



State of the State  
New Zealand 2016  
Social investment for our future

# Foreword

We believe New Zealand is the best place in the world to live, work and play. Over the years, successive governments have played a significant role in making New Zealand the great place it is today. Our government's finances are in good shape, despite the global financial crisis and the Canterbury earthquakes, and our research shows they are even better when you compare us to other developed nations.

But we cannot rest. New Zealand shares the challenges of an ageing population, low productivity and revenue growth, and the need to reduce government debt, with many other nations. We must tackle these challenges today to maintain our way of life in the future.

More importantly, new data shows that for some of us, life in New Zealand today is not that good at all. There is compelling evidence that too many people in our society are experiencing poor life outcomes, and too many of their children are at risk of following them. If left unchecked, many may be trapped in cycles of disadvantage, creating divisions in our community and placing substantial financial burden on the next generation of New Zealanders.

This new evidence drove us to focus our first *State of the State* report on New Zealanders with poor life outcomes.

As such, we welcome the government's moves to widen the use of the investment approach in social services, including in the recently announced reforms to Child, Youth and Family. It is only by making an impact on the lives of those most at risk of poor outcomes – not just children but across all social services – that we can ensure we maintain all that is good about New Zealand. A long term view is exactly what we need.

The challenges to the wider implementation of social investment are not trivial. Some run into the very culture and fabric of the way our public sector is run and managed. Success requires the government to start taking more calculated risks to push the envelope on the positive difference we can make in people's lives. The key is to ensure lessons are learned from failures as well as successes.

In the six months of research for this report, we spoke to some of the most senior and influential leaders in the public, non-government and private sectors, all of whom provided a unique perspective on social investment. We hope our *State of the State* report provides you with valuable insights into the financial health of government, and furthers the development and practice of social investment in New Zealand.



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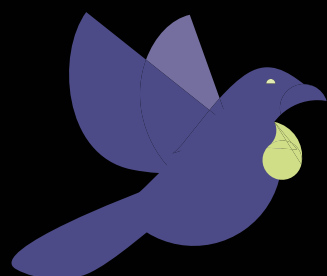


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# Executive summary

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 2060, largely driven by increased social sector spending.

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## 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.

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## 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.

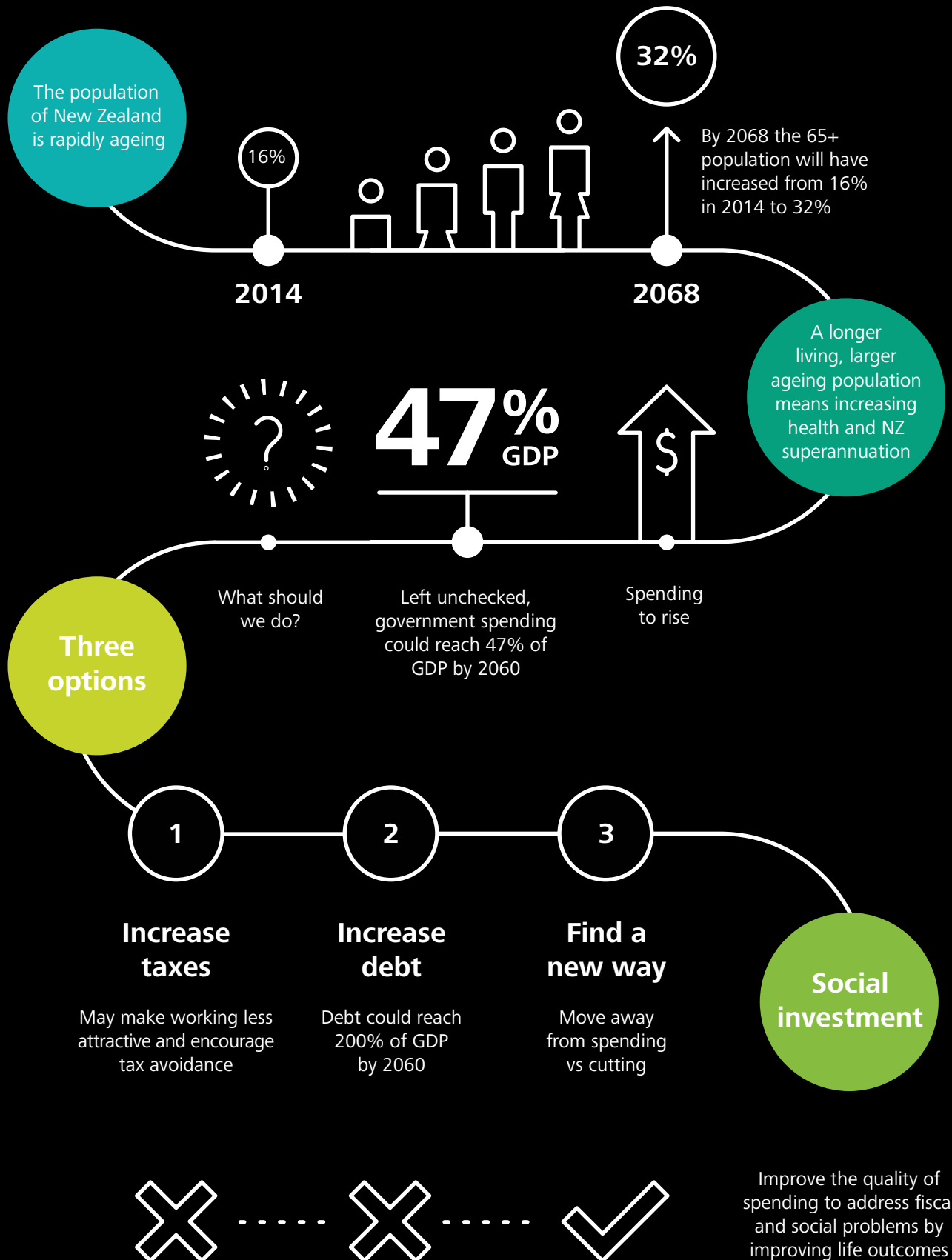
#### **Enable better access to government held data and detailed evaluations.**

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.



# Why social investment?





# Crown finances

## The government's books are in solid shape

Most governments in the developed world would welcome a set of accounts like those of New Zealand. Despite imposing austerity measures, many other OECD governments are burdened with significant debt, yet are nowhere near returning to a scenario where their revenue exceeds their expenses. As a consequence, many government balance sheets are loaded with rising debt and high debt servicing costs.

In contrast, the New Zealand government's books are in good shape for now. The post-global financial crisis (GFC) target of returning to operating surplus was achieved in June 2015, the first surplus in seven years.

This operating surplus was achieved through a combination of restrained fiscal spending, reforms that improved outcomes from public sector spending and a post-GFC economic recovery that resulted in higher tax revenue. In contrast, the majority of OECD governments are still in deficit, including Australia, the US, the UK, France and Japan.

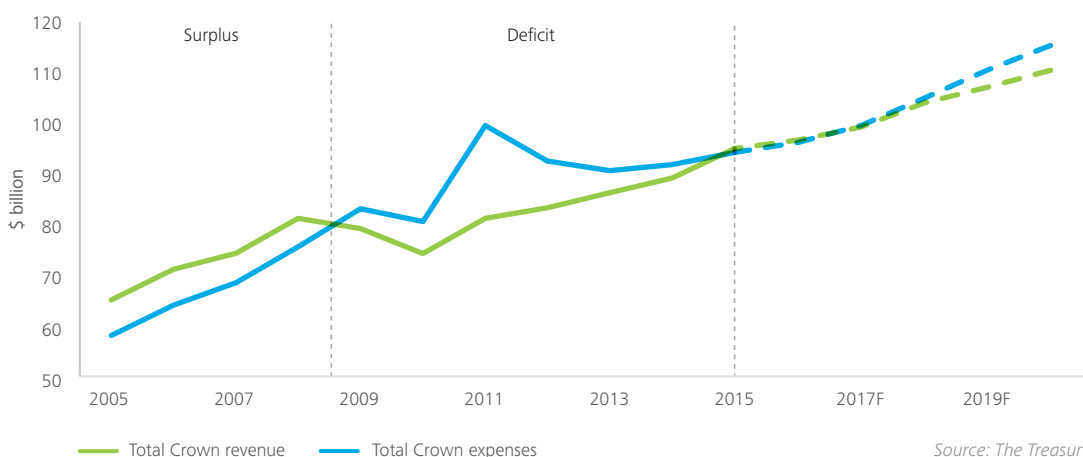
## This is an admirable outcome given the events of the past five years

In addition to the GFC, New Zealand also faced the economic, social and fiscal costs of the Canterbury earthquakes between 2010 and 2011, with net costs to the Crown reaching \$12.9 billion (21.3% of net debt) in June 2015, and a severe drought in 2012/13.

Despite these challenges, government revenue has grown at a compound annual growth rate (CAGR) of 4.0% over the past five years, as a result of increasing tax revenue boosted by rising employment, wages, labour force participation and net positive migration.

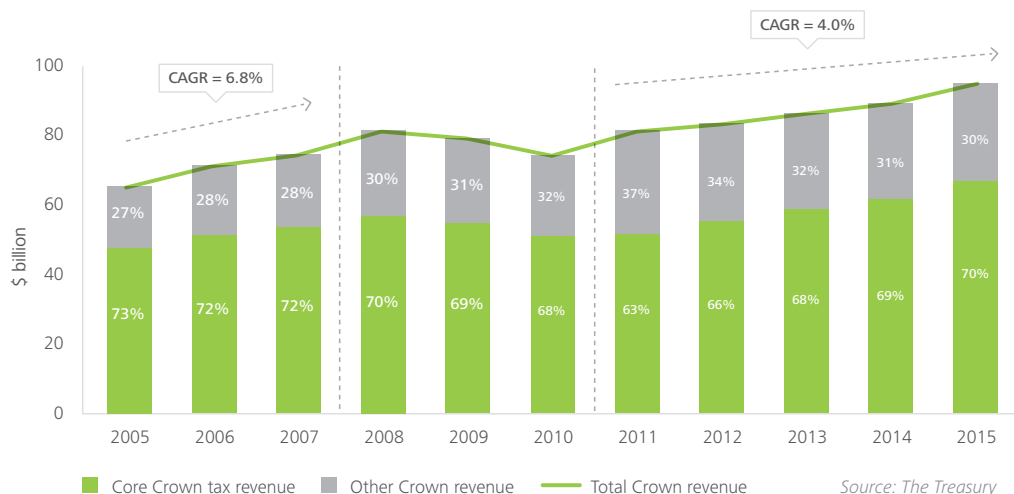
Economic growth has been solid, driven largely by the ongoing Canterbury rebuild and strong population growth. The recent dairy price downturn has been partially offset by a booming tourism sector, strong non-dairy primary exports, and a healthy services sector. Looking beyond the current business cycle, however, New Zealand continues to lag behind other countries with respect to productivity rates. Low private sector investment in research and development and infrastructure deficits could also be expected to constrain the rate of economic growth and tax revenue.

## Total Crown revenue and expenses FY2005 – 2019

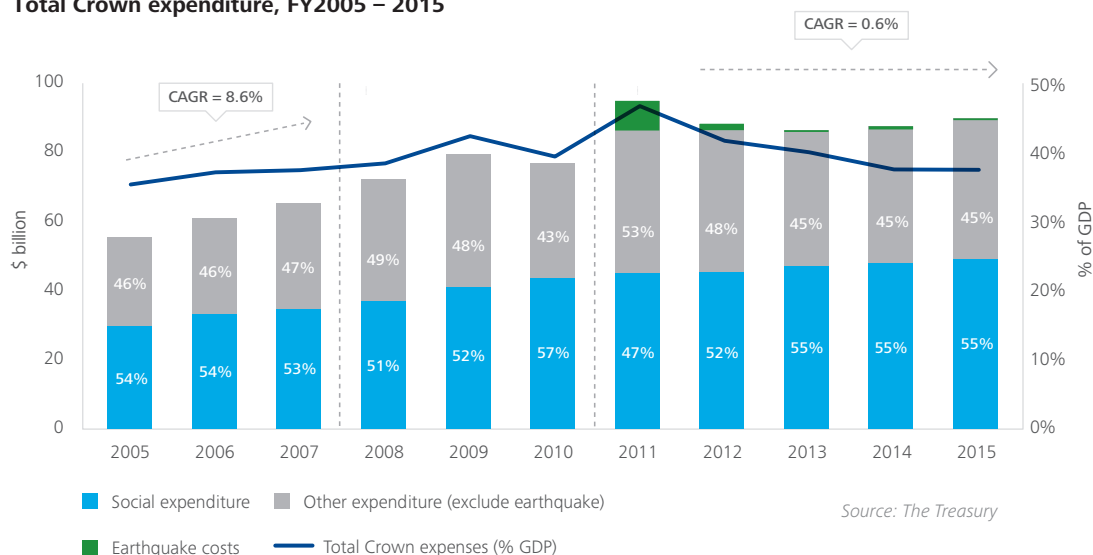


New Zealand has a broad-based, low rate progressive tax system with tax revenue raised predominantly through individual income tax and goods and services tax (GST). The 2009 tax review, which raised GST while reducing personal and corporate tax rates, was intended to result in a tax system more focused on consumption and less on income. Since 2012, tax revenue has increased by 21% and is slowly returning to pre-GFC levels as a percentage of total revenue. Annual economic growth has remained at around 2.5% over this period.

