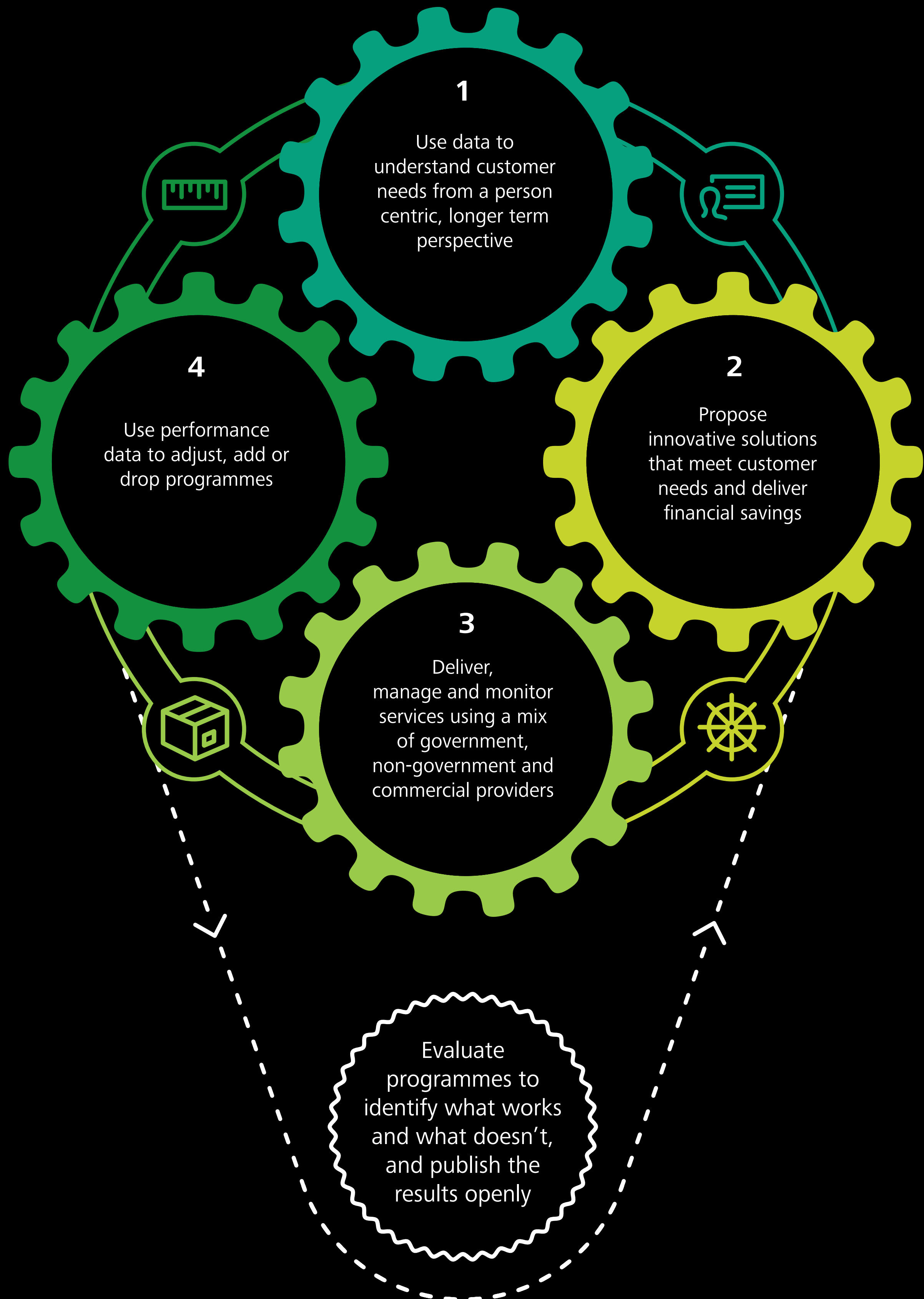
How does social investment work?



What is social investment?

Social spending needs to change to support a changing New Zealand

Social spending will continue to grow at a rate that exceeds revenue growth if nothing changes

The treasury projects total spending on the social sector is expected to rise by 5.7% of GDP between 2020 and 2060. Total government revenue as a share of GDP is only expected to increase by 0.7% over that same period. Something has to give in order to avoid higher taxation or greater debt.

Some aspects of spending growth will be harder to avoid than others, such as the welfare costs of supporting our ageing population and some of the costs of modern healthcare. A focus on avoidable social sector spending is a consequence of the fiscal pressures the nation will face.

The current approach to social spending will not support future needs

The current approach to funding outputs – services such as hospital procedures, school education and corrections – is an excellent approach for driving improved efficiency. In tough financial times, agencies have been asked to deliver savings while continuing to provide the same number – or even slightly more – of prison beds or hospital beds, which they have often delivered.

