The Treasury

Governance and Accountability in Social Investment Information Release

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Governance and Accountability in Social Investment

Report prepared by a working group to respond to and build on the proposals from Matt Burgess and Denise Cosgrove

November 2016

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Executive summary

This report builds on the proposals by Matt Burgess and Denise Cosgrove (B-C) for governance and accountability of social investment after discussing questions about their scope, the use of liabilities as performance targets, the role of actuarial analysis and the role of the Treasury. It emphasises the need for social investment to succeed in reaching vulnerable people with complex needs through the use of collective impact methods for access, engagement and service delivery.

As the working group recognises the unavoidable problems of rendering multiple objectives down into a single metric, this report concludes that it is not safe to use single valuations as high powered performance incentives. Rather they should be used to frame performance objectives in the process of commissioning services and as a reflection of the circumstances of the cases. A purely fiscal analysis of social investment proposals is available for fiscal policy and budgeting in the normal way, which can be considered in parallel with social cost benefit analysis and other analytical approaches to formulate and assess investment opportunities.

The role of Government Investment Manager in B-C can be split between Treasury, as an extension of its normal role in investment budgeting and oversight, and the SIU, which should be more engaged in advice, and line agencies in their respective domains.

Broadly based commissioning approaches should be used to bring together policy analysis, service delivery architecture, and engagement with those affected while being careful not to crowd out the intrinsic motivations of managers and social service organisations. Capability for commissioning services, especially to address people in the long tails, should be developed and a Social Investment Commissioning Agency provided for, which could evolve within or out of the SIU. This capability is essential for the Government to Partner with "collective Impact vehicles", including with iwi-based organisations.

In action, the processes are based in the normal structures and conventions of government as they currently are, but with the:

- Treasury role clarified for social investment, with a rapid change management process to build its capability
- SIU located more securely and with its functions augmented.
- Social Investment Panel continues in its present role in reviewing social investment proposals and is augmented to a role of quality assurance and the centre of hub of expertise needed to progress social investment further.
- Superu's mandate reframed to better support social investment

The decision making process is conventional. Ministers on advice of their ministries or wherever else they choose, develop proposals for investments. The SIU and the Treasury advise ministers from an overall view of the landscape and the Government's priorities for social and fiscal policies. The proposal enters the budget process in the normal way, [1]

[1]

Ministers and the Minister of Finance resolve their differences about priorities and resources in the budget process in the normal way with advice from their ministries, supplemented with the advice of the Social Investment Panel.

Where the Investment Manager – using the description in the B-C proposal – is not an official but an outside organisation or involving non-standard relationship between the Government and the service providers in a PPP of some kind, then the practices of commissioning described in this report

should apply. The minister becomes the investor, who has an investment advisor, while the provider vehicle has a "Treasurer" in cases where traditional contractual methods would compromise effectiveness and efficiency. This will, in particular, be the case when collective impact vehicles offer the best prospects to achieve the objectives of the investment. In practice the minister's role as investor will morph into a responsibility for the minster's chief executive (CE).

When using collective impact methods, the difference from normal bureaucratic practice will be that the CE would invest in the collective impact vehicle directly and pass over some of the decision rights to the Treasurer within it. One of the effects of this is to bypass a concern this report has with the B-C proposal to involve the group of agency CEs in the chain of control, as in most cases they will have divergent interests in the investment.

The report also recommends supporting data architecture to ensure fast learning feedback loops, particularly in front line service delivery. As the data sets become richer over time, the valuations they lead to will become stronger. It will be important though to emphasise the importance of sorting out the data architecture in social investment delivery vehicles in accordance with the principles of the NZ Data Futures Forum

Finally, while having to work with multiple objectives seems inevitable, this report is very clear that a fiscal analysis of each investment, which is not diluted with arguable or even speculative attempts to value social indicators, is a foundational requirement for social investment. The Minister of Finance could not be clearer that social investment is about spending money now to save money later and has to have the assurance this test is made of each proposal. Otherwise social investment is just another rationale for breaking the budget constraint. The fiscal calculation must be on the table when ministers make their decisions about social investments.

Recommendations

General Findings re: Burgess/Cosgrove Framework

- Keep fiscal forecasts of social investment proposals separate from social cost benefit analyses and accept that:
    - the former will commonly be a poor proxy for the latter, particularly when the investment involves multiple social impacts and relies on arguable translations of these into money terms
    - but nonetheless, the fiscal analysis based in the new data rich analytics will be invaluable for fiscal policy and in budget discussions and assessments of investment proposals
    - The evolution of the data analytics will over time support improvements in the proxy indicators of social outcomes but will never be a complete answer, so other information and stakeholder processes will remain essential

- Do not use the valuations as high powered incentives for managers and service providers but as a component of a more broadly based performance assessment that is contextualised within the process of commissioning of the service providers and engagement with the clients and communities involved.

- Replace the Government Actuary in B-C with a quality assurance function that is associated with the Social Investment Panel, strengthened and embedded as appropriate to this task.
- Split the functions of the Government Investment Manager in the proposal between:
    - those that are a natural extension of Treasury's usual functions in fiscal analysis and budgeting into social investment, which requires focusing and building its capability for assessing social investment proposals, taking an overview of the portfolio of investment and identifying prospects, and
    - augmenting the SIUs role in developing and promoting social investment into providing advice on the opportunities and building capability in concert with the ministries.
- That a report on the status and progress with social investment be developed by officials and included initially within the statutory reporting of fiscal strategy under the Public Finance Act.
- Note that there is no need for legislative change to effect the recommendations in this report.

<u>Institutions</u>

- Cement Treasury's role in social investment in parallel with its roles in other investment proposals coming to ministers and implement a substantial and rapid build-up in its capability to do this.
    - The Treasury develop a change management plan to build Treasury's capability to effect the role in social investment described in this report and do so comprehensively and quickly in view of the needs for the budget 2017 process for considering social investment proposals.
    - SSC to confirm that this plan for Treasury's capability in social investment is consistent with the scheme for social investment across the Government.
    - Embed the use of a panel of experts including science advisors and data scientists to provide quality assurance over social investment methods and opinions on a manageable sample of social investment budget proposals –[1]

- Augment the SIU's role to be able to provide advice on some social investment initiatives and take an overview of the social investment landscape
- Augment SIUs role so as
    - to participate in commissioning activities for initiatives that require specialist capabilities in collective impact and PPP arrangements or which do not fit ministry structures and controls and may be funded through other channels
    - to work in these roles with the ministries in "dual operational" methods to help diffuse knowledge and support change

- Note that MSD is not the most appropriate continuing home for the SIU
    - Agree that SIU should relocate to SSC or DPMC
    - Note that this report prefers SSC as the location
    - Agree that the SIU be reconstituted as a Departmental Agency
    - Note in relation to these recommendations, the recommendation earlier in this report to augment the SIU's role to be able to provide advice on some social investment initiatives and take an overview of the social investment landscape

- Agree that:
    - The science advisers also should stay engaged in the development of methods of analysis and evaluation generally and the use of those methods that emphasise longitudinal analysis to understand needs and outcomes over time.
    - The professional differences between data scientists and other scientists in the area should be allowed to play out over time.
    - Develop a detailed proposal to change the mandate for Superu to support social investment with an emphasis on building technical capability in community providers and NGOs and providing them with advice on service effectiveness drawing on international and local experience of what works.
    - That a dual operating model be employed to bring together the best of the skills of the ministries and the SIUs skills in both advice and commissioning in order to help diffuse innovations through the system.

<u>Collective Impact Approaches</u>

- Note that collective impact vehicles for working with people with multiple vulnerabilities require new methods of funding and accountability based around investing in trusted and well-performing vehicles and disinvesting when performance is poor.
- Agree, subject to the control of the Public Finance Act and other relevant legislation:
    - To the use of collective impact vehicles by ministries and officials through existing arrangements for finance and accountability augmented by deeper delegations of authority for investment managers
    - To allow such proposals to be submitted directly to Treasury for budget consideration [1]
    - Their use through a parallel commissioning channel that is focused on populations with complex and particular needs
    - The collaboration between these two as appropriate to bring commissioning expertise with collective impact vehicles into mainstream delivery systems.
    - A concentration of the capabilities needed to give effect to collective impact solutions and social enterprises that engage with the Government.

- Note that it is not recommended that collective impact approaches are used for all social investments, but only those where it overcomes the weakness in current procurement practices.
- Note that the proposals in this report for commissioning can improve the management of the supply chain for social services.
- Agree that, for each collective action social investment there will an:
    - Investor, who is the Minister or possibly joint ministers
    - Investment Advisor to ministers
    - Treasurer within each collective impact vehicle who is accountable for use of public funds and may be an official where size and circumstances warrant it

- Agree that collective action methods can be deployed in partnership agreements with Maori organisations to integrate the social development objectives of Maori with government support.

Data and Commissioning

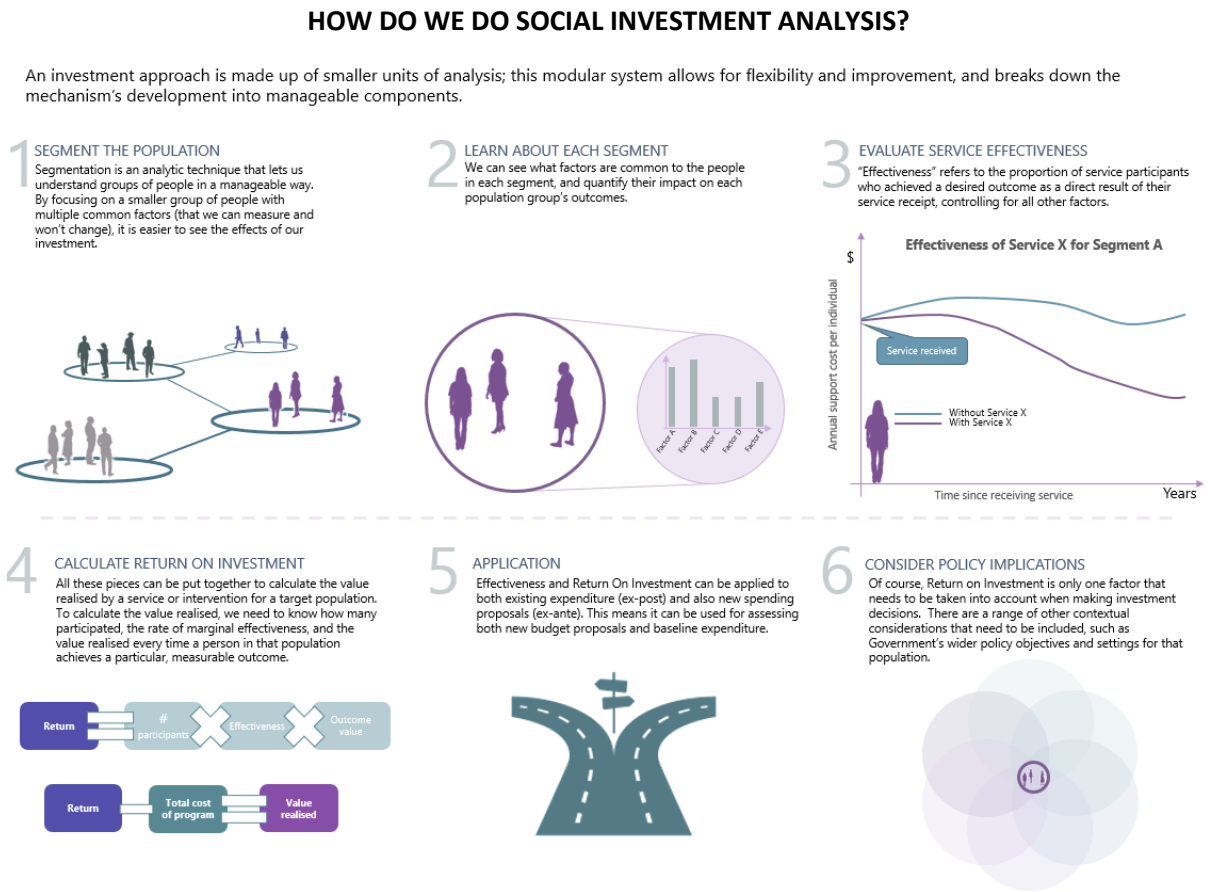
- Emphasise the importance of sorting out the data architecture in social investment delivery vehicles in accordance with the principles of the NZ Data Futures Forum
    - Create citizen-focused architecture
    - Establish guidelines for melding government and provider information in service delivery and performance feedback
    - Take care to protect the privacy of citizen information in front line service delivery and avoid misuse

- Take practical steps in commissioning processes to ensure fast learning feedback loops, particularly in front line service delivery
- Use broadly based commissioning approaches to bring together policy analysis, service delivery architecture, engagement with those affected and being careful not to crowd out the intrinsic motivations of managers and social service organisations

Introduction

This report is prepared under contract to the Treasury in accordance with Terms of Reference – annex 1 - requiring comment and advice on how to build on the proposals in the report by Matt Burgess and Denise Cosgrove (B-C) for the governance of social investment. B-C was initiated in the context of around five years of development of new approaches to social policy decision making, which has permeated social ministries to varying degrees and where each is working out how to apply the general concepts of social investment to their fields. Their report was written to launch thinking and decisions about how to govern the system in the light of what is being learned.

The most common definition of social investment comes from the Social Investment Unit (SIU) and has been to Cabinet:



1 Social investment is about improving the lives of New Zealanders by applying rigorous and evidence-based investment practices to social services. It means using information and technology to identify those people for whom additional early investment will improve long term outcomes, better understanding their needs and what works for them, and then adjusting services accordingly. What is learnt through this process informs the next set of investment decisions.

2 Social investment puts the needs of people who rely on public services at the centre of decisions on planning, programmes and resourcing, by:

2.1 Setting clear, measurable goals for helping those people.

2.2 Using information and technology to better understand the needs of people who rely on social services and what services they are currently receiving.

2.3 Systematically measuring the effectiveness of services, so we know what works well and for whom, and then feeding these learnings back into the decision-making process.

2.4 Purchasing outcomes rather than specific inputs, and moving funding to the most effective services irrespective of whether they are provided by government or non-government organisations (NGOs).

All investment involves making a decision today to commit resources with the expectation that returns in the future from that expenditure will be larger than that expenditure, either in terms of extra benefits or reduced costs. There are long standing methods for doing this for physical infrastructure using 'hurdle rates' to prioritise proposals on the basis of their expected returns on investment. The methods of investment appraisal allow for costs and benefits that are not priced in the markets but estimated in money terms e.g. time saved and reduced costs from accidents in road projects. And decision makers also consider factors that cannot be valued in money terms e.g. strategic fit, who wears the costs or receives the benefits, ethical issues.

But in the way social policy decisions have traditionally been made, the cost–benefit assessment over time has been more intuitive and ad hoc than formal. The 'assets' that social policy protects and creates are intangible, or at least hard to observe and measure, as are many of the benefits, while the fiscal costs and social deficits it seeks to avoid have not generally been seen in an investment framework.

In recent years, welfare reform has introduced actuarial methods to augment decision making about priorities. Work and Income has used these to guide decisions on allocating effort to put people back to work, partly inspired by methods used in ACC. These experiences have spawned interest across social policy to adapt these methods in the pursuit of better social outcomes and better fiscal outcomes. These experiences have prompted the Minister of Finance to say "what works for communities works for the Government's books".

A crucial reason for the timing of the wider initiative for social investment is the tsunami of more useable data that is coming available to analyse social policy – not just from the Government's IDI for its administrative data but across the whole social sector beyond the Government and internationally. Further there has been rapid growth of stores of information and of people networks globally concerned with evidence of how interventions impact short and long term on social policy outcomes. Policy advisers today have vast intellectual resources to consider in developing advice that has not previously been available. As regards data, it was always there but, going back to 2004 in CYF, it began to be joined up and stored longitudinally by client. So actuarial and other predictive modelling became possible.

Given these developments it was timely for work to be done on how the social investment system was to be governed, funded and managed. Advice on adapting the budget to support social investment is also in the Terms of Reference for this working group but, for reasons of confidentiality, the chair of this working group provided this advice separately.

The B-C report has been reviewed by the Social Sector Board, which endorsed the principles in the report as a good starting point, agreed that the framework in it be further developed and sought advice on other options.

This report begins with a summary of the B-C proposal, then provides comment on the major features of relevance to the terms of reference, which sets the agenda for the rest of this report. The remainder of the report revises and builds on the B-C proposals draws some conclusions and makes recommendations.

Short summary of Burgess-Cosgrove system

The flow chart below provides a snap-shot summary of the B-C framework. It shows the roles of the main players in the processes of allocating pools of 'liability', defined as "costs net of benefits arising from social and fiscal outcomes over time", to Investment Managers (IM). The pools of liability are calculated in monetary terms and incorporate fiscal flows and valuations of social costs and benefits. Investment managers are accountable for reducing the valuations of these pools by making investments that lower the net fiscal and social costs over time. The valuation is net of investment costs.

Decisions about what liability pools will be established, amended or disestablished are made by the Cabinet on the advice of a sponsoring Minister or Ministers. These pools can be decided by Cabinet in a variety ways – geographical, departmental, population based groups or whatever. Each pool has one or more Sponsoring Ministers.

Sponsoring ministers must also seek Cabinet approval for establishing the IM for each pool, which may be a person, a department or an 'entity'. Such approval is also needed to establish a Responsible Chief Executive of a ministry or department who appoints the Investment Manager, provides it with administrative support, manages and is accountable for the Investment Manager's performance. Any request for money in the budget must go through a vote for which the Responsible Chief Executive is accountable.

In addition to taking advice from Sponsoring Ministers, Cabinet also receives advice from the Government Investment Manager (GIM), Central Agencies, and - it can be assumed – the departmental advisers of ministers with an interest in each proposal concerning a liability pool.

