Budget Sensitive
Office of the Minister of Finance
Office of the Minister of State Services

Chair Cabinet Social Policy Committee

IMPLEMENTING SOCIAL INVESTMENT

Proposal

- This paper proposes a plan to implement a social investment approach that builds on what we have achieved already and enables the fundamental and sustained change needed to get better outcomes for vulnerable New Zealanders.
- The social investment infrastructure recommended in this paper will enable us to identify populations of interest, set clear outcomes for those populations, measure how effective the services are that they receive and feed this information back into future decisions.

Introduction

- This Government's key priorities include delivering better public services to improve outcomes for New Zealanders, and investing money where we know it will make a difference. Since 2008 we have made considerable progress towards improving the way social services are delivered for vulnerable populations. The Productivity Commission's *More Effective Social Services* report notes that New Zealand's social services system is well suited to the majority of New Zealanders who have straight forward needs and can coordinate services for themselves. However, the system too often performs poorly for vulnerable New Zealanders with complex needs that span agencies.
- The government has made a significant investment in services for these vulnerable New Zealanders yet we don't know how effective these services are and we are still seeing poor outcomes. We recommend implementing a social investment system to deliver better outcomes for vulnerable populations and to understand the impact of each social service dollar spent. It is no longer merely a matter of encouraging more collaboration.

Our plan builds on what we have agreed and achieved so far

We have defined what we mean by social investment

- Social investment is about improving the lives of New Zealanders by applying rigorous and evidence-based investment practices to social services. It means using information and technology to identify those people for whom additional early investment will improve long term outcomes, better understanding their needs and what works for them, and then adjusting services accordingly. What is learnt through this process informs the next set of investment decisions.
- Social investment puts the needs of people who rely on public services at the centre of decisions on planning, programmes and resourcing, by:
 - 6.1 Setting clear, measurable goals for helping those people.
 - 6.2 Using information and technology to better understand the needs of people who rely on social services and what services they are currently receiving.

- 6.3 Systematically measuring the effectiveness of services, so we know what works well and for whom, and then feeding these learnings back into the decision-making process.
- 6.4 Purchasing outcomes rather than specific inputs, and moving funding to the most effective services irrespective of whether they are provided by government or non-government organisations (NGOs).
- 7 The way in which these principles are implemented will vary, and may include:
 - 7.1 A particular focus on vulnerable or high-risk groups.
 - 7.2 Investing up-front to support people most at risk of poor outcomes later on in life.
 - 7.3 Greater input from outside the public sector in analysis, innovation and service provision.
 - 7.4 Working with local organisations to purchase outcomes for and on behalf of communities.
 - 7.5 New citizen-centred services that cut across existing departmental service channels.

We have made changes to the way social services are delivered

- This government has made considerable progress towards improving the way social services are delivered for vulnerable populations. Since 2008 we have taken action to reshape services by ensuring there is a sharp focus on government agencies achieving tangible results for taxpayers' investment. We have:
 - 8.1 Achieved better results for New Zealanders after setting targets in different portfolios, holding government agencies accountable for delivering a range of outcomes including Better Public Service targets.
 - 8.2 Developed different ways for government agencies to deliver services in a more joined-up way. At a community level various models have been implemented, including the Social Sector Trials and Children's Teams.
 - 8.3 Explored innovative ways of contracting social services, including the Ministry of Social Development's Community Investment Strategy and the social bonds pilot led by the Ministry of Health.
 - 8.4 Proactively involved the community more in social service provision decision-making including the Tamaki Transformation Project and Te Hiku *Make It Happen*.
 - 8.5 Seen more examples of collaboration on the ground as front-line staff and NGO's look for better delivery models.
 - 8.6 Created investment approaches, which are being used within portfolios, and focus on developing fiscal measures which enable agencies to assess projected return on investment e.g. reducing long-term welfare dependence investment approach.