But, given the challenges above, the new focus on reducing avoidable spending asks agencies to go further. The task is not to deliver the next 100 prison beds for the same cost as the previous 50; it is to remove the need for those new prison beds altogether. The only way to meet this kind of challenge is to consider root causes and prevent the need for these services in the first place.

Spending more in the social sector hasn't always led to better outcomes

It's common for the public to equate greater spending on a given area with the level of a government's commitment, and presume that results will follow. But far too often no-one is actually checking what the additional spending delivered and whether it was worth it.

There's no logic in reducing the effort we put into tackling our biggest social challenges and hoping for the best. It is worth questioning whether simply spending more while doing the same - as we've done in the past - is the right answer.

For example, between 1970 and 1994, New Zealand increased spending per student in schools by around 220%, adjusted for inflation and other factors, and saw a decrease in student achievement in maths and science over that period of around 10%. Other developed nations, including France and Australia, showed broadly similar results (McKinsey & Company, 2007).

The government wants the investment approach to drive better social spending

Given the patchy relationship between spending and outcomes in the social sector, the government has turned away from a simple spend-versus-cut approach to consider the problem in a different way to interrogate the quality of spending, and to ensure it's being spent on the right things.

It's an idea worth exploring, if only because we know that other approaches haven't always worked.

What is the investment approach?

In the New Zealand context, the investment approach can be thought of as government activity undertaken on the basis of a return on investment justification. Using the investment approach, funding is made available on the basis of:

a) data quantifying the issue or challenge
b) the likelihood of the proposed interventions addressing the issue or challenge
c) measurement and reporting to decision-makers on the outcomes achieved by the interventions to enable calculation of the benefits.

The term *social* investment relates to the application of this approach to the social sector.

Social investment contrasts with traditional approaches to funding government activity, which focus more heavily on what was delivered and ensuring good value for money in the delivery of those services, rather than on the value of outcomes achieved.

There are many versions of social investment

The term social investment can be easily misunderstood or mistaken. Firstly, social investment is often confused with similar terms, which unhelpfully have different meanings in different countries. In the US, the phrase is more frequently associated with outcome based philanthropic activities, which often uses the term social impact. Social investment is also similar to – but not the same as – social impact investing or social impact bonds which are popular in the UK and Australia. Lastly, the term is also confused with social entrepreneurship. These alternative uses of the term social investment and the similar concepts of social impact and social entrepreneurship are not the focus of our research.

Secondly, there is debate among those using the term in New Zealand as to its precise meaning. Over the course of this research, and interviews with many stakeholders from politics, the public service, social service delivery, academia and business, we found there was no consensus on the definition of a social investment approach.

It's easy to understand why. Implementing social investment programmes often requires working across agencies, designing social programmes in collaboration with clients, and delivery by non-government organisations. It's not surprising that social sector agencies and NGOs often see existing concepts such as joined up government, human centred design and funding for outcomes as core to a social investment approach. However, in our view social investment programmes merely employ these concepts where necessary. It's not the case that every joined up government programme is also a social investment programme, for example.

Social impact bonds

(SIBs) are a tool to help impact driven providers deliver outcomes based contracts [between government and non-government organisations]. SIBs can improve social outcomes through the collaboration of government service providers and investors (Centre for Social Impact, n.d.).

For more information on social impact bonds, see Deloitte's report at http://www2.deloitte.com/au/en/pages/public-sector/articles/paying-outcomes-social-impact-bonds.html

Social entrepreneurship

Social entrepreneurship uses commercial methods to support social and environmental goals. It means allocating proceeds to further these goals, rather than producing a profit.

(Department of Internal Affairs Government Position Statement on Social Enterprise https://www.dia.govt.nz/government-position-statement-on-social-enterprise)

The actuarial approach vs the business case approach

Of all the definitional issues we encountered in our research, none was more frequently discussed in our interviews than the actuarial approach vs the business case approach.

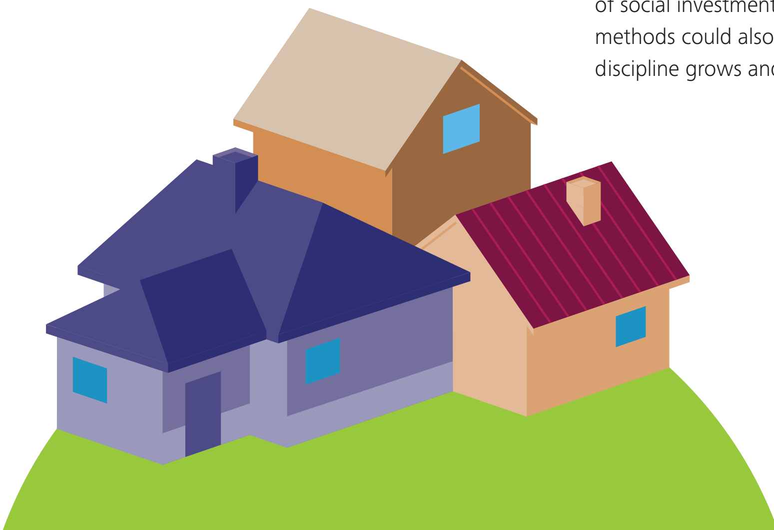
For some, there was a clear sense that data quantifying the problem (for example, the costs of being on welfare, or the costs associated with interactions with the justice system for a given cohort) must be established through a whole-of-life, actuarial approach. This view was especially common among those whose understanding was grounded in the methods employed by the Ministry for Social Development (MSD) in its approach to reducing welfare liabilities. MSD's work remains the largest implementation of social investment to date.

