

## **Budget Sensitive**

Office of the Minister of Finance

Office of the Minister for the Public Service

Office of the Minister for Social Investment

Cabinet

## **ACCELERATING SOCIAL INVESTMENT**

### **Purpose**

1. This paper provides an overview of my proposed approach to social investment and seeks agreement to the institutional and funding arrangements needed to accelerate the implementation of the social investment system.

### **Relation to government priorities**

2. Social investment is about driving better outcomes from the investments government makes to deliver social services, particularly for our most vulnerable. The social investment approach will support us to meet the nine Government Targets we have set to help improve the lives of New Zealanders.

### **Executive Summary**

3. Social investment is a systematic way of using data, evidence and modern analytics to invest in earlier and better intervention that can effectively break cycles of dependence, inter-generational poverty and disadvantage. It provides the framework for how we understand who we need to invest in and what works for those people, as well as how we can measure progress to ensure that what we are doing is working.
4. Social investment is not just about new spending. It is also about what we are already spending and getting better outcomes from that expenditure.
5. Despite the Government currently investing more than \$70 billion every year into social services, we are not seeing the outcomes we want for all New Zealanders. While some people benefit from short-term one-off supports, many vulnerable New Zealanders with highly complex social issues continue to have very difficult lives.
6. While Government assistance is well-intentioned, it does not always achieve the results we need. We can see the lack of appropriate support for the most vulnerable reflected in rises in welfare dependency, declining educational attendance and achievement levels, poorer health outcomes, rising rates of youth and violent crime, rising gang membership, dependence on statutory services such as Oranga Tamariki and Police, as well as increasing rates of inequality.
7. I believe that we, as a Government, should take a different approach. We need to look beyond good intentions in our policy-making and use hard evidence to invest in what works. As part of this, we will over time need to put power in the hands of communities, where Government agencies have too often failed.
8. Social investment was introduced in 2015 by the National-led Government. At the time it largely focused on new approaches within large government agencies such as

the 'actuarial approach'<sup>1</sup> in the Ministry of Social Development, as well as work by Oranga Tamariki and within the justice sector. The Social Investment Agency was established at the time to implement and coordinate the social investment approach.

9. The Labour-led Government then changed the remit and role of the agency and changed its name to the Social Wellbeing Agency. A consequence of this was that the previous focus on achieving better outcomes from the large service delivery agencies was diluted. However, some of the system architecture has remained, data science has advanced, and some of the ways in which social services are delivered have adapted.
10. I propose to reset and accelerate the social investment approach by taking a series of actions:
  - a. Replacing the Social Wellbeing Agency with a new central agency (The Social Investment Agency), established as a standalone department. The agency will lead change across the public service and provide support to Government to achieve better outcomes from our social service expenditure;
  - b. Establishing a Social Investment Board as a ministerial advisory committee to provide external challenge and guidance as we undertake the shift towards social investment;
  - c. Establishing a Social Investment Fund (the Fund) to commission outcomes for vulnerable New Zealanders;
  - d. Establishing a group of Ministers (Social Investment Ministers) to work with me on powering up the social investment approach across the system;
  - e. Over time, changing the way we deliver, commission and scale-up successful social services to achieve outcomes, invest better and drive greater impact.

## **Background**

### **The current approach is not working**

11. Every year the Government invests more than \$70 billion into social services. The provision of these services ranges from universal (such as mainstream schooling) to more targeted approaches involving wrap-around services and bespoke delivery. While well-intentioned, it is clear that we are not seeing the outcomes we aspire to from this expenditure, especially in the case of vulnerable New Zealanders with highly complex social issues.
12. The Coalition Government is concerned by the trends seen in recent years of rises in welfare dependency, declining educational attendance and achievement levels, poorer health and mental health outcomes, rising rates of youth and violent crime, rising gang membership, and ongoing dependence on statutory services such as