We are building social investment into the Budget process

- The Budget is one of a range of levers we have to advance a social investment system; shifting resources to where they will have the most impact and incentivising behavioural change. Budget 2015 started to more formally incorporate social investment principles into the budget process [refer Cab Paper: Budget 2015 and beyond: embedding an investment approach] and Budget 2016 will build on this. Cabinet has agreed that there will be a renewed focus on evidence to justify expenditure.
- 10 We expect all agencies to demonstrate a systematic approach to determining the effectiveness of new bids and baseline spending. An assessment using Treasury's cost benefit analysis tool (CBAx) is required for all non-cost pressure social sector proposals

- and a Social Investment Panel will provide additional scrutiny and comment on selected social sector initiatives.
- 11 Budget 2016 also introduces a data driven selection of a priority investment population at risk 0-24 year olds and their families/whanau. Funding, service and outcome reviews have been carried out for 15-24 year old New Zealanders [CAB Min (15) 26/6 refers] and at-risk families/whānau with children aged 0-5 years. The findings of both reviews will feed into budget decisions and focus the development of any place-based approaches that may be advanced as part of Budget 2016. This population focus is not just about new spending, but will also inform discussions about baselines, ongoing reviews and cost pressures, focused on how relevant services can be improved to address issues for the at risk population identified in the reviews. This is likely to be a multi-year focus.

Our plan is to implement a social investment approach that demands sustainable, system-wide change

- 12 For social investment to work, change will need to occur from the Boardroom (Ministers and senior agency leadership) to the front-line; wherever investment decisions are made. To make rapid progress we need to look across all of the key components of social investment to ensure we have a coherent and sustaining social investment reform programme that promotes shared accountability for outcomes.
- 13 A critical component of that reform is building the information platform that enables feedback loops to ensure better decisions are made at all levels. The information platform must support the needs of Ministers, Chief Executives, regional managers, and front-line staff including providers. It will enable us to connect investment frameworks and analytics (e.g. the results of the youth and 0-5 reviews) through to Budget decisions, as well as implementation changes; and advice to Ministers on where to focus next.
- 14 To support this change, the social sector needs to be oriented to:
 - 14.1 Focus on the long-term return from government investment decisions, where appropriate.
 - 14.2 Feed service effectiveness information into today's decision-making so that the system can learn and adjust.
 - 14.3 Focus on delivering outcomes and benefits that improve social and fiscal outcomes.

The social investment system

- 15 The social investment system needs to operate at five levels:
 - 15.1 Enablers or foundational tools and infrastructure, which are used consistently across the social sector to allow good decision making e.g.
 - 15.1.1 Data infrastructure that enables safe sharing of data to measure individual-level outcomes and understand who receives what services.
 - 15.1.2 Investment tools and methods to support consistent customer and population focused investment decisions.
 - 15.1.3 Evaluation tools and methods to estimate services effectiveness with respect to outcomes from both new and selected baseline spending.
 - 15.1.4 Standards setting, including data definitions, outcomes valuation, and discount rates.
 - 15.2 *Direction setting*, so the entire social sector is contributing to achieving consistent outcomes for the same vulnerable populations e.g.
 - 15.2.1 Outcomes setting for the system, for agencies, for providers, for the front-line, including performance indicators at all levels of the system.