Further, sponsoring ministers must agree on the details of a Social Targets Agreement (STA) with the IM "via the responsible CE" for each liability pool and seek Cabinet approval of the agreement. The sponsoring Minister remains accountable for results and unintended consequences and can essentially make any changes to the agreement unilaterally subject to Cabinet approval.

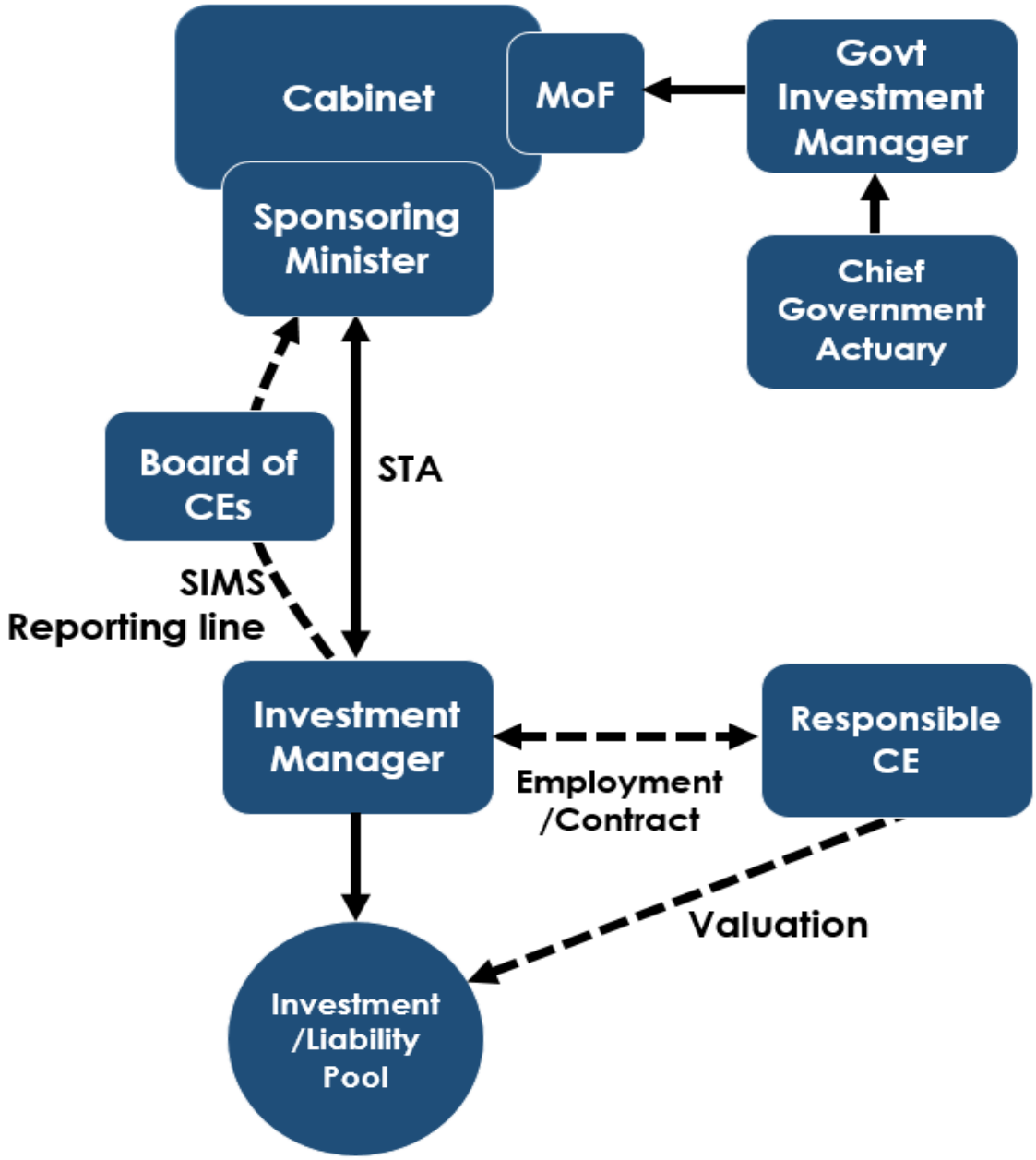
Subject to the constraints of these arrangements, the investment manager has extensive freedom to pursue the liability target, which the B-C framework does not prescribe or limit. But it is anticipated that this may include just contracting service delivery, or undertaking analytical work about the effectiveness of current policy and proposed changes, securing control over resources and making budget bids, negotiating or seeking Cabinet agreement to resolve spill overs between pools, proposing policy changes and commissioning service delivery.

The GIM is appointed by Cabinet upon receiving the recommendation of the State Services Commissioner - "on the advice of Central agencies". The GIM is an advisory position that "has responsibility for the overall government pool" and whose role is to provide oversight and advice on the operation of the framework, but not the operational activities within it, both from the perspective of the overall liability pool, its structures and strategies and the performance of the individual pool managers. The GIM reports to the Minister of Finance.

The GIM has attached to it a chief government actuary who is "granted strict independence on liability definition and methods and on certification of compliance", but can otherwise be directed

by the GIM. The actuary determines the approved system wide definition and methods for estimating social and fiscal liability and certifies the valuation of pools periodically. The GIM also provides advice on efficiency and effectiveness of pool management and the "anticipated consequences for behaviour of investment managers" from methods of liability estimation. The actuary is appointed by the Cabinet following a recommendation from the State Services Commissioner.

Once in operation, proposals for establishing, modifying or disestablishing liability pools will be taken by sponsoring ministers to Cabinet, after considering the advice of their departmental officials both individually and through the collaboration of senior officials in the board of CEs. Advice from a top-down strategic perspective on the whole landscape of liability pools, together with performance reporting on the management of existing pools will come from the GIM.



Note: STA is 'Social Targets Agreement' and SIMS means Social Investment Managers

Comments on the B-C proposal

In reviewing the B-C proposal, this report focuses on the crucial features of the design as a basis for recommending some changes to it. The features that are reviewed are as follows and are elaborated through the rest of this report.

- The scope of the proposals
- The use of valuations of liabilities as a single actuarial metric for setting objectives and measuring performance
- The role of actuaries
- The Government Investment Manager and the role of the Treasury
- The special requirements for addressing vulnerable populations
- The limits of social investment
- Need for legislation

Scope and Focus

The B-C report can fairly be described as a top-down perspective on how to organise roles and processes at the centre of government. Much of the drive for better social outcomes comes from the way in which the IMs respond to their mandates in the STA. The IMs are assumed to respond to their incentives by discovering over time through trial and error how to reduce their target liability valuations. This report fleshes out the detail below the investment managers in the model shown in the organisation chart. It considers possible distortions to the actions of the IMs and makes proposals on how to integrate services across silos and with non-government players. This includes an alternative line of accountability for certain kinds of social investment, especially those that are delivered through PPPs and collective impact vehicles

Liabilities as proxies for social outcomes and performance targets for managers

The B-C report uses the concept of a liability as the foundation on which the whole proposal is based. They say "The term 'liability' is used as a convenient shorthand" and define it as "costs net of benefits arising from social and fiscal outcomes over time", and further include "economic" costs and benefits. It is critical to their whole governance architecture and how it operates in practice, so it is necessary to consider it closely. Under the framework, reduction in liability, is used as a "proxy for better social outcomes." If it is not as robust as B-C intend then their governance arrangements have to be modified.

B-C are unambiguous that the definition of liability should be a "valuation", which is based on an assumption that "It is possible to forecast future social outcomes, the demand for social services, and to assign a valuation to those outcomes." And in amplifying their proposal "… it is assumed it (the liability) will broadly mean the discounted sum of the costs and benefits (including expected tax contributions) associated with social and fiscal outcomes. Fiscals include the costs of services provided and administrative overheads of investment management. Factors permanently beyond the control of Investment Managers, including effects of macroeconomic conditions, will, where possible, be excluded from valuation."

Important questions need to be asked about these use of valuations. What is in them and what are they used for?

The valuation construct

The valuations encompass disparate measures of heterogeneous items. Weighting fiscal, economic and social outcomes is no simple matter. B-C "do not take any view on the appropriate weighting between social and fiscal outcomes" and appropriately assign the value judgements between

outcomes to ministers. However the system does ideally require all items to be included in the metric to be valued in money terms. So the weights that are implicit between the various items captured in the analysis are represented in the values they are assigned, which will commonly be projected fiscal flows augmented with estimates of social effects based on various assumptions.

Some of the items are 'self-weighting' in the sense, for example, that unemployment beneficiaries who are long term and have associated issues will appear in the forecast with higher expected long term costs. So there are incentives to assist them even though they are harder to place in employment, because success brings a large drop in the liability. But unemployment has other effects such as increased risk of mental health issues and self-harm. A cost benefit analysis logically takes these effects into account, but the fiscal analysis does not value the probability of the prevention of a suicide. A judgement would be needed as to how to adjust the valuation to do so.

So the valuation based in predictive analysis will naturally incorporate some social impacts, others can be added in based on some estimation of the monetary value of an item that is not captured in fiscal numbers. It is this concept of a valuation that underpins B-C.

There are lots of judgements required for this, so advisers should give visibility to these so politicians can make their decisions based on their values and priorities. But ministers are unlikely to want to engage in technical discussions of weightings on parameters within a valuation exercise. They are most likely to do this by using their freedom under the proposed arrangement to impose their preferences outside the calculus of value and insert qualifications to the valuation into the STA transparently, as B-C requires. However it can be expected that ministers will side-step those requirements in day-to-day interventions, especially where the IMs are public servants. So, while the valuations are fundamental to the B-C model, in practical terms these are likely to be made up from heterogeneous items and therefore arguable and often overlaid with additional objectives outside the valuation.

While these valuations are very complicated and require judgements at many points, it is important to emphasise that the availability today of joined up data permits long run pathways to be tracked and analysed, and offers new ways to measure outcomes and proxies for them. These recent methods offer some relief from the problems that have bedevilled other attempts at managing for outcomes. Also other kinds of data can supplement the use of predictive analytics to support decision making. In the example described below, the savings in hospital costs from a program to stop falls by the elderly were assessed using data on fractures and avoided surgery to attribute value. But these could also have been revealed in a predictive analysis of fiscal costs or in a cost benefit analysis.

This report concludes that it is not safe to assume that the valuations are a general and reliable proxy for better social outcomes in the sense of comprehensive social cost benefit analyses, although they may be in particular cases e.g. in ACC. Nor should reducing them be the generally accepted target, although it will make sense in various circumstances. The valuations incorporate metrics but judgement is needed to interpret their meaning and their suitability as proxies for social outcomes. They will commonly be unsuitable proxies but there will not always be anything better. However, the new analytical methods hold the promise of improving the methods of social CBA and shrinking the gap between fiscal and social analyses. To do this the gap needs to be in plain sight, which is discussed below.

Recommendations:

- Keep fiscal forecasts of social investment proposals separate from social cost benefit analyses and accept that:
    - the former will commonly be a poor proxy for the latter, particularly when the investment involves multiple social impacts and relies on arguable translations of these into money terms

- but nonetheless, the fiscal analysis based in the new data rich analytics will be invaluable for fiscal policy and in budget discussions and assessments of investment proposals
- The evolution of the data analytics will over time support improvements in the proxy indicators of social outcomes but will never be a complete answer, so other information and stakeholder processes will remain essential

Valuations as high powered performance targets for managers

The use to which the valuations are put in B-C for assessing transparently the performance of investment managers raises a different set of issues. These valuations are used as the "accountability for investment managers against a single primary outcome: to reduce the value of the liability for which they are responsible…"

IMs are assigned to pools of liability and given delegations of managerial freedom, sufficiently extensive that they cannot claim later that lack of freedom meant they could not meet the goals of lowering the valuation of the liability. In other words there is a balance of accountability, capability, resources, managerial freedom and time, which makes the performance requirement feasible. B-C implicitly assume this to be the case, or perhaps more accurately, imply that the strength of the incentives and the high functionality of the rest of their system will reach this balance after a few years. As they put it in referring to the liability "Accountability against this metric supports the *discovery* of pathways to improved social outcomes". This uses the valuations as high powered incentives on IMs to figure out how to lower the valuation, exercise extensive managerial freedoms to achieve this, while being held transparently to account for success or failure. Is this practical and desirable?

IMs will commonly have multi-dimensional objectives to meet rather than having all the objectives rendered down into a single valuation number. Some items included in that number will have a range of degrees of reliability and the extra requirements outside the valuations are likely to specific, but somewhat unpredictable in their impact on the valuation.

Also ministers have complete powers to intervene in real time, so performance requirements may change along the way. This is simple for IMs who are public servants, but involves renegotiation of provider contracts if the IM is say an NGO.

B-C provide for the performance incentives of IMs to be adjusted for major influences, such as the state of the economy, over which IMs have no control. But there are other less obvious influences on their metrics that will be contentious. For instance, consider the problem of setting targets and assessing performance when there is significant cost-shifting between liability pools. While the GIM will have an advisory role in identifying spill-overs and cost shifting between liability pools, which is intended to deal with them ex ante, many or most will be solved as the evidence of them emerges in real time. B-C say: The framework supports management of spill overs by holding "managers accountable for costs associated with presentations to their pool, including from spill overs… This pressure may lead to cross-pool or cross-department arrangements to achieve mitigation". These arrangements provide "mechanisms that can permanently lean against cost-shifting behaviour, which could emerge as a strategy for managing and reducing pool valuation." Exactly, but 'leaning against' it reflects acceptance of pragmatism that is seen in this report as inevitable, which has consequences for trying to identifying a single metric as the outcome, and reducing the valuation of this metric as the performance target. These emerging cost shifting issues could cause dysfunctional anxiety for a manager bound to reducing the valuation metric, unless it really is practical that they be negotiated quickly with a right of appeal to a referee.

In the light of these considerations this report concludes that the setting of performance targets for managers should place no more weight on the valuation than it deserves as an acceptable proxy for desired social outcomes. An STA or performance requirement derived from it down the chain should be set by judgements about what are the best indicators of the social outcomes and align the requirements with intrinsic motivations and professional commitments of service providers. In most areas of social service provision the professionals involved make judgements about what is best for their clients, so it is essential to take this into account in the performance framework. For example, in health services, teams of clinicians have developed "System Level Measures", which are performance indicators that capture clinicians' views of what the contribution of clinical services should be to support the achievement of higher level health outcome, as specified under the Health Services and Disability Act.

Recommendation:

- Do not use the valuations as high powered incentives for managers and service providers but as a component of a more broadly based performance assessment that is contextualised within the process of commissioning of the service providers and engagement with the clients and communities involved.

Critical success factors and practical work-arounds

The crucial explicit assumptions on which the B-C scheme in its ideal form depends are:

1. That the reduction of the value of the liabilities is an acceptable "proxy for better social outcomes".
2. "It is possible to forecast future social outcomes, the demand for social services, and to assign a valuation to those outcomes."
3. That accountability through measurement and transparency will be sufficient to induce the investment managers to behave in accordance with meeting their primary objective of managing and reducing the value of their pool.
4. That the Government Actuary will be able to define valuations for all relevant social and fiscal variables or targets of interest, that what is left out of the analysis is not crucial and that this reliance on actuarial advice will be acceptable to the relevant ministers and senior public servants (note it is difficult and requires value judgements to include distributional outcomes in Cost Benefit Analysis, yet these are often what drives a political decision)
5. That the valuations are sufficiently robust and not highly sensitive to small variations in assumptions to be a sound basis for decision making. (where time horizons between expenditure and expected return are very long this is likely to be a problem)

Note also the crucial implicit assumptions on which the B-C framework depends:

6. That the investment managers will have the capability, information, leadership skills, risk preferences, people networks, delegations over HR and finance, supportive infrastructure and personal values and motivations to respond and behave in the way the that is crucial to the success of the framework; teachers are substantially motivated by education goals, doctors by health goals etc. While all policies implicitly assume that competent people will be available to implement them and will be chosen to do so, the matching of strategies (with unknown errors in them) with the people who can deliver them is more challenging than the run of the mill policy implementation exercise.
7. That ministers will not just override the incentives in the system with requirements on managers that are in conflict with what B-C see as the primary objective

8. That the social policy system as a whole will converge over time on better social and fiscal outcomes through this process and not render unexpected negative results through dynamic and unpredictable feedbacks that are common to complex adaptive systems.

The B-C framework is vulnerable to these eight crucial assumptions being unrealistic. In particular, the combination of assumptions 1, 4, 5 and 6 is what drives the behaviours that the framework depends upon to succeed. It will fail if these assumptions turn out to be seriously unrealistic and its work-arounds don't adequately offset the resulting distortions.

However, in balancing the risks, the counterfactual is the status quo, the weaknesses of which are being addressed by social investment. But it cannot be claimed that the B-C proposal is superior to the status quo in all circumstances where its assumptions are comprehensively invalid. This becomes an empirical question based in the cases, and also an evaluation of how B-C reacts when the assumptions are wrong – with the nuance of whether this is anticipated or only discovered when the damage is done.

B-C are aware of these issues and have provided for some of them in their framework:

- Ministers are free to augment the primary objective with any other requirements they choose.
- The key accountability document is a Social Targets Agreement, which implies that an investment manager could in principle not agree to a target she believed to be unachievable in the circumstances.
- The performance assessment system removes the effects of major influences beyond the control of the managers e.g. changes in the economy.
- The Social Targets Agreement will evolve over time with experience from the learnings of the Investment Managers.
- Valuation definitions and technical analytical methods will become better over time
- The Government Investment Manager – although only an advisory role – is tasked with identifying liability pools to be allocated to managers and allowing for spill overs and cost shifting between pools.
- Some allowances are made for influences on outcomes that are clearly beyond the control of the IMs.
- There is some scope for qualitative assessment of performance.
- Ministers sign off on the investment strategies.

