21 dollars. Amounts may not sum due to rounding.

Source: Parliamentary Budget Office.

Under the program intervention scenario, where the *Home Stretch program* is offered to all eligible young people, we estimate that:

- costs would be \$11.81 million—\$11.72 million higher than the no program intervention scenario
- benefits would be \$82.56 million—\$17.45 million higher than the no program intervention scenario
- the net benefit per participant would be \$27 675 higher than the no program intervention scenario
 - income to individuals increases by \$13 191 per participant.

Context

The Parliamentary Budget Office (PBO) provides independent fiscal, economic and financial advice to members of parliament. Information about the PBO is located at pbo.vic.gov.au.

Requestor

On 13 February 2020, Fiona Patten MP, member for the Northern Metropolitan Region, requested the Parliamentary Budget Officer provide independent advice on the costs and benefits of extending out-of-home care to all eligible young people up to 21 years old under the *Home Stretch program*.

Scope of advice

This advice considers:

- the costs and benefits of extending out-of-home care to young people up to 21 years old
- sensitivity analysis for different levels of uptake and retention we assumed.

Background

Out-of-home care living arrangements are for young people (children and youths aged under 18 years) who cannot live in their family home. Kinship, foster or permanent carers provide parental care to affected young people for a short or long term.

Typically, the Children's Court of Victoria issues a legal order requiring that a child be placed in out-of-home care. Appendix C lists the types of court orders it makes for the protection and care of children.

In September 2018, the Victorian government announced \$11.6 million to trial the *Home Stretch program*. Starting in the first half of 2019 and operating over the subsequent five years, the objective is to provide a more gradual and supported transition to living independently for approximately 250 youths leaving out-of-home care. Through the *Home Stretch program*:

- the young person, and their kinship or foster carer, have the option of prolonging the current living arrangement until the young person is 21 years old, supported by an allowance to the carer
- a young person leaving residential care will be eligible for an allowance to support housing costs until they are 21 years old
- case work support and flexible funding is provided to facilitate the young person's access to education, employment, and health and wellbeing support.

To be eligible for the *Home Stretch program*, a young person must be nearing their eighteenth birthday and:

- in out-of-home care on the following types of court orders
 - care by secretary order
 - long term care order
 - family reunification order
- engaged, or demonstrate a willingness to engage, with a case worker.

In 2016, Deloitte produced a report that estimated the socioeconomic costs and benefits of extending out-of-home care from the age of 18 to 21 years—*Raising our children: Guiding young Victorians in care into adulthood* (the report).

We have largely adopted the modelling approach from the report, accounting for indexation and updated data releases.

We prepared this advice on 30 March 2020.

Costs and benefits of extending out-of-home care

In this section

For the *Home Stretch program*, this section estimates:

- the number of participants
- the costs and benefits of extending out-of-home care.

We considered the costs and benefits of extending out-of-home care under the *Home Stretch program* for a single cohort of young people who will be 18 years of age in 2020-21 under two scenarios:

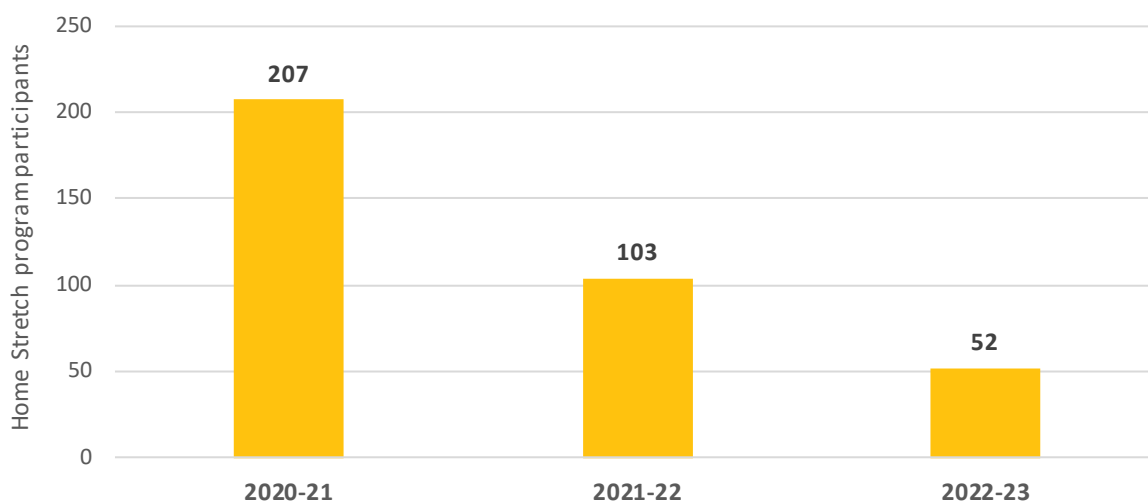
- No program intervention—all young people in 2020-21 would be required to leave out-of-home care when they reach 18 years of age.
- Program intervention—the *Home Stretch program* would be offered to all eligible young people in 2020-21.

We estimate costs and benefits, for these participants, over a 40-year period and discount these values to derive total costs and benefits in 2020-21 dollars (present value).

Participants

The costs and benefits of the *Home Stretch program* are driven by the number of participants. We determined the number of participants using assumptions of how many choose to participate in the *Home Stretch program* (uptake) and how many remain from one year to the next (retention). Figure 2 provides the number of individuals expected to access the *Home Stretch program* under the program intervention scenario.

Figure 2 – Home Stretch program participants under the program intervention scenario



Source: Parliamentary Budget Office.

We estimate that the program intervention scenario would result in 207 participants in the *Home Stretch program* in 2020-21. This number would fall to 103 in 2021-22 and 52 in 2022-23 as participants chose to leave out-of-home care between the ages of 18 and 21. There would be no participants in subsequent years as the cohort would reach 21 years of age.

As participation is a key driver of the costs and benefits, we tested the sensitivity of our analysis for alternative assumptions relating to uptake and retention in *Home Stretch program*. Appendix D shows our sensitivity analysis.

Costs

In this advice, we consider two costs associated with extending the *Home Stretch program*:

- Program costs—the direct cost to government of operating this program.
- Education costs—the government costs associated with increased uptake of education for a young person who been in extended care.

Figure 3 provides the estimated the present value costs over a 40-year period under each scenario.

Figure 3 – Present value of costs of extending out-of-home care

Costs and benefits	No program intervention (\$ million)	Program intervention (\$ million)	Net program impact (\$ million)	Net participant impact (\$ per person)
Program costs	0	11.64	11.64	56 251
Education	0.09	0.17	0.08	369
Total costs	0.09	11.81	11.72	56 631

Notes: This figure estimates costs and benefits over a 40-year period, discounted to 2020-21 dollars. Amounts may not sum due to rounding.

Source: Parliamentary Budget Office.

Under the program intervention scenario, implementing the *Home Stretch program* would increase costs by \$11.72 million, largely driven by the cost of the program.

Education costs account for a relatively small portion of the rise in costs, increasing by only \$0.08 million. Additional vocational education and training (VET) course costs drive this increase. This represents a near doubling of the education costs for the cohort, as some affected individuals would undertake education in the absence of the *Home Stretch program*.

Benefits

We considered the following benefits associated with extending the *Home Stretch program*:

- Increased income to individuals—extended time in care results in an increased likelihood to pursue further studies, resulting in better employment and income outcomes.
- Increased income tax to government—improved employment and income outcomes for individuals result in increased government income tax revenue.
- Decreased unemployment benefits paid by government—improved employment outcomes result in fewer people receiving government unemployment benefits.
- Decreased housing support costs paid by government—extended time in care means young people are less likely to experience housing instability and require government housing support.
- Decreased hospitalisations—extended time in care results in a lower likelihood of hospitalisation.
- Decreased crime—extended time in care results in a lower likelihood of criminal behaviour.
- Decreased alcohol and drug dependence—extended time in care results in a lower likelihood of dependence on alcohol and drugs.