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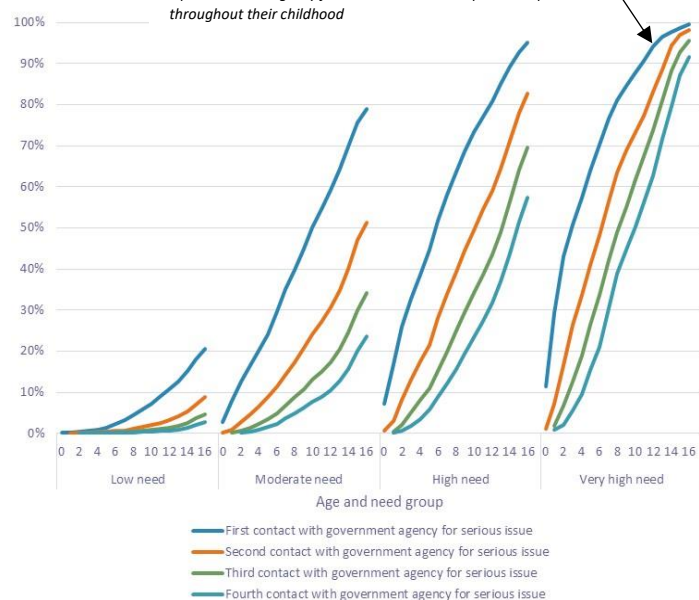
<sup>1</sup>The actuarial approach uses skills, usually found in other sectors, especially the insurance sector, to analyse the population using statistical methods to identify those cohorts most likely to be at risk of long-term benefit receipt.

Oranga Tamariki and Police. If our current poor school attendance and achievement rates are indicators of future outcomes then these trends are likely to worsen.

13. These issues reflect a lack of focus on outcomes and prevention at every level of the system. For example, our appalling rates of school attendance and under-achievement as well as high prevalence of mental distress among young people are correlated with the high rates of youth offending we are seeing.
14. Many of the issues we see for the most vulnerable are intergenerational, despite the best efforts of Governments to address this over decades. Children born into vulnerable circumstances are very unlikely to be able to break free of this cycle, further embedding inequities, unless we do something differently.
15. Social investment was introduced under the then National-led Government. It largely focused on new approaches within large government agencies and a Social Investment Agency was established to implement and coordinate the approach. The Labour-led Government later changed the agency's role and remit and renamed it the Social Wellbeing Agency. With these changes the focus on achieving better outcomes from the large service delivery agencies has been diluted.
16. However, some of the system architecture has remained, data science has advanced and some of the ways in which social services are delivered has adapted. For example, through better use of government-held data we can now better describe the groups of people needing the most support. Recent analysis by the Social Wellbeing Agency of youth with the greatest number of risk factors linked to youth crime, showed over their lifetime:
  - Over one-third (38%) lived with families where the income per family member (equivalised income) was less than \$20,000 p.a.
  - Most (92%) were supported by a main benefit
  - Over half (51%) lived with an adult who had received support for a mental health or an addiction issue
  - Most (83%) lived with an adult who had been convicted and sentenced for a relatively serious criminal offence.

Chart: Youth interactions with government agencies for a serious issue

*By age 5, 64% of young people with very high needs had contact with a public service agency for a serious issue. This pattern repeats throughout their childhood*



17. More worryingly, these young people had come into regular contact with government agencies for serious issues throughout their childhoods but had not received the support they needed to change their pathway.

18. This clearly demonstrates that we know who these vulnerable young people are very early on in their lives, and we have opportunities to support them towards a better life if we get our approach right. We must change what we are doing in order to get better outcomes for this group.

## **Social investment 2.0 – accelerating change, building on previous work**

19. I propose to power-up our approach to social investment to drive much-needed positive change for our most vulnerable New Zealanders. I am proposing new tools and approaches to ensure that we fund, deliver and measure the impact of social services to ensure we are getting better outcomes. This new approach builds on better social science evidence and advances in technology.
20. I plan to use the social investment approach to address the underlying drivers of social problems. This will mean in many cases taking a tailored approach rather than a one-size-fits-all approach. Social investment will:
- a. Address the drivers of the pervading social issues we face;
  - b. Understand the unique needs of the person or family/whanau involved;
  - c. Use data and evidence to support decision-making across the system;
  - d. Encourage new thinking and approaches, innovation, co-investment and shared responsibility to address our hardest issues;
  - e. Drive consistency of standards;
  - f. Empower communities to deliver for their people.
21. A social investment approach will help us understand who we need to invest in, what works for those people and how we measure progress. It allows us to know if what we are doing is working and scale-up the most effective policies and interventions. It is not just about new spending. It is about getting better outcomes from existing spend by doing things in a different way. Where necessary this may also mean reconsidering our regulatory settings to support more effective service delivery.
22. Social investment is about investing in better outcomes. While this may have long-term fiscal benefits for the state, equally as important is measuring the improvements in individuals' lives and improvements brought to families and communities.