### Total Crown revenue FY2005 – 2015



### Total Crown expenditure, FY2005 – 2015



Total expenditure increased consistently year on year between 2005 and 2009, with the step change increase in 2011-12 (largely a result of the Canterbury earthquakes) taking average spending from \$71.7 billion pre-earthquakes to \$93.8 billion post. This level of expenditure is expected to continue over the foreseeable future as the Earthquake Commission (EQC) liabilities and other earthquake recovery related expenses are paid out.

However, since 2012-13 government spending has increased by a relatively modest CAGR of 0.6% compared to a pre-GFC CAGR of 8.6%. Growth since 2012, has been mainly driven by increases in social expenditure such as social welfare, education, and health, with CAGRs of 2.3%, 3.4% and 2.1% respectively, partially offset with a drop in other expenditure (excluding finance costs) averaging 1.0% per year over the same period.

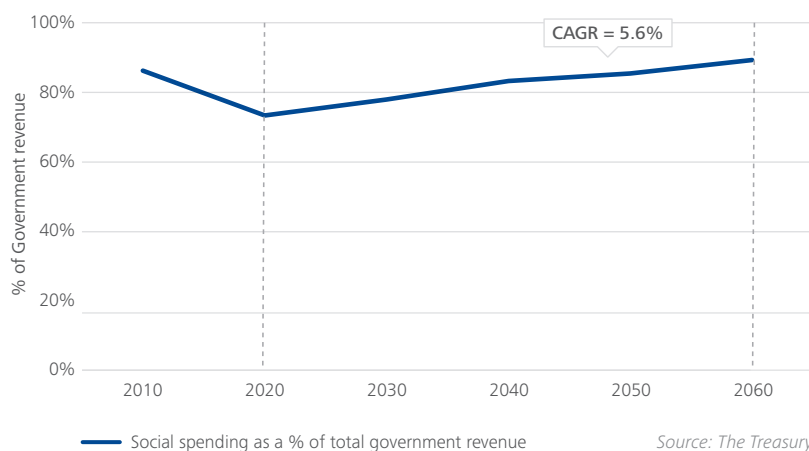
It is projected that between 2020 and 2060 social spending may increase by a CAGR of 5.6% in comparison with a government revenue CAGR of 0.5% over the same period if there are no major changes to the way the government spends.

#### Social expenditure includes a range of areas:

- Welfare and social services
- Justice
- Health
- Education
- Other services, such as social housing

While social spending is forecast to increase, the current government has remained committed to maintaining an environment of constrained overall expenditure and has chosen to make reductions in other spending areas such as back-office expenses and limiting Crown entities, expenditure (e.g. Education New Zealand and the Tertiary Education Commission).

#### Social spending as a % of total government revenue



### With a surplus achieved, the focus now turns to reducing debt

Having achieved a surplus, the current government's attention is now being directed towards trimming debt as a share of gross domestic product (GDP). In the 2015 Budget, the government announced one of its fiscal priorities, and a measure of fiscal success, is to reduce net core Crown debt.

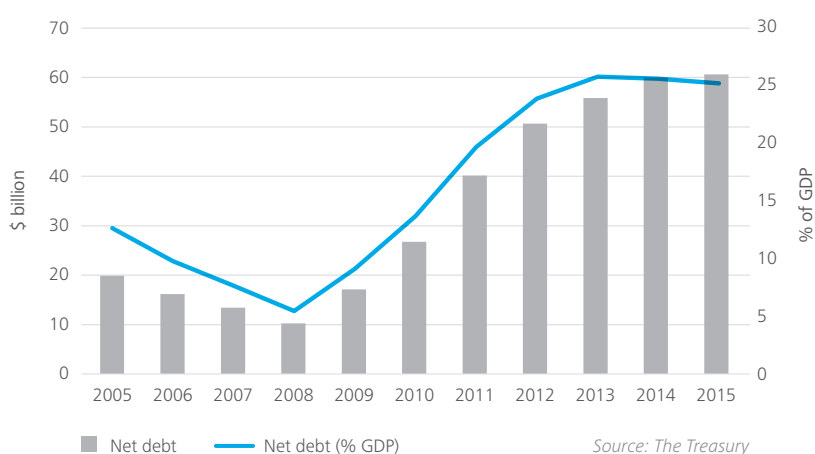
Net debt is around \$61 billion, or 25% of GDP, having risen rapidly over the past seven years from a low of 5.5% of GDP in 2008, largely due to increasing social expenditure and fiscal stimulus infrastructure spending as the GFC took full force.

New Zealand's gross debt ratio is 35% of GDP. While New Zealand's debt to GDP ratios have risen quite significantly relative to the past, using the OECD's measure of gross debt-to-GDP to compare across OECD countries puts our debt levels into perspective. Countries such as the UK, France, Canada and the US have gross debt ratios in the range of 80-120% of GDP, making New Zealand's current gross debt ratio of 35% of GDP enviable.

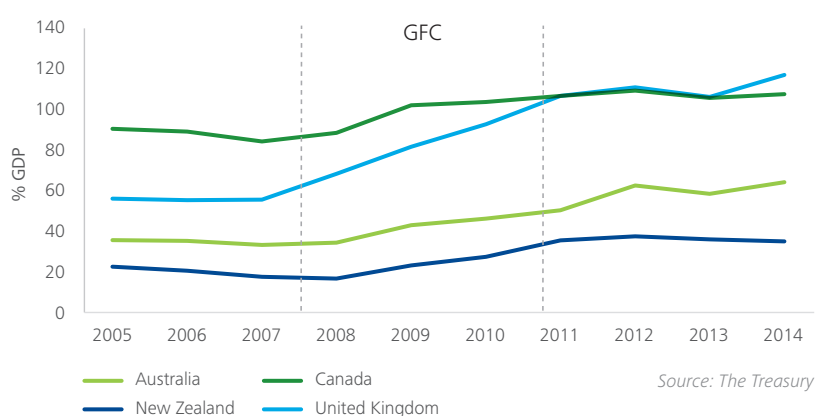
Reducing debt is important, particularly for New Zealand as a trade exposed nation, because high net debt to GDP ratios can expose the government to risk when unexpected negative global shocks hit the economy. High levels of debt can lead to high debt servicing costs, especially when global interest rates lift from their current lows. These servicing costs could displace productive government spending on education, health and other beneficial areas.

For these reasons, the government aims to reduce net debt from its current 25% of GDP to around 20% by 2020 and between 0% and 20% in the medium term. When the economic and social effects stemming from an ageing population are also taken into account, the importance of managing net debt becomes even more crucial.

Net core Crown debt 2005 – 2015



Central government debt as a % of GDP across the OECD countries 2015 – 2014



### The ageing population threatens a cost and debt explosion

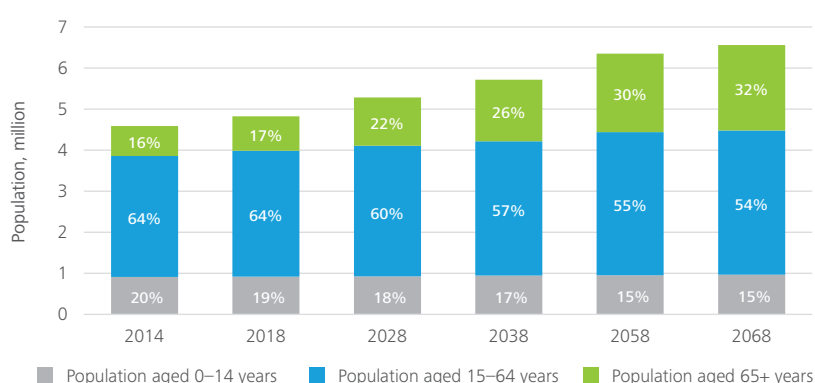
The population of New Zealand is ageing rapidly. By 2038 the 65+ age bracket population is projected to nearly double to 1.3 million, accounting for over a quarter (26%) of New Zealand's population (up from 16% in 2014). This trend is projected to continue, reaching 32% of the total population by 2068.

The number of people aged 65+ years per 100 people aged 15-64 years (the dependency ratio) is set to increase from 22 in 2014 to 39 in 2038, rising to 48 by 2068. With relatively fewer people in the working population, the income tax base will shrink, meaning there is less government revenue to support increasing expenditure on areas such as superannuation and healthcare.

New Zealand's ageing population puts the government's finances under significant pressure. Treasury's Long-Term Fiscal Model (LTFM) shows potential long term paths of government expenditure from the Treasury's fiscal projections. The 2013 LTFM projection shows that if current spending and taxation patterns are maintained, the ageing population would push net debt up to almost 200% of New Zealand's GDP by 2060. This is clearly untenable.

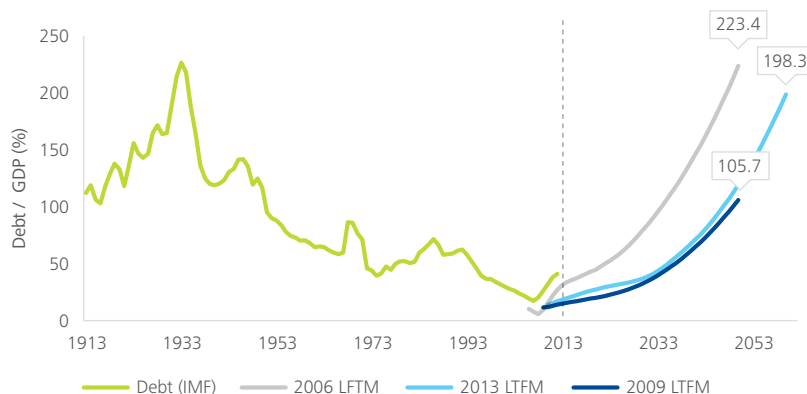
By 2038 the 65+ population is projected to nearly double to 1.3 million

### Age bracket population projections 2014 – 2068



Source: Statistics New Zealand

### Three potential government spending paths



Source: NZIER "Fighting Fit"

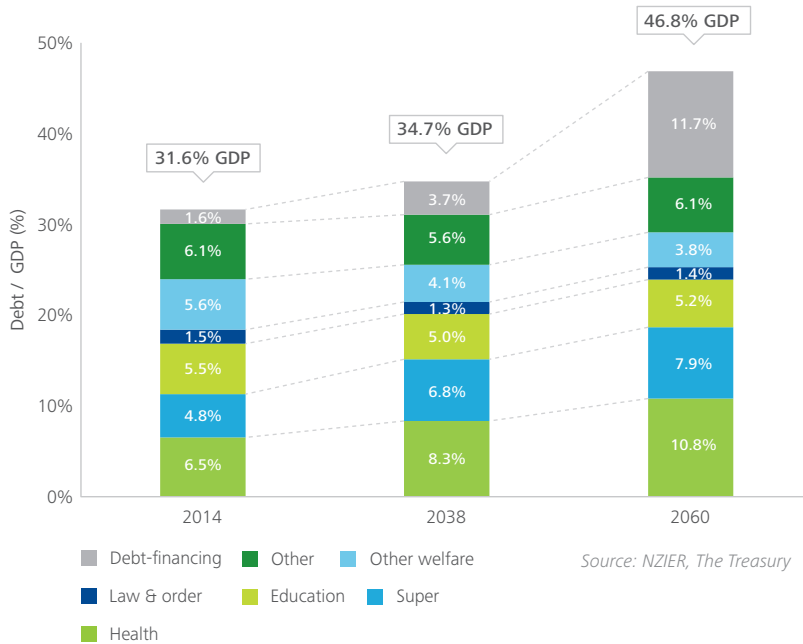
Under The Treasury's 2013 modelling scenario, government spending would rise significantly, from 32% of GDP in FY14 to 35% of GDP in 2038, and to 47% by 2060. The biggest contributors to this increased spending profile are healthcare costs due to an ageing population, NZ superannuation payments and debt servicing costs, (as shown below).

It is noted that although New Zealand's social costs and, in particular, superannuation spend, are projected to increase substantially by 2060, in the context of other OECD countries, this is relatively low for both current and forecast periods. The Treasury's estimate of superannuation costs for New Zealand in 2014 was less than 5% of GDP. The average pension costs for OECD countries one year later was 9.3%.

This relationship appears to be similar when comparing forecasts of pension costs between New Zealand and OECD countries. The Treasury has forecast NZ Super costs to reach 7.9% by 2060. Although a shorter time period, forecast average pension expense for OECD countries is estimated at 11.7% in 2050. The New Zealand forecast is 3.8% lower despite being forecast out ten years later.

This suggests that even though New Zealand pension costs are expected to increase substantially between now and 2060, these forecast pension costs are still relatively lower than that of their OECD counterparts.

#### The cost of ageing on key government expenditure items



If current spending and tax patterns were maintained, government spending would rise to 47% of GDP

### Tax more, spend less or take on more debt?

It is not feasible to let debt as a percentage of GDP rise to extreme levels. Doing so would place an intolerable burden on future generations to repay the debt, and the risk associated with the New Zealand economy would depress the currency and push up borrowing costs.