Figure 4 provides the estimated present value benefits over a 40-year period under each scenario.

Figure 4 – Present value of benefits of extending out-of-home care

Costs and benefits	No program intervention (\$ million)	Program intervention (\$ million)	Net program impact (\$ million)	Net participant impact (\$ per person)
Income to individuals	119.96	122.69	2.73	13 191
Income tax to government	27.23	27.85	0.62	2 994
Unemployment benefits paid by government	-39.61	-39.17	0.43	2 102
Housing support costs paid by government	-25.46	-16.62	8.84	42 731
Hospitalisation	-9.70	-7.76	1.94	9 362
Crime	-2.52	-1.99	0.53	2 573
Alcohol and drug dependence	-4.78	-2.43	2.35	11 352
Total benefits	65.12	82.56	17.45	84 306

Notes: This figure estimates costs and benefits over a 40-year period, discounted to 2020-21 dollars. Program intervention benefits which reduce costs compared to no program intervention are expressed by a less negative value and indicate a cost saving. Amounts may not sum due to rounding.

Amounts for income to individuals, tax paid to government, cost of crime, and cost of alcohol and drug dependence, are based on the report. Unemployment benefits paid are based on the Newstart allowance. Housing support and hospitalisation costs are based on data from the Productivity Commission's Report on Government Services.

Source: Parliamentary Budget Office.

Implementing the *Home Stretch program* would increase benefits by \$17.45 million. The largest contributing factor is the \$8.84 million reduction in housing support costs paid by government. Other major factors are:

- income to individuals, expected to increase by \$2.73 million, or \$13 191 per participant
- costs associated with alcohol and drug dependence, expected to decrease by \$2.35 million, or \$11 352 per participant
- hospitalisation costs, expected to decline by \$1.94 million, or \$9 362 per participant.

We expect that the remaining factors will contribute a combined increase in benefits of \$1.58 million.

Benefit-cost ratio

The benefit-cost ratio provides an indication of the expected return for money spent on the *Home Stretch program*. A project with a benefit-cost ratio of greater than one is expected to provide a positive return in net present terms. In this instance, we expect that the aggregate of public benefits (such as improved government revenue, reduced government expenditure, or socially desirable outcomes) and private benefits (such as higher incomes) will outweigh the countervailing costs of operating the program and supporting services.

Figure 5 summarises the overall costs, benefits and the benefit-cost ratio.

Figure 5 – Summary of total benefits and costs

Costs and benefits	No program intervention (\$ million)	Program intervention (\$ million)	Net impact of program (\$ million)	Net impact per participant (\$ per person)
Total costs	0.09	11.81	11.72	56 631
Total benefits	65.12	82.56	17.45	84 306
Net benefits	65.03	70.75	5.73	27 675
Benefit-cost ratio			1.49	

Notes: This figure estimates costs and benefits over a 40-year period, discounted to 2020-21 dollars. Amounts may not sum due to rounding.

Source: Parliamentary Budget Office.

We estimate the long term net benefit of the *Home Stretch program* to be \$5.73 million higher, or \$27 675 higher per participant, compared to the no program intervention scenario. We estimate the benefit-cost ratio of implementing the *Home Stretch program* to be 1.49, meaning that we expect a return of \$1.49 for every dollar spent on the program.

Appendix A — Assumptions and approach

This section provides the key assumptions and approach we used to apply the socioeconomic cost benefit analysis in the Deloitte report, *Raising our children: Guiding young Victorians in care into adulthood* (the report).

However, this advice is independent of any results produced in the report. We reviewed and largely adopted the modelling approach and several assumptions outlined in the report but did not seek to replicate the model described in it.