Others were more open to a wider definition. They were more likely to be of the view that any mature business case demonstrating that benefits would exceed costs over a period of time could be considered as falling within the definition of social investment, and that a whole-of-life costing approach was not always required, especially where the absence of that data might be an excuse for inaction, or where the intended results could be assessed in shorter timeframes. Indeed, the Treasury's CBAx standard (a business case tool for social programmes, released in October 2015) does not require an actuarial method for establishing programme costs and benefits, but is compatible with that approach.

We see the actuarial approach as being important in long term changes, especially those that are intergenerational. The key factor is how to assess early on that the results are headed in the right direction. This is where the actuarial approach is most useful – as an evidence based assessment approach to considering long term patterns or trends. What the actuarial approach enables is a structured view now of the expected outcome of a programme over time. To do this requires good data and well structured assumptions within a sufficiently detailed model to ensure the major things that could make a difference to the outcomes are being measured. This structured approach has to be good enough to be valid for long time frames (up to 80/90 years or three generations in some cases).

The key factor is how to assess early on that the results are headed in the right direction

We see the actuarial and simpler business case approaches as compatible, and see arguments for one or the other as moot. There is no doubt the actuarial whole-of-life approach is more rigorous, but it's also less widely applicable and the required data is not always available. Our report includes programmes justified through both mechanisms as falling within the definition of social investment. Perhaps in time, other rigorous methods could also be used, as the social investment discipline grows and matures.



A focus on children and young people

We recognise many people heavily associate social investment with interventions for children and young people. The recent report into modernising CYF is a good example, where proposals include the replacement of the Vulnerable Children's Board with a new social investment board, effectively equating the two concepts.

In some ways, this association is obvious given the return on investment concept; investments in young people will generally have greater returns, if only, because there is more time for returns to emerge.

However, in our view, social investment is just as applicable to other parts of the population. As MSD showed in the first major application of social investment in New Zealand, targeting adult welfare recipients brought significant benefit to them and the state.

The evolution of the social investment approach in New Zealand

Nearly 20 years ago, at the Beyond Dependency Conference (Brown & Quilter, 1997), a new approach to welfare was raised – social investment – which thought about welfare dependency as a future contingent liability on the government (Chapple, 2013).

Throughout the early 21st century, both Labour and National led governments have used social investment to improve outcomes, to avoid spending money later to fix the entrenched issues of hardship.

In 2011, the Welfare Working Group recommended an investment based approach, which defined forward liability as 'the expected costs associated with an individual being in the welfare system over their working life' (Welfare Working Group, 2011).

An actuarial assessment of adopting a long-term investment approach to achieving better social outcomes was carried out in 2011 (Taylor Fry, 2011), and this report was used as the basis of social welfare changes to help break the cycle of long term welfare dependency (Bennett, 2012), a key focus of the Better Public Services results.

The government is throwing its weight behind social investment: an approach that, if done well, will mean better outcomes for New Zealand's at risk and vulnerable population. Recent developments include the launch of a cost-benefit evaluation tool, CBAx, and a new Social Investment Unit, charged with setting data and evaluation standards, developing methods for estimating return on investment for selected spending, and building an information exchange to enable the safe sharing of data to support better decision making (English, 2016).

Social investment might bring New Zealand back to the cutting edge of state sector reform. More importantly, people who might otherwise experience poor outcomes and disenfranchisement may have the ability to do well for themselves and their children. All New Zealanders have a stake in ensuring our most disadvantaged are not left behind.

At its core, social investment is a more rigorous and evidence-based feedback loop linking service delivery to a better understanding of people's needs and indicators of the effectiveness of social services.

This needs to take account of the long term – including those benefits that might take years to be delivered.

There will also be more systematic measurement of the effectiveness of services people are currently receiving.

This information can then be used to do more of what works – and stop things that don't.

Understanding the effectiveness of spending and doing what works are two principles with relevance to all public spending.

Hon. Bill English

17 September 2015