**So what is the government to do? It has limited options:**

1

It can lift income or corporate tax rates or widen the tax base – for example – through a capital gains or land tax. Yet lifting the tax rate can make working less attractive and can encourage tax avoidance and other undesirable behaviour. If New Zealand wants to remain attractive to foreign investors, it can't afford to let its tax rates get too far out of line with other similar countries e.g. Germany, Canada, Australia, UK and the US.

2

It can take on more debt. But as already discussed, this seems an unsustainable long term fiscal strategy.

3

It can seek to limit future spending growth by making changes to the outlays it can control, in particular, spending with no productive benefit.

### Improving the quality of the government's social spending is a priority

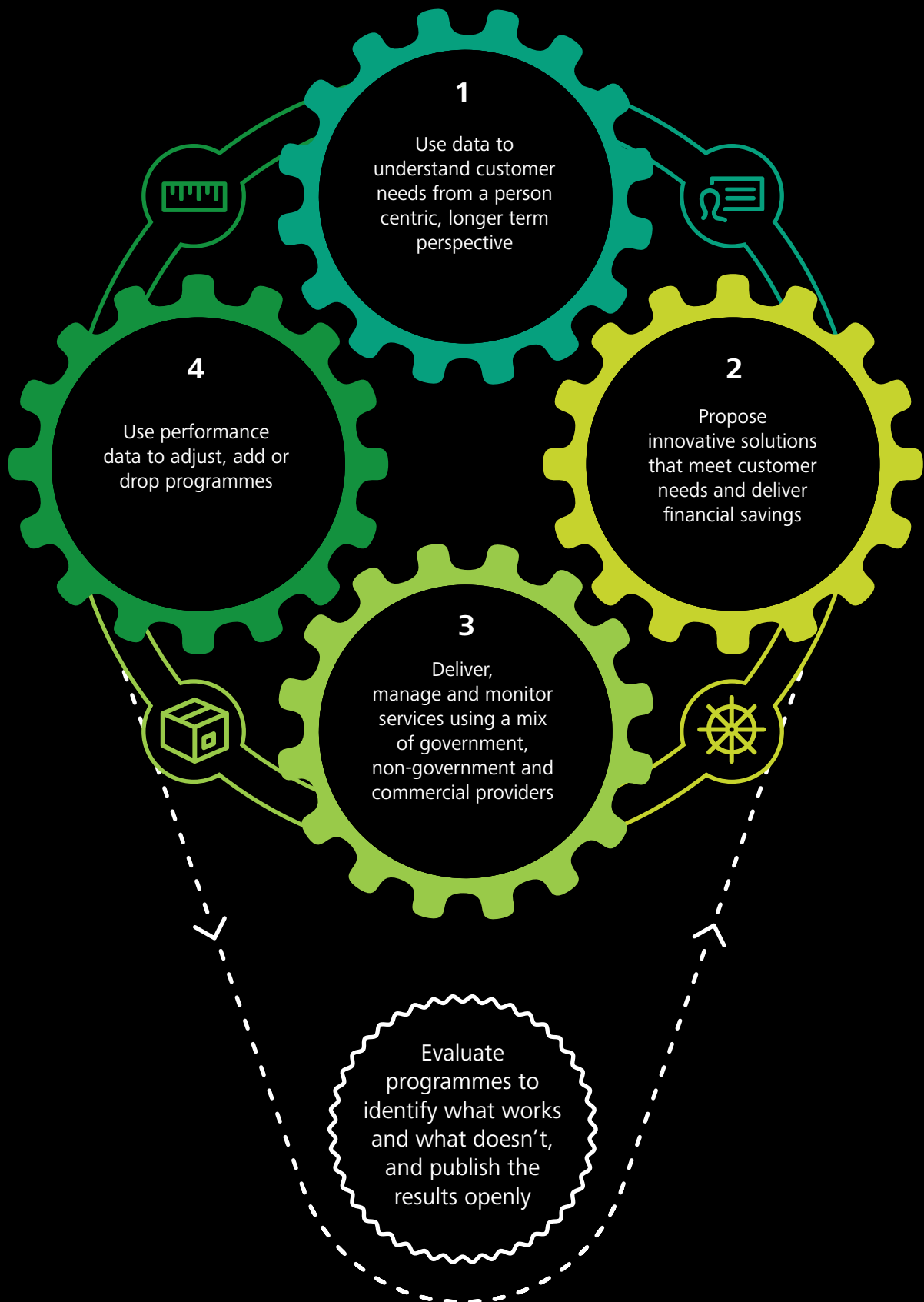
Over the next four decades, the pressure on government resources will require a change in the approach to public spending. The priorities of the current government, which include responsibly managing the government's finances and delivering better public services within tight fiscal constraints, reflect a desire to improve the quality of expenditure.

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## This is where social investment comes in



# 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.

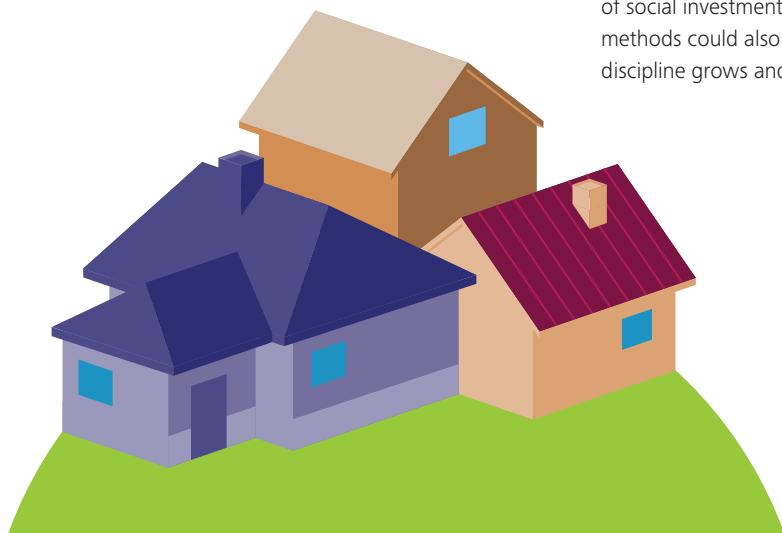
Others were more open to a wider definition. They were more likely to be of the view that any mature business case demonstrating that benefits would exceed costs over a period of time could be considered as falling within the definition of social investment, and that a whole-of-life costing approach 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.

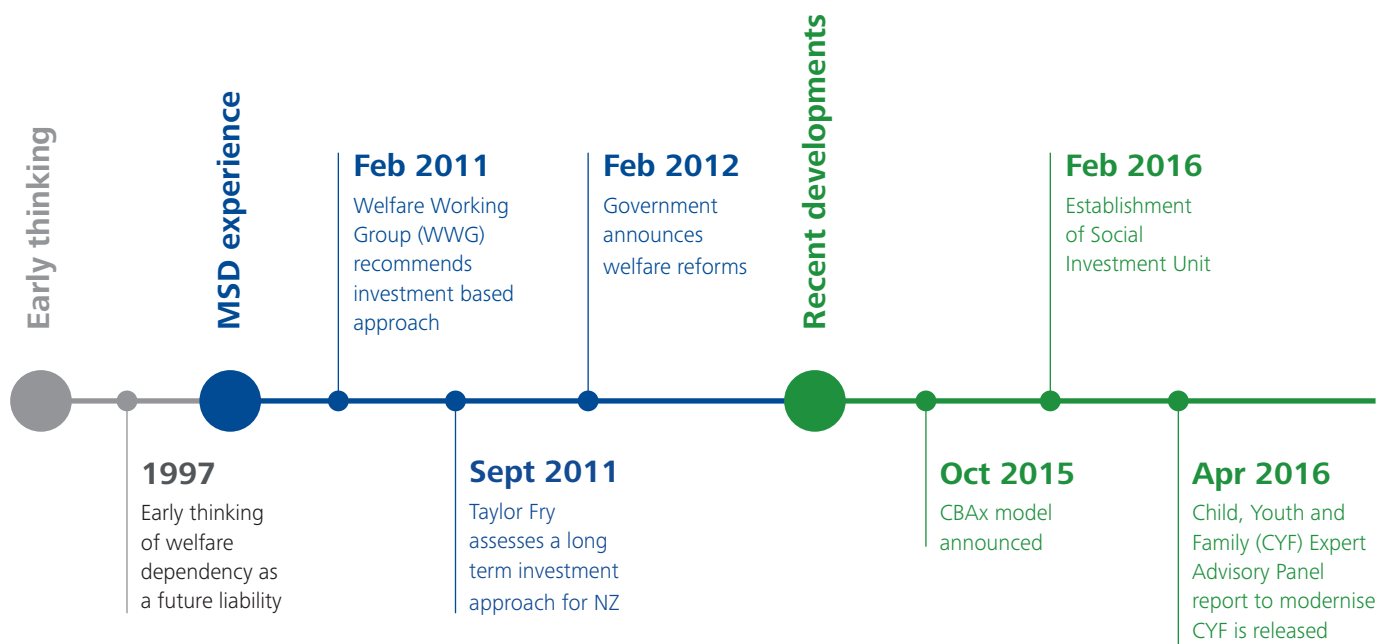
We see the actuarial approach as being important in long term changes, especially those that are intergenerational. The key factor is how to assess early on that the results are headed in the right direction. This is where the actuarial approach is most useful – as an evidence based assessment approach 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).

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## 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.

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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.**

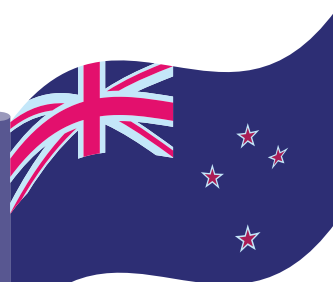
**This information can then be used to do more of what works – and stop things that don't.**

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

**Hon. Bill English**

17 September 2015

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# Targeting our enduring challenges



## High risk

Children 0-14 with two risk factors are considered high risk



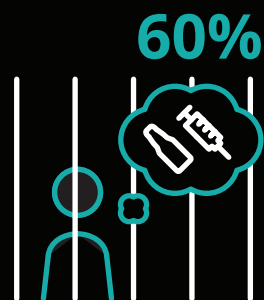
## At-risk youth

185,000 children/young people are considered at risk of poor life outcomes



## Double the rate

Northland's not in employment, education or training (NEET) rate is nearly double that of the national rate



## Substance abuse

Around 60% of people serving community based sentences have substance abuse problems

# Why does an investment approach matter?

Current social services do not always address the needs of New Zealanders with poor life outcomes. This can lead to long term negative impacts.

With low cost education, affordable healthcare, and a temperate climate, New Zealand should be the perfect place to live.

However, while most people in New Zealand are flourishing, some children, young people and adults experience alarmingly poor outcomes. Further, we don't always know how effective taxpayers' money is in improving their circumstances.

With the country's dependency ratio forecast to rise – meaning more people over the age of 65 will need to be supported by the working age population – there is a pressing need to ensure all New Zealanders are set up for good life outcomes from their early years, and supported to become productive and healthy adults.

## Children at risk

Children and young people with certain risk factors have a higher chance of poor life outcomes. Data on our country's children and young people aged 0-24 years old – as at December 2013 – shows a strong correlation between these risk factors and poor outcomes in adulthood.

For example, risk factors for New Zealand children aged 0-14 identified by the government are:



A finding of abuse or neglect by Child Youth and Family (CYF)



Being mostly supported by benefits since birth















Having a parent with a prison or community sentence



Having a mother with no formal qualifications

Children with two or more risk factors are considered to be at risk. There are just over 121,000 New Zealanders aged 0-14 with two or more risk factors and, in total, around 185,000 children and young people aged 0-24 who are identified as at risk.

## Corrections and welfare costs of at-risk children by age 35

0-14 years	Number of identified people	Average cost per person by age 35
0 risk factors	602,577	\$33,132
1 risk factor 	149,226	\$98,819
2 risk factors  	77,817	\$171,136
3 risk factors   	35,715	\$233,810
4 risk factors    	7,845	\$270,762
<b>15-19 years</b>		
Belonging to none of the risk groups	253,023	\$48,725
 Belonging to any of the risk groups	36,516	\$236,754
<b>20-24 years</b>		
Belonging to none of the risk groups	264,111	\$45,527
 Belonging to any of the risk groups	28,095	\$304,705

Source: The Treasury

Compared to their peers, at-risk children are more likely to face bleak futures. Children with two or more risk factors are substantially more likely to leave school with no qualifications, be a main benefit recipient, or serve a community or prison sentence (The Treasury, 2016a).<sup>1</sup>

Due to the fact that data becomes richer as a person ages, the definition of at risk also changes for the older group of young people aged 15-24. They are deemed at risk if they belong to one or more risk factors.

Left unaddressed, some of New Zealand's at-risk children and young people could cost taxpayers dearly. But worse still is that the potential of these young people may not be realised. The table above shows how large the average lifetime costs could be of each at-risk 0 to 24-year-old by the time they reach 35.<sup>2</sup> These figures are not predictions or forecasts; nor are they based on an exhaustive list of risk factors. They cover the potential costs associated with corrections and social welfare services, without any other additional costs that may be incurred.