Key assumptions

When preparing this advice, we assumed:

1. The number of 17 year old youth in out-of-home care would grow in line with Victoria's population growth rate.
2. The program uptake rate would be 50 per cent, based on Australian Bureau of Statistics data.
3. The annual attrition rate of participants in the program would be 50 per cent, based on the *Home Stretch program*.
4. The following indexation would apply:
 - a. Annual employment income would grow in line with the Victoria wage price index.
 - b. Health costs would grow in line with the 20-year average of the health group costs in the Melbourne consumer price index.
 - c. Housing support costs would grow in line with the 20-year average of the rental group costs in the Melbourne consumer price index.
 - d. All other costs would grow in line with the Melbourne consumer price index.
5. An annual nominal discount rate of 7.2 per cent.

Approach

When preparing this advice, we:

- estimated the number of eligible youth in out-of-home care in Victoria
- estimated the number of eligible youth that would take up the *Home Stretch program* and would continue with the program each year
- estimated the cost of the *Home Stretch program* per youth based on information provided by the Department of Health and Human Services
- applied assumptions drawn from the report, for the following:
 - the probabilities of outcomes
 - annual income to individuals with and without a VET qualification
 - annual tax paid to government
 - the annual costs of crime and alcohol and drug dependence
 - the number of hospitalisations per year per person
 - the decline of benefits in a linear manner according to years of program participation
- estimated the average cost of a one year VET program based on Victoria University Polytechnic course fees
- estimated annual housing support and hospitalisation costs based on data provided in the Productivity Commission's Report on Government Services 2020

- applied applicable indexation rates to annual unit costs over a 40-year period
- applied the applicable probabilities to each outcome and multiplied by the unit costs of each outcome to estimate the total costs and benefits of extending out-of-home care
- discounted the estimated costs and benefits over a 40-year period at a rate of 7 per cent annually to reflect 2020-21 dollar terms.

Socioeconomic cost benefit analysis

The report investigated the impact of extending out-of-home care on socioeconomic outcomes for:

- education and employment
- homelessness and housing
- hospitalisations
- instances of crime
- alcohol and drug dependence.

The report estimated the relative probabilities of these socioeconomic outcomes for young people, with and without extended care. These probabilities were applied to each outcome and multiplied by the estimated unit costs associated with each outcome to quantify annual costs and benefits of extending care. The report considered all cost and income streams over a 40-year period to provide a long-term assessment of the impact of extending out-of-home care. These values were discounted to reflect present value amounts.

The report also provided a qualitative discussion only of other potential benefits of extending out-of-home care including those relating to mental health, physical health, intergenerational disadvantage, civic participation and social connectedness.

Appendix B — Data sources

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Appendix C — Child protection orders

The following table outlines the types of court orders for the protection and care of children.

Type of order	Description
Temporary assessment order	Department of Health and Human Services (the department) child protection practitioners apply to the Children's Court (the court) for a temporary assessment order to allow them to investigate a report that a child is at risk of harm.
Interim accommodation order	Child protection staff from the department issue a protection application and the court decides an interim order is needed to keep the child safe until it determines the application. This order determines where the child must live until the next court date.
Family preservation order	The court decides that a child needs protection and can safely stay in parental care while the protective concerns are being addressed. The child will live with one or both parents with no change to parental responsibility for the child. The department must supervise the child.
Family reunification order	The court decides that a child needs protection and cannot safely stay in parental care while the protective concerns are being addressed. The department secretary assumes parental responsibility for the child, with the limitation that parental agreement is needed about major long term issues. The child stays in out-of-home care with the objective of returning the child to parental care once the protective concerns are addressed.
Care by secretary order	The court decides that family reunification will not be achieved in a timely way for the child, or that the child has been in out-of-home care for 24 months and still cannot safely return to parental care. The department secretary has parental responsibility for the child, to the exclusion of all others, for two years. The department is responsible for the child's care, wellbeing and all related decisions.
Long term care order	The court decides that the child needs long term care and there is a suitable carer available. The department secretary has parental responsibility for the child, to the exclusion of all others, until the child is 18 years of age. The department is responsible for supporting the child's carer to look after the child until they are released from care, and for all decisions concerning the child.
Permanent care order	The court finds proposed permanent carers suitable to have parental responsibility for the child to the exclusion of all others, including the department secretary. The carers are the permanent care parents of the child, and have all the duties, powers, responsibilities and authority that parents have in relation to the child until the child is 18 years of age.
Undertaking	The court decides that a child needs protection and that future risks can be sufficiently managed by the parent and child with community support. The department does not stay involved when an undertaking is made.