These mitigating elements of B-C admit some pragmatic work arounds when the ideal cannot be reached. But the pragmatism erodes the freedom of IMs to make decisions and therefore may undermine the value of the model in discovering how to generate better social outcomes through its powerful incentives on IMs.

This report proposes changes to B-C that will formalise some pragmatic necessities and mitigate the risks of driving the managers with singular performance targets that can be error-prone.

Firstly, while the liability number is an important guide to decision makers to consider the long term and cross-sectoral effects of their decisions, it should not be used as a high powered accountability metric for staff. When the key assumptions are invalid, the potential distortion will be more damaging if the valuation is driving managers to achieve the wrong target and/or in conflict with their intrinsic motivations to do what they believe to be the right thing. Errors in the specifications

and analysis in the STA can be more easily corrected if they do not spark rancour between the service deliverers and those to whom they are accountable. This kind of problem can be managed through State Sector employment protocols where the IMs are public servants, but is much more of a risk when the distortions show up in arm's length provider contracts. Ministers should not risk setting high powered incentives for service providers that induce them to aim at the wrong targets because of the valuations are poor proxies for social outcomes.

The consultations for this report reveal that many of the policy advisers familiar with the social investment methods see predictive modelling as a tool for identifying potential opportunities for increased value added in an area of service (or revenue gathering), but do not support its use as a high powered incentive for managers. They accept that doing so may distort behaviours, undermine intrinsic motivation of social service providers and overlook important non-numerical performance indicators.

Predictive modelling, has the benefit of framing questions about policy effectiveness in terms of outcomes over time for population segments. It creates a strong incentive for making longer term investments and so is a powerful tool and central to social investment. The essence of social investment is to spend money now to save money and produce better social outcomes in the future. But it is more suited to making decisions about investments and providing feedback to providers than motivating, measuring and comparing the performance of managers and front line services.

With the social cost benefit analysis in the background and in recognition of its limitations, the commissioning process described below should hammer out an agreement on what are the most appropriate performance targets for the service deliverers, subject to sign-off by ministers. This will allow weaknesses in the CBA to be taken into account from the start. Where the CBA is accepted as reliable, then it is appropriate to give it a high profile in the performance settings. But CBA applied to complex interrelated social services are likely always to be an aid to decisions rather than determining them. Further CBA is a relatively weak method for analysing some significant aspects of social policy, including distributional issues. Also there are issues of citizen rights that transcend utilitarian calculations.

Secondly, CBA mixes quite certain fiscal numbers with uncertain estimates of multi-year social effects. It is probable that some social investments will encompass multiple services and multiple social outcomes. The fiscal numbers can be buried in a mix of arguable estimates in arriving at a valuation, whereas they are a crucial bottom line in budgeting and fiscal forecasting. The fiscal calculations and forecasts for social investment should be kept transparently separate even though they are also incorporated in the CBA. This is needed to support the Cabinet in the usual processes of resolution of difference between line ministers and the Minister of Finance in the budget discussions. From a fiscal perspective, social investment is about spending money now so as to spend in the future, which requires the data to show this in each case. CBA is not bound by this restriction as it allows costs and benefits that are not reflected in fiscal flows. A particular CBA might show a strong justification for spending more now without prospect of a fiscal return later because the benefits do not lead to lower costs or increased revenues. But the net fiscal return remains an important element of a well-based decision.

Thirdly, social CBA is an art that tries to capture all the significant probable consequences of an adjustment to a social policy. It is an ideal, which in reality is never perfect or beyond argument, so this report does not want to appear to be proposing that a CBA is always superior in practice to an actuarial or related calculation, or good enough on its own to ignore long term fiscal analyses. The

answer to the question as to whether an essentially actuarial valuation is a good proxy for the CBA must allow for the quality of the CBAs case by case and allow for their weaknesses. The best answer in most circumstances is likely to be a judgement that weights them both in the circumstances, but with no general principle about how to do this.

To avoid piling speculation on speculation about the use of valuations, about all that can be said about balancing all these risks is that:

- While CBA, backed by data analytics and improved social science research, will support better decisions, pushing the benefits of a single valuation beyond a 'sensible' point will excessively privilege social indicators that can be monetised over those that cannot or, alternatively be compromised by very speculative monetary estimates of social impacts.
- That said, it is mostly better to have an attempt to get an intractable social indicator included rather than leave it out, which values it as zero. But in some circumstances a better decision will arise from a non-quantitate allowance for a significant effect as a supplement as B-C acknowledge. Also burying fiscally focused projections of outcomes beneath speculations of other effects, that are very hard to estimate, undermines both the fiscal and the social assessment.
- The 'sensible' point is a judgement by people who know when pragmatic judgements should supplant attempts at dubious analysis. Those judgements should be made by minsters on the advice of people who are not entrenched in either the status quo or the conviction that anything of value can be measured.
- Social investment inherently calls for innovation and experimentation and some risk, which the mainstream system struggles with from ministers to the lowliest administrator. Too much conservatism about the risks in social investment methods is a significant risk, because it holds promise to address long tails better than the status quo.

Finally, while there is a sense in which a calculation of the net future costs of current policy can be called a liability, it is contingent on the assumptions in the calculations and on future discretionary policy change. The Generally Accepted Accounting Principles would not recognise it as a liability in the Government balance sheet. While these estimates are very important for fiscal policy and analysis where they appear as future expenditures in the base case scenario, it is not essential to call them liabilities in technical terms and is an unfortunate term to use in respect of one's grandmother's pension. This report suggests that the term is changed to better reflect that social investment is just what the name implies – better social outcomes and better value for money - rather than reducing a liability.

The role of actuaries and the use of predictive modelling

In B-C the exact definition of the liability is to be determined by the Government Actuary, who "is granted strict independence on liability definition and methods, and on certification of compliance". This is to be "a single government-wide definition". The Actuary can modify the definitions and methods over time with experience. But its discretion is beyond the reach of ministers, although they could choose to ignore its pronouncements. This is intended to enhance transparency and comparability across social investments.

The role of the Government Actuary in B-C is crucial to the whole framework because it has statutory independence in determining the 'correct' way to value the liabilities, including both the fiscal and social outcomes, across the whole social sector portfolio. These pronouncements from the Government Actuary drive the sharp edge of the accountability system bearing on the

Investment Managers and their responsible CEs. Also they make possible the comparisons of the performance of Investment Managers across social policy, which would be published in league tables and used by the Government Investment Manager to develop the investment strategy.

The concept of a Government Actuary has traditionally been about the financial soundness of public pension schemes. A typical example is the US Office of the Chief Actuary, which directs a programme of actuarial estimates and analyses relating to programs administered by the Social Security Administration.

What B-C have in mind is broader than this and need not involve either actuaries or their standard methods. Actuarial methods are one of large class of methods available for doing predictive analytics, which can provide forecasts and provide baselines and counterfactuals against which to assess social investments, when they are augmented by evidence of the effects of interventions. The can also simulate the effect of proposed policy changes on fiscal and social costs over time. The Ministry of Education is using risk predictors as benchmarks against which to assess the statistical significance of changes in interventions.

The future liability calculations for Work and Income do use an actuarial approach to calculate a forecast projection of future welfare benefit costs, discounted back to a NPV. That single number is useful for focussing attention but is of limited value by itself. This valuation provides a projection of future fiscal exposure, but largely excludes other welfare and wellbeing measures. The focus is on the drivers of long-term dependence, transition rates and how predictors of these influence the long term costs.

Modelling done by actuaries is generally "deterministic", meaning it is not grounded in statistical methods that analyses variances and calculate probabilities. Actuaries are pragmatic users of data and statistical methods and will work with limited data. Hence, statisticians will criticise them for not analysing uncertainty. Actuaries, like economists and other social scientists, apply assumptions to data sets in order to estimate future probabilities. The Welfare valuation could just as easily been produced by modellers other than actuaries: it was not dependent on that profession.

In MSD's case, there was already a rich historical data set, covering the entire affected population over 25 years. This made it possible to use probabilities in future projections according to profile characteristics. But the welfare valuation is already very complex, with over 20 variables used in the model. And MSD (employment services) do use intervention analysis in order to rank interventions for cost effectiveness, but use shorter time horizons.

Actuarial calculations are also very useful for the Minister of Finance and the Treasury to scope the social investment possibilities and to pose significant questions about the cost-effectiveness of current policies and the spill-overs between them. It is a stretch however to expect that the proposed Government Actuary can fulfil the role to the full extent that is envisaged. Even amongst actuaries there will be different views about how to value things – especially putting monetary values on social outcomes.

It can be concluded that there is no single source of truth in predictive analytics and so appointing an independent statutory agency to impose the 'right' method of valuation on diverse social investment proposals will not work, whatever that person's particular qualifications may be. Judgements need to be made by the proposers of social investments about the most appropriate methods to use and these judgements should be questioned in peer reviews and emerge in the budget process. There are three aspects to this:

Firstly, and as recommended above, pure fiscal calculations are essential for the Treasury and its Ministers in budgeting and fiscal policy. These should be initiated by the sector ministries and aggregated and quality controlled by the Treasury.

Secondly, with respect to predictive modelling in a social cost benefit analysis framework, guidance is needed for items that can be given standard non-controversial valuations – as happens in the CBAx model already. This process should be peer reviewed amongst users under Treasury leadership.

Thirdly, there needs to be, as B-C advise, a means for quality assurance on the analysis of social investment proposals. Given the diversity of methods that are in use and the judgements required, this needs to be a formalised peer review and certification. At present the Social Investment Panel that reviews proposals is established and accepted. It involves the science advisors, the CE of Superu and others. It is recommended that this panel be reinforced with appropriate support to set expected principles and standards for developing social investment proposals and execute a work programme of selected assessments of significant proposals. The SIU in collaboration with the Treasury should develop the detail for establishing and supporting the panel in this role. The SIU has a vital interest stemming from its role assisting social investment initiatives while the Treasury needs to develop skills in reviewing proposals when they come forward in the budget process. The panel and its supporters can be a core for a hub of professional expertise in social investment methods.

It is important to emphasise that data scientists should be represented in this panel.

Recommendation:

- Replace the Government Actuary in B-C with a quality assurance function that is associated with the Social Investment Panel, strengthened and embedded as appropriate to this task.

The Government Investment Manager and the role of the Treasury

The B-C proposal envisages a significant role for "Government Investment Manager", without specifying exactly where this role would sit within the government system. Much of the role is the core business of the Treasury and it reports through the Minister of Finance to the Cabinet.

One of Treasury's core responsibilities in fiscal policy is to advise on, manage and monitor fiscal numbers. These numbers are about cash in and out and risks on a balance sheet, which only records the money value of assets, liabilities and contingencies. Treasury is also required to give advice on the merits of proposals from anywhere to spend public money. And while its analysis of specific proposals takes into account the underlying economics and implications for wellbeing through social cost benefit analysis, it still has to focus on the cash flows – they are the Government's CFO and it's their job. So a valuation that may be biased towards fiscal outcomes and underweights other social indicators is still useful for fiscal analysis. However Treasury is well aware that a comprehensive social cost benefit analysis, which takes account of all significant effects on wellbeing, may not generally be measurable in monetary terms.

Treasury's core business includes the appraisal of public investment proposals of any kind to provide assurance about the reliability of the supporting analysis and placing them in the wider context of fiscal policies. That part of the role of the Government Investment Manager is an elaboration of Treasury's role in relation to social policy and expenditure through the use of new tools and concepts. To do this to a high standard it needs to be capable of operating on the frontier of social investment analysis, so that it can provide sound and relevant advice in assessing the value of social investment proposals and their financial implications.

Treasury should therefore develop skills in the fiscal analysis of social investment proposals, so that it can advise ministers on the fiscal rates of return. This is applying new methods to its traditional role in assessing the fiscal implications of budget proposals. Some social indicators do lend themselves to quantification so they can be entered into a valuation that comes closer to being a social cost benefit analysis rather than only a fiscal analysis. Over time advanced data analytics and the accumulation of experience across all social agencies may lead to standard ways to do this, which could continually augment the guidance in the CBAx system developed and overseen by Treasury.

However, most proposals will meld fiscal analysis with non-monetary and qualitative indicators of relevant social outcomes. Treasury needs to develop its capability to discuss these broader implications and be prepared to provide its minister with opinions, where it has the knowledge to be able to do so competently. Advice from other ministries can be expected to have deeper domain knowledge.

B-C assign to the Government Investment Manager the task of oversight of the entire landscape of social policy and, in its terminology, responsibility for the entire government's pool of liabilities. It is one source of proposals for new pools, while it assesses and proposes changes to existing pools. It has the tools to explore the social landscape for areas of potential increase in fiscal and social returns. It assesses the performance of the Investment Managers in reducing the valuations of their liability pools and intervenes when the managers cannot resolve amongst them incidences of cost shifting and spill overs in benefits. Some of this is standard Treasury business and some is not.

In many ways, the Treasury is the natural player to look across the social investment expenditure landscape – both discretionary investment and statutory rights based expenditure – and identifying the spill-overs both negative and positive. (E.g. "this extra spending on housing lowers our long term spend on mental and other health, promotes employment and tax revenues but will cause more spending on education, which will later produce more tax revenue plus non-monetary benefits") . This slots into Treasury's main role of oversight of the totality of fiscal policy on a long term horizon and greatly enhances its capability to do fiscal forecasting and scenarios off a base of micro-modelling instead of macro trends. This offers a lot more insight into the kinds of policy changes, which will over time yield great fiscal outcomes and better value for money. Treasury can deepen its analysis of fiscal trends in this way and provide richer advice to ministers on the drivers of fiscal change and strategic options to bend these trends in the interests of future wellbeing. But this will require integration of Treasury's capabilities for social and fiscal analysis.

But how does this fit with the B-C proposal for the Government Investment manager?

B-C put the GIM in an oversight role across social investment proposals, the assessment of managers in terms of policy results (but not managerial accountability) and managing the pools of liability. It reports to the Minister of Finance, but is across proposals in other ministers' portfolios and may provide advice about these. Other ministers are likely to resist this. They will want to initiate their own proposals drawing on the advice of their own advisers, some of who also sit on the board of CEs. This board, in the B-C structure, has a role that is largely managerial, but will be influential as IMs report through it.

Unlike investment in capital projects which more readily lend themselves to technocratic analysis, calculations and advice, social policy interventions are significantly more complex, open to greater debate and divergence of views. These are mediated by Ministers according to their assessment of the public's priorities at the time, and as such can result in several possible decisions based on the

same facts and advice. There is usually no obvious single right answer, only a series of possible solutions according to the perspective of individual Ministers. The investment in this context is the result of a negotiation rather than a finely honed arithmetical calculation, leading to a pool for which there is a sponsoring minister or more.

In this contestable policy environment, spending Ministers are lined up against each other competing for priority and against Finance Ministers for access to a finite budget resource. In this situation, the Treasury has a key role in assisting its Ministers to be able to debate priorities with spending advocates, and to bring well evidenced arguments to the debate.

The usual conventions, which are grounded in the Cabinet Manual, Public Finance Act and State Sector Act among other authorities, are that these differences are resolved in sub-committees, Cabinet, the budget process, government policy announcements and informally between ministers and between senior executives. Cabinet sets strategy and priorities, the Minister of Finance proposes the annual budget framework and long term fiscal strategy, line ministers propose spending initiatives with the advice of their officials, the Treasury expresses opinions on these proposals and senior ministers and Cabinet resolve the differences.

The B-C oversight role for the GIM would be reporting to the Minister of Finance and overlap with some core Treasury functions, which is unlikely to work in practice in the way described. The Treasury is invisible in the framework. Hence this report proposes unbundling the roles of the GIM, allocating them to authorities arranged in the conventional way in relation to Cabinet processes and then seeing what is missed out.

With Treasury's role expressed in terms of its existing mandate and conventional processes, there are specific things Treasury will need to work on to acquire the necessary capability to play its role in social investment:

- Continue to develop CBAx to provide standard costs and other guidance to ministries on how to prepare SI proposals using cost-benefit methods. This is also a tool for identifying spill overs across pools.
- Require all social investment budget proposals to include valuations based on fiscal costs and savings over time, as a component of more comprehensive analysis of social outcomes
- Engage quantitative analysts to support its standard setting and review work.
- Develop and focus its capability for reviewing the modelling and policy analysis on which SI proposals are based and forming a view on the worth of the proposed investments.
- Appoint an advisory board over its social investment analytic group with leaders in quantitative modelling and data development and deep professional knowledge of the analytics of social policy.
- With other central agencies, science advisors, SIU and social policy ministries, establish a cross cutting profession for data analytics and modelling focused on social policy.

Treasury will be challenged in upgrading its capabilities and culture to carry out all these roles in social investment to a high standard. It involves changes in roles, structures, capability and culture. It will need to mainstream the skills in social investment appraisal and grow expertise analogous to its skills in infrastructure, monitoring SOEs, balance sheet management and macroeconomics. It should develop a plan for organisational development to achieve this and, after getting acceptance more widely, implement it with some vigour as the 2017 budget will be a test of this capability. As social investment is a government-wide initiative the SSC should ensure that all the players are capable and aligned with the requirements for progress.

The remaining roles of the Government Investment Manager in B-C are partly in the line ministries, reflecting their mandates by way of doing social investment analysis and advice within their domains. The overview functions of the social policy landscape, that B-C assign to the Government Investment Manager, should be added to the specialised role of the SIU in promoting social investment, in parallel with the Treasury perspective on these. This report recommends augmenting the SIU's role in commissioning in this way, as is explained in detail below. Superu and the science advisors are also in this mix as explained below.