### Looking at a region

Northland is a region with promise. Tourism is growing and it has strong industries such as dairying, marine manufacturing and forestry.

It also has the highest dependency ratio of New Zealand's regions. The Tai Tokerau Northland Economic Action Plan has a number of goals in place to lift the achievement levels of its young people. These include seeking to up the completion rates of NCEA Level 2, increase the number of people with higher qualifications, and decrease the number of young people not in employment, education or training (NEET) (Tai Tokerau Northland Economic Action Plan Advisory Group, 2016).

Northland's NEET rate of 20% is nearly double that of the national rate. For the past decade, the region's NEET rate has persistently languished above the national average. Northland school leavers are more likely than their peers nationally to leave school only achieving NCEA Level 1. Just 12% of Northlanders have a higher qualification, compared to 20% nationally (Martin Jenkins, 2015).

Northland's unemployment rate is also well above the national rate and Northlanders' household incomes are among the lowest in the country (Martin Jenkins, 2015).

All of New Zealand's regions have their strengths and weaknesses and the people who live in them have goals for making their communities better. This is just one example of how social investment could have a regional dimension, and be applied to a particular set of region-specific issues.

<sup>1</sup>This report notes that risk indicators do not always lead to poor outcomes. For example, 35% of the 121,400 children aged 0-14, identified as having 2 or more risk indicators, are predicted to experience none of the poor outcomes identified.

<sup>2</sup>For 0-14s, data was taken from the Treasury's (2016) Characteristics of Children at Risk infographic. For example there are the 77,820 children from ages 0-14 identified as having 2 key risk indicators which are projected to cost the government an average of \$171,100 per person by the time they reach 35. For 15-19s and 20-24s, data was taken from the Treasury's (2016) social investment Insights <https://shinyapps.stats.govt.nz/sii>.



### Social investment and adults

We need only look to the corrections system to see what can happen when people are trapped in a cycle of disadvantage. The Department of Corrections has rich information on its prisoners. Around 60% of community-based offenders have substance abuse problems and approximately half of all crimes are committed by people under the influence of drugs and alcohol (Department of Corrections, 2016a). As many as 90% of prisoners have trouble reading and writing and 60% are unemployed before they are arrested (National Party, 2014).

Corrections has six areas of focus to reduce re-offending, including tackling alcohol and drug abuse, more rehabilitation that works and increased education and job skills. By 2017, the Department of Corrections and the wider Justice sector have a goal of reducing re-offending by 25% (Department of Corrections, 2014).

This is a tough job. Re-offending has dropped by around 7% in the past three years. However almost 28% of people who leave prison or start a community sentence will re-offend within a year – around 16,000 people (State Services Commission, 2016). The prison population is also rising, rather than decreasing.

### Social investment and population groups

The prison population remains stubbornly and disproportionately made up of Māori – mostly young Māori men (Ministry of Justice, 2013).

This sad fact overshadows the improvements Māori have brought about for their young people. More mokopuna are being immunised than ever before. The rate of educational attainment is growing faster for Māori and Pasifika than those of other ethnic groups. For NCEA Level 2, Māori rates are up from 62% to 72% while Pasifika rates are up from 54% to 79% since 2008 (Parata, 2016). Māori have made great leaps in tertiary education participation too, although participation and completion rates are still lower than those of the total population.

The gains – particularly in education – that Māori have made over recent years shouldn't be belittled. Education combats poverty and gives people a voice in their communities. It helps to overcome self-perpetuating disadvantage.

There is still more to do to ensure the gains young Māori make translate to success in adulthood. Māori voter turnout, for example, was around 7% lower than for non-Māori voters in the 2014 election (Electoral Commission, 2014).

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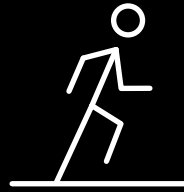
As many as 90%  
of prisoners have  
trouble reading  
and writing

The median income for Māori also lags behind the median for other ethnic groups. The life expectancy for Māori men is 73 years of age – four years fewer than Māori women, and seven years fewer than non-Māori men (Statistics New Zealand, 2015).

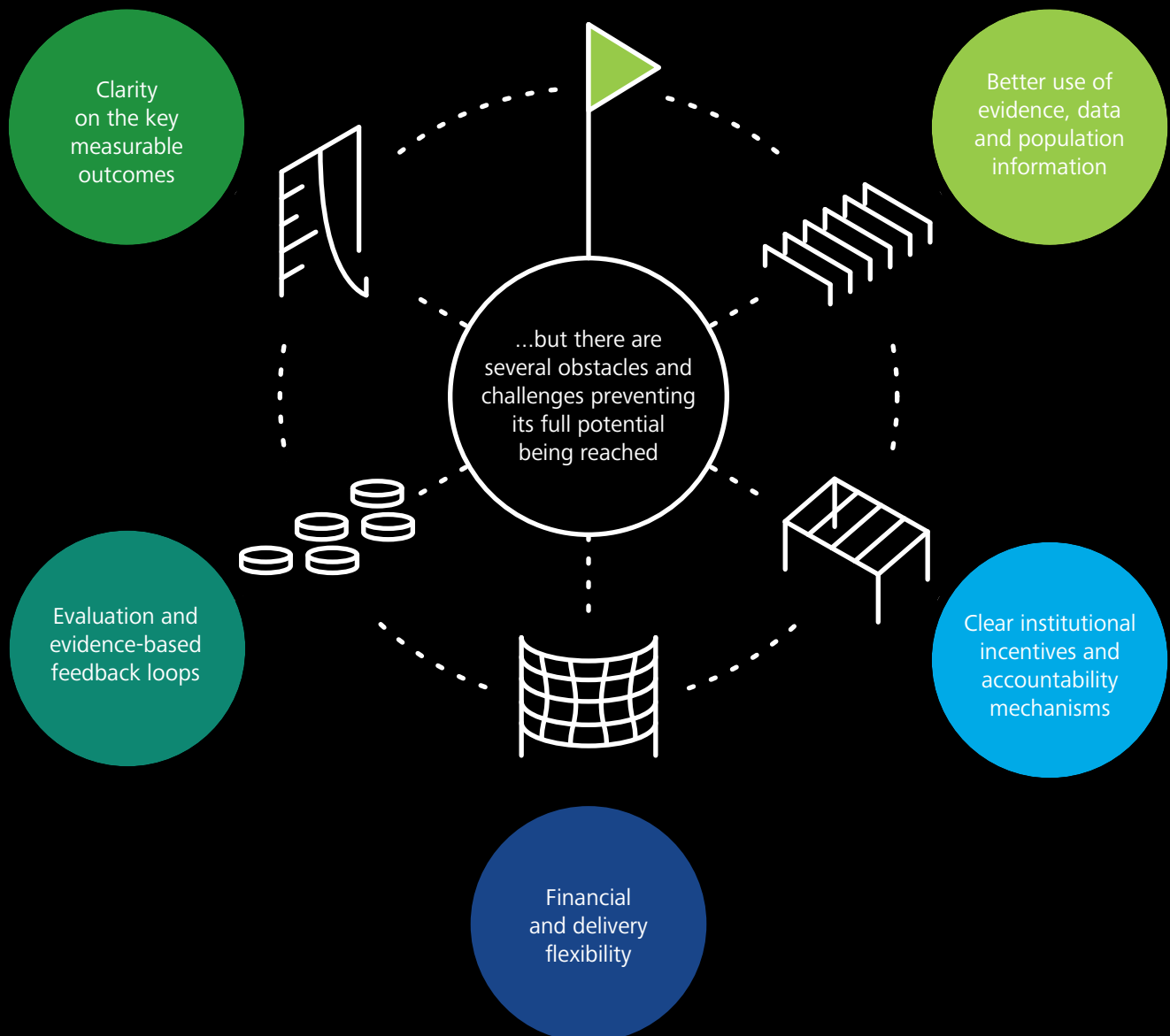
New Zealanders are lucky to belong to a country with a long, unbroken democracy, stability, and a quality of life envied by other nations. Everyone should be able to share in the benefits. This means tackling some persistent problems affecting different people throughout the country.

The data above tells us what part of the problem is but that's just the first step. It doesn't solve the problem – data to help the government evaluate 'what works' is quite different.

# The challenges to successful social investment



Social investment  
is a strong step forward...



# Challenges to adopting social investment

Social investment is a strong step forward but there are barriers preventing its full potential being reached

The investment approach has been taking shape over several years. It has been incrementally rolled out in various ways, including through reforms to the welfare system and Better Public Services (BPS) results – to help people move away from being ‘at risk’ to leading happy, productive and fulfilling lives.

As alluring as it sounds, achieving such an ideal is not that simple. In addition to our own research, we spoke to more than 20 leaders in politics, the public service, social service delivery, academia and business to get a sense of their thoughts, concerns and ideas on social investment. Through these conversations we identified a number of challenges to the widespread uptake of social investment.

We have grouped these challenges under each of the five principles for successful social investment laid out by Treasury in 2014:

- 1 **Clarity on the key measurable outcomes**
- 2 **Better use of evidence, data and population information**
- 3 **Clear institutional incentives and accountability mechanisms**
- 4 **Financial and delivery flexibility**
- 5 **Evaluation and evidence-based feedback loops**



**Principle 1**  
**Clarity on the key measurable outcomes**

## **There are too many or too few outcomes**

Across government, there are many outcomes frameworks and targets. The people we spoke to as part of our research noted that it can be hard to know which outcomes to focus on and how to assign funding between competing aims. This isn't surprising – government is a big business with multiple priorities.

On the one hand, the BPS results apply across agencies and good progress has been made on a number of those results. Agencies are encouraged to work together on BPS, and measures have recently been refreshed.

But the small number of BPS results can be too broad for at-risk members of society – for example, changes to skilled immigration settings could more swiftly and cheaply shift the dial on the proportion of people with advanced diplomas and degrees than investment to improve attainment among the less well off. And, being priority areas, there are many important social services that are simply not directly reflected in BPS results, for example: reducing homelessness, improving mental health, disability support and access to public hospital services.

On the other hand, a proliferation of outcome frameworks within agencies has made the task of focussing on what matters even more difficult. There are outcome frameworks at the level of: sectors, agencies, divisions, programmes and beyond, all with good intentions. However, in many cases, there are no clear links between these frameworks. When there is a choice to be made about the relative priority of outcomes, there is no way to make a clear call.

Some people we spoke to, including Finance Minister, the Hon. Bill English, and Methodist Mission Chief Executive Laura Black, believe more compelling performance frameworks are needed. Their views point to the idea that the main issue is clarity of and adherence to outcomes, to give all stake holders direction on their role in contributing to cross-cutting outcomes.



#### Principle 2

### Better use of evidence, data and population information

## Some questioned if measuring performance against an outcome was even a good idea

#### Measuring outcomes isn't universally accepted

Even where outcomes being sought are clear, having their programme funding linked to the achievement of outcomes can instil fear in community service providers, says the Labour Party's Community and Voluntary Sector spokesperson and former service provider, Poto Williams. Others questioned if measuring performance against an outcome was even a good idea – does it mean only 'what was measured got done?'

What about other factors – parental engagement, wider economic conditions, other government policies – that can influence an outcome? Measuring outcomes can be difficult, particularly when factors affecting an outcome can be outside an agency or service provider's control.

#### Data analytic capabilities are necessary for social investment, but there is a gap in the workforce

Greater use of data to identify at-risk people and their whanau means we now know how many people are at risk of poor life outcomes and how much those New Zealanders will likely cost without any preventive measures put in place.

But the best quality data is near useless without the right people to interpret, manipulate and use it.

There was consensus among interviewees that there were not enough people in the public sector skilled in analytic techniques and insights to meet the future demand for those services. Where the skills did exist, they were often not pointed towards social issues. The public service's former Chief Talent Officer, Andrew Hampton, said this shortage meant the public sector should engage people with the right skills in more innovative and collaborative ways. For example, new graduates could work across the whole public sector rather than being tied to one agency.

People with the right skills will also be needed in the non-government service delivery sector, where lower wages were seen to be an impediment to attracting the staff with up-to-date capabilities, according to Poto Williams. However, she noted the motivation for staff to join the social sector was often altruistic, and that traditional financial incentives alone might not be successful.

### The (mis)use of 'big data' worries people

Most felt there was huge demand for social data and there should be easier ways for organisations – not just government agencies, to access the information held by government on at-risk members of society.

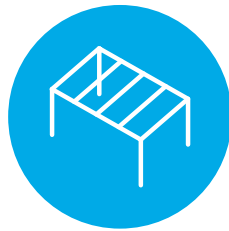
We were told service providers wanted more data, but access was often stymied by agencies desiring to maintain control through fears of data insecurity or by the onerous processes associated with accessing Statistics New Zealand's Integrated Data Infrastructure, where joined-up data about at-risk people is held.

This fear of data insecurity was echoed by the Public Service Association leaders, who felt the Social Investment Insights Tool, which allowed users to map the populations of at-risk people by region or territorial authority, could be used to stigmatise those it was intended to help.