Source: Department of Health and Human Services.

Appendix D — Sensitivity analysis

The estimates in this advice are based on assumptions relating to uptake of the program and retention in the program, which are subject to uncertainty. In the body of this advice, the central case, these are:

- 50 per cent uptake rate—meaning half the eligible young people would see to access the program
- 50 per cent annual retention—meaning each year half of the young people accessing the program would continue the following year (if they continue to be under 21 years of age).

In this section, we present estimates based on alternative sets of assumptions:

- Case 1—25 per cent uptake and 25 per cent annual retention
- Case 2—25 per cent uptake and 50 per cent annual retention
- Case 3—50 per cent uptake and 25 per cent annual retention
- Case 4—50 per cent uptake and 75 per cent annual retention
- Case 5—75 per cent uptake and 50 per cent annual retention
- Case 6—75 per cent uptake and 75 per cent annual retention

These cases affect how individuals may interact with the *Home Stretch program*. This means they affect both the program intervention scenario and the no program intervention scenario. We estimate the net impact of the program—the value in the program intervention scenario less the no program intervention scenario—for the following measures:

- Cost
- Benefit
- Net benefit
- Benefit-cost ratio

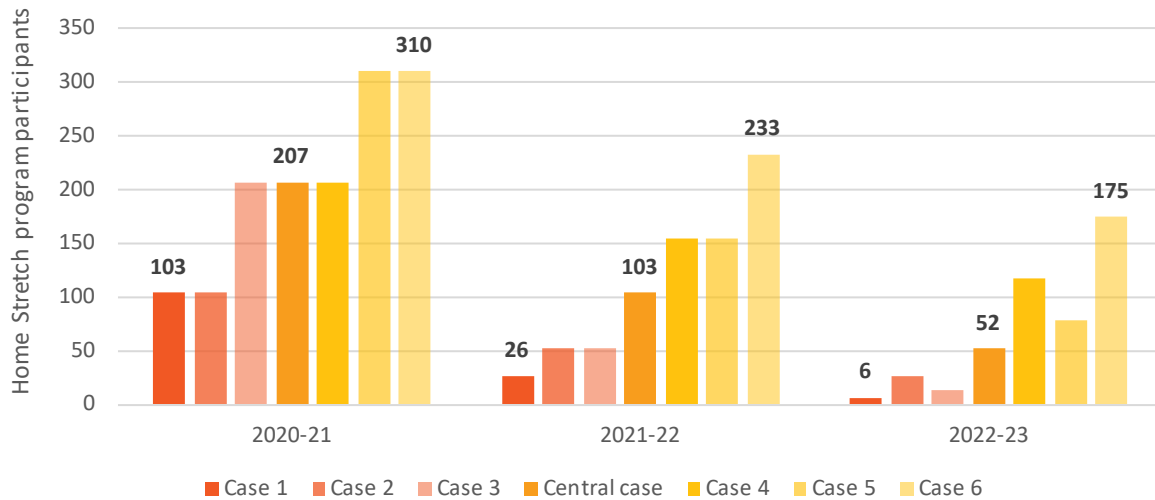
For each measure, we present the difference from the central case—the net impact of the program in each case less the net impact of the program for the central case. A negative value indicates a smaller increase in costs, benefits, net benefits or the benefit-cost ratio for the case in questions than was achieved in the central case.

In addition to the level differences and for each measure, we present the proportional change in each measure from the central case—the difference from the central case divided by the value in the central case. This measure is useful in interpreting movements in the benefit-cost ratio relative to the central case. As a ratio, movements are determined by the relative changes in costs and benefits rather than their level change.