## **New institutional and funding arrangements are needed**

### *Social Wellbeing Agency to become Social Investment Agency*

23. I propose to replace the Social Wellbeing Agency with a new a central agency (The Social Investment Agency) which I propose we establish as a public service department from July 1, 2024. The new agency will be set up to lead change across the public service and provide support to Ministers and agencies to achieve better outcomes from social service expenditure.
24. I have chosen to propose a central agency because the role that is required for this shift needs a strong focus on coordinating and managing public service performance, especially social sector agencies. Central agencies are those agencies whose core role is focused on the operation of the system of government agencies, which can include advising Ministers on the direction of the system and system-level

interventions, supporting other agencies to understand and comply with the Government's directions (e.g., through standards and guidance), and monitoring delivery against the Government's work programme and priorities.

25. I am proposing to establish the new agency as a standalone public service department, as this will support the development of its identity as a central agency in its own right (noting that the current Social Wellbeing Agency is a departmental agency that is hosted by the Public Service Commission). I expect the new agency to maintain close working relationships with other central agencies, as well as exerting influence through its leadership role in the social sector.
26. The Social Investment Agency will be tasked with developing the tools needed to deliver social investment programmes. It will work with other agencies to apply the social investment approach to existing expenditure, as well as work on new innovations through its own – initially modest – fund that I propose to establish (see paras 37-41).
27. The Social Investment Agency will provide leadership on impact and value measurement, as well as whole of life return analysis on social sector spending. It will use lessons from its own fund and the experiences of other agencies to set the standards required for efficient and compatible social investment practices across government and government providers.
28. I also expect the Social Investment Agency to facilitate and advise on the data and evidence infrastructure required for the social investment approach (including important and relevant international evidence).
29. The agency will have an ongoing review role with respect to existing government spending in the social sector, providing advice to Ministers about areas where spending could be improved.
30. In summary, the proposed new functions for the agency include:
  - a. Setting the standards for social investment practice to ensure there is consistency across government agencies and contracted providers
  - b. Advising on and facilitating the creation of the necessary data and evidence infrastructure for social investment
  - c. Working with other agencies to apply the social investment approach
  - d. Leading an ongoing review of social sector spending to measure outcomes.
31. The functions of the Social Wellbeing Agency that was established under the previous Government are to provide cross-social system advice, support the social sector with cross-system work and to create insights, tools, and practices that improve cross-social system decision-making for improving wellbeing [CAB-19-MIN-0504 refers]. I propose that these functions be transferred to the new Social Investment Agency and provide an immediate base from which I will build new, broader functions in the Social Investment Agency.
32. Following Cabinet's consideration of this paper, I will return to the Appointments and Honours Committee with a position description for the role of the new agency Chief Executive. I will also work with the Public Service Commissioner to ensure that

appropriate acting arrangements are in place to support the establishment and initial operation of the new agency, prior to a substantive Chief Executive commencing.

33. The transfer of functions from the Social Wellbeing Agency to the new Social Investment Agency will entail a transfer of all existing staff. To support a smooth transition. I also expect that other existing arrangements for the Social Wellbeing Agency will transition to the new agency, including responsibility for all external contracts and existing shared services arrangements. The existing Chief Executive of the Social Wellbeing Agency will be responsible for implementing this transition along with the Acting Chief Executive of the Social Investment Agency (once one is appointed).
34. While the resources of the existing Social Wellbeing Agency will provide a strong core for the new Social Investment Agency, the new agency's expanded functions and role will require additional capability and capacity. I have sought funding through Budget 2024 to support this.

#### *Social Investment Board*

35. I propose to establish a Social Investment Board as a Ministerial Advisory Committee, to provide external challenge and guidance as we adopt a social investment approach. The Board will provide independent advice and assurance to Ministers and guidance to the Social Investment Agency as needed. I plan to report back to Cabinet with the Terms of Reference for this Board.
36. I propose disestablishing the existing Social Wellbeing Board, a Specific Purpose Board, which is made up of the Chief Executives of large social sector government agencies. This is a Cabinet-mandated board, meaning our agreement is sufficient to give effect to its disestablishment.