- 15.2.2 Identifying populations of interest through risk profiling.
- 15.2.3 Budget setting annual government and agency budget setting, with decisions based on an investment view for target populations.
- 15.3 *Delivery*, ensuring that service delivery reflects the direction set and uses the data available to inform that delivery e.g.
 - 15.3.1 Improved service coverage, and better targeting of services based on individuals' needs.
 - 15.3.2 Changes to front-line business as usual so each agency or provider has the information and flexibility to respond when data shows no improvement in outcomes for a particular group or individual.
 - 15.3.3 Service delivery is supported by information sharing, from service delivery providers to government (to inform future funding decisions), and from government to service delivery providers (because understanding the customer, and what interventions are working improves decision making).
 - 15.3.4 Adaptive contracting of services to allow for responsiveness and effectiveness.
 - 15.3.5 Innovation and contestability to allow for new ways of working or better ways of delivering services.
- 15.4 Accountability and incentives, across the social sector to deliver better outcomes for vulnerable populations e.g.
 - 15.4.1 Systematic tracking of outcomes achieved by services against budget bid undertakings.
 - 15.4.2 Decision makers are accountable for delivering improved outcomes.
 - 15.4.3 Incentives for agencies to work in a joined up way and for service providers to innovate to improve performance.
 - 15.4.4 Monitoring and reporting of progress to Ministers, agencies, providers, front-line.
- 15.5 Feedback loops using data and measurement to make continually better decisions at all levels of an adaptive system and to support the culture shift required that sees data being used in all decision-making.
- 16 Delivering change across these five levels requires:
 - 16.1 An agreed strategy across the sector to ensure sector engagement, alignment between levels, and that the client remains at the centre of decision making and delivery.
 - 16.2 Robust governance to ensure delivery of the strategy and its evolution in response to lessons learned and new opportunities.
- 17 A well working system will drive innovation in service delivery and minimise administrative overheads placed on service delivery providers by holding providers to account for outcomes, rather than specifying inputs.
- Further information about the five levels of a social investment system and necessary components can be found in Appendix A. These components must be implemented at all levels of the social sector and while many are best developed and managed centrally others should be driven by and within agencies. Social sector agencies will need to adapt their practices to align with a social investment approach, including changes to frontline practice to make better use of data and improve coordination of services.

19 The table in Appendix A will be developed into a longer term work programme for the implementation of social investment which will be agreed and monitored by the Social Sector Board and Lead Ministers.

Our plan proposes a centralised function to drive the changes we require

- Fundamental and enduring change requires a deliberate and co-ordinated approach to social investment. The system described above requires:
 - 20.1 Stewardship to drive the changes we require; guide ongoing implementation of the system; support agencies to adapt and grow their investment practices.
 - 20.2 Encouragement of innovation and continuous improvement across the system.
 - 20.3 Provision of centralised support and infrastructure where necessary.
- 21 In July this year the Social Sector Board established the Social Sector Investment Change Programme (the Programme), a cross-agency team tasked with starting to build the tools and infrastructure required to enable a social investment system. The Programme was set up until March 2016 to align with Budget 2016 processes.
- We recommend that the Programme be extended to June 2017 to continue the infrastructure build required to support a social investment approach. This date provides the programme with a level of certainty that is necessary to maintain access to the appropriate expertise. We also recommend that the Programme, State Services Commission and the Treasury, in consultation with the Social Sector Board, report back to Cabinet by March 2016 with options and advice on:
 - 22.1 A framework for prioritising work across the social investment programme based on an assessment of maturity, impact and priority of the social investment components outlined in this paper.
 - 22.2 A medium to longer term social investment work programme over at least the next 6 to 18 months to deliver on the social investment components.
 - 22.3 A stable platform for ongoing leadership of social investment changes and delivery of the work programme including the scope of a centralised function.
- Advice on future leadership of social investment changes including scope of a centralised function will include consideration of:
 - 23.1 role and functions
 - 23.2 governance arrangements including Lead Minister(s)
 - 23.3 the relationship between a centralised function and individual agency responsibilities
 - 23.4 funding arrangements
 - 23.5 interface with other related work programmes.
- There is also an opportunity as this advice is prepared to consider how we best use the scarce expert resources in this area and ensure consistent professional practice. For example, the *Next Steps Toward Reducing Long-term Welfare Dependence* paper, also being considered by this Committee today, raises the question about the appropriate configuration of the government's actuarial resources. At present these primarily reside within ACC and the Ministry of Social Development, but as we look to widen the use of and access to these disciplines, we need to ensure that they are well managed and co-ordinated in a way which creates a 'citizen-oriented' view across models, and sectors.

- We propose that the Ministers of Finance and State Services be the Lead Ministers for the Programme to ensure alignment of government priorities and development of the system. The Programme will report directly to the Social Sector Board and an advisory group made up of senior representatives from social sector agencies (previously the Social Sector Investment Change Programme Steering Group) will be tasked with providing advice and integrating social investment practices into agencies. These changes will occur immediately.
- 26 Currently the Programme is supported by contributions from social sector agencies through staff time, secondments and funding. Social sector agencies will need to continue making staff contributions through to 30 June.