Participants

The different uptake and retention assumptions for each case result in different numbers of *Home Stretch program* participants. Figure 6 shows the number of participants in each year of the program for each case.

Figure 6 - Home Stretch program participants



Source: Parliamentary Budget Office.

There are three year-one levels of participation determined by the uptake assumption, with:

- 103 participants in cases 1 and 2, which assume a 25 per cent uptake rate
- 207 participants in the central case and cases 3 and 4, which assume a 50 per cent uptake rate
- 310 participants in cases 5 and 6, which assume a 75 per cent uptake.

By year three, there is more variation in the participation estimates which include:

- a minimum of six in case 1 which assumes 25 per cent uptake and retention rates
- the central case of 52 which assumes 50 percent uptake and retention rates
- a maximum of 175 in case 6 which assumes 75 per cent uptake and retention rates.

Case 1 - Low uptake and low retention

Figure 7 presents the total costs, benefits and benefit-cost ratio relating to 25 per cent program uptake and 25 per cent annual retention case.

Figure 7 - Summary of total benefits and costs

Net impact of program	Central case (\$ million)	Case 1 (\$ million)	Difference from central case (\$ million)	Relative difference from central case (per cent)
Costs	11.72	4.40	-7.32	-62.43
Benefits	17.45	6.63	-10.82	-62.01
Net benefits	5.73	2.22	-3.50	-61.15
Benefit-cost ratio	1.49	1.51	+0.02	+1.12

Notes: This figure estimates costs and benefits over a 40-year period, discounted to 2020-21 dollars. Amounts may not sum due to rounding.

Source: Parliamentary Budget Office.

Case 1 results in a slight increase in the benefit-cost ratio, from 1.49 in the central case, to 1.51. This implies an expected return of \$1.51, or an additional two cents compared to the central case, for every dollar spent on the *Home Stretch* program.

The increase in the benefit-cost ratio is driven by the relative size of changes in costs and benefits. While both costs and benefits fall, and benefits fall by more in aggregate terms, costs fall by 62.43 per cent, a slightly larger proportion than benefits which fall by 62.01 per cent.

Case 2 - Low uptake and moderate retention

Figure 8 presents the total costs, benefits and benefit-cost ratio relating to 25 per cent program uptake and 50 per cent annual retention case.

Figure 8 – Summary of total benefits and costs

Net impact of program	Central case (\$ million)	Case 2 (\$ million)	Difference from central case (\$ million)	Relative difference from central case (per cent)
Costs	11.72	5.86	-5.86	-50
Benefits	17.45	8.72	-8.72	-50
Net benefits	5.73	2.86	-2.86	-50
Benefit-cost ratio	1.49	1.49	nil	nil

Notes: This figure estimates costs and benefits over a 40-year period, discounted to 2020-21 dollars. Amounts may not sum due to rounding.

Source: Parliamentary Budget Office.

Case 2 results in no change in the benefit-cost ratio, meaning the expected return of for every dollar spent on the *Home Stretch* program is unaffected. Costs and benefits fall by different level amounts; however, both fall by 50 per cent.

Case 3 - Moderate uptake and low retention

Figure 9 presents the total costs, benefits and benefit-cost ratio relating to 50 per cent program uptake and 25 per cent annual retention case.

Figure 9 – Summary of total benefits and costs

Net impact of program	Central case (\$ million)	Case 3 (\$ million)	Difference from central case (\$ million)	Relative difference from central case (per cent)
Costs	11.72	8.80	-2.91	-24.87
Benefits	17.45	13.25	-4.19	-24.02
Net benefits	5.73	4.45	-1.28	-22.30
Benefit-cost ratio	1.49	1.51	+0.02	+1.12

Notes: This figure estimates costs and benefits over a 40-year period, discounted to 2020-21 dollars. Amounts may not sum due to rounding.

Source: Parliamentary Budget Office.