#### *Social Investment Fund*

37. In order to accelerate the changes required, I plan to establish a Social Investment Fund (the Fund). The purpose of the Fund will be to directly commission services for vulnerable New Zealanders. The Fund will provide an opportunity to demonstrate the impact of the social investment approach. Its commissioning will have a focus on purchasing outcomes rather than outputs and be flexible enough to enable community, non-government-organisations (NGOs) and iwi providers to meet a wide range of individual and family/whanau need. I envisage the Social Investment Agency will establish and initially manage the Fund, as well as report to Ministers on the Fund's performance, although final decisions on this will be taken following further advice.
38. While I propose the Fund start with an initially modest envelope, over time I would expect it to partner with other funders to deliver at a significant scale with a wide portfolio of investments in social services. The Fund will be expected to measure its investments and adapt them if they are not returning results.
39. The Fund will differ from the traditional way government spends money in the social sector. Typically, funding is undertaken through various government agency silos, whereas the Fund will operate more closely to a traditional investment fund. I would

expect it to have a portfolio of investments ranging from innovative, more experimental investments to more conservative investments - ensuring we are delivering results for New Zealanders.

40. The Fund will be used to test new ways of working and its lessons can be adopted further through the social sector. It will play a key role in supporting the Social Investment Agency to test the standards it proposes setting for social investment practices.
41. I propose the Fund should begin investing in 2025, however I have sought funding through the Budget 2024 process to cover its establishment costs. I propose working with Social Investment Ministers on the detailed design and approach I expect the Fund to take.

### *Establishing a group of Social Investment Ministers*

42. I propose to set up a group of Social Investment Ministers to govern the social investment work programme with me. The group would meet at least quarterly. I propose the following portfolio Ministers are part of the group:
  - a. Social Investment
  - b. Regulation
  - c. Housing
  - d. Health
  - e. Education
  - f. Justice
  - g. Social Development and Employment
  - h. Corrections
  - i. Police
  - j. Whānau Ora
  - k. Mental Health
  - l. Children
  - m. Prevention of Family and Sexual Violence
  - n. Statistics
43. I propose to discuss with the group the areas in which we may wish to focus our first projects as we adopt the social investment approach. For example, we may wish to look at tackling issues such as emergency housing, family and sexual violence, youth offending and the first 2000 days with a social investment approach.
44. I expect that officials will organise themselves to support this Ministerial Group and to implement the work programme.

### **Social Investment also requires a change of approach across existing systems**

45. Social sector agencies have a crucial role in delivering the new social investment system, both within their own operations and in how they work together to deliver services and supports.
46. We have announced a set of Government Targets across public services. These targets are deliberately intended to be challenging and to push us to do better for

New Zealanders. Most targets are focused on the social sector and give clarity over the outcomes we are aiming for. This outcomes focus, along with measurement of progress are critical components of social investment.

47. I intend that the Social Investment Ministers group will ensure agencies are focused on outcomes and do not face barriers in this regard. Ministers will drive this change, and will work with social sector Chief Executives, the Social Investment Board and the Social Investment Agency to develop a work programme to achieve this.
48. The way we deliver and commission services is an area that will, over time, be subject to significant change under the social investment approach. Agencies are currently incentivised not to take risks or share accountability when commissioning or delivering services. This means new and innovative ways to support intractable problems are often not considered.
49. I believe that in many cases support can be provided more effectively by those closer to the problem. While some government agencies already contract services with community providers, Government should be working in partnership with communities, including iwi and non-government organisations, to devolve the delivery of social services to those who know their community best.
50. There will also need to be significant enhancements to the way government collects, uses, analyses and shares the administrative data we hold if we are to be successful with social investment. I plan to work with the Minister of Statistics and report back to Cabinet by 1 October 2024 with detailed recommendations for the data and evidence infrastructure required and the expectations for government agencies to protect and safely share appropriate data for social investment purposes.
51. Specifically, the Integrated Data Infrastructure (IDI)<sup>2</sup> is a world-leading resource which can be used to help us understand the needs, influencing factors and outcomes New Zealanders experience. However, the IDI is currently poorly resourced, is reliant on the goodwill of agencies to add their data and hampered by out-of-date rules. The IDI is difficult to access and interpret, meaning we are not getting its full value.
52. In dealing with data, it is important we maintain the social license to continue to use and analyse administrative data. There will need to be a focus on the rules, ethics and transparency around the use of administrative data. At the same time we need to balance that with ensuring that the vast amounts of data the government holds is able to be used for better decision-making.
53. Improving data collection and usage for social investment purposes will have wider, flow-on benefits (including supporting Government's goals for digitising government).
54. Together, these changes will take time and will involve a great deal of complexity. They represent a significant shift in our systems. However, when the social investment approach is operating effectively, it will see agencies aligned in their practices and understanding of need, and making cohesive, smart decisions based

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<sup>2</sup> The Integrated Date Infrastructure (IDI) is a large research database hosted by Stats NZ. It holds de-identified microdata about people and households. The data is about life events such as education, income, benefits, migration, justice, and health. It comes from Government agencies, Stats NZ surveys, and non-Government organisations (NGOs). The data is linked together, or integrated, to form the IDI, allowing insights to be created about how different life events impact on people.



on an individual's need.