For some, question marks hung over how data would be used. Concerns around the quality (accuracy, timeliness and usefulness) of data and, the use of data to pick winners, particularly when people's life outcomes are at stake, have been well-documented (Lee-Archer, Boulton, & Watson, 2015). And, as seen in The Challenges of Regional Data for social investment, the nature of data collection in New Zealand can present issues for both national-level policy-makers and social service providers on the ground.

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The current system  
hasn't always  
created the best  
outcomes but it has  
instilled prudent  
stewardship of the  
public purse



### Principle 3

## Clear institutional incentives and accountability mechanisms

### The public sector is set up to deliver efficiently, effectively and separately

Social investment requires a focus on the collective achievement of outcomes, with public services and service providers working together. Funding is invested in the solution, not the problem (such as maintaining corrections funding in line with growth in the prison population). But this isn't how our Westminster system of government is set up, with funds and accountability tagged against individual Ministers and agencies.

Time and again, this view was repeated in our interviews – the tendency of individual agencies to operate in silos, measure outputs and maintain accountability only to their own Minister, rather than looking at the effect of an intervention across agencies. These behaviours are driven by organisational cultures geared to compete for scarce human and financial resources and lead to a scenario in which more funding is associated with success. The siloed approach leads to public servants having limited spheres of influence. It is difficult to influence policies they don't have control over but which may impact their own work.

The State Services Commission's Deputy Secretary of Public Sector Reform, Al Morrison, agrees that while the current system hasn't always created the best outcomes, it has instilled prudent stewardship of the public purse which was the initial focus leading to the Better Public Services programme. We shouldn't forget that the vast majority of government activity doesn't require collaboration or a strong outcomes focus and government agencies are generally very good at delivering quality mainstream services at efficient costs.

The challenge, as one senior government official noted, is not merely to set up agencies to collaborate, but to run two systems in parallel – the mainstream services operating under the efficient siloed model, and the specialist services joining up across government when required.

**Working on the scale of human lives is a challenge for budget cycles and political terms**

Government administration is driven by annual budget cycles and political terms and the traditional focus on delivering outputs is set up to allow judgement of performance within these timeframes. But change in vulnerable people's lives works on a different time scale. In the social sector, the best interventions for at-risk or vulnerable young people may take a decade or even a generation to see. One senior government official says this is a challenge that agencies are dealing with. New Zealanders need to see some results now, so there is reason to keep the faith in long-term positive outcomes.

There is no current system for tracking investment outcomes across lifetimes, although it's clear some consideration is being given to this issue. The bigger challenge is how to align the motivation of individuals across the system – service provider policy-makers, even Ministers and governments – to operate on social investment timeframes.



**Principle 4**  
**Financial and delivery flexibility**

**Commissioning cross-agency interventions is difficult**

Initiatives involving multiple agencies working towards one common goal are tough, despite the existence of technical financial mechanisms, such as Multi-Category Appropriations. "Currently there are few incentives for policy teams to focus on anything other than their own agency's and Minister's priorities. This is not helped by the strong vertical institutional arrangements" says the Social Investment Unit's Dorothy Adams. "Government agencies will need to get more adept at using data and evidence because what we find in the data will start to drive policy and service design. It's a brave new world."

Superu's 2014 evaluation of the implementation of Children's Teams picked up a similar view: "The planning and development element has shown that an extensive change process is required to introduce a robust and workable integrated service approach, whereas a partnership governance model to drive these changes has been difficult to establish because commitment to a shared vision and agenda has been slow to establish."

A number of those interviewed had ideas to resolve this issue, including basing performance reviews more on progress towards defined, shared outcomes, giving agencies flexibility to deliver services in new, innovative ways, and rewarding agencies for success in working together – for example, by not being required to give up savings to the centre.

The difficulty in commissioning cross-agency interventions comes back to the accountability structure within the public sector. It's hard to make people put their respective agency 'hats' to one side in order to meet an outcome that, in the current environment, does not meet the objectives of their agency or their Minister.

### Government agencies are weak in social contract management

Examples of public sector contracts ending poorly abound. In 2015, Serco was stripped of its contract to run Mt Eden Prison. That same year, Relationships Aotearoa was found to have deep-seated financial management problems. That's not to say all contracts are managed poorly. The Treasury's Managing Government Investment Projects 2014/15 and Major Projects Performance Information Release November 2015, show a number of large projects performing well, including the Ministry of Education's Early Learning Information System.

Nevertheless, the Major Projects Assessment Panel notes agencies are often optimistic about assessing costs and schedule risks. Agencies generally do not take a portfolio approach, meaning the impact their project has on the resources, time, and costs for other public sector projects is not taken into account.

"As the Productivity Commission notes, agencies can improve in contract management," says Hon. Bill English. "We need to see finances, risks and outcomes."

### Fear of failure hampers agencies and providers

Spending taxpayers' money means accountability needs to be in place. But such is the focus on compliance, for both agencies and services providers, that the appetite for taking risks and being experimental in order to find and drive the best outcomes for those in need is not the top priority.

And would a service provider want to risk their funding when they face a battery of agency measurement, audits and the threat of contract loss? The political intolerance to failure and the role of the media in bringing to light incidents of perceived mispending of money or misfiring of a programme, also dampen the will to take risks.

Risk is understood and managed in commercial contexts, but there's not the same tolerance in social services. New Zealand used to be at the cutting edge of state sector reform in the 1980s (English, 2015). If we want to be so again, there needs to be room to try, fail and learn. Social investment is set up for this, with the use of targeted interventions, measurable outcomes and feedback loops to assess success and adjust accordingly.



### Principle 5

## Evaluation and evidence-based feedback loops

### There are insufficient incentives to test, learn and adapt

Today's political dialogue allows limited tolerance for the fact that Ministers and senior decision-makers might not know the best way to solve a given social problem. The appetite is for certainty and clarity of action.

Social investment advocates a staged approach, which gives Ministers and government the licence to test and trial. Ideally, programmes would start by comparing a series of smaller-scale trials to determine 'what works best,' perhaps through operating a portfolio of programmes varying across regions, using multiple service providers or employing a range of methods. Successful investments would continue to be supported and grow while underperforming interventions are reprioritised in favour of new initiatives.

However, the mere presence of multiple approaches risks criticism that decision-makers don't in fact know the best way to solve a problem. Social investment invites governments and policy-makers to take this as a starting point, and instead embark on a process of continuous, incremental improvement. This incremental approach requires a commitment of faith over terms of government, not dissimilar to what has until recently been a bipartisan approach to trade negotiations, for example.

### There are insufficient incentives to measure and report on performance

Over the years, New Zealand's governments have made promises to show the public that spending equals action. The Labour Government's 2005 election promise of interest-free student loans was forecast, at the time, to cost several hundreds of millions of dollars in operating costs each year, while the National Government's \$790 million child hardship package was the flagship announcement of Budget 2015. A government's commitment to health, justice, or regional economic development is often measured by the size of its investment and media coverage.

Social investment calls for investment in programmes and interventions on the basis of 'what works,' which requires performance evaluation, to work out what difference the dollars made. However, in the current environment, it's easy to see why the incentives for the public service to measure the performance of existing programmes is weak. At best, the performance results support the fact that the programme met the expectations touted at its launch. More likely is that there has been some shortfall in the programme's performance – even if it were largely successful – that the media or opposition parties can use to cast doubt over the approach or the administration of the programme, or that officials can use to axe funding.

The Auditor-General's review of Whanau Ora prompted questions about money spent on evaluation and the funding of particular initiatives (New Zealand Parliament, House of Representatives, May 7, 2015). Looking further back, the Community Employment Group's social entrepreneur fund was axed in 2004 following concerns around contracts and money spent on a 'hip hop tour' of Hawaii (New Zealand Press Association, 2004).

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## Social investment means funding programmes and initiatives on the basis of what works

There can also be resistance to measurement within service delivery organisations. One service provider we spoke to cited a loss of three-quarters of its workforce over its three-year implementation of performance measurement and accountability systems for its social workers.

As such, we see too few rigorous examples of evaluation of programmes or approaches, such as integrated service delivery (Superu, 2015). The report notes that while fragmented service delivery is not ideal, very few studies have been undertaken in New Zealand to assess the effectiveness of integrated service delivery, leaving a gap in the evidence base for social investment.

That is not to say monitoring and open reporting of performance and results doesn't happen. Our research found those public sector organisations further from day-to-day policy and funding direction of Ministers, including Crown entities like Pharmac, were often the most open about their performance and the decision-making process behind the results.





# Social investment: People and place

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**This section looks at two discrete aspects of social investment:**

## **People**

Who are the Millennials? We look at New Zealand's young people, who will be the implementers of social investment as it becomes more widespread.

## **Place**

The regional dimension of social investment is important, and we explore the challenges of using regional data sets.

# A spotlight on Millennials



Known as the connected generation, with technological capabilities

**1/7**

Millennials have no home internet



Millennials are the highest educated generation to date

**43%**

of Millennials have no qualification above secondary education



Struggled with the GFC

**3.4x**

Less likely to be employed than those Millennials with tertiary education post GFC



## Using social investment

Key questions remain about social investment in the Millennial generation

How might we:

Understand

Engage

Empower



Hidden Millennials?

# Social investment and the hidden Millennials

The premise of social investment – investing in vulnerable citizens today to realise social and financial benefits in the future – fundamentally involves the Millennial generation in two ways: as the beneficiaries of its success, and as the generation that will be largely responsible for its implementation.

## The Millennial generation

The Millennial generation is generally defined as those born between 1980 and 2000. Millennials are the largest generation since the Baby Boomers, with over 1.2 million born in New Zealand (Statistics New Zealand, 2016a) and 1.8 billion born worldwide (The Economist, 2016).

Millennials are commonly known as a ‘connected generation.’ Immersion in technology has shaped Millennials experience, values and social norms in ways unknown to previous generations.

Millennials are also the most highly educated generation. New Zealand has experienced a 50% increase in students since Millennials entered the tertiary sector in 1998, with over 70% of students being supported by the student loan system (Ministry of Education, 2015). Five years after completing their studies, New Zealand university graduates now earn 40% more than the median income (Ministry of Education, 2016).

The global financial crisis (GFC) had a significant impact on Millennials, many of whom were entering the workforce or holding junior positions at the time. Despite being the most educated generation to enter the workforce, at the post-GFC peak Millennials were over five times more likely to be unemployed than non-Millennials in New Zealand (Statistics New Zealand, 2016b).

## The hidden Millennials

Of course, the common generalisation of a Millennial as technologically savvy, well-educated and laden with future opportunities is not reflective of all Millennials in New Zealand.

One in seven Millennials do not have home internet access (Statistics New Zealand, 2012), 43% have no qualifications above secondary education and 11% have no recognised qualifications at all (Statistics New Zealand 2013). Additionally, approximately half of those embark on tertiary education fail to finish, yet leave with an average debt of \$14,000 (Statistics New Zealand, 2013b).

In a future society where employees are expected to be technologically savvy and post-school qualifications are now the norm, the ‘hidden Millennials’ who grew up without either face a daunting task to draw level with their peers.

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## Hidden Millennials face a daunting task to draw level with their peers

This challenge was exemplified during the GFC, where the increase in unemployment for less educated Millennials was 3.4 times that of Millennials holding a tertiary qualification (Statistics New Zealand, 2016c). These high levels of unemployment for less educated Millennials – reaching 26% in December 2009 – have also persisted significantly longer in the wake of the GFC than the levels experienced by their peers (Statistics New Zealand, 2016c).

Higher levels of unemployment mean that the hidden Millennials are faced with the prospect of very low social mobility. At present, the MSD has reported that 45% of those in the bottom fifth of earnings remain in or fall back into that category within seven years (Perry, 2015).