Recommendations: Agree to

- Split the functions of the Government Investment Manager in the proposal between:
    - those that are a natural extension of Treasury's usual functions in fiscal analysis and budgeting into social investment, which requires focusing and building its capability for assessing social investment proposals, taking an overview of the portfolio of investment and identifying prospects, and
    - augmenting the SIU's role in developing and promoting social investment into providing advice on the opportunities and building capability in concert with the ministries
- Cement Treasury's role in social investment in parallel with its roles in other investment proposals coming to ministers and implement a substantial and rapid build-up in its capability to do this.
    - The Treasury develop a change management plan to build Treasury's capability to effect the role in social investment described in this report and do so comprehensively and quickly in view of the needs for the budget 2017 process for considering social investment proposals
    - SSC to confirm that this plan for Treasury's capability in social investment is consistent with the scheme for social investment across the Government
    - Embed the use of a panel of experts including science advisors and data scientists to provide quality assurance over social investment methods and opinions on a manageable sample of social investment budget proposals – [1]
- Augment the SIU's role to be able to provide advice on some social investment initiatives and take an overview of the social investment landscape.

Vulnerable populations with complex and persistent needs

Whereas improvements can be expected from the application of social investment methods across a broad span of social policy, it offers promising improvements especially in areas where the current system is generating poor outcomes. These are the populations who have multiple, complex needs and make up the long tails in education, social development, health and justice.

The report by the Productivity Commission on social services provided an extensive review of social policy that pointed to weaknesses in service delivery arising from structures, functions, capability, and the underuse and distortion of non-government suppliers. In broad terms that report concluded that the mainstream systems for social services, while effective in reaching the majority of the population, were failing in reaching the more vulnerable people and communities. The reasons were, in essence, the limits of the existing system to deliver services to people with complex interrelated needs over sustained periods and tailored to individual circumstances and local conditions. The system is not well set up to provide the flexibility needed to respond to these people and communities through mixing and matching services defined by Cabinet portfolios and the structure of ministries. The Productivity Commission recommended new approaches to the commissioning of services for these groups that could grow out of DHBs, where other services are a

natural companion to health services, and/or a new central organisation for developing and commissioning these services.

The recent evaluation[1] of the BPS arrangements for coordinating ministers and ministries to pursue joint objectives, concludes that, while it has worked well for some targets, its effectiveness fades with the increase in the number of agencies to be coordinated and the attenuation of lines of control. This supports the view of the Productivity Commission in respect of social services. Coordination within the existing system is not effective in reaching the most vulnerable people with complex needs, because the services must be tailored to individuals and communities, and locally designed and delivered commonly by or with non-government actors in "collective impact" vehicles of collaboration.

The B-C proposal would tighten the coordination of the centre of Government and focus it on social investment initiatives. The Treasury work in embedding CBAx in budget proposals will also promote social investment,[1] But this report remains concerned with respect to the most vulnerable groups that:

- No amount of top-end coordination alone will produce collective impact vehicles on the ground for vulnerable groups who have complex interrelated needs and do not access services for whatever reasons.
- The heavy reliance on a single indicator of fiscal and social return in a vertical concept of accountability is not the best approach to getting collective impact vehicles to achieve desired outcomes.
- While in principle the Investment Managers can be given deep delegations, the risk will be that these managers remain subject to controls and interventions that differ more in form than substance from the present.
- B-C addresses the incentives at the centre to focus on the long run outcomes in making better strategic investment decisions. But leaves the Investment Managers to solve the ideation, learning and often daily coordinated, collaborative reinvestment decision making and delivery of improved results on the ground. This cannot be micro-managed from the centre so decentralisation of control is essential.

Hence, this report recommends changes to the role of the SIU that augments its role in advice in commissioning. This is to provide an overview of the social policy landscape in order to help identify and respond to social investment proposals with broad cross-sector implications. The augmentation to commissioning is to provide a channel for complicated and/or experimental approaches to collective action vehicles for service delivery to people with complex needs, which might otherwise be constrained by conventional lines of ministerial and officials' accountability. These innovations include attention to commissioning as described in the Productivity Commission report that extends the way the public sector engages with non-government entities in social services. Specific models are developments of Whanau Ora, collective impact models, place-based initiatives and social enterprises.

The limits of social investment

Under many social policies and some emerging human rights rulings, people have rights to support, whether there is a prospect of better outcomes or not. Social policy provides support for many people and groups either as a right and/or regardless of whether a cost benefit analysis justifies the

[1] Scott R.J., Boyd R. Collaborating for Results in New Zealand: Evaluation using Mixed Methods and Triangulation, Conference of the International Public Management Network, St Galen, Switzerland 2016

support. There are groups for which the expectation is for continuing support and no reasonable policy is likely to reduce the costs. So the function of the social investment approach is to identify those areas of policy where better results are in prospect and/or money could be better spent. There can be high benefits from cost avoidance in changing the demands on statutory services which arise from adverse events in people's lives. Collective impact approaches can yield benefits particularly where statutory services cannot respond with the needed intensity and variety.

A necessary characteristic of statutory services is that they come with legislated objectives and criteria for eligibility, whereas one pillar of social investment is discretion by commissioners and service providers to adapt services to local needs. This will be a source of friction and creativity where statutory services and discretionary services are mixed together at the front lines. For example, there could be conflicting views of the eligibility of a person for a statutory service because of different criteria. A family may no longer qualify for a state house, but moving could badly affect the children's education, which a social investment analysis and delivery vehicle could reveal and respond to. Predictive modelling would capture this and pose a question about the eligibility criteria for housing and so would similar modelling of other effects of housing policy criteria. But in the end the criteria have to be transparent and the effects lie to a large extent where they fall.

B-C would not disagree, but these issues add weight to the need for care in the use of predictive modelling and interpreting the results.

The need for legislation

There are points in the B-C proposals that would require legislative change: creating the statutory role of the Government Actuary, some of the powers of appointment, the tabling of prescribed documents in the Parliament and other matters. The analysis in this report shows no legislative change is needed for the proposals herein. But there is a question as to whether legislation that may not be needed is nonetheless desirable in order to publicise and embed the social investment approach. For example, the far reaching reforms to the Public Finance Act in 1989 were not strictly needed to give effect to the changes in roles, processes and accountability.

Social investment is not sufficiently matured to be able to be embedded yet. It would be difficult to manage the debate around the specific B-C proposals outside a context of comprehensive legislation to embed social investment in public management and statutory processes. Important steps in that direction can be achieved without law changes. For example the transparency proposals to publicise trends and changes in forward fiscal liabilities can be achieved under the provisions of the Public Finance Act's fiscal responsibility provisions. The Minister of Finance should direct the Treasury to work out how to do this and have it evolve over time as more information accumulates.

Recommendation:

- Note that there is no need for legislative change to effect the recommendations in this report.

Building on the Burgess Cosgrove proposals

In order to build further on the B-C proposals this section of the report considers:

- the principles on which those proposals were based,
- the application of collective impact vehicles to deliver social investment,
- budgeting, financial management and statutory accountability,
- Data architecture for social investment.

Review and revision of principles

The principles upon which the Burgess Cosgrove proposal is based are listed below with comments reflecting the views in this report.

Clarity, transparency and accountability drives performance

Agreed, but while B-C is clear about its vertical lines of accountability some vital accountabilities needed to make some front line service delivery responsive to client needs are horizontal and downwards. Performance in social services is often driven intrinsic motivation and unpaid labour. A degree of ambiguity is inevitable in some social policy endeavours, especially those where performance depends on integration of multiple services to achieve high level goals that may not be simply expressed. Accountability also assumes an ability to attribute the outcome to a particular person, organisation or action. Experience with complex systems highlights the requirement to move to the concept of a contribution to outcomes by many parties in a way that cannot be determined definitively and the collective management of consequent risks.

Accountability is tied to outcomes not inputs

Of course, if you can make it work. Defining outcomes that are non-trivial and drive desired actions is tricky. Thirty years of global experience in managing for outcomes shows how hard it is, the compromises that have to be made and the dangers if they are not. The outcome definition in the B-C framework will require pragmatism that is downplayed in the concept, by resting on an actuarial definition of an outcome that can cause distortions and perverse results if not commonly accompanied by nuanced judgement in the circumstances about the appropriate outcome.

Each role in the framework must have clear responsibilities and reporting lines

Agreed that is desirable. Managing for outcomes almost always requires collaboration and presents ambiguities about attribution. Many of the services in question require complicated processes of coordination that force a trade-off between productive efficiency in silo products and gaining value through allocative and dynamic efficiency, which often means some fudge in the clarity of responsibility and reporting lines. B-C address this problem by making the valuation the primary focus of accountability, but compromises are needed where this is a poor proxy for desired social outcomes.

Is flexible and able to accommodate diverse approaches to investment management

Absolutely, which commonly means working around the vertical lines of accountability and control in the public sector.

Where possible it complements and builds on existing practices and work streams

Only if the existing practices and work streams align with what you want to do. If existing practices could have solved the problems they would have by now. Some existing practices have to go, and/or new ones introduced.

Accountability on decision makers aligns with optimal system wide outcomes

Which to be a useful principle assumes we know ex ante what these optimal system-wide outcomes are, otherwise we cannot operationalise this principle. But this is also about avoiding perverse outcomes, some of which may be anticipated and others which are not. The implication is that the policy and management system has to be an efficient experimental design that removes these as

they emerge. The B-C emphasis on "discovery" captures this in a more useful way than in this principle, but provides for interventions to address perverse outcome once they emerge.

System supports detection of, and response to, unintended consequences

Great principle, although the B-C proposal is more likely than the proposals in this report to create unintended consequences as it appears to run risks that the valuations it depends on are misleading proxies for social outcomes.

In light of these comments, this report suggests that the principles for governance and accountability be revised and augmented to take account of the points below.

Social investments should:

- Always be grounded in the best framework of testing and learning that is practically available – specifically, strong fast feedbacks from local results to service configuration.
- Draw on extensive data bases that merge government sources with the information used by local providers and with global data bases and literature about what works.
- Pay close attention to getting the data architecture of the investment vehicle sorted out and in accordance with the principles of the NZ Data Futures Forum.
- Set strategies and performance targets that efficiently mix quantitative data and qualitative indicators.
- Be based in sound commissioning processes that merge policy analysis, service delivery and stakeholder engagement.
- Commission services so as to 'go with the grain' of the motivations and culture of the local providers – do not crowd out intrinsic motivation or voluntarism.
- Allow for a full range of possible forms of partnership between the public, NGO and private sectors – and a range of associated accountability measures.
- Commission collective impact arrangements for service delivery where they are likely to be superior to traditional methods of contracting or in-house production.
- Acknowledge that there are valued policies whose fiscal and social impacts are unlikely to improve with social investment methods – so priority should be on areas of potential gain.

Collective impact or shared goals approaches

The essence of Collective Impact approaches to service delivery is that a group of service providers and others with close connections to the population they seek to serve get together in alliance, in which they all commit themselves to agreed goals as to what they want to achieve and organise themselves to do so. The Productivity Commission report on social services used the term "shared goals", which is the same as collective impact as used through this report.

There are examples in New Zealand. The Maniakalani Trust's work with lifting educational achievement in low decile schools is a well-known example of the approach. Pioneering work with the approach is underway in making some places predator free. The Canterbury DHB has pioneered using the approach for health and related services in New Zealand through the Canterbury Clinical Network Alliance, whose methods have spread to Australia and beyond. Some other DHBs are also developing approaches to better integrated health care. Waikato is working on ideas to link health with a wider range of social services. The People's Project that worked on homelessness in Hamilton is an example of the approach, which did not involve direct government funding or the entanglement with vertical accountability that this would have imported, even though some of the people involved are state employees. Annex 3 provides two examples and the research on 'hard to

reach' people by the Institute of Environmental Science and Research provides three well-researched cases and draws conclusions from them about what makes collective impact methods work.

The circumstances in which collective impact approaches have most to contribute are where hierarchal systems work the least well. In technical terms, this is where the system to which interventions are to apply can be described as complex and adaptive, so that outcomes are emergent rather than predictable and controllable like non-adaptable systems such as physical systems. This creates complexity through the exercise of choices that makes the system as a whole mostly unpredictable. Interventions based on organisational silos producing standardised services and relying on vertical hierarchies for performance management and accountability struggle to achieve desired outcomes in such environments. Collective impact approaches focused on client-centred outcomes and organised to provide tailored packages of services based on individual, family and community needs and experiences can do better in these environments. The fundamental ingredient of these methods is trust between collaborating providers, funders and the people they are there to serve.

The approach works in a variety of circumstances. A simple example is the reduction in acute admissions for elderly people to hospital in Canterbury under the framework of the Canterbury Clinical Alliance. Through bringing together primary and secondary health providers and community workers under the DHB's leadership and investing $1Million in prevention services, the number of falls presenting dropped below the previous trend by 1083 since 2012. This translates into needing 27 fewer hospital beds for this purpose. The number of post-operative deaths fell by 86.[2] The example is simple because of the single objective, but the process of getting together all the providers who have something to contribute, agreeing on a strategy, resourcing it and rolling it out is present in all collective impact endeavours.

The story of the Canterbury Clinical Alliance over all its services is about years of attention to building trust amongst disparate providers and others to set goals and plan collaborative strategies for service delivery. It is only now reaching the point where it is a self-sustaining institution that is not overly dependent on key individuals. A very significant feature of it is that the DHB did not use its role as funder to dominate the providers and take onto itself the coordination problems. While it is ultimately accountable under the law for meeting health service goals within its funding constraints, it participated as facilitator and partner with other providers to develop "pathways", which integrate the contributions of all the participants and form the agreement about how patients and clients will be treated within the total arrangement for services. The Canterbury Alliance is therefore not a different formal institution but a different way of working.

Redesigning services to reach and support vulnerable people and families is a more complicated task, although the basic principles are similar. Outcomes sought are more general than reducing falls and the range of service providers to be brought together is much wider.

Collective impact approaches take a wide variety of forms, but when applied in social investment are particularly suited to supporting those who are considered hard to reach by standard service delivery systems. This starts with reframing the service as "hard to access" rather than the people as "hard to reach", which changes the problem we are seeking to solve. The box below summarises some findings from research that draws on practical examples.

[2] http://ccn.health.nz/NewsStories/tabid/1273/ArticleID/547/Default.aspx

SIX PRINCIPLES FOR DESIGNING SOCIAL SERVICE ENGAGEMENT WITH THOSE DEEMED HARD TO REACH

1. Service is not a service product delivered. Service is an experience in which a service seeker benefits by accessing resources offered by another.
2. Service (co-)design is about reciprocal values of the parties involved, not merging or agreeing on values.
3. Structures and processes need to be (co-)designed to enable and support negotiated meaning and empowerment.
4. Capability and social, cultural and financial capital is needed from all parties – service needs to recognise, enhance and build capability and capital with clients.
5. Engagement with clients with complex needs is about negotiating core assumptions with them on the purpose, course and context of service offered.
6. Negotiation of core assumptions is needed in every key relationship in service provision, and is ongoing and dynamic.

   Extract from "Research to Improve the up-take of service by people considered hard to reach", Institute of Environmental Science and Research Ltd, November 2016.

The case studies from which these conclusions were drawn all illustrate the importance of trust and continuity of engagement.

The following list of operating capabilities for successful application of collective impact methods is drawn from the CDHB experience and is also typical of the many sources of similar lists in the huge literature on collective impact.

- Collective ownership by a group formed around a common interest; trusted relationships; shared collective decision-making in co-design of service delivery and stewardship of the system.
- Shared orientation towards measurable value; mobilisation around the common goals; articulation of the expected contribution of the participants; concern to identify the best possible solutions across the territory not just local fixes.
- Collective investment and re-investment of the total pool of available resources without prior commitment to allocations to individual participants.
- Coordination through mutual reinforcement via shared communication and agility in responding to changing information.
- Shared insight and learning from real time feedback from client data about results and how the parts of the system are working together – or not.
- High trust data integration involving detailed client and provider data; this requires nuanced rules and trust around ownership and access but with a value based preference for sharing, but with safety.

The case for the collective impact approach for addressing vulnerable populations with complex issues is that the existing system cannot deal with the complexity through reductionist thinking and a focus on efficiency and outcomes in delivering standardised services. The problem is more usefully approached as one of allocative efficiency and dynamic efficiency. The touchstones for achieving better system outcomes are targeting and coordination. The circumstances where collective impact approaches are most likely to provide better results than conventional systems include those where statements about the outcomes sought are difficult to make in a meaningful way *a priori*. The clients have long-standing and interrelated needs. The goal is to improve their well-being through improving their access to services and engaging with community and other supports. The commissioning process brings those whose services are needed for this together where they forge

relationships and set their objectives in ways that they own jointly and individually commit to contributing to in a disciplined way.

Hence collective impact is a complement to the B-C perspective on social investment, which is focused on the sponsor's end of the problem and relies on clearly specified outcomes, generally from data science to help make decisions about where to invest productively for long term improvement in outcomes. Social investment can be broadly applied to low risk, high volume populations, for example in using predictive analytics to assess educational potential. But in complex situations simple linear analysis of measurable liabilities will be inadequate - e.g. in the education tail where the causes of low achievement are not primarily about education services - and where collective impact vehicles will probably produce better outcomes. In this way the allocation problem is solved inside the high trust vehicle, with less restraint than is likely to be present in the B-C framework.

Both hierarchal and collective impact approaches can employ data science, data integration and predictive modelling to enable smarter, customer-centred analysis, appropriations and accountability for outcomes based on understanding clients' longitudinal pathways at the service and case level. But these methods for collective impact would typically apply upstream of the service delivery vehicle, whose data needs are tailored to its services, clients, management and accountability. Much of this is local knowledge to mobilise the response within a tight framework of cooperation, co-design and coordination of delivery and tight feedback loops. Evidence informed and iterative redesign and retesting at the local level is at the core of the approach. This promotes learning and innovation with full visibility of how the system is responding and of the outcomes. International literature about meeting challenges in education provides evidence that this works.