Consultation

- This paper has been prepared by the Social Sector Investment Change Programme. The following agencies have been consulted: Ministry of Social Development; Ministry of Health; Ministry of Education; Ministry of Justice; the Treasury; State Services Commission; the New Zealand Police, Department of Corrections; Statistics New Zealand; SuPERU; Te Puni Kokiri; Ministry of Pacific Island Affairs and the Ministry of Business, Innovation and Employment.
- 28 The Department of the Prime Minister and Cabinet has been informed.

Financial and legislative implications

29 This paper seeks up to \$6 million over 2015/16 and 2016/17 for the additional operating costs of the Social Sector Investment Change Programme from the BPS seed fund, and therefore with no impact on the operating balance.

Human rights, gender and disability implications

The proposals in this paper are consistent with human rights legislation. There are no gender or disability implications in this paper.

Regulatory impact analysis

31 A regulatory impact or compliance statement is not required.

Publicity

32 A communications plan for the Programme and social investment in general will be prepared. Any announcements about the future of social investment will be made as part of Budget 2016.

Recommendations

- 33 It is recommended that the Committee:
 - Agree to implement a social investment approach that builds on what we have already achieved and enables the fundamental and sustained change needed
 - 2 **Agree** the future state of a social investment approach, being:
 - "Social Investment puts the needs of people who rely on public services at the centre of decisions on planning, programmes and resourcing, by:
 - a) Setting clear, measurable goals for helping those people.
 - b) Using information and technology to better understand the needs of people who rely on social services and what services they are currently receiving.

- c) Systematically measuring the effectiveness of services, so we know what works well and for whom, and then feeding these learnings back into the decision-making process.
- d) Purchasing results rather than specific inputs, and moving funding to the most effective services irrespective of whether they are provided by government or non-government agencies."
- Note the five levels of a social investment approach that will guide the development of its components are:
 - a) enablers or foundational tools and infrastructure
 - b) direction setting
 - c) delivery
 - d) accountability
 - e) feedback loops
- 4 **Note** that delivering change across the five levels requires:
 - a) an agreed strategy across the sector
 - b) robust governance
- Note a detailed work programme for the implementation of social investment will be developed and agreed with the Social Sector Board and Lead Ministers
- Note successful implementation of a social investment approach requires a deliberate and co-ordinated approach
- 7 **Note** the Social Sector Board established the Social Sector Investment Change Programme until March 2016 to start building the tools and infrastructure required to enable a social investment approach
- Agree that the Social Sector Investment Change Programme be extended until June 2017 following decisions being made about the future leadership of social investment changes
- 9 Agree that the Lead Ministers for the Social Sector Investment Change Programme will be the Ministers of Finance and State Services
- Note that all decisions on resource allocation supported by a social investment approach and its underlying infrastructure will be subject to normal Cabinet processes
- 11 **Note** that the Social Sector Investment Change Programme reports directly to the Social Sector Board
- Agree that the Social Sector Investment Change Programme will be supported by an advisory group made up of senior representatives from social sector agencies (previously the Social Sector Investment Change Programme Steering Group) tasked with providing advice and integrating social investment practices into agencies

- Agree to funding of up to \$6 million over 2015/16 and 2016/17 to provide for the additional operating costs of the Social Sector Investment Change Programme with no impact on the operating balance;
- 14 **Agree** that any expenses incurred under recommendation 13 be met with a commensurate reduction in the size of the Better Public Services Seed Fund:
- Authorise the Associate Minister of Finance (Hon Joyce), Minister of State Services and Minister of Finance to jointly establish any new appropriation where necessary, and increase the relevant appropriation to give effect to the decisions in recommendations 13 and 14 above;
- Direct the Social Sector Investment Change Programme, State Services Commission and the Treasury, in consultation with the Social Sector Board, to report back to Cabinet by March 2016 with options and advice on:
 - a) a brief framework for prioritising work across the social investment programme based on an assessment of maturity, impact and priority of the social investment components outlined in this paper
 - b) a medium to longer term social investment work programme over at least the next 6 to 12 months to deliver on the social investment components
 - c) a stable platform for ongoing leadership of social investment changes and delivery of the work programme
- 17 **Agree** that advice on the future leadership of social investment changes including scope of a centralised function will include consideration of:
 - a) role and functions
 - b) governance arrangements including Lead Minister(s)
 - the relationship between a centralised function and individual agency responsibilities
 - d) funding arrangements
 - e) interface with other related work programmes

