



Enabling system change for social investment – Initial implementation

Date:	30 January 2025	Priority:	High
Security classification:	Budget – Sensitive	Tracking number:	SIA-24/25-151

Action sought		
	Action sought	Deadline
Hon Nicola Willis Minister for Social Investment	Agree to take a paper to Cabinet for consideration in March 2025	5 February 2025

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Aphra Green	Deputy Chief Executive, Policy, Data, and Insights	9(2)(a)	✓
Rebecca Hollingsworth	Manager, Policy and Insights	9(2)(a)	

The following departments/agencies have been consulted

Minister's office to complete:

☐ Approved

☐ Noted

☐ Seen

☐ See Minister's Notes

☐ Declined

☐ Needs change

☐ Overtaken by Events

☐ Withdrawn

Comments:



Enabling system change for social investment – Initial implementation

Date:	30 January 2025	Priority:	High
Security classification:	Budget – Sensitive	Tracking number:	SIA-24/25-151

Purpose

This briefing seeks your agreement to:

- the future state for social investment as described in the attached discussion document (Appendix 1)
- immediate next steps to start implementing the new social investment system, including initial investments through Budget 2025
- take a paper to Cabinet in March 2025, seeking agreement to the future state and social investment work programme.

Recommended action

The Social Investment Agency recommends that you:

Agree to the future state for the social investment outlined in the attached discussion document ☐ Yes ☐ No

Agree to progress at pace any early or transitional elements of the proposed system for social service delivery through Budget 25 ☐ Yes ☐ No

Note that we will provide further advice on a phased transition to the future state, including immediate steps that can be taken as part of Budget 25 ☐ Noted

Agree to take a paper to Cabinet for consideration in March 2025 that seeks agreement to the future state and immediate next steps ☐ Yes ☐ No

Agree to discuss with the Minister for the Public Service potential adjustments to system levers that sit within the Public Service portfolio, and how she wishes to be engaged ☐ Yes ☐ No

Andrew Coster
Chief Executive
Social Investment Agency

Hon Nicola Willis
Minister for Social Investment

Context

1. Cabinet has committed to implementing a social investment approach within New Zealand's public management system [CAB-24-MIN-0140 refers]. You committed to report back to Cabinet with a work programme for how social agencies will implement social investment.
2. Since his appointment, the Secretary for Social Investment has had initial discussions with you and your colleagues about the future state and operating system for social investment and possible approaches to achieve this. The proposed approach has implications for how social services are governed, funded, commissioned and delivered, and is intended to address long-standing duplication, overlaps, siloes and inefficiencies in the delivery of social services. Poor and worsening social outcomes in a range of areas, and for particular populations, speak to the need for a fundamentally different approach.
3. You have indicated that you are broadly comfortable with the direction of travel and would like to proceed at pace with next steps and a Cabinet paper. This paper sets out next steps to achieve this.

Future state for social investment

4. If we want to deliver positive social outcomes on cross-cutting problems and go after early investment to improve people's lives, we need a part of the system that is specifically designed to do that. At present, no part is sufficiently incentivised or configured to go after these opportunities.
5. The attached discussion document (Appendix 1) outlines the future state and mechanisms for achieving social investment alongside agency core service delivery using a dual social service delivery system. Key elements of the future state are:
 - A focus on outcomes for people with high and complex needs who are often underserved in the current system.
 - The use of data and evidence to drive investment through:
 - a commitment to investing in prevention and early intervention rather than crisis response
 - a willingness to make a disproportionate investment up front to improve the lives of people who experience disproportionately poor social outcomes.
 - a commitment to system change to enable social investment functions alongside the status quo.
 - A portfolio neutral social investment system to overcome challenges of effective delivery on cross-cutting issues.
6. The establishment of a new part of the system to enable more appropriate commissioning of community-commissioned services also has implications for the core public service:
 - For agencies that provide services focused on improving New Zealanders' lives, there are significant opportunities to improve efficiency and effectiveness by understanding the client base for whom services are being delivered.
 - Such insights should be strongly informing operational decision-making and service design.

7. Therefore, in its central agency capacity, the Social Investment Agency will:
- set standards for the application of data and evidence
 - advise Ministers on the extent to which agencies are applying good social investment practice in the way they prioritise and deliver services
 - advise on gaps in core public service delivery based on population-level trends and patterns.

A phased plan to deliver elements of the proposed system

8. As discussed with you, the Cabinet paper will describe a phased plan for delivery:
- Phase 1 – immediate actions over the next 6 months to set the direction for social investment and build sufficient momentum for change – this would include changes to some existing funding, potentially the creation of new appropriations to be announced in Budget 25 and implemented from 1 July 2025, alongside Cabinet agreement to the work programme for Phase 2
 - Phase 2 – targeted actions from 6 to 18 months from now (over the 2025/26 year) to embed specific features of the social investment dual delivery system, for example using new appropriations to enable new commissioning models for social investment;⁹⁽²⁾

(f)

(iv)
 - Phase 3 – a rolling work programme (over 2027-2029) expanding the coverage of the social investment system and the features within it, reinforced by structural changes such as establishing a new social investment entity and enacting legislation (implementing proposals from Phase 2).
9. We are still working on this plan and will test it with you as it develops, so that it describes, in credible detail, the key elements of the social investment approach.