Within collective impact arrangements the accountability elements are tailored to the circumstances and likely to involve horizontal and downward as well as vertical lines of accountability e.g. more client and community engagement and feedback. Collective impact is explicit about the nature of the vehicle that is striving to achieve the outcome objective and has general criteria about conditions for success in that.

B-C allows for the Investment Manager to choose how to proceed, which might include engaging a collective impact vehicle in particular situations, but this is questionable. The decision might be made in Cabinet, by ministers, the Board of CEs or even the Investment Manager. No guidance is provided. There is little to offset the natural bias by ministers and ministries to take on the tasks and the funding themselves. The ministry-based Investment Managers in general are likely to be unfamiliar, at least initially, with how to commission collective impact methods and under restraints from host ministries that complicate the effort. Advice from Central Agencies and the SIU might help to ensure that decisions about what mode of service delivery is best for the significant cases are neutral to state or non-state provision.

To sum up, the value proposition for collective impact approaches is:

- Efficiency gains from services provided earlier and generally cheaper since the system is coordinating across the longitudinal investment pipeline better.
- Richer engagement of an integrated provider vehicle with client needs and situations including partnerships and Treaty based collectives.
- Better coordination and collaboration across the complex service offerings to reduce waste and improve outcomes.
- Agility – the daily management of pathways and the collaboration required in unanticipated emerging situations.

- Improved learning about what works since the whole system is visible to all participants.
- Improved data quality and reliability since data sharing is high trust and non-coercive.
- Improved ability to target the most marginalised groups through high trust.
- Reduced risk by deferring the data sharing relationship to the relationship between provider and consumer.

Collective impact is one way to give effect to social investment, not a substitute for it. It sits alongside conventional delivery systems and PPPs including social enterprises. It has advantages over conventional systems, even when they are steered by social investment policy analysis, for certain kinds of target populations and their needs. Through collective impact methods, robust tests of implementation and capability building in local situations provide a complement to randomised control trials in identifying better social investments.

In the light of the discussion above, the implementation of collective impact approaches should provide for:

Recommendations

- Note that collective impact vehicles for working with people with multiple vulnerabilities require new methods of funding and accountability based around investing in trusted and well-performing vehicles and disinvesting when performance is poor.
- Agree, subject to the control of the Public Finance Act and other relevant legislation:
    - To the use of collective impact vehicles by ministries and officials through existing arrangements for finance and accountability augmented by deeper delegations of authority for investment managers
    - To allow such proposals to be submitted directly to Treasury for budget consideration [1]
    - Their use through a parallel commissioning channel that is focused on populations with complex and particular needs
    - The collaboration between these two as appropriate to bring commissioning expertise with collective impact vehicles into mainstream delivery systems
    - A concentration of the capabilities needed to give effect to collective impact solutions and social enterprises that engage with the Government
- Note that it is not recommended that collective impact approaches are used for all social investments, but only those where it overcomes the weakness in current procurement practices.

Budgeting, financial management and statutory accountability

In moving decisions about social spending from a current expenditure mind-set to an investment mind-set, social investment places demands on the budget processes to react to a different kind of spending proposal. The focus is on the claimed net benefits of a proposal, which if large enough would justify approval for extra funding. The budget constraint is analogous to a hurdle rate in an investment appraisal rather than a traditional spending ceiling calculated as the baseline costs for current policy plus something for new policies, or less something to support overall fiscal targets. Jumping the hurdle creates a stronger case for approval than the traditional system and may even assure funding - depending on the budget rules.

[1]

[1] the possibility of a system analogous to the use of a hurdle rate in common investment decision-making processes. In typical investment approval processes jumping the hurdle is not always the end of the story, as no organisation can make an unlimited promise that any proposal that meets a hurdle rate is going to be funded. Businesses and governments have to consider how to fund the aggregation of investments and consider the impact on their balance sheets and credit ratings of borrowing programs and risk profiles. But within reasonable limits of total spending on investment and the organisation's strategic priorities, the budget system can sensibly undertake to fund proposals meeting high standards of evidence of net benefit. [1]

[1]

But given what has been argued above about using a single ROI calculation as a basis for accountability for outcomes, can it to be used as a hurdle rate for funding? Yes it can in the right hands and for the right purpose, while compensating for its potential weaknesses. It can be used as a tool for detecting areas of potential social value creation – not to determine a decision on that basis alone but as part of a search method. In making judgements about where to invest, non-quantifiable benefits and costs are significant and may overwhelm the influence of the ROI. And it can be used for this purpose at several levels in the chain from Cabinet to the front line services in this way. Judgements about priorities for resource allocation cannot be avoided and the ROI is a powerful driver to take a long term view of today's decisions, which is a big step forward. But it is just one indicator and not sufficient on its own as a rule to justify a decision.

In meeting the accountability requirements, not all investment decisions are likely to be made on the basis of cost benefit analysis. Where outcomes can be expressed simply and clearly and where data exists then CBA can be used e.g. homelessness in a location. But some situations of complex vulnerability will not be amenable to CBA at the beginning stages at least. Place based initiatives with multiple objectives for diverse populations are an example. There is often too much uncertainty about both the costs and benefits at the investment stage. Rather investment decisions are likely to be made on the basis of:

- The quality of the shared vision: Whether the vision is in alignment with government objectives in outcome terms and participants in the collective impact are can demonstrate commitment to collaborative approaches to the project.
- The quality of the engagement with the government's investor in setting agreed priorities in the light of local knowledge where collective impact approaches are used.
- Appropriateness: Whether what is being tried would be difficult for any single organisation to accomplish by itself in a simpler model of accountability.
- Capacity: Whether the collective impact entity has sufficient funds, staff, materials and time, including "convening power", to do what it wants to accomplish.
- Leadership: Whether the people in leadership positions for this collaboration have good skills for working with other people and organisations.
- Legitimacy: Whether the collective impact entity will be seen as a legitimate leader in the community; that the participants collaborating are the "right" ones to make it work.
- Commitment: Whether participants in the collective impact entity are investing the right amount of time in collaborative efforts, for success.
- Trust: Whether participants in the collective impact entity trust one another, and have respect for others involved in the collaboration.
- Adaptability: Whether the collective impact entity will adapt to changing conditions, and can survive even if it had to make changes to its plans or institutional arrangements to reach its goals.

- Appropriate pace of development: Whether the collective impact entity is trying to take on the right amount of work at the right pace.

As whole these criteria indicate how the Government can reframe its funding and accountability relationships away from the micro-managed contracting practices of the present, to an investment concept in which the investor is deciding whether to increase, hold or reduce its exposure on the basis of proven performance and trust in the vehicle - rather than trying to specify performance requirements in detail in advance. This can encourage innovation at the front line and can be thought of as improving the supply chain management of the Government, so it promotes the development of the capability that it needs in order to address the complexity of responses to long tails of disadvantage.

Recommendation:

- Note that the proposals in this report for commissioning can improve the management of the supply chain for social services.

Budget process

[1]

In the 2016 budget, the Social Investment Panel referred to above was tasked with reviewing the social investment proposals. A lot was learned, including that the ministries – or at least some of them – have a long way to go to bring their evidence and analysis up to the expected standards. This arrangement should be continued and institutionalised and can be expected to give ministers advice from people from a range of professions and with relevant practical experience.

[1] the Treasury should put its specialists alongside the vote analysts and participate in the review process in an appropriate way so as to minimise unnecessarily contradictory advice coming from the review committee and the Treasury.

Social investment strategy

B-C recommend a "System Investment Strategy" report annually, "setting out the GIM's plan for managing the total government pool". If the proposals in this report for the role of the Treasury are accepted then Treasury's budget strategy advice, in concert with other advisers, will develop over time in assisting ministers to set priorities on the basis of its deepening capability in social investment. From Treasury's perspective, this is a component of the general fiscal strategy advice provided within the annual budget cycle. It should be prepared by the Treasury in concert with the social ministries. This could incorporate what B-C call the "System Condition Report", which summaries progress or otherwise on the portfolio of social investment projects. This material should be published with the budget papers and presented to Parliament in that way – rather than being tabled separately as proposed in B-C.

In addition to generic reporting across social policy, the report would be a consolidation of the material on the various social investment initiatives. These would include, at a level of aggregation appropriate for the report:

- Identified target population segments.
- High level objectives and expected timeframes.
- Resourcing (funding and data access).
- Identification of the public sector agencies engaged.
- Description of the operating models (traditional procurement, collective impact teams and accessing third-party social enterprises).
- Allocation of responsibilities.
- Reporting requirements

The social investment strategy would take information across the investments for an overview of the portfolio performance and provide a forward looking view in the same manner as the fiscal strategy papers normally produced.

Recommendation:

- That a report on the status and progress with social investment be developed by officials and included initially within the statutory reporting of fiscal strategy under the Public Finance Act.

Appropriations and financial controls

While all appropriations require an accountable minister, there several ways the funding can reach the frontline service providers: standard procurement contracts with non-government parties for current purchases, funding through DHB or other Crown entity funding agreements, investments state or non-state entities, grants to non-government entities, various forms of equity or loan participation by way of PPPs and social enterprises.

In considering the legislative and institutional implications of social investment we have considered investment management to be a broad term, meaning "decision-making supporting delivery of better long-term outcomes incorporating costs and benefits"[3].

To be clear, this report is not recommending that all social investment goes through collective impact vehicles, only that provision should be made to make this straight forward when it is chosen by ministers for particular cases. But a full discussion is provided as this is a novel form of engagement with service providers.

There are no legislative or institutional constraints currently with Ministers and officials acting within delegated authority to 'invest' public money into a collective impact vehicle with the expectation of receiving future benefits. Generally accepted accounting practice would recognise such transactions as either an exchange or non-exchange expense (if the transaction was considered a purchase of services), or a capital contribution (if the transaction created or increased an ownership interest).

However, if public money was represented as an investment in a collective impact vehicle, with a return contracted for, then there are a number of legislative and institutional safeguards to ensure

[3] Note that generally accepted accounting policy defines an investment as an asset held by the owner (or by the lessee under a finance lease) to earn income or for capital appreciation or both, rather than for use in the production or supply of services or for administrative purposes (which would be property plant and equipment) or sale in the ordinary course of business (which would be inventory).

such decisions are made at a senior and skilled level. The Public Finance Act s.65K (the Crown must not lend money without legislative approval) and Treasury Instruction 6.3.6 (Departments must not invest without delegation from the Treasury) apply.

These legislative safeguards exist because public finance has seen investment as a specialised high-skill high-risk area, where the trade-offs between risk and return need to be made at a centralised level. In some respects "social investment" is harder than financial investment (where we would want the New Zealand Debt Management Office to be managing the Crown's financial investments). Social investment can be harder to manage as the investment is often in a relationship, rather than an entity or an asset.

Importantly therefore, the public finance system appropriately places more control on investment than current expenditure, mainly because all investment is based on estimates of uncertain future returns, prospective recipients of the investment are biased in making those estimates, and investment expertise is required. This also applies to social investment where, because the investment is often in a relationship, the means of control differ.

Investor role

Where a social investment is not being delivered through the normal ministerial hierarchy, but at arm's length, there needs to be an "investor" role in the system that is accountable as part of the government hierarchy for stewardship of government funds, effectiveness and efficiency of government expenditure and alignment of resource allocation with government desire for change in specified population groups.

Because the investor is implementing the strategy set at Ministerial level, there will need to be a direct reporting channel to Ministers. Ministers are likely to require sign-off on the agreement of funding plans to collective impact entities.

The investor is not responsible or accountable for the management processes and choices made within the scope of a collective impact entity – the entities themselves are responsible for that. However, if the recipient of the investment is showing signs of dysfunction the investor is responsible and accountable for withdrawing government support. If the recipient is a success, the investor may through its subsequent investment decisions encourage innovation and consolidation aimed at promoting the development and capability of the 'supply chain' for social services, perhaps through investing in upscaling successful collectives.

Such investments by the state will require appropriation. It is notable that the form of the investment could take a number of different forms:

- Seed capital to allow for the establishment of a collective impact entity and development of a funding plan.
- Contracting with a private provider.
- Invest in the capital of a collective impact vehicle without full control over it, for example joint funding with a charity.
- Provide operational support as per the funding plan.
- Launch a social impact bond or other kinds of PPP and social enterprise.
- Pay another ministry or state body to provide services under contract to the collective impact vehicle.

To provide the Crown with the scope of freedom to do all these things, it is likely they would best be served by a multi-category appropriation. To provide and to obtain the desired commitment (e.g.

extended periods per the Productivity Commission recommendations) it is likely that they would be best served by a multi-year appropriation. That would suggest the default appropriation for social investment should be a MCA MYA.

We note however that Cabinet [Cab Min (12) 16/10] has agreed MCAs will be annual appropriations. These rules reflect that MCA's were not intended to reflect a move from accountability for outputs to accountability for outcomes, but rather to shift the decision-rights lower over which selection of outputs, other expenses and capital expenditure should be adopted. Pragmatically, it should be possible to simulate a multi-annual MCA. An alternative is an arrangement analogous to a venture fund for co-investments with others in social investment opportunities.

This is a role for ministers as "investor" supported by "investment advisors". For investments funded[1] in the budget process, a minister of social investment will be the minister to whom the appropriations are attached, who may delegate this responsibility solely or jointly to another minister or ministers by agreement of Cabinet. The support for investment ministers may be provided by agreement amongst them and maybe drawn from one or more ministries, a Crown Entity or non-government entity. Advice on these decisions would be provided from central agencies and the SIU. Over time, as discussed elsewhere, the SIU role in commissioning should become more hands on and may provide support for some investments.

There are no legislative or institutional barriers for this work. The results of this stage should be included in the budget policy statement, in line with advice elsewhere in this report.

Public Finance Act 1989 s26M (2)

The budget policy statement must, for the financial year commencing on 1 July after the statement is presented, state the broad strategic priorities by which the Government will be guided in preparing the Budget for that financial year, including—

(a) the overarching policy goals that will guide the Government's Budget decisions; and

(b) the policy areas that the Government will focus on in that year; and

(c) how the Budget for that year accords with the short-term intentions referred to in the most recent fiscal strategy report or the amended short-term intentions under subsection.

The form and financial control of Collective Impact Vehicles

The collective impact vehicle is a network of connected stakeholders, bringing different expertise and perspectives together to focus on achieving the purpose. The accounting definition of an entity applies rather than a legal definition. In accounting, the essential characteristics of a reporting entity are that it receives resources from resource providers for the use of service recipients and therefore has responsibility and accountability to resource providers and service recipients. A legal definition requires a legal construction that can sue or be sued. A collective impact entity must be an accounting entity but not necessarily a legal entity.

There are likely to be four main types of collective impact vehicle.

1. **Where the participants have pooled resources to create a separate budget for the collective impact vehicle.** These types of 'organically grown' vehicles may already exist without state intervention, but may wish to seek state support to assist them to become

more effective and sustainable, perhaps through data analytic support, or perhaps through financial support to increase their resilience. These entities are likely to exhibit strong customer commitment and focus, as this will have been the reason for their establishment.

2. **Where the state has invested in the collective impact vehicle with its own budget.** In such circumstances, the collective impact entity requires a treasurer to manage its budget. For this role to be effective, the treasurer must primarily be accountable to the other members in the collective for the acquisition and use of funds by the collective, rather than to the state. A key task of the treasurer however will be to manage the relationship with the state investor.

3. **Where the collective impact vehicle operates without a budget, where the participants in the collective have access to resources from the sponsoring organisations.** Such an arrangement may be possible for short term periods, or where the collective impact vehicle has strong leadership. The transaction costs however are likely to be significant, and therefore it is foreseeable that this is the least resilient structure. Generally this would more properly be described as a collaboration or joint arrangement rather than a collective impact structure, as there is no separate structure with dedicated staff whose role is to help participating organisations shift from acting alone to acting in concert.

4. **Where the state is operating through an agent (Crown entity e.g. DHB) which is one of the participants in the collective impact vehicle and one source of funding.** In this situation, the state agent is responsible for the commissioning and engagement in the service delivery.

Collective impact work can and does occur within organisations, such as government departments, district health boards or local authorities. And these examples typically involve engagement with non-state participants. However while there may be valuable work in considering how the mainstream might stretch this work, it does not generally involve institutional change at the centre and is not considered further within this section.

Rather we focus on the first two types of collective vehicles.

It is proposed that the default position for these collective impact vehicles is that they **not** be **controlled** by the Crown. This is because:

- To be successful, the collective impact vehicle primarily needs to be citizen focussed. If it is controlled by the state, a significant amount of its attention will be focussed on the power of the state to direct its activities.
- The collective impact vehicle is tackling ill-defined wicked problems that have conditions that change midstream. Consequently, the necessary processes of accountability designed to resolve principal-agent problems will collide with the requirements of the co-creative process needed to obtain the commitment of participants within the collective impact vehicle.
- A lesson from experiences with collective impact vehicles is that although structures and processes matter, cultures matter more. State control necessarily pays attention to the more technocratic, or mechanistic, approaches to collaboration, rather than deliberately focussing work on relationships and trust-building – and therefore likely quite different population–centric cultures rather than a state culture.
- Freedom from state control avoids risks of inflexibility associated with state directives, preferences for old solutions, risk-aversion and the need to overcome partnering challenges the state faces.

A key implication of not controlling collective impact vehicles is that they would not be accounted for within the fiscal forecasts and financial statements of government.