#### **The Millennial generation and social investment**

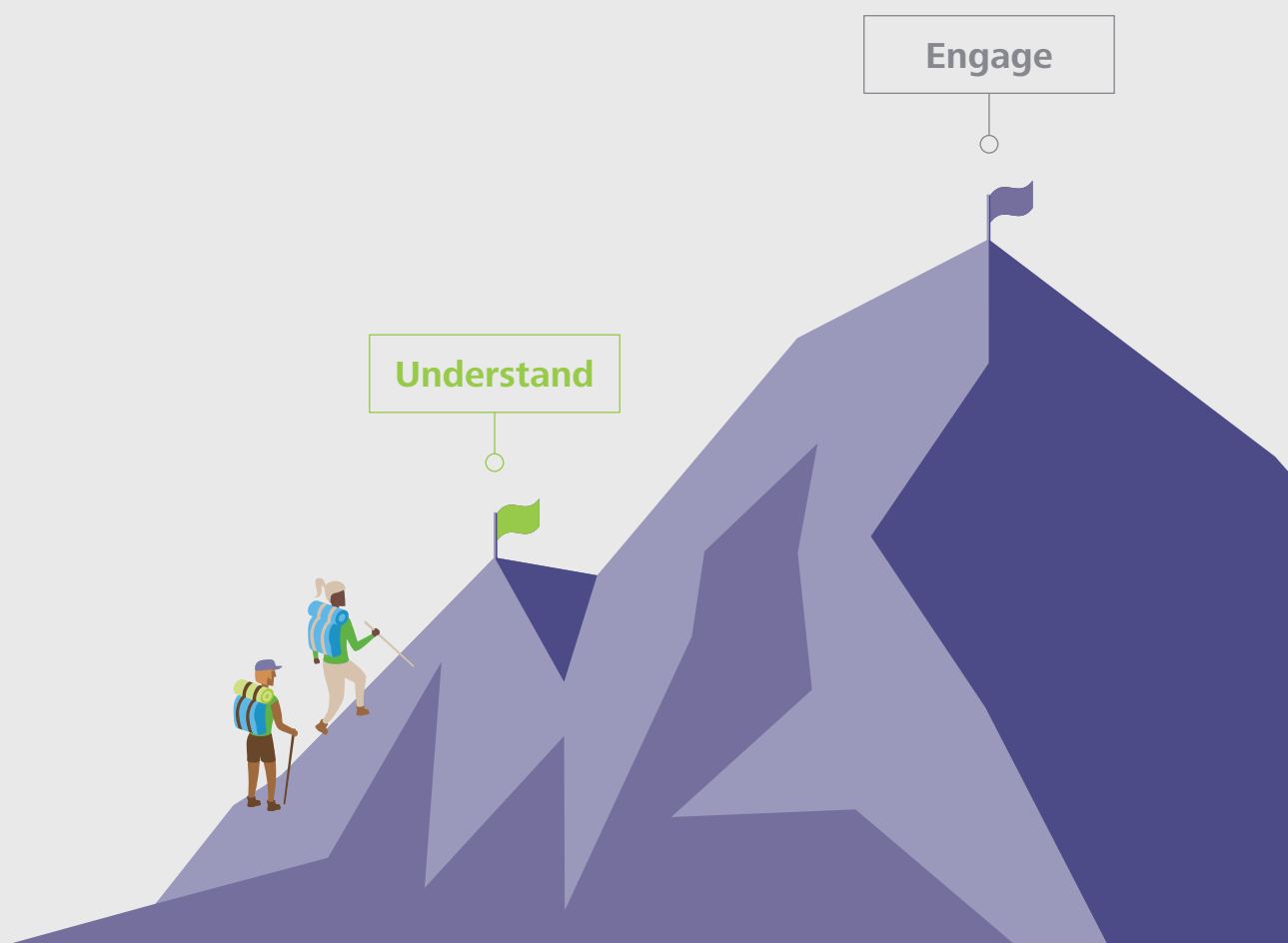
Today, Millennials are already the largest single group in the New Zealand workforce (34%) (Danner, 2015). Should social investment successfully transition to a mainstream way of working, it will be Millennials who will be largely delivering it. Yet key questions remain about social investment in the Millennial generation.

#### **How might we better understand the hidden Millennials?**

Social investment data already tells us much about hidden Millennials from a descriptive perspective: we know their age, location, contacts with key government social systems and likelihood of poor life outcomes. But the data we have on them as people – their values, drivers and beliefs – is largely absent from the discussion. How might Millennials go beyond the descriptive data to understand hidden Millennials in a more meaningful way?

#### **How might we engage with hidden Millennials?**

The addition of the 'Red Peak' flag option in the recent referendum via a significant online movement demonstrated that the internet and social media can be a powerful tool for engaging non-mainstream voices in political and social debate. But how relevant are these tools to engaging hidden Millennials? And if they aren't appropriate, what alternatives do Millennial policy-makers have to engage hidden Millennials in the development of social programmes?



### How might we empower hidden Millennials to lead change?

Social services are already adopting a co-design approach, where hidden Millennials would not simply be consulted but would work together as equals in the design process to deliver impact to themselves, their whanau and community. Co-design has been shown to be more effective than traditional consultation – in an Australian co-designed employment programme 64% of participants were placed in full-time employment – twice the number achieved through traditional processes (The Policy Space, 2015).

Newer approaches move beyond co-design to an empowerment model, where participants have control and are responsible for setting the direction of their own solution. This approach was employed in Camberley, in Hawke's Bay, where traditional approaches to lift this community out of deprivation were unsuccessful. In 2002, the residents of Camberley joined together to create their own community leadership, which the Council allowed to make decisions for their community. With the assistance of other government agencies and key community stakeholders they developed 'Camberley 2015' – an action plan focussing on economic, social and environmental goals (Hastings District Council, 2003).

## Newer approaches move beyond co-design to an empowerment model, where participants have control and are responsible for setting the direction of their own solution

The community driven results have been significant. In 4 years, 12 of the 21 original goals had been achieved (Hastings District Council, 2008), such as the reduction of the unemployment rate, which dropped from 16.4% to 10.7% (Statistics New Zealand, 2006), alongside the establishment and construction of a community hub. Could similar concepts be applied to empower Hidden Millennials to create change? If so, how do we provide appropriate and real power on a national scale?

There are many challenges ahead for social investment, both philosophical and technical. Among them, the task of handing the approach over to the Millennial generation generates interesting questions and finding the answers may be crucial to its overall success.



Empower

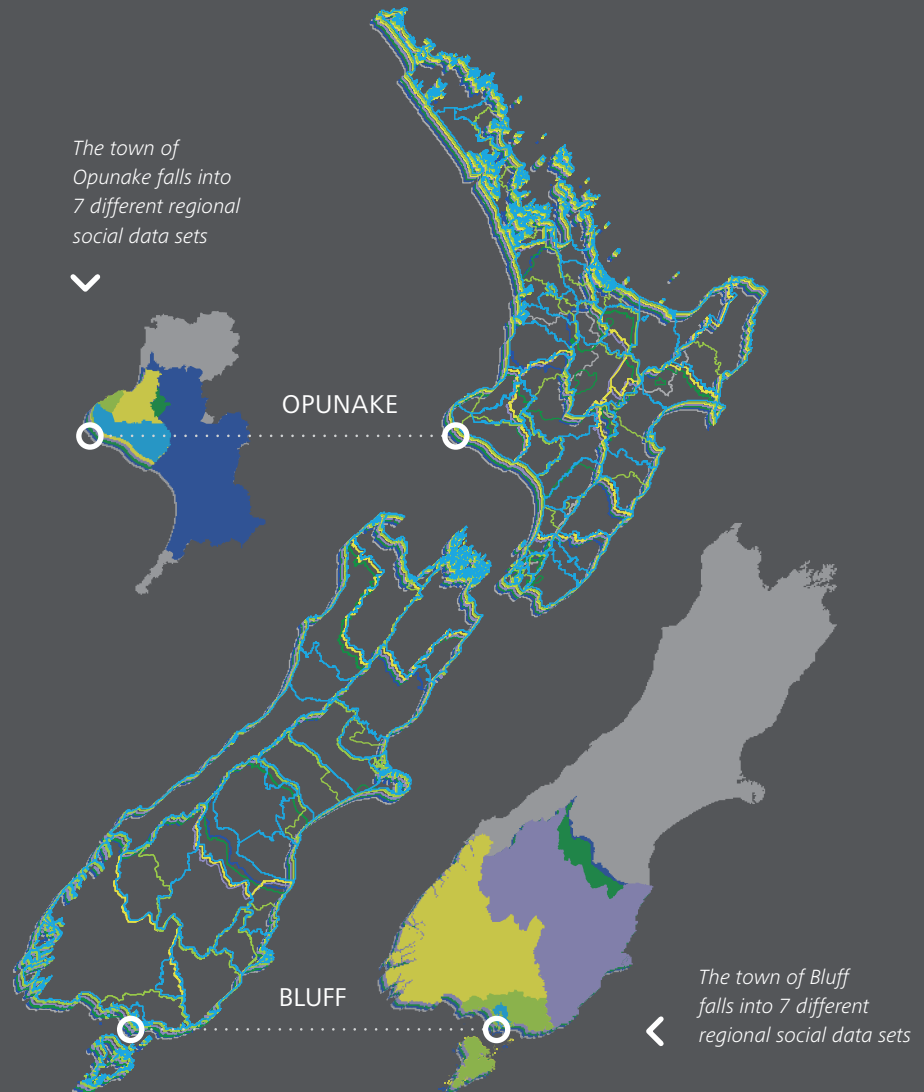
# New Zealand's various social data sets

The maps depict New Zealand's various social data sets. Each data set divides New Zealand into unique geographical regions and the boundaries of these regions are not consistent.

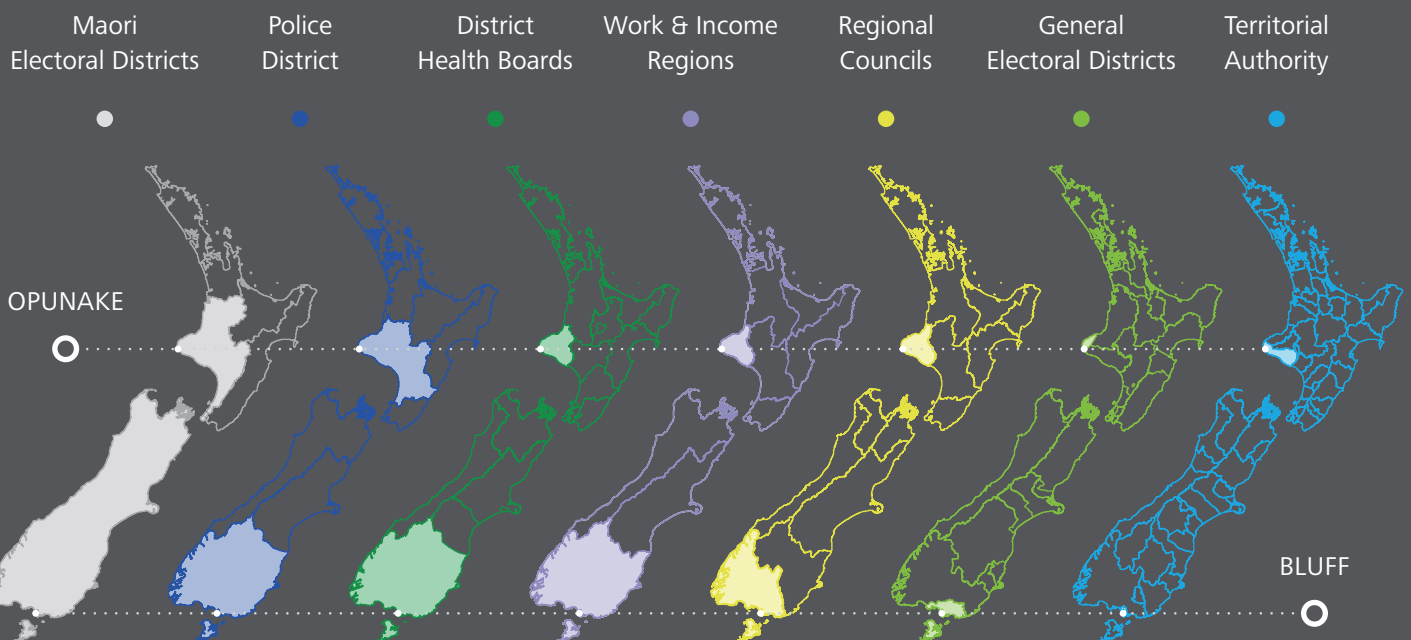
Each social data set captures different populations, which creates difficulties for researchers and policy-makers who wish to compare data across the social policy domains.

The inconsistent way that agencies capture the geographical element of social data means that policy-makers need to use workarounds to estimate social issues. Given social investment's heavy reliance on data, this might hold back the full application of the approach in relation to regional issues.

*The town of Opunake falls into 7 different regional social data sets*



*The town of Bluff falls into 7 different regional social data sets*



# The challenges of regional data

## Regional data disparities are a challenge for social investment

Making good policy choices requires the best available data. New Zealand's social data is collected by a number of independent administrative agencies, each of which divides the country into different regional territories. Each data set captures a different population, which makes comparisons across the social policy domains difficult and creates challenges for the social investment approach.

Despite being difficult to quantify, it recognises anecdotally that disparities in the geographical dimension of social data can lead to a number of issues that may impede the regional application of social investment. While such inconsistencies in data continue to exist, the options for both policy development and implementation may similarly be limited, affecting policy-makers and service providers alike.

Social service providers may need to liaise with many different administrative bodies and there may be confusion surrounding which region within each data set the social service provider delivers services to.

Attempting comparisons across different social policy domains currently involves a trade-off between detail and accuracy. When working across social policy domains, policy-makers must estimate the rate of one variable occurring within a different geography. Take the challenge of understanding the rate of assaults and associated hospitalisation rates in Opunake. Data about hospitalisation is collected by the Taranaki District Health Board, while data about assaults is collected by the Central Police District, which encompasses a very different area – most of the lower North Island. Decision-makers must use statistical estimations to underpin a case for investment, which relies on many assumptions that do not always accurately reflect the real world.

The decision on whether to invest in interventions to address assaults and, if so, how much, relies heavily on these workarounds. Furthermore, the benchmarks for success or failure of programmes seeking to make a difference to assault rates, would need to rely on the same data and assumptions, which creates further problems for measuring performance.