Plan and timeline for Cabinet paper

10. The timeline below sets out next steps necessary to seek Cabinet agreement to the future state and plans to implement social investment. This is an ambitious timeline (Cabinet consideration in March 2025) but is intended to support you to begin implementation through Budget 25.
11. The Public Service Commissioner has proposed to the Secretary a joint paper, given the significant implications for the public management system. We recommend you discuss with the Minister for the Public Service potential adjustments to system levers that sit within the Public Service portfolio, and how she wishes to be engaged.
12. You may wish to use upcoming engagements to start sharing and testing the future state for social investment. For example, you are meeting with Ngāi Tahu in the first week of February 2025. We have prepared a slide pack for this purpose and have shared this with your office.

Date (2025)	Deliverable
Thursday 13 February	<ul style="list-style-type: none"> - Advice on key actions to be taken as part of Budget 25 to shift towards new system (with Treasury) - Draft Cabinet paper to Minister's office
Monday 17 – Friday 21 February	<ul style="list-style-type: none"> - Minister consideration and any changes needed ahead of consultation - Share Cabinet paper with key Central agencies (Treasury, Public Services Commission)
Monday 24 February – Friday 7 March	<ul style="list-style-type: none"> - Ministerial and agency consultation
Monday 10 – Friday 14 March	<ul style="list-style-type: none"> - Finalise for ministerial approval
Thursday 20 March	<ul style="list-style-type: none"> - Lodge
Wednesday 26 March	<ul style="list-style-type: none"> - Social Outcomes Committee
Monday 31 March	<ul style="list-style-type: none"> - Cabinet consideration

13. Officials are available to discuss these proposals with you.

Attachments

Appendix One: Draft discussion document Social Investment 2.0

Appendix One – Draft discussion document Social Investment 2.0

DISCUSSION DOCUMENT - SOCIAL INVESTMENT 2.0

CONTENTS

Introduction	3
Purpose	3
What do we mean by social investment?	3
Defining the problem and opportunity	3
What's working well?	3
What is it that we're trying to change?	3
How big is the problem and is it worth going after?	5
How might we solve this problem?	5
An outcomes-focused, portfolio-neutral social investment sub-system	6
Starting with who	6
Outcomes based contracting	6
Deciding what gets commissioned where	7
Opportunity for a regional approach	7
What does this mean for our ways of working	8
How might social investment contribute to core system delivery?	8
Informing universal service design	8
Identifying gaps in agency-commissioned targeted services	8
Providing a frame for agencies to optimise core service delivery	8
Link to wider system priorities and objectives	9
Connection between Iwi / Māori aspirations and social investment	9
Implementation considerations	9
System settings / legislative enablement	9
Building enabling functions	10
When and how to transfer funding to the social investment sub-system	10
How to reflect local and regional perspectives into social investment commissioning	11
How to commission services in the social investment sub-system	11
Discussion – likely implementation approach	12
Appendix One - Proposed implementation of social investment	14
Appendix two – what does this mean for our current ways of working	15

INTRODUCTION

PURPOSE

Drafted in January 2025, this document is to explore potential next steps in the implementation of social investment in the New Zealand public management system. It does not seek to lay out all the history up to this point and it assumes a working knowledge of the topic. The aim is to help shape the right conversations within the system to enable timely progress to be made.

WHAT DO WE MEAN BY SOCIAL INVESTMENT?

The term ‘social investment’ is used to describe a wide range of activities and methods that use data and evidence to drive investment that improves people’s lives. It is commonly tied up with a couple of key ideas:

- That investing early in prevention is preferable to simply responding to social problems once they have manifested.
- That disproportionate investment is justified where it stands to improve the lives of those who otherwise are most likely to suffer disproportionately poor social outcomes.

For present purposes, we must consider how social investment can be best applied in the context of New Zealand’s public management system to meet the Government’s ambitions, and in acknowledgement of the fact that efforts up to this point have not landed substantive change.

DEFINING THE PROBLEM AND OPPORTUNITY

WHAT’S WORKING WELL?

Clearly, government must concern itself with more than just long-term prevention and working to improve the lives of those who suffer the worst social outcomes. The public management reforms of the 1980s and 90s established a system that emphasises efficiency and accountability in the delivery of government services. This model sees individual agencies reporting through their chief executives to Ministers in specific portfolio areas. For issues that sit tidily within a portfolio, this creates clear lines of accountability. Efficiency is achieved by delivering high-volume services in consistent and repeatable ways.

This model delivers well for the bulk of the population, i.e. those with relatively simple needs who are able to navigate successfully in accessing government services. For example, if you need a knee operation and know how to seek that assistance, the system will, with reasonable efficiency, deliver the intervention you require in a timely fashion. For reasons of efficiency, the service is at the centre of this interaction (you don’t get to choose the time or the surgeon who will perform your procedure) and the service is standardised (you will receive a treatment that’s the same as someone else who presents with the same problem).

Because of its direct political accountability, the model is particularly responsive to near term needs and concerns.

WHAT IS IT THAT WE’RE TRYING TO CHANGE?

However, the current system does not work well in a couple of key respects:

1. In improving the lives of those with complex needs that cut across portfolios, particularly where they do not have the wherewithal to navigate government services for themselves.