If it is concluded that there are benefits to Crown control, and consolidation of a collective impact vehicle into the Crown Accounts, then the risks identified above need to be managed. This is most likely to be able to be achieved through an Independent Crown Entity or Public Finance Act, Schedule 4a company.

Treasurer

Assuming government funding is provided, there should be a treasurer, who will be a person who the government agrees should fulfil this role or even a seconded official where the risk justifies this.

The treasurer works with the government investor. However, as a member of the collective impact entity, the treasurer is accountable to other members of the collective for ensuring the provision of funding and probity. The treasurer is not held accountable through the government hierarchy for the collective impact entity's inputs, outputs or outcomes, which is the responsibility of the leadership of the collective. But the treasurer is responsible for meeting the information demands of the investor – so that the investor's role can be performed - and for providing information tor forecasting and fiscal reporting purposes.

Crucially, the treasurer is empowered to commit the pre-agreed funding without recourse back up the hierarchy. This is the fulcrum on which the collective impact model critically depends. The symmetrical responsibility is for transparency between the treasurer and the agent of the government as investor.

Where a government agency is in the leadership of a collective impact vehicle these arrangements shrink to be quite straight forwards. The Canterbury DHB for example is the participant in the Clinical Alliance and also the provider of funds, which are required to be accounted for in the normal way under the Health Services and Disability Act and the Public Finance Act.

Recommendations:

Agree that, for each collective action social investment there will an:

- Investor, who is the Minister or possibly joint ministers.
- Investment Advisor to ministers.
- Treasurer within each collective impact vehicle who is accountable for use of public funds and may be an official where size and circumstances warrant it.

Data architecture – especially for collective impact vehicles

The emergence of social investment has been driven in large part by the appearance of new and extensive sources of data and the extra value created by linking disparate sources. To date the focus has been on extracting more value from official data, which is mostly collected for the administrative use by the state. Social investment advisers use this data typically to redesign policies top-down with consultative processes. But the vision of social investment includes the extension of the data revolution to the front line of service delivery and to non-government policy makers and investors.

Data is needed on the ground in a joined up and timely way to support service development, management information, and monitoring and review functions. The current analysis being done in social investment points to where to look for unrealised benefits, but does not provide the information needed to design and monitor a new process. This is not widely appreciated in

government circles yet. As social investment matures, the proportion of the data that comes from government sources will decline rapidly as non-government sources of front line provider information become predominant.

The accountability obligations in current contracting models have, to some extent, crowded out information that would contribute to both service improvement and to local knowledge that would improve the wider system. At the front line a common complaint is that providers submit their data but nothing much comes back in return or in a timely way. Also, while some administrative data is very useful to providers in their work, they also rely on their own management information and statistics to run their business, which is often more reliable due to the high trust they have with clients.

While people consulted for this report were keen to have their data included in government – or at least DHBs' – data stores and information libraries, they appear not to have thought much about how it would be used by others. Depending on the way the Government procures social services, such data may be advantaging competitors. There have been problems with the protection of the IP of non-government parties that have engaged in government procurement. As a rule, social service providers are not going to be satisfied with their information being sucked into government data systems. There is some evidence that NGO providers are concerned that data requirements proposed in some funding arrangements would erode the trust they have with already marginalised people, and so diminish their ability to help. So a lot of information pertaining to service provision by NGOs will never be identifiable to the Government. For the government to maximise its ability to engage with highly mistrustful communities will require a high trust data relationship.

The Government endorsed the advice of the NZ Data Futures Forum that the future of data should be based on the four principles of value, trust, inclusion and control. These principles provide clear guidance as to the architecture of the data systems to support social investment. For social investment implementation, either by collective impact of more mainstream methods, the agreements amongst the participants including the Government will need to reflect these principles. This implies that groups getting together with a common interest in research, policy, service delivery or evaluation of social issues must form agreements amongst themselves about the sources, use and sharing of data that the group needs to serve its purposes and protect its information. Sometimes it is the data potential that inspires communities of self-interest to mobilize around their own data and form agreements about it.

Where Government is a participant in such a group it will have to enter these agreements the same as others, or it will not be in conformity with the principles it has endorsed. This probably means that it cannot use information it gets from participating in a group for coercive purposes and must rely on alternative sources for that.

A crucial factor to the success of collective impact vehicles in particular is the content management and use of the data that drives the work and measures the outcomes of the collective. Getting this organised to everyone's satisfaction is a huge potential boost to the productivity of the collective.

This is a point that is observable in the Canterbury Clinical Alliance which is effectively driven by data and relationships. DHB legislation is very enabling in terms of data sharing. The Privacy Commissioner has expressed the view that DHBs are entitled to information that enables them to deliver on their core purpose, which is planning and funding services to improve the health and wellbeing of their population. The whole population touches a DHB, and it is a very rare person that doesn't at least end up in an emergency department at some point in time. Almost all the

population is enrolled in a PHO and everyone gets a unique identifier at birth. All DHBs have data systems because they need them to run their own businesses, they are in varying stages of development but the Government is investing in them anyway with the strategy for electronic health records. Given the huge advance in analytical tools it is a relatively small investment to increase capacity and capability to deliver good quality information to support local organisations and populations.

It follows that there is good case for the SIU recruiting some health sector expertise with experience in these developments.

Attending successfully to these issues of data architecture will be a crucial step to unlocking the potential of social investment.

Recommendation:

- Emphasise the importance of sorting out the data architecture in social investment delivery vehicles in accordance with the principles of the NZ Data Futures Forum.
    - Create citizen-focused architecture.
    - Establish guidelines for melding government and provider information in service delivery and performance feedback.
    - Take care to protect the privacy of citizen information in front line service delivery and avoid misuse.
- Take practical steps in commissioning processes to ensure fast learning feedback loops, particularly in front line service delivery.

Roles and functions of government organisations in social investment

The role of the Treasury as discussed above is an evolution of its long-standing role in fiscal policy and as a central agency. It is the nature of the work that social investment demands rather than a new role.

For the line ministries the proposals in this report represent pretty much business as usual but with new methods and processes around social investment.

What will be different is the proposed evolution of the SIU through augmentation in its advice to ministers from a social investment perspective across the social policy landscape - or in practical terms those parts of it that are of potential interest for social investment and span multiple ministerial boundaries or go beyond them.

The SIU

The SIU's current location within MSD has the effects that the SIU is legally part of MSD, and receives back-office support (legal, financial, HR) from them. However in practice it operates as an "independent" entity. When the SIU signs a contract with an external party then officially it does so as part of MSD.

SIU reports to the Social Sector Board (SSB), and informally to the Minister of Finance and Minister of State Services, but not to the MSD CE. In practice they have evolved their operations to be essentially independent.

Public perceptions are that the SIU is part of the Treasury, as it is physically located in Treasury, but its staff have SSC IT support, SSC email addresses, and have access to SSC's document management system through CASS protocols.

The SIU does not have access to any MSD-specific data (e.g., the IAP warehouse). Instead its analysts work solely with the IDI, and have the same access to that as anyone working for a government agency. The SIU does not have access to MSD's data lab, although by agreement were allowed to while they were working on a joint project with MSD on social housing. Nor does SIU have access to any internal MSD documents.

These arrangements have worked in practical terms because of the support and forbearance of the MSD CE, and could in principle change at any time, although to do so would break a convention that has developed. Were the SIU to depart from its home in MSD it is unlikely that the separation would cause problems for either party.

The current arrangements can be credited with significantly advancing the development of social investment but they are untidy and unsustainable longer term, even though functioning reasonably well today.

Several matters need to be considered regarding the options for change in the SIU location. These are developments in social policy, the evolution of the SIU and of the commissioning of social investment.

Developments in social investment

While social investment is far from realising its potential for better social and fiscal outcomes, it is reaching adolescence. The concepts are broadly understood, the data sources and analytics are developing rapidly and, in particular, there is growing sophistication in the analysis of administrative data, which will be continually enriched, as new sources are integrated and agreements reached about how to mix government and non-government data.

The roles of officials in the governance of social investment should be based on a three legged stool:

1. Articulation of Treasury's role and development of its capability for work in social investment, which is an evolution of its traditional role in respect of other kinds of investment proposals, but by applying the new methods.
2. Social investment capabilities in the ministries, which are developing rapidly in some areas.
3. A mandate at the centre of government to look across the whole social policy landscape for pools of unrealised benefits. For the most part, these are not going to emerge from the work of the ministries, whose incentives are to develop proposals within their own domains and sectors.

With respect to the third leg, experience with trying to get club funding arrangements to work efficiently and issues around ownership of the social sector trials are illustrations of the practical issues of coordination across domains, although there have also been significant successes.

Also, to elaborate the third leg, many of the most significant proposals are likely to come from looking across several ministerial domains, to crown entities in health especially and out to potential non-government partners to realise potential value.

Further, social investment proposals will include those that do not invoke familiar means of procurement or partnership for the ministries. Some of the more complex vehicles of integrated service delivery for social investment initiatives are likely to remain unsuitable for implementation by mainstream ministries, due to unfamiliarity and the inhibitions of the mainstream systems of control and accountability. This is likely to be the case for collective impact vehicles that rely on variegated responses to local situations using local networks and providers. These require

"commissioning" processes, which meld decisions about what to do with how to do it, while drawing on established relationships and varied local capabilities to deliver.

The conclusion is that the essential third leg of the social investment stool should be a centrally located presence with the mandate, skills and resources to take an overview of the social policy landscape:

- to develop cross-agency proposals,
- assess the progress of social investment as a whole, and to
- have the position within the machinery of government to be able to give effect not only to this mandate, but also to
- promote and engage in implementation – following decisions by ministers - through partnering with the ministries in some of its work, and also leading in mandates that cut across boundaries in complex ways and/or involve innovations in PPPs including social enterprises.

The practical choices for this third leg are to morph the SIU into a more active role in social investment, or to create a separate centre of advice and energy that is more 'hands on' with developing certain proposals and with some commissioning activities.

Evolution in the role of the SIU

At present the SIU describes its role as providing "tools" and "platforms" and is there to "assist but not assess". For some undefined period, the current role of the SIU will be useful in supporting and promoting social investment. But down the track that job will diminish and decisions will have to be made as to what happens to the unit as its skills, its toolkits – and possibly its people – have been adopted by the ministries, where much of the action lies. At that point its original mission will have been accomplished. But the need for a centre of policy advice that is neutral to ministry boundaries and to the use of state or non-state partners in service delivery, and with skills in complex commissioning, will remain unmet.

Given the value of the asset that has been created in the SIU, there is a strong case for morphing its role into a body that has the mandate regarding certain aspects of advice and commissioning as described above.

Social Investment Commissioning

The SIU is building a "Commissioning Platform", which it describes as a set of tools, including analytical models and contractual frameworks. This fits with its present mandate to assist the traditional agencies and will be augmented by various advisers. But there is reason to doubt that managers across all the ministries will have the skills and experience to do commissioning safely and expertly even with the toolkits on offer. This is especially likely in situations of complex needs, multiple ministries and other parties to be corralled into servicing them, and complicated arrangements between the Crown and networks of providers. The systems of control and accountability across the ministries are not well suited to do this. Skilled carpenters are needed on the job as well as tools. B-C do not restrict the choice of IM to officials so, as with this report, allow these skill shortages to be addressed through outside partners – Whanau Ora is an example. But ministers and officials still need skills to commission the commissioners as this example has demonstrated.

This report recommends establishing a commissioning function for social investments. For the purposes of this discussion it is referred to as a Social Investment Commissioning Agency (SICA),

without prejudice to choices about its form and location. The SICA would undertake the following activities:

- The commissioning of social investment opportunities where there is no 'natural' departmental leader for a cross-cutting investment or challenges in coordinating ministries with opposed interests that are tricky to align.
- The commissioning of PPPs including social enterprises where there is no natural ministry or crown entity (e.g. DHB) leadership.
- Commissioning where the proposed agency's accumulating experience, tools and business platforms are needed, alone or in partnership with others, to give effect to complex or unusual modes of service delivery, funding and accountability arrangements.
- Provide leadership and facilitation of knowledge sharing and learning in practical commissioning in partnership with the SIU.

The SICA would receive its mandates from the SSB or from ministers. It would not normally expect mandates that fall naturally within the scope of ministries unless there is something unusual or a shortfall in capability. Its rationale is to give practical support for, or leadership of, specific mandates and thereby assist the drive to embed social investment across the social policy landscape. The way it works is to give effect to ministerial and SSB decisions for social investment that respects, but is not limited by, the mandates of the social ministries. It is in this sense "provider neutral" and its presence gives effect to the Government's objective to broaden the range of choices for more effective social policy.

Commissioning is often not a straightforward matter, as the report from the Productivity Commission and other authorities point out. It is an integrated way of thinking about what can be done and how it is to be done, together with the building missing capabilities and trustworthy relationships – sometimes with multiple parties.

The SIU's "Commissioning Platform" of analytical models and contractual arrangements will be available to ministries and more widely. But there is reason to doubt that either the CEs or the Investment Managers the CEs oversee will all have the skills and experience to do commissioning safely and expertly across the board – particularly in situations of complex needs, multiple parties to be corralled into servicing them, and complicated arrangements between the Crown and networks of providers. Obviously their experience will accumulate over time, but there will always be high return social investment possibilities that are unsuited to implementation through normal departmental channels.

The proposed SICA would partner, by agreement amongst the CEs and ministers, with the appropriate officials and others to conduct the commissioning project. For straightforward exercises and ones where the necessary expertise is in place the main stream system would initiate and take the action. But in more complicated cases or where ministries lack the capability at the level required then the SICA would be available to participate in giving effect to the decision – including being mandated to implement it.

Where collective impact approaches or social enterprises are being employed to implement a social investment decision the engagement of the SICA is likely to provide a sensible path, at least with the early applications. Where the IMs are officials, the SICA would assist them as required with advice or partner with them in a commissioning exercise. Its role in relation to external IMs would be to assist the minister as the 'investor' function described above – in concert with her advisers – or act as an intermediary between the investor and the IM to shape a more complex PPP.

Commissioning will be multi-layered in some applications. For example, the government undertakes an act of commissioning, where the level of complexity is unsuited to a simple decision in the SSB, and following that work chooses government or non-government partners to create the collective that corrals and organises the providers. The collective is then in a sense the commissioning agent going forwards as it develops pathways for the coordination of the providers in the collective.

Recommendation:

- Use broadly based commissioning approaches to bring together policy analysis, service delivery architecture, engagement with those affected while being careful not to crowd out the intrinsic motivations of managers and social service organisations.
- Augment SIUs role so as
    - to participate in commissioning activities for initiatives that require specialist capabilities in collective impact and PPP arrangements or which do not fit ministry structures and controls and may be funded through other channels
    - to work in these roles with the ministries in "dual operational" methods to help diffuse knowledge and support change

A stylised commissioning sequence could be as follows:

1. Departmental advice (encompassing the analytical advice from the SIU and the Treasury) advises Ministers of possible priority areas for social policy interventions. The Treasury also has a role in advising the Minister of Finance on opportunities.

2. The Government, acting on the advice, sets high level social policy goals, including specific areas of focus. Ministers would also agree the extent of delegation to officials for implementation and interventions. These decisions might also form a public document: e.g. Government Social Policy Statement.

3. The minister(s) on advice then arranges either:

    a. <u>Where a collective impact group already exists and is to be engaged</u>: for appropriate delegations to the 'treasurer function' described above to participate and commit (without reference back) to agreed interventions;
    b. <u>Where a collective impact group has yet to emerge</u> in an area identified in the approved government priorities, arrange for the SICA or other body to engage with the necessary participants and assist in the formation of a collective. And as in (a), ensure that an appropriate person has been identified to play the role of "treasurer" and that sufficient budgetary delegation is in place.

4. Where the SICA has been involved in helping to establish a Collective Impact group it should exit (although the group may continue to draw upon the specialist data analytics skills if those are not available from within the group itself). Once a consensus has been reached over an intervention, the "treasurer" (budget holder) is able to commit the pre-set funding without referral back to the SSB or parent agency.

The way of working should be in partnership with the ministries using a "dual operating model", in which departmental staff are partnered with SICA staff on the mandates. This is elaborated in the section on change management below. In this way the teams innovate new approaches while the learning diffuses back into the ministries. This aspect of its work is a contribution to government-wide capability building through on-the-job experience.

In short, its mandate is to work with ministries to test and innovate practical proposals for commissioning social investment and build skills that will diffuse back into the ministries. Also it can, if ministers choose, act independently to build social investment delivery systems that are not well suited to mainstream roles of ministries but funded and controlled through alternative channels. For example, it might work on proposals to co-fund certain services in partnership with philanthropic organisations.

Given that the SIU is developing commissioning methods it makes sense for it to incorporate the role of a SICA initially and see how it evolves. The essence of commissioning is that it integrates consideration of what to do with how to do it and getting the necessary networks and delivery vehicles together. So by its nature it is not desirable to split the SIU into policy and operations. With accumulating experience it will become clear whether this should be a lasting arrangement or a start-up.

Options for locating an augmented SIU/SICA

Where should the new SIU be located?

MSD

Even with the departure of some of its activities to the new ministry for vulnerable children, MSD is still a mixed policy-operations ministry. A case can be made that its core mandate in social development makes it a natural home for policy and implementation functions proposed here for the new SIU. But in light of its operational functions and its legal and administrative mandate, there is reason to question whether MSD is the right place for a role that is searching for social investment opportunities across the boundaries of other ministries and beyond, or engaging in operations that may not involve its mainstream functions.

There is tension between ensuring that the SIU has independence in its actions (and is perceived by outsiders as independent), against the desirable goal of it being closely involved in the social sector policy nexus. The practical need for ownership by social sector Ministers, their CEs and their agencies limits the effective 'distance' the new SIU can have from the sector. The balance must be struck such that the proposed dual operational approach to its work can be effected well.