Hon Bill	English
Minister	of Finance
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Hon Paula Bennett Minister of State Services	
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Appendix A - Levels of the Social Investment System

To deliver these levels in practice, a number of elements need to be in place. The following table provides a list of those elements and an assessment of the extent to which they are in-place already and where there are opportunities for further development. This is not necessarily a comprehensive list as more elements will become apparent as the system develops. Development of many of these elements should occur at the centre, while others must be developed by and within agencies.

It is critical that these elements are developed in a way that support each other.

Indicative timeframes are provided, but in most cases further scoping is required.

	What is required and why	Current status	Comment	Time frame		
Enablers/Foundational To	Enablers/Foundational Tools and Infrastructure					
Data infrastructure	Data collection and secure sharing to approved users, including agencies and service delivery providers. Data includes systematic outcomes tracking and service mapping.	The Programme is developing a prototype to securely transfer data across the social sector. IDI supports research and analysis but is far from real time and does not support operational decision making.	Improvements to research platforms (e.g. the IDI) through incorporation of a wider range of data sets and an increasing longitudinal perspective. Improved real time data and information access by operational decision makers.	Medium term activity Detailed decisions about prototype: 3 months.		
Investment tools and methods	Provide processes and support decision making around investment methodology to: Identify and understand those at risk of poor outcomes. Understand the costs of poor outcomes and the costs and benefits of interventions.	CBAx in place for Budget 2016. Further refinement for future budgets.	CBAx and other tools need to be developed and used in agencies to support internal decisionmaking.	Development of tools and models will be an ongoing activity.		

	What is required and why	Current status	Comment	Time frame
Evaluation tools and methods	Tools are need to systematically evaluate programme and service effectiveness; with effectiveness being defined against a counterfactual of no programme, other things being equal. ROI will be one of the effectiveness measures.	No overarching client centric models have been developed, but there has been progress in developing tools at agency level. Significant investment in valuations has been made (welfare) is underway (housing, justice), or is proposed (vulnerable children). Consistent methodologies and standards need to be developed to coordinate decisions on evaluation across agencies.	The Programme and SuperU will facilitate the use of common methodology for estimating programme effectiveness.	Ongoing – early priority.
Standards setting	Robust data standards – need to be developed Ensuring that data is available, of high quality and understood consistently across sectors. Privacy and ethical issues of data use need to be worked through. Other common standards covering outcome definitions, valuation parameters and methods, discount rate, ownership of CBAx to deliver consistent and comparable effectiveness estimation across sectors	There are significant gaps.	Establish comprehensive data standards. Data standards are about business rules and common ways of interpreting data.	Early advice on identifying which standards are used first. Update as required.

	What is required and why	Current status	Comment	Time frame	
Direction Setting					
Outcome setting	Comprehensive set of long term outcomes to drive social investment decisions that link people to investment and outcomes, including agreement of indicators to measure progress.	There are a range of social sector specific outcomes, which are not always long term in nature. A number of outcome frameworks have been developed (e.g. through the 0 – 5s review) but these are not currently the basis of accountabilities.	Agree a limited number of comprehensive long term measurable outcomes that form the basis for social investment decision making.	Short-term (as part of Budget 2016).	
Customer segmentation – identifying populations of interest	Client segmentation to identify population groups and highest risk of poor outcomes as a basis for establishing priorities for social investment.	At the sector level, there are a range of models to identify priority groups for additional intervention. A number of additional segmentation exercises have been carried out (e.g. as part of the youth funding review). The profiles resulting from existing models do not always provide a	Institute mechanisms to update segmentation models and to identify and develop additional data sources to support such models.	Ongoing development and refinement of segmentation models and data sources.	
		clear basis for targeting interventions. There are opportunities to refine these models as richer sources of data become available for analysis.			
Budget setting	Using Budget levers to drive social investment practices throughout the social sector.	CBAx in place and social investment lens given to Budget 2016.	Need for ongoing consistency to drive agency behaviour.	Ongoing.	