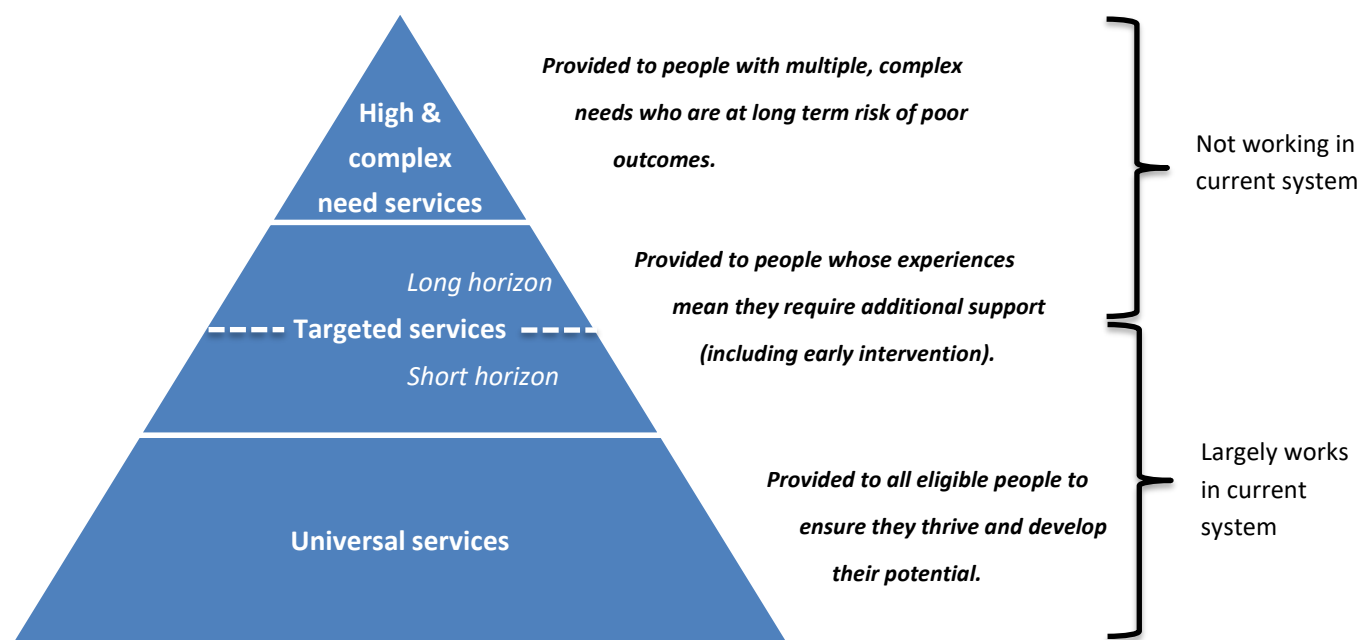
2. In allocating appropriate investment to the long-term opportunities to prevent future harm / improve people's lives.

For example, if you are a youth who is homeless, with a mental health issue and drug and alcohol addiction, and need help finding employment, the system is not optimised to help you. There is every likelihood that none of the government services offered will sufficiently meet your needs to enable you to move towards a more positive life trajectory.

This is not a criticism of any actors in the current system – it is working as designed. The incentives in the system are very deliberately focused on ensuring responsiveness within areas of direct accountability. Over time, many efforts have been made to achieve cross-cutting delivery and long-term focus from within the accountability siloes but most of these efforts have perished, as the realities of the current system wiring come to bear. Some of these efforts have also led to a blurring of lines of accountability and distraction from core service delivery, i.e. sub-optimising the system away from its design principles.

If we want to deliver positive social outcomes on cross-cutting problems and go after early investment to improve people's lives, we need a part of the system that is incentivised to do that. At present, no part is sufficiently incentivised or configured to go after these opportunities.

We can think about this through the lens of the range of social services delivered by government.



Whilst there is funding within existing portfolio and agency appropriations that is intended to meet the needs reflected in the top half of the triangle, the odds are against Ministers and agencies having the intended impact with these funds. There are a couple of key reasons for this:

1. Cross-cutting problems require cross-cutting delivery – with each agency receiving funding for its share of the problems (but not more) and the difficulties associated with effective cross-agency delivery, much of this funding gets directed either to agency-specific opportunities (missing the cross-cutting problems) or is deployed without corresponding investment from elsewhere to enable the best results to be achieved. In short, government struggles with a significant coordination problem and, perhaps more importantly, an incentives problem.
2. With funding tagged for long-term outcomes bundled-up with other agency spend (and acknowledging the incentives for near-term responsiveness already discussed), there is a risk that

funding is focused to meet agency cost and demand pressures, rather than going after the long-term outcomes that may otherwise have been available. This is particularly true where the long-term benefits may land in other portfolio areas.

For the non-government organisation (NGO) service providers that are often the recipients of funding intended for the top of the service-delivery triangle, these dynamics, when replicated across many agencies, mean they are constrained from dealing holistically with the people in front of them by fragmented and not-fit-for-purpose contracting. This is further aggravated by the tendency for this funding to be administered through annual contracts, which deny these service providers the opportunity to build with confidence the kind of capability that is required to be effective in achieving long-term outcomes with people who have high and complex needs.

HOW BIG IS THE PROBLEM AND IS IT WORTH GOING AFTER?

We know that the total spend within the triangle of social service delivery is about \$70B. This includes the cost of services that are delivered directly by government. Within that number, around \$6-8B is spent on services that are commissioned in the community. Whilst a significant proportion of that spend will sit within the bottom half of the triangle (where the incentives are right to continue with agency-led delivery), a significant proportion is aimed either at solving cross-cutting social problems or intended for delivering early intervention (long horizon) outcomes.