However, organisational form does not dictate behaviour. The SIU needs more independence and a mandate beyond tools and platforms in order to be effective. The behaviours of its staff and their counterparts elsewhere will substantially determine how successful they are at working together and not creating another silo.

The chart below summarises the pros and cons of attaching the SIU to MSD or another agency.

It is assumed under both options that it would have its own budget and a direct reporting line to Ministers.

	Pros	Cons
Independent unit in MSD	It can spread its capabilities more easily into MSD Easier exchange of personnel and staff with MSD Closer connection with wider social sector and thinking	Resistance from other social sector agencies (perception that SIU is MSD-centric) Tensions between MSD and SIU will likely be resolved in favour of parent (because of seniority)

		Difficult for SIU to be fully free and frank about MSD to Ministers
Independent unit of other agency	Addresses all the independence and neutrality concerns	Distance from social sector agencies, access to information etc Potential risk of it becoming another silo

If the SIU were to be detached from MSD, then there are really only two possible alternative host agencies: SSC or DPMC.

SSC

There are advantages of SSC being in some senses a neutral party, but there are trade-offs in terms of distance from the social services sector and implications for its functions and the breadth of activity that it is responsible for already. It would increase the size of SSC by perhaps 30-40% depending on how many resources are transferred to it. Nor does it presently have a social policy capability that is likely needed to support it, though it does have a small machinery of government and public management capability. The emphasis above on the dual operating principles of change management would reduce the need for experts in the domains of the ministries and the SIU would be focused on building capabilities that are needed but do not exist elsewhere.

Its current CE has a deep knowledge of social policy issues. Social investment is creating new demands for collaboration and the SSC has a strong mandate for promoting collaborative values and processes across the state sector. The protocols and embedded practices for appointing and assessing the performance of CEs should be strong enough to isolate them from influences from SSC involvement in social policy advice. Practical assurances of this would be desirable. A Departmental Agency inside SSC rather than a business unit could help to provide such assurances.

DPMC

Much the same arguments apply to DPMC, although it would be a much smaller augmentation to the total staff. This location could provide more assurance than location in SSC about the separation of the SIU work from the statutory obligations under the State Sector Act, although the CE of DPMC is also involved in performance assessment of CEs.

Independent unit or Departmental Agency

It is suggested that the SIU be given the form of a Departmental Agency with the mandate described above. This will provide the necessary degree of independence, with a direct Ministerial reporting line, its own budget and decisions rights. This would be particularly so, if ministers decided to continue hosting the SIU in MSD. The departmental agency would have separate CE, a legal deemed delegation over staff, and a separate appropriate Minister, who does not have to be the same Minister of the host department.

However, note that according to Cabinet policy a departmental agency is required to work to the policy and funding of its host department. But the legislative provisions for departmental agencies is not prescriptive and it would be possible to apply the model as an exception to the agreed Cabinet policy.

A Separate Government Department

Absent a separate Social Investment Minister or Collective Impact Minister, it is not appropriate or necessary to establish a separate government department at this stage of its development. However, if the function continues to grow to the point that it is impacting adversely on its host agency or vice versa, this is an option that could be considered in the future. The way that the other social policy ministries have evolved by then would also influence consideration of this option at a future time. If MSD evolved in future to a focused social policy ministry without large operational functions then the proposed SIU functions might be a good fit.

This report concludes on the balance of argument that:

Recommendations

- Note that MSD is not the most appropriate continuing home for the SIU
    - Agree that SIU should relocate to SSC or DPMC
    - Note that this report prefers SSC as the location
    - Agree that the SIU be reconstituted as a Departmental Agency
    - Note in relation to these recommendations, the recommendation earlier in this report to augment the SIU's role to be able to provide advice on some social investment initiatives and take an overview of the social investment landscape

Social Sector Board

The SSB is under review at the time of this report's preparation. From the perspective of this report the role of the social sector CEs and central agencies is essential in accordance with the BPS vision to promote collaboration amongst ministries in social investment initiatives, but how well it working in this respect is out of scope. The advice in this report will affect the SSB or its successor in so far as it strengthens the capability of the Treasury for doing its core business in the area of social investment and augments the role of the SIU. With respect to the latter it is important to note that this report is concerned to ensure that the SIU does not become another silo, which may happen if the augmentation of its functions recommended here are perceived as a competitive challenge by ministries. The emphasis on learning to work with ministries in the dual operating model described below, is intended to enhance cross sector performance and diffuse learning into the ministries about the analysis and implementation of social investment projects

Science advisers

The work of the science advisers emerges in the work of the ministries they are embedded in but they also have a wider role in promoting the use of science methods in policy making. As noted in reference to the budget process, provision should be made for them to deploy their expertise in reviewing budget proposals where advanced methods are used to justify proposals and also to engage with Treasury and the social ministries in considering the strategic overview of the social landscape and identifying promising areas for social investment. This means they have a dual role both within their host ministries but also together as part of the processes of promoting good practices of social investment and quality control and assessment of proposals.

Recommendations:

- The science advisers also should stay engaged in the development of methods of analysis and evaluation generally and the use of those methods that emphasise longitudinal analysis to understand needs and outcomes over time.
- The professional differences between data scientists and other scientists in the area should be allowed to play out over time.

Superu

Superu is an independent entity and has various capabilities in aspects of importance to social investment. Technically, it has staff with specialised skills in statistical analysis and evaluation. It has deep networks of connections with NGO social service providers.

Its role in the processes of social investment within the centre of government is typically being asked to provide analysis or an evaluation of issues by its minister or other ministers and ministries.

A recent review recommended that it should clarify and focus its mandate. Looking to the future, a possible role could be to use and extend its relationships with NGOs, Maori communities, consumer groups and non-state providers generally, to promote practical methods for collection and use of client information and linking this to government administrative data. It would assist NGO providers, especially smaller ones to strengthen their use of performance data and learning processes within the management information systems. It could also help with needs assessment, but do it systematically to support the social investment approach.

Whereas the ministries and large providers can be expected to do their research into global information bases about what works in social policy interventions, smaller providers need help to access such information consistently. Superu could be a kind of librarian for global information about what works and guide providers and consumer groups to information they need to assess the effectiveness of services.

It might also build its capability to provide a source of expertise and project work on evaluation where policies span ministerial and state boundaries in complex situations. This would include undertaking statistical analysis of social investment programs to assess the effectiveness in reaching Maori and targeted populations in social investment more widely.

Superu's constituency and orientation should remain the citizen on-the-ground perspective and at its own initiative. Its independence needs to be reframed with the government to get the right balance.

A small transitional help desk service for NGOs could be invaluable for the contracted NGOs in their transition to more effective focus on process improvement and system knowledge contribution.

Recommendation:

- Develop a detailed proposal to change the mandate for Superu to support social investment with an emphasis on building technical capability in community providers and NGOs and providing them with advice on service effectiveness drawing on international and local experience of what works.

The Ministry for Vulnerable Children (Oranga Tamariki)

The proposals in this report can align well with the emerging structures and processes of the new agency.

It is too soon to know just how it will organise its workforce of mostly social workers to meet its statutory objectives and requirements, but it is obvious that social investment is a core business model for its work. A team of consultants is developing its modelling and analytical capabilities and it brings methods and people across from MSD, who are familiar with the approaches. But it will be challenged to map out the landscape it is responsible for using predictive and other models to identify the priorities it should pursue. We recommend that this would be done by the agency in concert with the Treasury and with advice from the SIU and the scientists.

Actuarial modelling would be used to assess fiscal implications of social investment proposals but other non-monetary issues would be taken into account and the fiscal liability not used as a high-powered performance measure – but as an input to an informed judgement that is subjected to peer review.

The agency can be assumed to be doing many of its interventions with its own staff, some of whom would be the Investment Managers. Following the criticism of many of the contracts with service providers identified in the Productivity Commission report, the agency will need to invest early in substantially upgrading skills in commissioning and procurement. It could partner with the SIU to develop new capabilities, including implementation where its commissioning skills are stretched.

It was said in the consultations for this report that it is better to do nothing than the wrong thing. The new agency needs to take care to exercise the judgement of experience along with the insights from analytics.

Place-based social investment initiatives

There are currently three government-sanctioned place-based initiatives in progress, each structured and tailored to local circumstances differently:

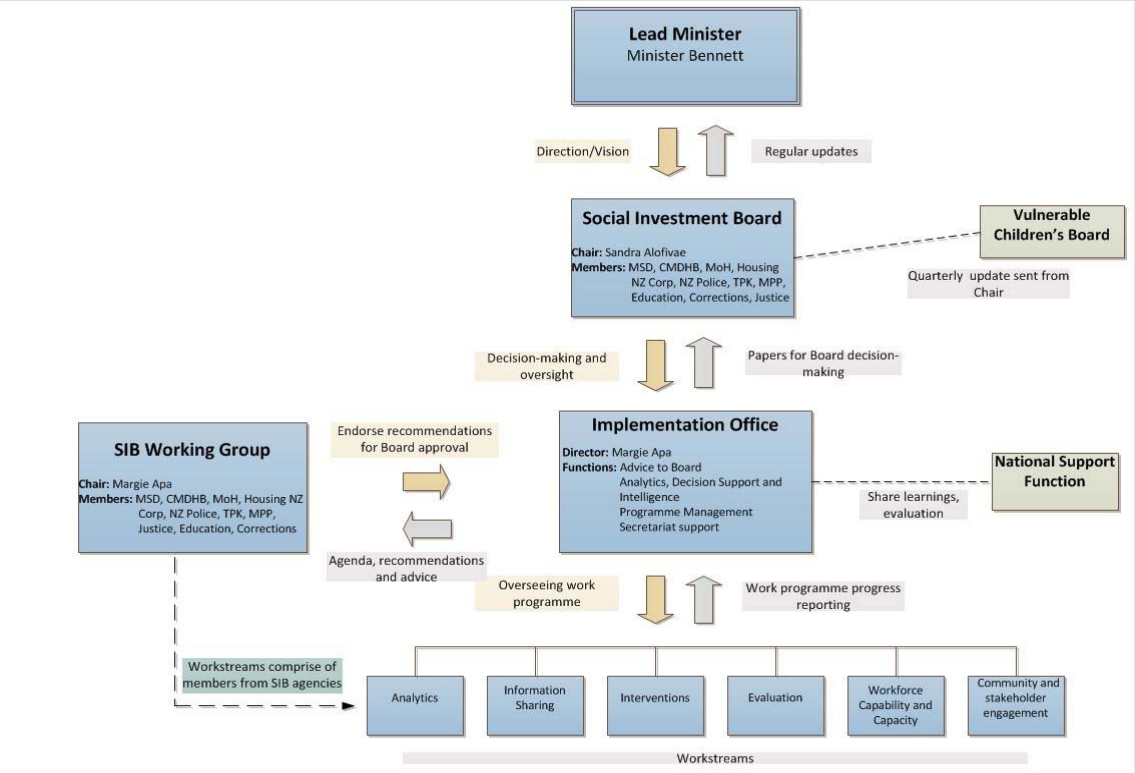
- The South Auckland Investment Board has been created as an inter-agency vehicle to focus on 0-5 year olds with two or more risk factors in Mangere;
- The Tairawhiti Social Impact Collective was developed by a group of iwi, state and NGO leaders in Gisborne. It is focussing on hard to engage families at-risk of poor outcomes.
- Kainga Ora (Northland) is an initiative of senior local government agency leaders and is focussing on 0-24 year olds and their family/whanau in three Northland towns.

All of these are in their early days but all are established within the existing inter-departmental/ agency vertical structures, with a modest amount of direct government resourcing (as opposed to club funding). The accountability, reporting and monitoring structures appear to be quite traditional. The South Auckland is possibly the most engineered, as can be seen in the organisational diagram below, reflecting the constraints of not adopting the dual operating approach proposed here.

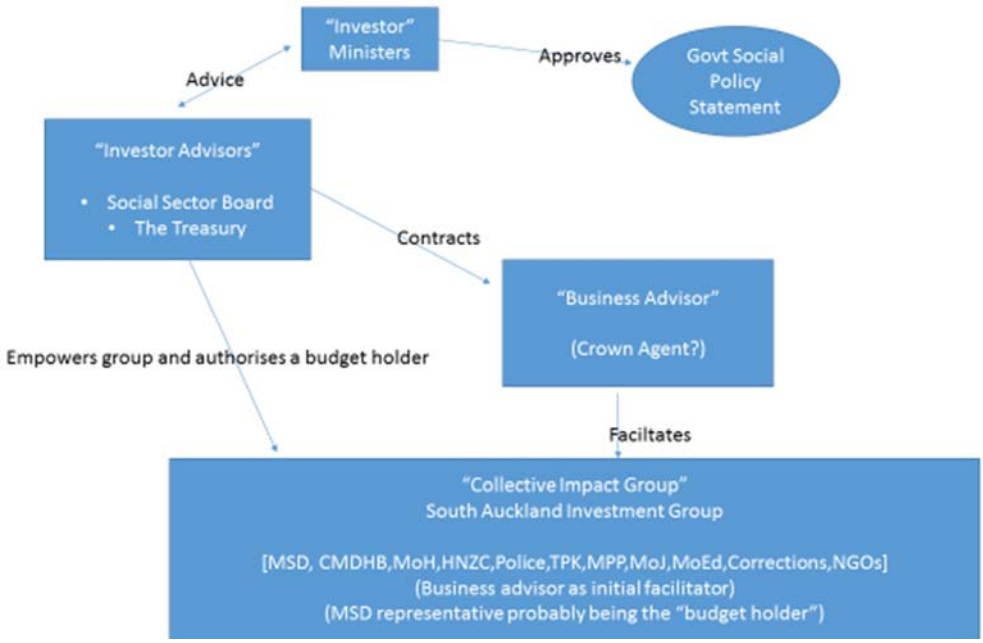
The second diagram applies the above discussion to how a collective impact approach might have been structured to the South Auckland place-based initiative.

Applying this to South Auckland Place- based initiative

The diagram below describes the existing structure for the South Auckland Social investment Board.



An alternative structure, utilising the legislative and institutional considerations above, would look rather different



Change management

New governance arrangements and incentives on the existing system will help, but are unlikely to be sufficient on their own to bring about the changes in culture and methods that are required. These need to be buttressed by a centre of energy and creativity, with leadership, culture and resources that will drive new models of service commissioning. Whether these are absorbed back into the mainstream or into a permanent additional delivery system will be decided later on the basis of experience.

The box below describes a method of change using a dual operating model that was used in developing the Canterbury Clinical Alliance.

Kotter's dual operating model at Canterbury District Health Board

Kotter explains how traditional organizational hierarchies evolved to meet the daily demands of running an enterprise. For most companies, the hierarchy is the singular operating system at the heart of the firm. But the reality is, this system simply is not built for an environment where change has become the norm. Kotter advocates a new system—a second, more agile, network-like structure that operates *in concert* with the hierarchy to create what he calls a "dual operating system"—one that allows companies to capitalise on rapid-fire strategic challenges and still make their numbers.

He argues that silos are an inherent part of hierarchical operating systems they can be made with thinner walls and leaders can try and make them less parochial but they cannot be eliminated. People try to overcome them through the use of project management organisations to handle special projects, inter-departmental task forces, strategy consultants, strategic planning, building change management capacity and implementing structured change processes to over-come complacency, lower resistance and increase buy-in. All of which can work but generally in a limited way and only as long as the project, team or leaders are in the organisation and generally only within an organisational structure.

He proposes instead that the most successful (top 1%) have developed a dual operating system with the hierarchical organisation in place to "run the business" effectively and well and respond to predictable improvements and an entrepreneurial network of people within the system overtly backed by the executive to be fast, agile and responsive to new challenges.

The development of the Canterbury Health System to its current model mirrors very closely the processes that Kotter has identified as core to a high functioning dual operating system and offer a solution to the challenge of meshing current Government hierarchy with the need to be innovative and collaborative across agencies and with the non-Government sector.

The Canterbury Initiative is an agile network that engages across the system with no line management, or external governance structure but clearly supported by key executives including the GM Planning and Funding and the CE. The output of the Collective Impact process is captured in Health Pathways for clients and thus becomes the "way we do it around here". Sign off of the Pathways stays with the group that developed them with clinical editor over-sight for consistency and the "system" moves the resources to support the new Pathway.

Kotter, Accelerate: Building Strategic Agility for a Faster-Moving World, 2014

A dual operating model seems highly appropriate to promote the development of social investment both within the centre of Government, through its agencies and in its partnerships with non-government entities. If the Social Investment Commissioning Agency is created now or evolves out of the SIU, it should operate in most circumstances in teams consisting of its own experts in innovative commissioning, combined with officials from the subject area and people from outside Government with expertise 'in the field'. This is how the dual operating model works to innovate freely and diffuse experience and skill back into the mainstream.

This point requires emphasis. Conceptually, the dual operating model is the integration of a network with a hierarchy. Much has been written about how to give effect to this concept and it will take time, experience and strong values and culture to get the full benefits. That part of the duality that is outside the hierarchy cannot be another hierarchy, or it will fail. It is a network that relates to the hierarchy and is not bound to a territory of its own. Its territory is defined by the scope of the people being served in each investment and their needs and aspirations. Participants operate both within and across the hierarchy. In addition, in the proposed application of the approach to social investment, the network can encompass parties beyond the hierarchy, such as community based providers. For those investments where the hierarchy can be coordinated to accomplish the objective through BPS and other means, then the task is simpler. But where the scope of an investment has little or no natural fit to the hierarchal structures then more challenging practices using the dual operating model will be needed.

Recommendation:

- That a dual operating model be employed to bring together the best of the skills of the ministries and the SIUs skills in both advice and commissioning in order to help diffuse innovations through the system.