	What is required and why	Current status	Comment	Time frame	
Delivery					
Improved service coverage and targeting of services	Tools to support the matching of interventions to clients building on service mapping delivered by the data infrastructure.	Experience is mixed. There will be an increasing requirement for such tools.	Identifying services mismatch requires: Service mapping at an individual level. Needs or services eligibility identification at an individual level.	Dashboards for medium to high level decision makers: – medium term Tools for front-line staff will develop as part of organisational change	
Changes to front-line business as usual	Decision making and data needs to be devolved and shared to those best able to make the necessary judgements. Main components are: Allocation of decision rights. Intelligent data use including use of data and dashboards tailored to requirements of decision makers, delivering feedback, supporting funding and reprioritisation. Information sharing.	Front line do not have full, real- time information about the customers when they are seeing them. Data and decision-making is driven through agency silos.	Identify barriers to appropriate decision-making models and address.	Review as information drives new business models.	
Information sharing	Refer to data standards under 'standards setting'.				

	What is required and why	Current status	Comment	Time frame
Adaptive contracting	Contracts with providers give the ability for providers to amend practices quickly to achieve outcomes.	Little activity in practice – some innovations in patches.	Need for ongoing work covering agency contracting capability building, changes to current contracts, reporting and contractual milestones etc.	Ongoing.
Innovation and contestability	New interventions and delivery channels need to be developed and implemented.	Innovation is slow to imbed. The NGO and private sector potentially have an important role here.	Frame outsourced service delivery contracts in a way that enables innovation.	Immediate and ongoing as required.
Accountability and Incentives				
Systematic tracking of outcomes	Measures of outcomes as a basis of prioritisation and monitoring progress. Evaluation needs to inform allocative decisions by providing an understanding of impact on outcomes, disaggregated by client profile.	A range of sectoral measures are set out in agencies statements of intent. Whilst these form a basis for monitoring progress within agencies, they are less effective at setting priorities or informing tradeoffs at a systems level. The forward welfare liability does inform some trade-offs, but is agency specific. Steps are in progress to apply similar actuarial valuations to other sectors but there are a number of conceptual and methodological challenges. Evaluation experience is mixed, the effectiveness of too many interventions is not well understood [finding from the Youth Funding Review] and it is not clear that evaluative effort is appropriately aligned with the	Progress the development of outcome measures across sectors in a way that: Provides insight in to progress resulting from interventions. Enables judgements about a range of trade-offs. Put outcomes for the customer at the core. Establish an expectation that sector agencies and service providers are able to provide improved understanding of the impact of interventions.	Short-term as part of Budget 2016. Review and revise as models allow the development of new measures. Ongoing work programme.

	What is required and why	Current status	Comment	Time frame	
		needs of the social investment approach.			
Decision makers are accountable for outcomes	Reporting of progress KPIs throughout the system.	Limited – progress BPS targets are already creating some accountabilities.	Public reporting of progress is possible.	Ongoing.	
Incentives	Agencies need to be encouraged to work in a joined up way. Service providers encouraged innovate to improve performance.	Limited action – some trials to encourage activity e.g. Social Sector Trials and Children's Teams. Some activity happening on the front-line. Contracts are often restricting providers in their activity.	Vertical accountabilities take precedent over horizontal needs. Ongoing work programme needed to change current behaviours and incentives.	Ongoing.	
Monitoring and reporting of progress	Ensure that the measurement of progress is being shared so there is an understanding of progress beyond delivery agencies.	Some measures in place that can be adapted.	More formalised reporting protocols need to be developed.	Ongoing.	
Feedback Loops					
Feedback loops	Feedback loops need to be integrated into all parts of the system to improve investment decisions.	Some feedback measurements happening within agencies – needs to systemised.		Ongoing.	