Perhaps more significantly, we know that we are missing opportunities to help those who need services in the top half of the triangle and, by doing so, we are failing to mitigate significant long-term demand on core government services (in the bottom half).

For these reasons, the current state is more than just an unfortunate side-effect of the way our system is built; it is a problem worth solving.

HOW MIGHT WE SOLVE THIS PROBLEM?

There are a few important things that we know to be true in relation to the top half of the triangle of service need:

1. For those with high and complex needs, those closest to them in the community are most likely to be successful in finding solutions. Finding the right people to work with those in need is fundamental to success. Government led service delivery will seldom be successful in this space, in part due to its fragmentation.
2. To be effective in dealing with cross-cutting problems, community providers need flexibility to bring solutions that put the person or family being helped at the centre of service delivery. This rubs against traditional means of procuring and contracting, in which government will frequently specify the outputs to be delivered (as opposed to the outcomes to be achieved).
3. There is disproportionate benefit to be had in successfully supporting people with high and complex needs into a better space, which means greater than normal spend can be justified for services to this group.

It will be necessary to optimise a part of the system to enable these ways of working, if we wish to be effective in the top half of the triangle.

The key features of the delivery model required for high and complex needs are as described following. To assist in following this description, a visual depiction of the system proposed may be found at Appendix One.

AN OUTCOMES-FOCUSED, PORTFOLIO-NEUTRAL SOCIAL INVESTMENT SUB-SYSTEM

To overcome the challenges of effective delivery on cross-cutting issues, particularly those arising from conflicting incentives, it is proposed to establish a social investment sub-system, the functions of which are as follows:

- Advise Ministers collectively on opportunities for investment focused on the top half of the triangle.
- Support Ministers in defining outcomes to be achieved through social investment spend (with reference to such things as Government targets and strategies, alongside insights about population outcomes).¹
- Advise Ministers on the appropriate balance of spend between core service delivery (the traditional system) and the social investment sub-system and support the transfer of funding between one and the other.
- Execute Ministers' intent through an independent board², prioritising investments to be delivered through portfolio-neutral commissioning in the social investment sub-system (described further in the following two sections).
- Monitor delivery and pursue opportunities for improvement against commissioned outcomes.
- Assess population impact and revisit priority outcomes areas as necessary.

In time, investments made through this part of the system will be able to be managed as a portfolio, with opportunities to adjust settings based on what is learned through experience of delivery.³

STARTING WITH WHO

Whereas traditional government procurement and contracting will start by considering what service needs to be delivered, to work effectively with people who have high and complex needs requires first asking:

- Who are the people we're trying to help?
- Who is best placed to work effectively with those people?

This is difficult to achieve under traditional procurement and Budget process requirements, which focus on tightly defining the services to be delivered and then going to market to secure the most cost-effective delivery of those outputs. Different approaches will need to be adopted for procurement and Budget processes to enable this way of working.

OUTCOMES BASED CONTRACTING

Having identified who is best placed to work with a particular cohort, the approach to contracting with those providers needs to acknowledge that the system is poorly placed to specify what interventions are required to achieve the desired outcomes. Engagement with providers through a contract formation process is likely to

¹ Whilst Government will expect to see outcomes for the investment of public funds, the outcomes sought through social investment should be those basic things that the state properly cares about. Outcome-based contracting leaves room for other outcomes to be achieved (such as those sought by individuals and families concerned), provided the essential outcomes are delivered.

² Whilst not an essential element of the model, the nature and volume of decisions to be taken about commissioning to achieve Government outcomes lend themselves well to this being the work of a dedicated board. Given the likely political contention about where and how funding is allocated, there is merit in considering whether statutory independence could enhance the legitimacy of the model, including by tying that independence to some statutory objectives.

³ The core elements of this system are analogous in many ways to the Pharmac drug purchasing model, which has been successful in extracting value from investment, albeit in a very different context.

surface greater clarity on the kinds of activities that will occur under the contract, but the ultimate test for success is whether the desired outcomes are achieved.

Contracting for outcomes is a more sophisticated type of commissioning than generally occurs in the system today. However, it is possible and can be enabled with tools and methods developed under the banner of social investment. Insights from analysis of data in the Integrated Data Infrastructure (IDI) can help to inform such things as:

- The cohorts in the community in which there are high and complex needs.
- The likely trajectory for those cohorts in the absence of an effective intervention.
- The public value that would come from an effective intervention that improves outcomes for people in those groups.

When combined with on-the-ground knowledge from providers during the contract formation process, these insights will help to establish contracts that can provide the kind of enablement providers need to work effectively whilst meeting the requirement to demonstrate value for money in the expenditure of public funds.

One of the features of investments made through this part of the system will need to be longer-term contracts that give providers confidence to invest in building the capability required to deliver the more demanding outcomes that will inevitably result from this approach to contracting.

Notwithstanding the need for a longer-term frame on outcomes, rigour in the expenditure of public funds will be very important. Tying ongoing funding to the achievement of outcomes (which are measurable over time and of greater value than outputs) provides a strong incentive for providers to get results.

