



Executive summary

Despite the impacts of the global financial crisis and Canterbury earthquakes the New Zealand government's finances are in strong shape compared to its peers, having recently recorded its first surplus in seven years.

We have a strong base to work from

While the books are stronger than other comparable nations that are struggling to pay down debt, New Zealand, like other advanced economies, faces the costs of an ageing population. The Treasury's projections show that if current spending and taxation patterns are maintained, net debt will rise to almost 200% of New Zealand's gross domestic product by 2053, largely driven by increased social sector spending.

What we've been doing doesn't always work

New Zealand is amongst a group of advanced nations that have seen poor, and sometimes negative, results from increased social sector spending in recent decades. Despite our efforts, government data shows groups in our society who have persisting poor life outcomes. If left unchecked, the cycle of intergenerational disadvantage will continue in these groups, and future generations of New Zealanders will be left with both higher costs and a less fair society to live in.

Given the patchy relationship between higher spending and better outcomes in the social sector, the government has started to focus on how it makes decisions in order to ensure money is being spent to ensure we get the right results.

Social investment is a different way of working

In a New Zealand context, social investment can be defined as government activity undertaken on the basis of a return on investment justification. Data is used to quantify a social problem, including the long-term costs to individuals and government. Agencies seek funding for interventions on the basis of the likelihood and extent to which future costs to government are reduced by improving social outcomes. Finally, measurement and reporting is undertaken to ascertain how successful programmes are in achieving both the cost reduction and improved life outcomes. Measurement also provides a better understanding of what works which influences future investment decisions.

The Ministry of Social Development (MSD) has already used the investment approach to reduce welfare dependency, and much has been learned as a result. The government is now expanding the use of social investment. The recently announced reforms to Child, Youth and Family put social investment at the heart of the new operation, and smaller applications are now appearing in education, justice and beyond.

There are challenges for the wider implementation of social investment

While this approach may seem straightforward, there are many reasons why its uptake has been slower than some have hoped:

- There is a lack of clarity on the outcomes that social sector agencies and service providers should be collectively achieving, and there is some resistance to having outcomes measured. Additionally, developing a single set of priority outcomes to aim for is difficult, and there are few examples where this has been done well.
- There aren't enough people with the right data skills working in social policy and service design, and there are concerns about how sensitive data might be misused.
- The design of our government prioritises accountability for spending over the achievement of outcomes, and political cycles work against the long-term requirement for some investments. Ministers have a fear of failure, which dampens the chase for the best outcomes. An improvement is also needed in the way that social service providers are commissioned.
- There are weak incentives on individuals in the public sector to test and trial interventions rigorously, and report openly on performance in a way that permits learning from success and failure.



We recommend a package of reforms to realise our ambitions for social investment

Over the next five years, we believe the government should work towards a package of reforms to realise its aspirations for social investment in New Zealand.

Release a government-wide statement that establishes outcomes and targets for vulnerable New Zealanders every four years.

These outcomes would provide clarity to the public and agencies on what needs to be achieved, and targets against which performance would be publicly reported. This statement would go further than the current Better Public Services results, which do not cover the whole social sector and do not specifically address the needs of New Zealanders with poor life outcomes.

Establish a new people-focused agency that commissions services for those facing poor life outcomes.

The scope of the new agency's resources and remit would need to be determined by a thorough stocktake of existing services for this target population, including health, education, child protection, housing and homelessness, justice, disability, welfare, and more. The new agency would be responsible for commissioning services from NGOs, government providers and commercial/social entrepreneur organisations to undertake the best evidence based approaches, and would be free to adopt or cease programmes on the basis of assessed evidence of performance.

Embed social investment principles of funding quality and sustainability in the new agency's operating model, so it is better incentivised to achieve outcomes targets.

The agency would own the liability for the target population. Where savings are a by-product of improving people's lives, the agency would retain a portion for re-investment in new programmes, rather than those savings returning to the centre.

Enable better access to government held data and detailed evaluations.

The new agency would lead the responsible sharing of data service providers (such as NGOs) to improve policy planning and delivery. It would also maintain a public repository of information about the effectiveness of all social programmes it has commissioned, to help policy-makers, service providers, academics and communities understand what works and what doesn't.

It's clear social investment is a different way of working for the public sector and for social sector service deliverers – in some cases, radically so. We believe social investment can make a real difference for those in need, for the government and for all New Zealanders. Incremental changes to adopt the investment approach have already been undertaken, but are not yet sufficient to ensure it becomes the de facto way of working towards better lives for New Zealand's most vulnerable people.