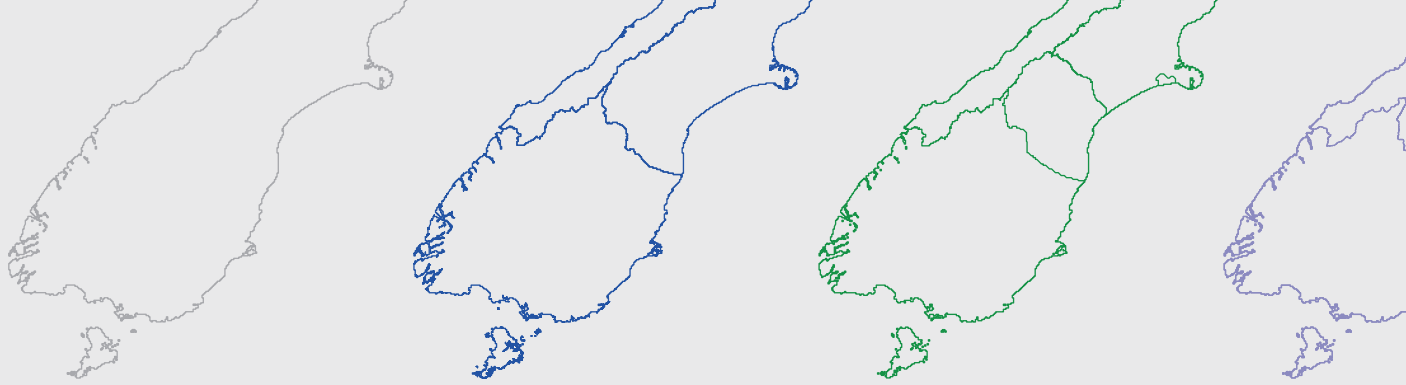
## A register-based statistical system would solve the regional challenge

There is no silver bullet to resolving the issues presented by New Zealand's inconsistent geographical data sets. It is a complex problem with many potential solutions. A successful international solution involves New Zealand adopting a register-based statistical system, similar to those used in countries like Norway, Sweden, Finland and Denmark. Statistics New Zealand is in the early stages of investigating such a solution.

In a register-based system, official statistics are calculated from administrative data sets converted into linked statistical registers. The most important of these registers for social statistics is the population register, which contains the reference population base of all people residing in the country at their residential address (Bycroft, 2010).

The administrative data in each register relates to anonymised individuals' interactions with government services. This avoids arranging data geographically altogether. The ability to produce up-to-date population estimates is another major benefit of a register-based statistics system.

Statistics New Zealand has investigated the potential for a register-based statistics model here. It has identified an absence of many essential features of such a system (Bycroft, 2010). The key challenges are listed on the following pages:



### Capturing the entire population

New Zealand does not have any administrative data sets designed to capture the entire population from which a population register could be constructed (Bycroft, 2010).

A 'pseudo' population register could be created by linking existing administrative data sets with high population coverage, like the National Health Index, National Student Index and Inland Revenue Client Register (Bycroft, 2010). However, this would not be sufficient to calculate population estimates, as existing administrative sources may only provide information for parts of the population, or may miss significant groups. For example, statistics on post-school qualifications are available for New Zealand graduates since 2004, but not for qualifications gained previously, or from overseas institutions (Statistics New Zealand, 2014).

### Uniquely identifying people

A register-based model requires a universal system for unique personal identification, such as national citizen numbers, which are recorded each time a person accesses a government service.

Common unique identifiers allows administrative records to be linked deterministically, or simply by identifying the same citizen number across different government data sets. When each individual can be identified by a common unique identifier, data linkage is both more efficient and accurate (A. Wallgren; B. Wallgren, 2011). New Zealand currently has several comparable identification systems, such as IRD numbers or RealMe but, again, these will not capture the entire resident population.

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## The greatest hurdle to developing a register-based statistics system in New Zealand is public acceptance

### A culture shift is required

New Zealanders place a high value on privacy and do not have the same history of government registration as Scandinavian nations (Bycroft, 2010). Compulsory notification of changes in residential address and personal identity numbers could be viewed with "disdain and distrust" by the general public (Bycroft, 2010). Finance Minister, Hon. Bill English, has emphasised the need for public discussion surrounding acceptable government uses of sensitive and private information – a discussion currently championed by the Data Futures Partnership (English, 2016).

Progress has been made towards greater integration of administrative government data. Statistics New Zealand's Integrated Data Infrastructure (IDI) is a linked longitudinal database including administrative data from multiple government departments. Like the register-based model, output statistics from the IDI are based around individuals, instead of being collated by geographical area (Statistics New Zealand, 2013a).

The IDI was used by Treasury to create the social investments Insights Tool, which identifies the concentration of at risk children in a particular area (The Treasury, 2016b).





### The cost-benefit of a register approach requires further investigation

Implementation of social investment will likely evolve over time, but will rely on targeted, evidence-based policy making. In the long term, transitioning to a register-based statistical model would improve on the existing capabilities of the IDI and produce a finer level of social statistics. Statistics New Zealand (2014) assumes this will not occur within the next 10-20 years.

A register-based statistical system would mitigate the problem of geographically inconsistent data sets. Practitioners would not need to compare, for example, the disparate data from a District Health Board and a Work and Income region. Instead of trying to re-aggregate social data from one geographical classification to another, individuals' interactions with government services could be compared using their administrative records. Policy-makers would be able to select any target population for comparison across any risk factors for which administrative data is collected, simply by linking administrative records to the address register, or other geographical identifier.

A register-based statistics system would allow policy-makers to create analysis tools more efficiently and for a wider variety of social factors, since social data for the entire population would be available through a population register. Deterministic linkages, based on common unique identifiers, could be universally used to improve efficiency and reduce the likelihood of overlooking individuals who have interacted with multiple government departments, or falsely identifying individuals who have not.

Common unique identifiers would also allow private economic data to be more easily integrated with government data, leading to a broader array of statistical outputs (Bycroft, 2010). The address records within a population register would be more comprehensive and remain more up-to-date than the IDI's current address records. Being able to link administrative data back to a specific location is crucial for producing output statistics at different geographical levels. However, New Zealand's current administrative data sets are unlikely to be able to replace the richness of data currently provided by the census.

Further investigation is needed into the costs of developing a register-based statistics system in New Zealand, and its benefits over existing estimation methods. Such a system would build on the existing capabilities of the IDI for producing detailed social statistics on a regional scale. Crucially, because the social statistics would be based on individuals' interactions with government services, they would not be inhibited by the geographical inconsistencies of New Zealand's existing social data sets.

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## Further investigation is needed into the costs of developing a register-based statistics system in New Zealand

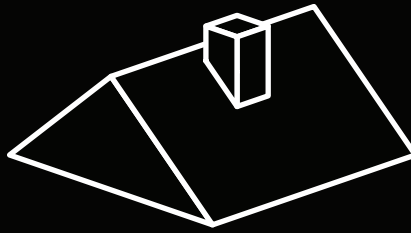
# A model for social investment



1

## Set the direction and targets for people with poor outcomes

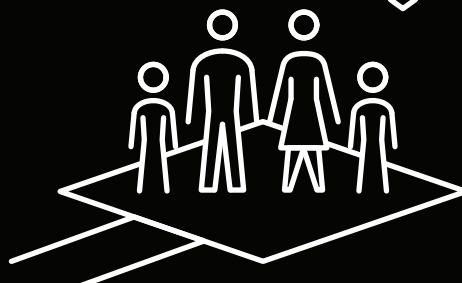
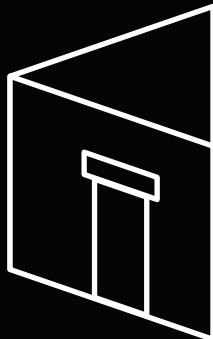
Release, every four years, a government-wide statement that establishes the outcomes and targets for at-risk New Zealanders



3

## Run the new agency according to social investment principles

Empower the new agency to 'own' the liability, and automatically retain a share of the savings for re-investment in new programmes



2

## Set up a single agency to focus on people with poor life outcomes

Establish a new agency to commission specialist social services for people at risk of poor life outcomes



4

## Enable access to data

Share information on what works and what doesn't, and link up agencies and service providers with the data they need to deliver better services

# A model for social investment

Today, social investment is like a start-up. Tomorrow, social investment needs to become a mainstream way of working.

We propose a package of reforms the government should work towards to realise the aspiration for social investment in New Zealand. Our proposed package of reforms represents a clear departure from today's operating environment for the social sector. We suggest a structural reconfiguration some may find challenging, while acknowledging that we don't yet have all the answers. We have cast out five years ahead, in part, because there is so much current activity in relation to social investment, and in part, because there are multiple pathways to realise our end point.

**To make social investment a mainstream way of working, we recommend the government:**

1. Release, every four years, a government-wide statement to define the outcomes and targets for at-risk New Zealanders
2. Establish a new agency to commission specialist social services for people at risk of poor life outcomes
3. Embed the social investment approach to funding quality and sustainability in the new agency's operating model
4. Enable better access to government-held data and detailed evaluation reports

## Recommendation 1



**Release, every four years, a government-wide statement to define the outcomes and targets for at-risk New Zealanders**

Government agencies often have to perform to a range of outcomes frameworks and targets, with varying results expected and timeframes to report against. When coupled with the fact that each Minister has their own agenda for their agency, and each agency works to its own priorities, reaching agreement on what a cross-agency outcome should be, is difficult. There is also resistance to being measured on performance. Often, agencies cannot control all the factors that will deliver success, and failure, when it is perceived to have occurred, is quickly castigated. This means government can't always tell whether social agencies are doing the right thing, or whether they are doing them well.

Measurement can be hard. It can difficult to be held to account for outcomes. It can also be difficult to choose exactly the right measure of success. But for social investment to achieve its aspirations, then progress needs to be measured to provide focus and feedback. Focus comes from an awareness that outcomes will be examined and the success, or lack of it noted, which is a motivator towards excellence. Feedback means expected outcomes can be compared with actual outcomes.

The government should establish the key outcomes for at-risk New Zealanders across the social sector. Ministers would need to collaborate in developing the outcomes, and agree on prioritisation. The outcomes would be made public, and the performance of government set targets would be reported on regularly. The outcomes would be reviewed and refreshed on a four-yearly basis, so they are responsive to the government's direction without being exactly aligned with parliamentary terms. The outcomes should remain static between updates to enable a certainty of direction that is not always currently present.

It would be mandatory for social sector agencies to adopt and prioritise the outcomes set and to align their activities, in whole or part, with this framework. Where any inconsistencies exist, the government-wide outcomes framework would prevail.

**This will mean:**

- Clear goals for government agencies and service providers to help them deliver the best services to New Zealanders who need them
- Rigorous monitoring and feedback against performance measures so services can be adjusted accordingly
- Existing outcomes, including the BPS results, may continue to run: after all, not all the BPS results relate to at-risk New Zealanders. For simplicity and clear direction-setting, we would recommend one set of outcomes to specifically help those at risk of poor life outcomes.

**Recommendation 2**



## **Establish a new agency to commission specialist social services for people at risk of poor life outcomes**

With a budget and a mandate in hand, agencies currently deliver both universal and targeted services, with their own processes, systems, and single-point accountabilities.

These arrangements work well for the vast bulk of universal services. They work because the state sector was designed to effectively and efficiently deliver services, and because universal services don't always need to be integrated at the point of delivery to make a difference for customers.

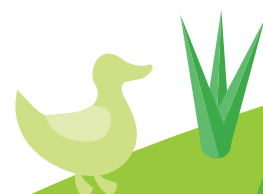
However, the same arrangements do not work for specialist services delivered to those experiencing poor life outcomes or who are at risk of doing so. Specialist services need to be integrated to meet this target population's needs. But with funds and accountability tagged against individual Ministers and agencies, the system does not reward agencies that support another agency's outputs ahead of their own - even if this drives better outcomes.

To address these issues, we support the Productivity Commission's (2015) call for the consideration of the establishment of a Better Lives agency. The new agency would have New Zealand's most vulnerable people at its core, rather than services or programmes.

Today, we don't yet definitively know who the most vulnerable people in New Zealand are. To define the scope of the agency, detailed analysis is required to identify people in society who warrant investment, where early intervention can improve their life outcomes, while also reducing overall sector spending. This would not be a trivial exercise and would need to bring together data and expertise from across the social sector to identify, define and prioritise the target population. A common 'screen' might need to be developed to define the scope of the population that this agency will have responsibility for. Not all will have health issues, not all will show educational under performance, and not all will have had engagement with justice or mental health institutions; but there will be a large crossover.

The scope of the new agency's resources and remit, would then need to be determined by a thorough stocktake of existing services for this target population including health and mental health, education, child protection, housing and homelessness, justice, disability, welfare, and more.

We propose that this new agency would be funded by amalgamating resources currently allocated to existing agencies for specialist services for the target population. It would assume responsibility for existing targeted social programmes and the commissioning of new ones.