DECIDING WHAT GETS COMMISSIONED WHERE

In creating another part of the system from which commissioning may occur, we need to be clear about where in the system particular outcomes / services should be commissioned. The simple lens for this is one of incentives. Where the core accountabilities within a single portfolio properly encompass the outcomes or services envisaged, then the commissioning should occur by the agency within that portfolio area. Where the direct accountabilities do not incentivise the investment, either because it is on a longer time horizon or because it is cross-cutting, investment and delivery should occur through the social investment system.

It should be noted that the social investment part of the system is likely to be best-placed and optimised for outcomes-based contracting. Whilst outcome-based contracts could be used in other parts of the system, it is likely that most of the contracting in the core system will remain largely outputs focused, because that enables optimisation for efficiency.

OPPORTUNITY FOR A REGIONAL APPROACH

Both from an implementation perspective and in terms of enabling the right community connections to be made, there is merit in considering how a regional approach may interface with the model proposed. The best demonstrations of joined-up working across the system (despite the barriers) have come from initiatives that have had strong local leadership. It is at the community level that agencies stand the best chance of achieving coordinated service delivery (although we should note that even strong local leadership has failed to fully overcome the barriers to cross-cutting delivery described in this paper). The possibility of a regional approach is further discussed under the banner of implementation options.

Whether or not a regional approach is adopted for implementation, it will be vital that the social investment system has a strong lens on the 'on the ground' realities. This includes the capability to identify and engage the right community service providers for a dialogue about commissioning and also to bring a public service

perspective on what is working well and what is not in different communities. The Regional Public Service Commissioners play the key leadership role in this regard and are an important system asset to enable the implementation of this approach.

WHAT DOES THIS MEAN FOR OUR WAYS OF WORKING

Whilst the changes proposed could ultimately have a significant impact, change would necessarily build out gradually over time. Appendix Two articulates the anticipated impact for our ways of working, from the perspective of different stakeholders.

HOW MIGHT SOCIAL INVESTMENT CONTRIBUTE TO CORE SYSTEM DELIVERY?

Beyond the changes proposed to improve delivery in the top half of the triangle, social investment has an important contribution to make in the bottom half as well. The areas of opportunity are described briefly following.

INFORMING UNIVERSAL SERVICE DESIGN

In scanning social outcomes across the whole population, the social investment approach will inevitably identify opportunities to improve core universal service delivery. For example, if (hypothetically speaking) it is apparent that a section of the population is doing better under a kura kaupapa schooling approach but current service delivery is not presently meeting that demand, this could be a basis for advice to the Minister and Ministry of Education about an opportunity to reconfigure core service delivery.

As we step into more effective cross-cutting delivery in the top half of the triangle, it is probable we will identify areas where agency or system policies run counter to the outcomes we are trying to achieve. It is not uncommon for policies set with good intentions in one area to conflict with outcomes the system is trying to deliver elsewhere. The social investment system provides an opportunity to surface these questions and enable an informed conversation to occur about the balance to be struck. In other words, not all opportunities emerging under the banner of social investment will be about investment per se.

IDENTIFYING GAPS IN AGENCY-COMMISSIONED TARGETED SERVICES

Scanning for social investment purposes may identify gaps in agency-commissioned targeted services that could aid the achievement of portfolio outcomes. Again, this could be the basis for advice to Ministers and agencies about indications that there is an opportunity to deliver more or differently.

PROVIDING A FRAME FOR AGENCIES TO OPTIMISE CORE SERVICE DELIVERY

Social investment provides a platform and some useful tools to enable agencies to refocus on their core outcomes. For example, there are opportunities to use social investment analysis to think about segmentation within the population being served by a particular agency and how different service design could lead to better outcomes, including future demand reduction. It is likely that the system would benefit from greater rigour in thinking about the results we are trying to deliver with expenditure in agencies, which provides a frame for ongoing consideration about value for money. Investment in agency capability to undertake this kind of analysis, supported by a cross-sector network of social investment thought leaders, could assist agencies to build great clarity on the value of spend within portfolios.

LINK TO WIDER SYSTEM PRIORITIES AND OBJECTIVES

In the current resource-constrained context, there is a need for agencies to be very clear about the following things:

- Why they exist
- Their core accountabilities / deliverables
- Their operating model to achieve the above
- How their funding is applied to deliver their operating model
- By implication, what they are not going to do.

The proposed approach provides a way of consolidating into one part of the system the cross-cutting priorities (and investment) as a way of helping to clarify core agency roles and responsibilities. This could be a very helpful contribution to creating the kind of focused accountability and delivery the current government is seeking without losing sight of the bigger picture outcomes that government is properly incentivised to deliver.

CONNECTION BETWEEN IWI / MĀORI ASPIRATIONS AND SOCIAL INVESTMENT

The kind of change proposed to deliver social investment has a strong alignment with the aspirations (and frustrations) of Iwi and Iwi / Māori NGOs. Iwi / Māori NGOs are at the coal face of the challenges that social investment is aiming to address. In many cases, they will be the organisations best place to work with the people at the top of the service delivery triangle.

The proposal under social investment to devolve service delivery for those with high and complex needs to community-based delivery, together with flexibility to deliver outcomes free of prescription about outputs, is likely to resonate with these organisations. Where a regionally-focused approach is part of our initial implementation, there may also be opportunity to consider how that aligns with the aspirations and capability of local iwi.

IMPLEMENTATION CONSIDERATIONS

There are a range of potential approaches to implement the change proposed. The key areas of choice are summarised under the headings following.