55. I expect there will need to be changes to incentives and accountabilities in order to ensure that agencies respond differently to the way they do now. Financial and decision-making delegations within agencies will likely need to be made more consistent across agencies.

### **Next steps**

56. I plan to bring to Cabinet a series of papers in coming months to build various parts of the social investment approach. I will work with my Ministerial colleagues on these proposals.

### **Cost-of-living Implications**

57. These initiatives are likely to lead to an improvement in the cost-of-living for the most vulnerable New Zealanders by addressing some of the fundamental barriers for them.

### **Financial Implications**

58. There are no financial implications associated with this paper. This paper seeks the creation of a new Vote Social Investment, and fiscally neutral transfers from Vote Public Service to this new Vote. Decisions on any additional funding for implementation of a social investment approach are being considered separately through the Budget process.

### **Legislative Implications**

59. There is no primary legislation proposed in this paper, however it is likely that there will need to be changes to legislation this Parliamentary term.
60. Orders in Council are required to establish the new Social Investment Agency and list it in the schedules to the Public Service Act 2020 and the Ombudsmen Act 1975; and to disestablish the Social Wellbeing Agency by removing it from the schedules to those Acts.

### **Impact Analysis**

61. A regulatory impact statement is not required for the establishment of the Social Investment Agency, as the proposal concerns the internal arrangements of central government and has no or only minor impacts on businesses, individuals and not-for-profit entities.

### **Population Implications**

62. This approach is intended to have a significant positive impact for New Zealand's most vulnerable populations.

### **Use of External Resources**

63. No external resources were used in the development of the proposals in this paper.
64. Depending on the precise skills needed to establish the Social Investment Fund, the Social Investment Agency and the improved arrangements to promote better use of

government administrative data, there may be a need for a small number of specialist consultants if required skills cannot be found within government.

## Consultation

65. This paper was consulted with coalition partners and relevant portfolio Ministers.
66. The Public Service Commission and The Treasury were involved in the drafting of the paper. The Accident Compensation Corporation, the Department of the Prime Minister and Cabinet, the Ministry of Education, the Ministry of Health, the Ministry for Housing and Urban Development, the Ministry of Justice, Te Puna Aonui, Te Puni Kōkiri, the Ministry for Regulation, the Ministry for Social Development, Oranga Tamariki, the New Zealand Police, the Social Wellbeing Agency and Stats NZ were consulted.

## Communications

67. Decisions about communications relating to social investment will be made as part of Budget 2024 communications.

## Proactive Release

68. This paper is Budget Sensitive and will be released as part of the post-Budget release of material.

## Recommendations

69. It is recommended that Cabinet:
- (1) **Note** that social investment is a comprehensive approach to ensure we fund, deliver and measure the impact of social services in such a way that we ensure we are getting better outcomes for vulnerable New Zealanders
  - (2) **Agree** to establish a Public Service department named the Social Investment Agency (the Agency), effective from 1 July, 2024 as a central agency, with the Minister for Social Investment as its Responsible Minister, replacing the Social Wellbeing Agency
  - (3) **Agree** the functions of the Social Investment Agency will include:
    - (a) Setting the standards for social investment practice to ensure there is consistency across government agencies and contracted providers
    - (b) Advising on and facilitating the creation of the necessary data and evidence infrastructure for social investment
    - (c) Working with other agencies to apply the social investment approach
    - (d) Leading an ongoing review of social sector spending to measure outcomes
  - (4) **Agree** that the existing functions of the Social Wellbeing Agency also transfer to the new Social Investment Agency on establishment:
    - (a) providing cross-social system advice and supporting the social sector with cross-system work; and