With strong competition for scarce resources, agencies are not known for voluntarily giving up their services to another agency. While agencies may agree to integrate their services in-situ, with little or no agreement on best practice and because agencies have different performance measures, systems, and accountabilities, these efforts rarely stick. Our investigations have shown that despite years of trying, governments in New Zealand and abroad have not successfully managed to make large-scale, deeply-integrated and sustained collaboration work across agencies. A new organisation focused on the target population is the best way forward. It would establish a single point of accountability for the integration, delivery and benefits realisation of services. It would also create a single point of control for cost and quality drivers. The focus would not be on enforcing collaboration between agencies, which have their own agendas, but allowing one agency to make decisions across the social sector for the target population.

The new agency would have the freedom to commission from government providers (such as public schools), non-government providers (such as charities), commercial entities (including social enterprises) or any mix of the three. It would be responsible for co-designing specialist services with customers and linking in with universal services across the social sectors to deliver a seamless experience. The boundaries with universal services would need to be defined on a programme-by-programme or service-by-service basis, and might change over time. Care is needed to avoid simply shifting from one form of silo to another.

## Modernising Child, Youth and Family (CYF)

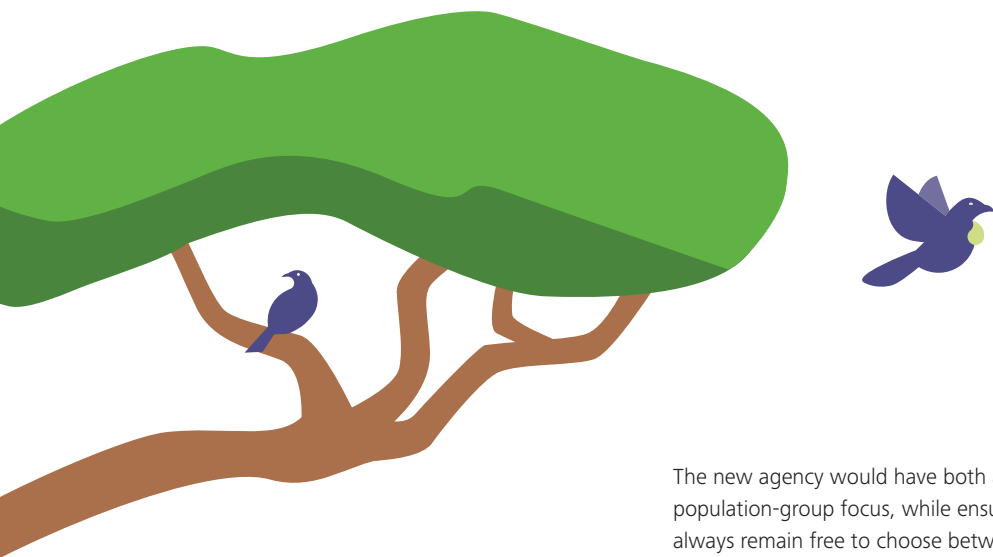
In April 2016 – less than a month prior to the public release of this report – the Expert Advisory Panel (EAP) on Modernising CYF delivered their final report to the Minister for Social Development. The EAP recommended the creation of a new, unnamed department which would expand the current scope of CYF from its current focus on children in care to also commission and deliver youth justice services, and early intervention services relating to children in care, their parents and family (including some education and health services).

Many of the EAP's findings are in line with our own research, including the fact that current social services are often not meeting the needs of the target group, and that current fragmentation of responsibilities in the social sector is a challenge to be addressed. Further, the bulk of its recommendations align with our proposed model, including the need for an investment approach, putting the client (and family) at the centre of intervention design and the use of evaluations and evidence to track 'what works.'

Given our intention was to cast recommendations out five to seven years, it is not surprising that our model goes further than the Modernising CYF report in many key ways, including a focus on all people in need, rather than just children, while encompassing all social services rather than those related to the care and youth justice systems.

When layered upon the reforms to the welfare system announced in 2012, the reforms to CYF are an important step in realising the ambitions for the application of the investment approach in the social sector. We welcome the EAP's report and support the government's endorsement of its findings. We also look forward to seeing similar reforms to tackle the needs of our most disadvantaged in education, health, justice, housing and homelessness, disability and the rest of the social sector in due course.





It would monitor outcomes achieved through service providers using the most rigorous approaches possible, including randomised control trials. The new agency would operate on a portfolio approach, commissioning, decommissioning and adjusting services and moving funds between services on the basis of demonstrated outcomes and public value. In doing this, service providers would be encouraged to innovate and take risks, with flexibility in their service delivery – including the flexibility to tailor on a regional or cohort basis as required.

Transformation requires more than creating a single entity to fund specialist services for people facing poor life outcomes. To do this, it needs to be unencumbered from having to make decisions about investing in its own provider arm, and it needs to have the freedom to implement, modify or cut programmes on the basis of evidence and objective performance measurement alone. Consideration should be given to the right form of government agency – from department, to Crown entity to Crown agent – to achieve this way of operating.

The new agency would become a centre of excellence in data analytics to support specialist social policy development, making the best use of existing public sector capability. It would create a critical mass to draw in talent from new sources - academia, business, non-government organisations or outside New Zealand. With better information and analytics from more consistent data, it could then make stronger, evidence-based decisions about the suite of interventions needed to improve overall life outcomes. While not precluding its application elsewhere, the new agency would also serve as the government's centre of expertise on social investment.

The new agency would have both a strong regional and population-group focus, while ensuring clients would always remain free to choose between schemes run by their local region and other regions. National-level reach would ensure issues manifesting more widely than in a given region did not become problematic; such as ensuring assistive technology for those with special educational needs was not limited to that which could be purchased locally.

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The new agency needs to be unencumbered from having to make decisions about investing in its own provider arm. It also needs to have the freedom to implement, modify, or cut programmes on the basis of evidence and objective performance measurement alone.

Further, the new agency should grow the ethnographic understanding of those most in need. Rather than only knowing people by their demographics or administrative data – age, ethnicity, where they live or whether they are on benefits – the agency should investigate cultural and behavioural segmentation approaches. These are likely to demonstrate differences and commonalities that we cannot see today, but might be imperative in actively addressing disadvantage. Hidden Millennials might be good place to start.

Existing agencies would remain responsible for the delivery of efficient and effective universal services such as schools, hospitals and family supports under existing governance and accountability structures. Furthermore, where existing bodies are also delivering a specialist service, they would continue to do so – albeit they would be subject to rigorous monitoring by the new agency and would have their programme funding linked to performance. Further work is required to detail the new agency’s operating model in relation to establishing and maintaining strong working links to mainstream agencies, and how the agency and its commissioned service providers would work on the ground with individuals and families in need.

### Recommendation 3



## Embed the social investment approach to funding quality and sustainability in the new agency’s operating model

Existing financial incentives for agencies – and executives – are significant contributors to the current state of social services in which cost growth is not always linked to improved outcomes for those most in need. Success in public services is associated with more funding, rather than less.

However, to address future fiscal challenges, the new agency must deliver both substantially improved outcomes for at-risk people and deliver a more sustainable cost-base for social services. Failure to address both challenges should be seen as a failure of the investment approach and of the new entity.

The new agency would ‘own’ the liability for the target population. It should operate under a new financial incentive structure so a portion of any demonstrated wider savings it makes through the effect of its commissioned services (such as a reduction in costs of incarceration) are returned to the agency rather than kept for redistribution to other government agencies. Additionally, it would also receive a prescribed portion of any revenue growth directly attributable to its activities (such as increased taxation from additional employment), perhaps using approaches borrowed from the ‘City Deal’ that Greater Manchester Combined Authority has struck with the UK Government. Treasury would need to verify all such payments against actual performance and targets and build expertise in oversight of the agency and the operation of the social investment approach.

Additionally, the new agency would be expected to operate largely within its initial budget envelope – aside from the cost impacts of wider factors, such as population changes and inflation. In order to achieve better sustainability of social sector spending and avoid the need for ‘hump funding’ to establish new programmes, the new agency would primarily generate funding for new initiatives by:

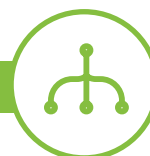
- ceasing programmes that deliver the lowest improvement in outcomes for those at risk
- realising efficiencies by removing duplication and fragmentation in programmes and improving the customer experience
- demonstrating its actions have directly led to reductions in future government costs or improved government revenues, a by-product of improving life outcomes for those most at risk.



In turn, the new agency would be responsible for ensuring that appropriate incentives – including financial incentives – are in place for the service providers it commissions. Consideration should be given to adopting incentive payments, linked to risk and performance as seen in the many ‘payment by results’ or social investment bond programmes in operation in the UK, USA and Australia. These payments would apply to government service providers too. To ensure the new agency’s staff are aligned to this way of working, consideration may also need to be given to linking the agency’s executive staff remuneration to performance, as has been seen in Jobcentre Plus, a UK Government employment and benefits agency (G. Prentice; S. Burgess; C. Propper, 2007). New Zealand would not be the first government to wade through the challenges of measurement and attribution relevant to both service provider and executive incentive payments.

The new agency would receive establishment funding for the first two years of operation to continue work to define, systematise and operationalise social investment at a detailed level – including work currently being undertaken by the MSD, the new Social Investment Unit and likely by the reformed CYF. Establishment funding would ensure resources for service delivery are not spent on important back-office functions including developing crucial operational skills; refining the tools of the social investment approach; establishing the necessary data infrastructure, analysis and decision-making aids; building world-class commissioning expertise; and establishing its investment portfolio management systems and approach.

#### Recommendation 4



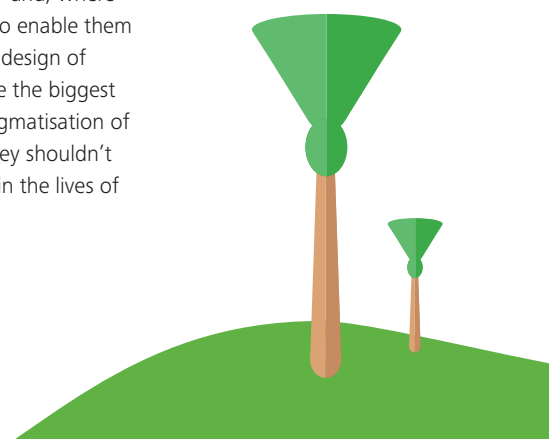
### **Enable access to data and detailed performance and evaluation information by all service providers to assist in reducing costs and improving impact**

New Zealand holds world-class repositories of data about our most vulnerable people, but access to that data is often held up by bureaucracy, fears of stigmatisation of certain groups, or fears of data insecurity. Further, given the weak incentives for formal evaluation of social programmes today, there is a gap in the evidence of what works that prohibits the most effective design of interventions, and limits the confidence of government to invest.

Combined, these two data issues prevent the application of social investment from proceeding at full pace. The government is currently exploring ways to make data sharing easier, so there is a greater degree of transparency in social spending.

To address these issues, government should work towards building the programme design capacity of social service providers – non-government, private and government – to better enable them to understand what works (and what doesn’t), and sharing information across all parts of the service system.

The new agency would be responsible for working with Statistics New Zealand to shape and refine the business rules for sharing existing and new data about New Zealand’s vulnerable population in an anonymised form with all accredited social service providers (including other government agencies) – and, where appropriate, potential new providers – to enable them to understand, plan and engage on the design of innovative interventions that could make the biggest difference. Concerns about potential stigmatisation of groups should be taken seriously, but they shouldn’t inhibit efforts to make a real difference in the lives of at-risk New Zealanders.





As a condition of providing services on behalf of the new agency, all trials and commissioned programmes would be subject to rigorous evaluation of performance outcomes, and the new agency would be responsible for maintaining a public repository of performance information about individual programmes - the United Kingdom's 'What Works Network' or the United States 'Results First Clearinghouse' are good models. Importantly, all providers – government, non-government and private – would be subject to the appropriate level of scrutiny.

The new agency would be responsible for ensuring results are tracked over time, to ensure a complete picture of the cost-benefit of a given intervention or service provider is understood. In many cases, this evaluation would continue after the intervention itself has ceased, which might take some years or even decades of monitoring.

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The government is currently exploring ways to make data sharing easier, so there is a greater degree of transparency in social spending

## Conclusion

Our proposed model puts a lot of faith in the operation of the investment approach, and a lot of power in the new agency. Adopting our proposed model is not without risk, both in transition and in operation, but we think the risks are calculated, and worth it. We propose this approach not because of any political or institutional position, but because we think this model would deliver the best results for those New Zealanders most in need and, as a by-product, for the government and New Zealand as a whole.

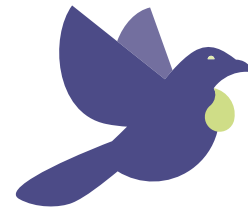
We're also agnostic on the best way to transition to these new arrangements, but all paths have some challenges. Time and further analysis will tell whether a 'big-bang' new agency, a gradual extension of the recently announced evolution of CYF, amalgamations of targeted units in District Health Boards and education or another model will be the best approach.

The challenge that social investment seeks to address – the growing number of people among us for whom poor life outcomes are almost inevitable, and the rising costs of supporting those outcomes – remains compelling. A new way of thinking has been established and now a new way of working is required. We cannot ask today's institutions to do more than they were designed for. Under such conditions, boldness might be the safest path.



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