SYSTEM SETTINGS / LEGISLATIVE ENABLEMENT

The full implementation of the model is likely to require legislative change. In particular, legislation is likely to be required to create the mechanism by which Ministers collectively set outcomes for social investment spend, particularly if that spend is to remain distributed across many votes (rather than coming into a single vote). It is likely to be desirable for the proposed independent board to be established as part of a statutory entity, both to create the intended independence and to define statutory objectives for the board to deliver against. Legislation also has strong signalling value in terms of the system change and could provide a mechanism through which to engage in a cross-party discussion together with public input.

That said, much of what's proposed may be able to be achieved with more modest enablement, for example the establishment of a schedule 4A company, which would have an independent board. This would likely carry with it the risk of being too arm's length from Ministers and system oversight. Options that would fall short of establishing an independent board but could enable the approach to commence faster could include minor changes to the Public Finance Act as part of the current bill, for example to create a new social investment appropriation type, to which different rules may apply.

A focused piece of work should quickly surface the pros and cons of different approaches to system settings.

BUILDING ENABLING FUNCTIONS

When fully implemented, the social investment sub-system will include capabilities to:

- Advise Ministers on population outcomes
- Advise Ministers on the balance of investment between traditional and social investment sub-systems
- Advise the independent board on prioritisation of investment opportunities, provide governance support
- Engage, design and implement (commission) outcomes-based contracts
- Monitor and report on contract implementation and delivery of intended outcomes
- Set standards for and monitor third-party commissioning agencies
- Govern and maintain required data infrastructure
- Provide advice on gaps in services / service design in core agency service delivery
- Engage and partner with third-party funders (philanthropic, impact investors)
- System risk and assurance functions

The primary implementation question is around how much more building of these functions is required before stepping into the new approach. Ideally these functions would be built before commencement. However, it is probable that a maturity approach could be adopted – building minimum viable product pre-commencement and then growing maturity over time. This would obviously come with greater risk than building to a higher standard of maturity first but would have the advantage of timeliness.

WHEN AND HOW TO TRANSFER FUNDING TO THE SOCIAL INVESTMENT SUB-SYSTEM

This section relates to the transfer of funding that is presently deployed within agency votes (as distinct from any new funding that may come into the social investment sub-system). The most likely options for transferring funding can be summarised as follows:

Provider by provider basis – Under this option, funding would move into the social investment subsystem only as it's commissioned for delivery under this system. This would be the purest approach (in that there would be no investment in the system that hasn't had a social investment lens across it). 9(2)(g)(i)

A location-based approach – By picking a location to power up for social investment, it may be possible to review contracts for providers in that area to move them onto an outcomes-based contract footing. This option could be quite messy in that it's likely to involve unpicking some national contracts to contract differently in the location. It is also not likely to build scale at the pace that would be desirable to embed change. However, it could be an approach applied alongside another option, to show what's possible in a place.

Agency by agency basis – By reviewing a whole agency's contracts, it should be possible to get a good understanding of the contracts that properly sit within that agency (i.e. in the bottom half of the triangle), as opposed to those that should transfer across to the social investment sub-system. Having undertaken that assessment, existing contracts could be transferred into the social investment sub-system and would be gradually re-contracted over time to reflect social investment principles.

9(2)(g)(i)

Alongside this kind of agency by agency review it would be possible to consider a corresponding review to create strategic clarity in the agency, traversing the matters described earlier (why the agency exists; its core accountabilities / deliverables; its operating model to

achieve these things; how its funding is applied to deliver the operating model; by implication, what it is not going to do). This kind of clarification could assist with identifying further efficiencies and supporting stronger strategic alignment to government priorities.

Bulk transfer – it would be feasible to undertake a high-level review of appropriations to make a judgement about a single large movement of funds into the social investment sub-system. This would not work tidily (including because some appropriation categories are very broad). However, it could be a starting point for a larger shift. This approach would carry with it the risk that agency core funding is inadvertently moved across and may take some time to unpick.

HOW TO REFLECT LOCAL AND REGIONAL PERSPECTIVES INTO SOCIAL INVESTMENT COMMISSIONING

It will be important to bring a local and regional lens into social investment commissioning in order to:

- test insights about population need with those on the ground
- understand who is best placed to work with those needing help in the community
- understand the existing service-provider landscape and where the capabilities and gaps are
- understand how social investment might link with existing local activities and priorities.

There are a range of options to incorporate local and regional perspective into the model. These can be summarised broadly as follows: (in order of ambition)

Local and / or regional consultation on key commissioning decisions – Under this approach, local and / or regional perspectives could be sought as part of the commissioning process, led out through public service leaders (particularly regional public service commissioners). Decisions would still be taken centrally, albeit informed by this advice.

Local and / or regional committees to advise on commissioning for the area – Under this more formalised approach, local and / or regional committees could be established to advise on commissioning. This could include community leaders (and potentially tap into the likes of the Māori partnership boards under the health model). Decisions would still be taken centrally, albeit informed by this advice.

Local and / or regional devolution of commissioning decisions – Under this approach local and / or regional committees would take on decision-making for commissioning. This would likely necessitate the setting of local budgets and a more significant support model.