- (b) creating insights, tools, and practices that improve cross social system decision making for improving wellbeing
- (5) **Note** that, subject to undertaking consultation with impacted staff, the Chief Executive of the Social Wellbeing Agency intends to transfer existing Social Wellbeing Agency staff to the new Social Investment Agency under the Public Service Act 2020
- (6) **Invite** the Minister for the Public Service to issue drafting instructions to the Parliamentary Counsel Office for Orders in Council to:
- (a) establish the new Social Investment Agency by adding it to Part 1 of Schedule 2 of the Public Service Act 2020 and Part 1 of Schedule 1 of the Ombudsmen Act 1975
- (b) disestablish the Social Wellbeing Agency by removing it from Part 2 of Schedule 2 of the Public Service Act 2020 and Part 1A of Schedule 1 of the Ombudsmen Act 1975, and
- (c) provide for transitional matters connected with the transfer of functions
- (7) **Note** that the decision to establish the Agency will create an impending vacancy in the Chief Executive of the Social Investment Agency role, and the Minister for Social Investment will return to the Cabinet Appointments and Honours Committee to seek agreement to a position description for the substantive Chief Executive role
- (8) **Note** that ahead of an appointment to the substantive Chief Executive role the Public Service Commissioner will work with the Minister for Social Investment to put in place appropriate acting arrangements to oversee the establishment and initial operation of the new agency
- (9) **Note** that the Chief Executive of the Social Wellbeing Agency, and the Acting Chief Executive of the Social Investment Agency once appointed, will work to implement the transition to the new agency, including transfers of staff and other contracts held by the Social Wellbeing Agency and continuation of shared services arrangements
- (10) **Agree** to establish, with effect from 1 July 2024, a new Vote Social Investment to be administered by the Social Investment Agency
- (11) **Agree** to establish the following new appropriation to fund initial activities related to the work programme of the Agency, with effect from 1 July, 2024:

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Social Investment	Minister for Social Investment	Social Investment Agency	Supporting Implementation of a Social Investment Approach	Departmental Output Expense	This appropriation is limited to providing advice and creating insights, tools, and practices to support sector-wide implementation of a social investment approach.

(12) **Note** that initial performance measures for inclusion in the 2024/25 Estimates of Appropriations will be agreed between the Chief Executive and the Minister

(13) **Approve** the following fiscally neutral adjustments to provide for initial funding for the implementation of a social investment approach, with no impact on the operating balance and/or net core Crown debt:

	\$m – increase/(decrease)				
	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears
<b>Vote Public Service</b> <b>Minister for Social Development and Employment</b> Departmental Output Expense: Supporting Implementation of a Social Wellbeing Approach (funded by revenue Crown)	-	(6.252)	(6.252)	(6.252)	(6.252)
<b>Vote Social Investment</b> <b>Minister for Social Investment</b> Departmental Output Expense: Supporting Implementation of a Social Investment Approach (funded by revenue Crown)	-	6.252	6.252	6.252	6.252

(14) **Note** that additional funding for implementation of a social investment approach is being considered separately through the Budget 2024 process

(15) **Agree** to the creation of the Social Investment Board as a Ministerial Advisory Committee, to be made of external experts, to advise on the implementation of the social investment approach including the work of the Social Investment Fund and Social Investment Agency

(16) **Invite** the Minister for Social Investment to report back to the Social Outcomes Committee with terms of reference for the Social Investment Board by 1 July, 2024

(17) **Agree** to disestablish the Social Wellbeing Board

(18) **Agree** to the establishment of the Social Investment Fund (SIF)

(19) **Delegate** decision-making on the detailed design of the SIF to the Minister for Social Investment, in consultation with Social Investment Ministers

(20) **Agree** to a subgroup of Social Investment Ministers made up of the Ministers of Social Investment, Regulation, Housing, Health, Education, Justice, Social Development and Employment, Corrections, Police, Whānau Ora, Mental

Health, Children, Prevention of Family and Sexual Violence and Statistics to drive a work programme across social sector agencies

- (21) **Invite** Social Investment Ministers to report back to Cabinet by 1 September 2024 with a work programme for how social agencies will implement social investment.
- (22) **Invite** the Minister for Social Investment and the Minister of Statistics to report back to Cabinet by 1 October 2024 with detailed recommendations for the data and evidence infrastructure required and the expectations for government agencies to protect and safely share appropriate data for social investment purposes
- (23) **Note** that Stats NZ will continue to host the IDI and invest in it in consultation with the Social Investment Agency and other key users

Authorised for lodgement

Hon Nicola Willis

Minister of Finance

Minister for the Public Service

Minister for Social Investment