Case 3 results in an increase in the benefit-cost ratio, from 1.49 in the central case, to 1.51. This implies an expected return of \$1.51, or an additional two cents compared to the central case, for every dollar spent on the *Home Stretch* program.

The increase in the benefit-cost ratio is driven by the relative size of changes in costs and benefits. While both costs and benefits fall, and benefits fall by more in aggregate terms, costs fall by 24.87 per cent, a slightly larger proportion than benefits which fall by 24.02 per cent.

Case 4 - Moderate uptake and high retention

Figure 10 presents the total costs, benefits and benefit-cost ratio relating to 50 per cent program uptake and 75 per cent annual retention case.

Figure 10 – Summary of total benefits and costs

Net impact of program	Central case (\$ million)	Case 4 (\$ million)	Difference from central case (\$ million)	Relative difference from central case (per cent)
Costs	11.72	15.44	+3.72	+31.78
Benefits	17.45	22.80	+5.36	+30.71
Net benefits	5.73	7.36	+1.63	+28.51
Benefit-cost ratio	1.49	1.48	-0.01	-0.81

Notes: This figure estimates costs and benefits over a 40-year period, discounted to 2020-21 dollars. Amounts may not sum due to rounding.

Source: Parliamentary Budget Office.

Case 4 results in a slight decrease in the benefit-cost ratio, from 1.49 in the central case, to 1.48. This implies an expected return of \$1.48, or one cent less than under the central case, for every dollar spent on the *Home Stretch* program.

The decrease in the benefit-cost ratio is driven by the relative size of changes in costs and benefits. While both costs and benefits rise, and benefits rise by more in aggregate terms, costs rise by 31.78 per cent, a slightly larger proportion than benefits which rise by 30.71 per cent.

Case 5 - High uptake and moderate retention

Figure 11 presents the total costs, benefits and benefit-cost ratio relating to 75 per cent program uptake and 50 per cent annual retention in the program.

Figure 11 – Summary of total benefits and costs

Net impact of program	Central case (\$ million)	Case 5 (\$ million)	Difference from central case (\$ million)	Relative difference from central case (per cent)
Costs	11.72	17.58	+5.86	+50
Benefits	17.45	26.17	+8.72	+50
Net benefits	5.73	8.59	+2.86	+50
Benefit-cost ratio	1.49	1.49	nil	nil

Notes: This figure estimates costs and benefits over a 40-year period, discounted to 2020-21 dollars. Amounts may not sum due to rounding.

Source: Parliamentary Budget Office.

Case 5 results in no change in the benefit-cost ratio meaning the expected return of for every dollar spent on the *Home Stretch program* is unaffected. Costs and benefits rise by different level amounts; however, both rise by 50 per cent.

Case 6 - High uptake and high retention

Figure 12 presents the total costs, benefits and benefit-cost ratio relating to 75 per cent program uptake and 75 per cent annual retention case.

Figure 12 – Summary of total benefits and costs

Net impact of program	Central case (\$ million)	Case 6 (\$ million)	Difference from central case (\$ million)	Relative difference from central case (per cent)
Costs	11.72	23.16	+11.45	+97.68
Benefits	17.45	34.20	+16.76	+96.06
Net benefits	5.73	11.04	+5.31	+92.77
Benefit-cost ratio	1.49	1.48	-0.01	-0.81

Notes: This figure estimates costs and benefits over a 40-year period, discounted to 2020-21 dollars. Amounts may not sum due to rounding.

Source: Parliamentary Budget Office.

Case 6 results in a slight decrease in the benefit-cost ratio, from 1.49 in the central case, to 1.48. This implies an expected return of \$1.48, or one cent less than under the central case, for every dollar spent on the *Home Stretch program*.

The decrease in the benefit-cost ratio is driven by the relative size of changes in costs and benefits. While both costs and benefits rise, and benefits rise by more in aggregate terms, costs rise by 97.68 per cent, a slightly larger proportion than benefits which rise by 96.06 per cent.