Local and / or regional devolution of commissioning - Under this approach, as well as devolving commissioning-decision making, the actual commissioning of services would also be devolved. This would imply the development of local commissioning agencies (and could leverage the likes of community trusts). It would carry with it a significant reduction in national control and visibility of the system but have the potential benefit of better insights and connection with what's working on the ground.

HOW TO COMMISSION SERVICES IN THE SOCIAL INVESTMENT SUB-SYSTEM

The social investment approach proposed implies the existence of a neutral commissioning function(s) that undertake engagement with community providers, establishment of contracts, etc. It is not proposed that the Social Investment Agency carries an enduring direct responsibility (given this is likely to conflict with other system responsibilities, e.g. monitoring delivery). There are a few possible ways to tackle this question:

A new single national commissioning entity – under this model, a new commissioning entity would be built, mostly likely as part of a statutory entity (schedule 4A company or otherwise) over which the independent

board sits. This option would have the advantage building a single centre of excellence. It would take time to establish and there could be a risk that it becomes too much removed from the purview of Ministers. It would have as a disadvantage the fact that there is no pre-existing local presence or reach, all of which would need to be built, and even with such capability may be too removed from community to get strong insights about what's working.

Engaging the services of existing community commissioning agencies - under this model, the Social Investment Agency would act as a commissioner of commissioners and work through existing community-based commissioning agencies, for example, whanau ora commissioning agencies. This approach has the advantage of pre-existing capability and community networks that could be adapted to deliver social investment outcomes. With the SIA working over the top of this commissioning practice, Ministers would be more closely connected with the functioning of the social investment system, albeit that commissioning prioritisation decisions would be through the independent board.

Create a market for third party commissioning and accrediting new services as they reach the required standard – under this model, organisations would be invited to tender to be commissioning agencies. This could allow the more organic development of commissioning capability closer to the communities where services will be working. It is possible that some existing organisations, such as community trusts, may come forward to participate in this. It's likely to lead to a larger proliferation of commissioning organisations and greater complexity in terms of system administration and monitoring.

It should be noted that all commissioned services have with them an assumed cost of commissioning (generally in the vicinity of 10 to 20 percent of contract value). Where the funding relates to existing contracts, this will be found in agencies' commissioning functions, which would become correspondingly smaller as their total spend reduces. It is assumed that this funding will enable whatever commissioning approach is adopted.

DISCUSSION – LIKELY IMPLEMENTATION APPROACH

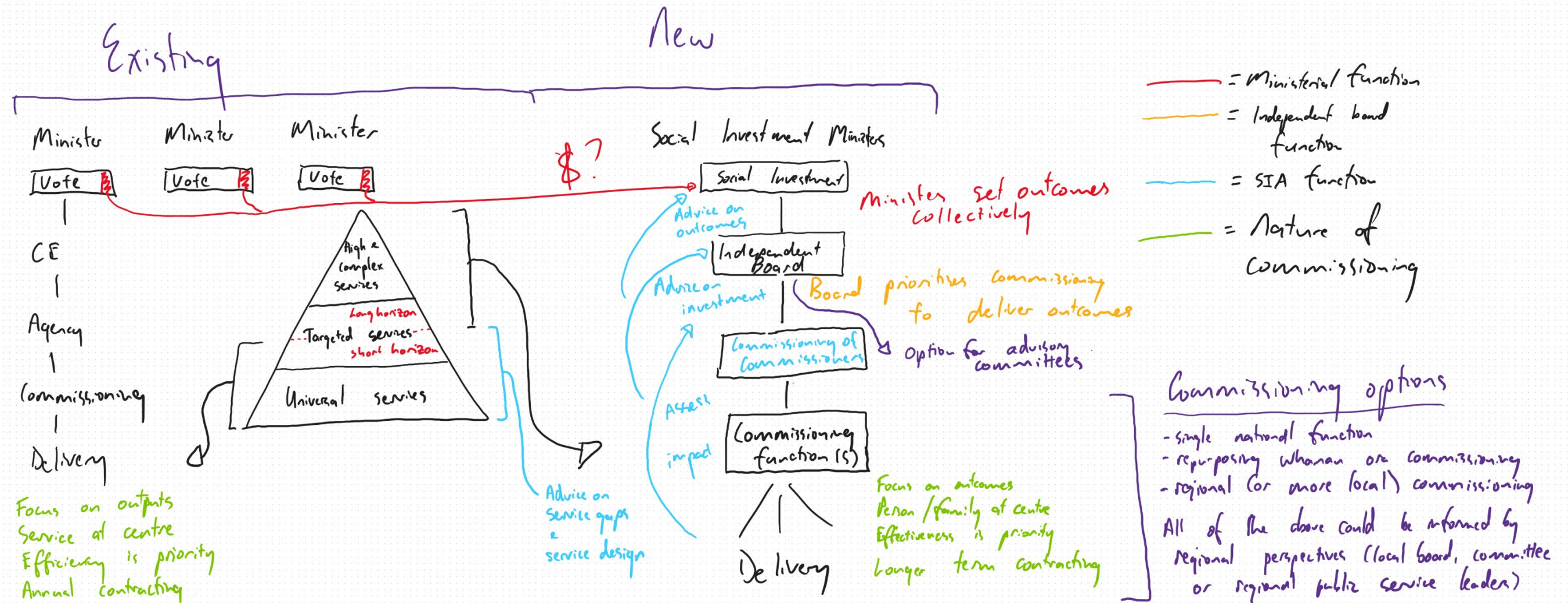
In an ideal world, implementation would follow a linear approach – decide and implement system settings, build the required system capabilities and then gradually transfer investment across. 9(2)(g)(i)

As a starter for discussion, the following rough sequencing as offered as a likely approach to implementation:

Implementation question	Initial approach	Ultimate approach	Comment
System settings / legislative enablement	Modest changes to Public Finance Act, to enable social investment appropriations.	Independent board accountable for delivering against outcomes set by Ministers and working to a set of statutory principles	Creates opportunity for wider public dialogue and cross-party engagement whilst also stepping firmly into the new approach while the window is open.
Building enabling functions	Minimum viable product	Mature enabling functions that continuously enhance social investment practice	Building the functions before making first steps will risk losing the current window of opportunity.

Transfer of funding to the social investment sub-system	Agency by agency approach, supported by agency efficiency reviews. Funding is moved before it is re-contracted. Social investment system will undertake stocktake of transferred contracts as first priority.	Strategic system advice on balance of spend between two sub-systems.	This option has the benefit of a measured but rapidly scaling implementation. It will allow agency strategic alignment / efficiency reviews to run in parallel, as an organising idea about the split between the core and social investment sub-systems.
How to reflect local and regional perspectives	Regional consultation on key commissioning decisions.	Potential for devolution of commissioning decisions (subject to future decisions).	It will take time to build maturity in the system capabilities required to support greater devolution of commissioning decisions (assuming there is an appetite to pursue such devolution). This approach brings local perspective in a pragmatic way while system capabilities can be built.
How to commission in the social investment sub-system	Through existing commissioning agencies	Create a market and accredit a wider range of commissioning agencies, including more local entities	There are some existing community-based commissioning agencies that have a base of capability to undertake the desired commissioning and strong community networks. That said, stepping into outcomes-based commissioning is not straightforward and will require strong guidance from the centre. Overtime there will be benefit in creating a market for those who wish to commission in the social investment sub-system. This could enable more local commissioning and ongoing enhancement of commissioning practice.

APPENDIX ONE - PROPOSED IMPLEMENTATION OF SOCIAL INVESTMENT



APPENDIX TWO – WHAT DOES THIS MEAN FOR OUR CURRENT WAYS OF WORKING

INDIVIDUALS AND FAMILIES

Individuals and families most in need of help can expect to receive support from providers who are empowered to support them to live the lives they aspire to. They will have greater choice over the services offered to support them to achieve their aspirations. This opens the door for individuals and whānau to have greater agency over their own lives. Families that have experienced generationally poor outcomes will be supported to break this cycle.

Those receiving social support can expect services to be delivered that are more appropriate for their particular needs.

SERVICE PROVIDERS

Providers working on the most challenging social problems will be empowered to deliver outcomes for the people they support, without having the service mix dictated to them. Together with the individuals and families they are supporting, they will be able to determine the best way to deliver the outcomes sought. They will also be able to deliver other positive outcomes that may be valuable for those individuals, families and the community.

There will be no immediate change to service provider contracts. Over time, contracts that transition into the social investment sub-system will be reviewed to ensure appropriate methods of contracting and alignment to the outcomes set for that expenditure. For many providers this will create the opportunity for simplified contracting arrangements that give greater flexibility to provide the services required to make a difference for people.

There will continue to be a need for output or service-based contracts, particularly where those are commissioned by agencies to support delivery of their core functions. However, for providers that are working with people and families to deliver long-term outcomes there will be more appropriate methods of contracting that reflect the complexity of this work and the investment and time required to make a difference. Commissioning in the social investment sub-system will generally occur closer to the communities where help is being provided.

COMMUNITIES

Communities can expect greater community wellbeing because social service delivery will be more effective in responding to community concerns. This will include greater benefit from innovation in how services are delivered to achieve desired outcomes.

Communities can expect greater input to the services being delivered to improve community social wellbeing. Providers will be selected and commissioned closer to the communities in which they are operating, ensuring that commissioning decisions reflect community perspectives about what is needed and who is best placed to deliver.

GOVERNMENT AGENCIES

The bulk of the current spend on the social system will continue to sit within agencies. With a total spend of around \$70B, around \$6B - \$8B relates to services commissioned with community providers. Of that, only a portion relates to cross-cutting or long-term preventative outcomes. Agencies will continue to commission services where those services properly connect to their accountabilities and are significantly contained within their portfolio area.

With the social investment sub-system taking primary responsibility for the commissioning of cross-cutting services and long-term prevention, agencies will focus their effort on their core accountabilities. Agencies will be expected to apply social investment methodologies within their core operating models, particularly the use of data and evidence to understand how and where to apply effort to achieve better outcomes.

Agencies will benefit from insights arising from community-based service delivery and innovation that may have application for their core agency operating models.

MINISTERS

Ministers will have an alternative way of investing to achieve outcomes and will have the opportunity for greater innovation in the way public services are delivered. They will retain ownership of the outcomes to be achieved with the investment, albeit they will set these outcomes collectively. Vote Ministers will continue to receive policy advice from the relevant agency, which will include perspectives on outcomes to be sought from the social investment sub-system.

NEW ZEALANDERS

New Zealanders can expect better value for public money spent across all types of social expenditure, from universal service delivery through to that supporting people with high and complex needs. Ultimately, the public can expect a more confident and thriving country as a result of a population that is thriving.