Tuhoe

To illustrate this last point in a practical way, the Tuhoe Treaty settlement has spawned a new kind of partnership with the Crown – "Ranatira ki Ranatira" - whereby the order of priority is to first build a relationship of trust, and then proceed to mutual agreements about initiatives that meet both Tuhoe and Crown purposes. Legislation comes last and none maybe required. In fact there is a preference to avoid locking activities into legislative cages.

Tuhoe recognise that the Crown has resources and expertise that they lack that are critical to making well informed decisions on what constitutes a priority. They live in the exceptionally complex, multi-faceted environment that has led to their over-representation across many negative social outcome indicators. Tuhoe requested that the Crown calculate future benefit liability for all people living within the rohe so as to increase their understanding of who within their communities were facing the greatest challenges. This enhanced their knowledge base and could influence their determination of priorities. Tuhoe have also requested information from CYF, Stats NZ and MSD on the numbers of their children in state care, access to services and importantly, evidence based research on what initiatives are the most effective in responding to the needs of vulnerable children. Tuhoe's approach is strongly aligned to the investment approach and from Tuhoe's perspective, a focus on providing 'what works' for children, is an approach consistent with their two generation timeframe.

There is administrative support on both sides for the leaders to set priorities and agree on initiatives, but all within the previously established overarching relationship. This arrangement is very explicitly not the Government offering the Tuhoe a smorgasbord of social services to choose from, subject to

the standard statutory criteria of ministerial discretions. While those are available on the same basis as for other citizens, the partnership is about integrating those and other services into a mutually agreed framework of shared responsibility for outcomes. Tuhoe will invest their own resources to these ends with the Crown as a partner.

While the ministries will contribute services into this arrangement, they are not well set up to create it and support it. DOC has developed with Tuhoe a successful partnership for the management and development of Te Urewera, but this is narrow focus by contrast to the spectrum of social, economic and environmental issues that come within the scope of the relationship that is being developed. Collective impact vehicles will be needed to marshal Crown, Tuhoe and other resources and effort in the pursuit of mutually agreed objectives.

On the Crown side the support for ministers in giving effect to these purposes will require imaginative and determined application of the dual operating model. This means energising the work without bolting down formally more than is needed to drive the next phase of development.

Recommendation:

- Agree that collective action methods can be deployed in partnership agreements with Maori organisations to integrate the social development objectives of Maori with government support.

Summary and conclusions

The B-C proposal has engendered a very productive discussion about how to govern and fund social investment, which was rather overdue, and for which its authors should be credited. This report has suggested various changes to the B-C proposal that modify it and extend it. The key points are as follows.

The advice to accommodate multiple objectives, rather than a single metric, is based on the working group's concern that actuarial values are acceptable as a proxy for desired social outcomes only in limited circumstances. It is recognised however, that data analytics may extend the value of these kinds of calculations over time.

It follows that the proposal for an actuary to have an independent right to impose a particular basis for calculating forward liabilities is not supported.

Recognising the unavoidable problems of rendering multiple objectives down into a single metric, leads this report to recommend that a purely fiscal analysis of social investment proposals is available for fiscal policy and budgeting in the normal way, in parallel with social cost benefit analysis and other analytical approaches to formulate and assess investment opportunities.

The role of Government Investment Manager in B-C should be split between Treasury, as an extension of its normal role in investment budgeting and oversight, and the SIU, which should be more engaged in advice, and line agencies in their respective domains.

This report concludes that it is not safe to use single valuations as high powered performance incentives but rather to frame performance objectives in the process of commissioning services and as a reflection of the circumstances of the cases.

Capability for commissioning services, especially to address people in the long tails, should be developed and a Social Investment Commissioning Agency provided for, which could evolve within

or out of the SIU. This capability is essential for the Government to Partner with "collective Impact vehicles", including with iwi-based organisations.

The report recommends the creation of a Social Investment Commissioning Agency. Its role in essence is to provide advice and capability in the new approaches to engagement with clients and their communities with service providers, and officials and ministers that were promoted in the Productivity Commission report on social services. In using the term commissioning this report is unbiased as to whether the services in question are provided by the state or non-state vehicles or hybrids of both. As an evolution towards its establishment it is recommended that the SIU build on its current initiative to augment its role and capabilities in commissioning with a view to advising on what is the best way to grow and diffuse these capabilities.

The next page has an organisation chart the loosely captures the structures that this report proposes and compares them with the B-C chart at the beginning of this report.

In action, the processes are based in the normal structures and conventions of government as they currently are, but with the:

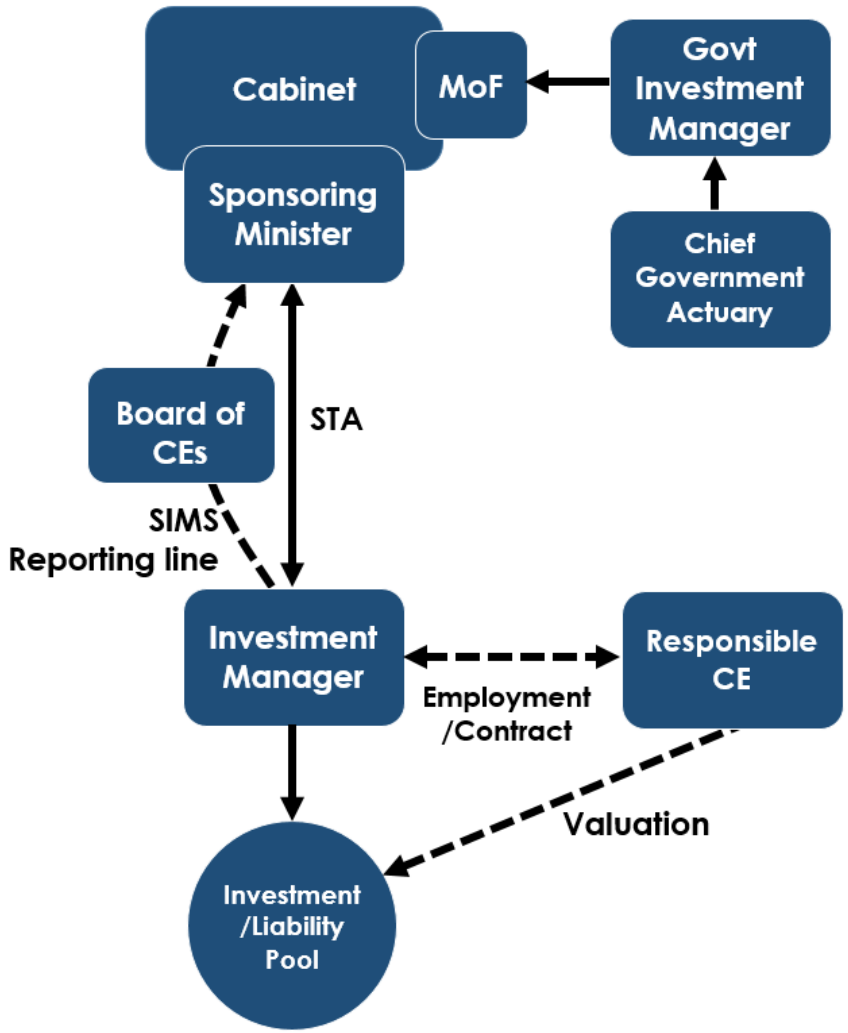
- Treasury role clarified for social investment,
- SIU located more securely and with its functions augmented.
- Social Investment Panel continues in its present role in reviewing social investment proposals and is augmented to a role of quality assurance and the centre of hub of expertise needed to progress social investment further.
- Superu's mandate reframed to better support social investment.

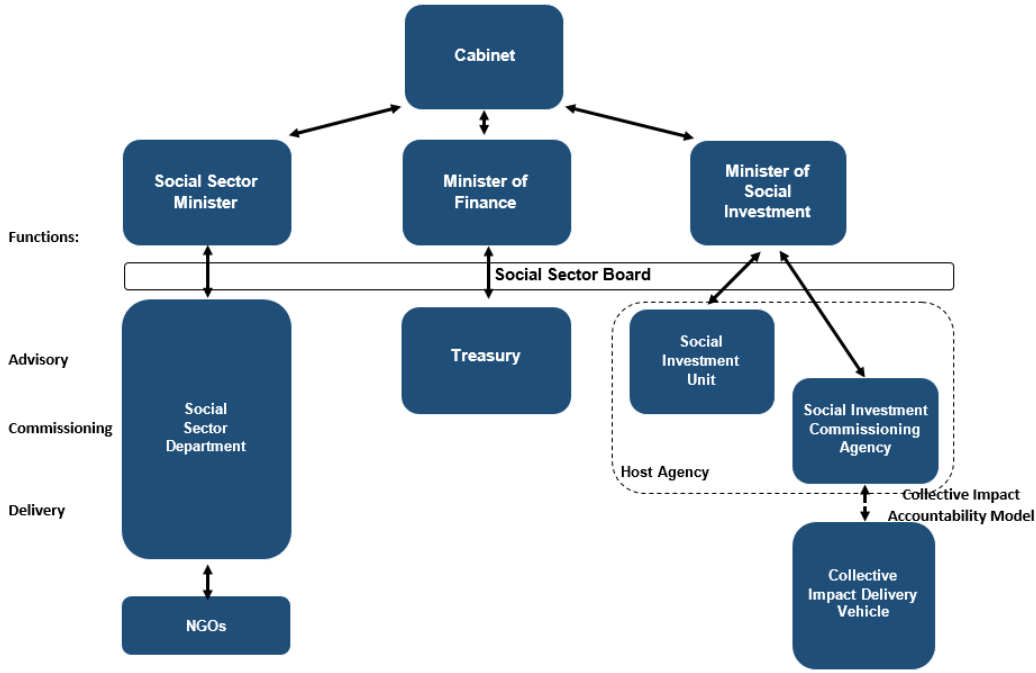
The decision making process is conventional. Ministers on advice of their ministries or wherever else they choose, develop proposals for investments. The SIU and the Treasury advise ministers from an overall view of the landscape and the Government's priorities for social and fiscal policies. The proposal enters the budget process in the normal way, [1]

[1]

Ministers and the Minister of Finance resolve their differences about priorities and resources in the budget process in the normal way with advice from their ministries, supplemented with the advice of the Social Investment Panel.

A decision to invest will include not just what to do but how to do it, so the advice going to ministers includes the latter. As always, the appropriation that pertains to the investment is tagged to a minister. Some investments will be implemented through the appropriate ministry in the normal way. Others, where several ministries need to be involved, will need to be coordinated by joint ministers and through BPS collaboration protocols. As with the B-C proposals these will involve the Social Sector Board and result in a single CE carrying the responsibility for oversight and management through her department. In both these situations there will be a senior official carrying the responsibility to give effect to the Cabinet decision. If the department is carrying out the service delivery then the normal controls under the State Sector Act and Public Finance Act apply, but where it is necessary for the manager to have deeper delegations of authority than normal so to be able to commit resources without going back up the hierarchy, then those delegations can be done under these two acts.





Note: STA is 'Social Targets Agreement' and SIMS means Social Investment Managers

Where the decision involves departments contracting with NGOs then officials should be directed to re-frame these contractual relationships to remove the bad practices that were documented in the Productivity Commission report.

Where the Investment Manager – using the description in the B-C proposal – is not an official but an outside organisation or involving non-standard relationship between the Government and the service providers in a PPP of some kind, then the practices of commissioning described in this report should apply. The minister becomes the investor, who has an investment advisor, while the provider vehicle has a "Treasurer" in cases where traditional contractual methods would compromise effectiveness and efficiency. This will, in particular, be the case when collective impact vehicles offer the best prospects to achieve the objectives of the investment. In practice the minister's role as investor will morph into a responsibility for the minster's CE.

When using collective impact methods, the difference from normal bureaucratic practice will be that the CE would invest in the collective impact vehicle directly and pass over some of the decision rights to the Treasurer within it. One of the effects of this is to bypass a concern this report has with the B-C proposal to involve the CEs as a group in the chain of control, as in most cases they will have divergent interests in the investment. B-C mitigate this by restricting the SSB role to managerial effectiveness, but they will be in a position to influence the substance of the cases.

The engine of progress in B-C is the powerful incentives to focus on reducing the value of a single metric. They provide numerous work-arounds when the metric is a bad proxy for desired social outcomes, which are roughly similar to the processes advised in this report but used ad hoc when problems with the metric emerge. This report is based on the proposition that the exceptions are likely to be the rule, but to be ready to use the metric when it can be assumed to be a good proxy, and with some expectations that these metric will be more accurate as data and social science analyses develop in the coming years. The exceptions are built into the system from the start without privileging one objective over another.

So this report sees too many exceptions to the rule in B-C in which case the engine of innovation will have to rely commonly on other incentives. These involve clarity about the objectives and incentives within the decision process. Also the intrinsic motivations in operation at the front line must be taken into account. For example an arrangement with an Iwi provider may well achieve a reduction in welfare costs but the partnership between the Iwi and the Government is not going to get off the ground if the objective of lowering the actuarial valuations of future benefits has to be the central performance objective.

Finally, while having to work with multiple objectives seems inevitable, this report is very clear that a fiscal analysis of each investment, which is not diluted with arguable or even speculative attempts to value social indicators, is a foundational requirement for social investment. The Minister of Finance could not be clearer that social investment is about spending money now to save money later and has to have the assurance this test is made of each proposal. Otherwise social investment is just another rationale for breaking the budget constraint. The fiscal calculation must be on the table when ministers make their decisions about social investments.

Annex 1:

Terms of Reference

Social Investment Governance and Accountability Framework

Context

The Treasury is establishing a small working group to examine how to set up governance and accountability arrangements to achieve social investment principles; and on how budget rules and processes might be adapted to meet those principles (fiscal integration).

The Government aims to establish a governance and accountability (or performance) framework for managing defined investment/liability pools. Such a framework must:

- Deliver better social and fiscal outcomes over time.
- Support fiscal cost control.
- Respond to the complex needs of vulnerable individuals and families interacting with multiple agencies.
- Meet the needs of governments focused on achieving policy targets.
- Be compatible with the appropriations system.
- Provide a way to deliver coherent decision making within and across agencies.
- Interact constructively with existing policy and funding frameworks, including the five levels of the social investment system[4], and
- Be robust to inevitable imperfections in forecast future outcomes.[5]

Draft Framework

The Social Sector Board (SSB) has received a draft governance and accountability framework for managing long-term social and fiscal outcomes as a starting point for further development. The objective of the framework is to place sustained pressure on 'investment managers' to improve outcomes and reduce the long-term social and fiscal costs of the investment/liability pool for which they are accountable.

The draft framework is underpinned by the following principles:

- Clarity, transparency and accountability drives performance.
- Accountability is tied to outcomes not inputs.
- Each role in the framework must have clear responsibilities and reporting lines.
- Is flexible and able to accommodate diverse approaches to investment management.
- Where possible, it complements and builds on existing practices and work streams.
- Accountability on decision makers aligns with optimal system-wide outcomes, and
- The system supports detection of, and response to, unintended consequences.

Delivering improved performance across the social sector, using social investment approaches, is a priority for the SSB and it has agreed that the framework should be further developed. The SSB

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4 Cabinet Social Policy Committee, "Implementing Social Investment: Report-Back" (6 April 2016) SOC-16-SUB-0028 at [15].

5 See Burgess, M. and Cosgrove, D. "Draft governance and accountability for managing long term social and fiscal outcomes," 3 June 2016, p. 2-3.

noted that the principles underpinning the framework are a good starting point for further work and that while the draft framework sets out detailed structural and accountability arrangements there may be other options that should also be considered to deliver improved accountability and transparency.

The proposed framework needs to move from being conceptual to something that can be practically applied to a specific sector or across the social system. The SSB agreed that a working group established by the Treasury should examine how this might work in practice.

Working Group

The Treasury, subject to social investment Lead Ministers' confirmation of these Terms of Reference, will set up a small working group to be led by Graham Scott, supported by officials from the Treasury, State Services Commission, Ministry of Social Development, Social Investment Unit, and such agencies affected by the scenarios being tested (currently principally the Ministry of Social Development). It will also draw on external experts who have relevant sector knowledge (including James Mansell and Carolyn Gullery) and be able to provide information and help develop advice on application to specific scenarios. Exact resource roles and resource commitment are still to be discussed and agreed with the Treasury. The working group will also seek the advice of Social Sector Board's DCE sub-committee acting as a reference group

Role of the Working Group

The role of the working group is to deliver advice on the proposal, including:

1. Review the principles underpinning the draft framework.

2. Assess the draft governance and accountability framework by applying two scenarios to test and refine, identifying all aspects of the framework, and to demonstrate how a framework, or its component parts, might interact with/complement existing policy, service delivery, legislation and regulation, and budget processes.

3. The scenarios proposed are: the New Children's Entity and the South Auckland place based imitative. The working group may select other scenarios to test practical applications further.

4. In applying the scenarios consideration should be given to:

    - How current roles including the role(s) of central agencies contribute to investment management.
    - Any new roles required (especially a Government Investment Manager).
    - The extent to which any role requirements should be formalised.
    - Mechanisms to support transparency (e.g. the draft framework recommends Social Targets Agreements and an Investment Strategy).
    - The form of any mechanisms required (e.g. this could include mocking up a high level Investment Strategy if the working group agreed this was a valuable mechanism).
    - Reporting requirements.
    - How a framework could contribute to the need for cross-agency achievement of long-term social and fiscal outcomes and management of liability pools.
    - How a framework would work in devolved sectors such as the Health and Education sectors.
    - Barriers to the adoption of a framework including any potential unintended consequences.

- Liability definition(s) and methods.

5. Advise the Treasury on how budget rules and processes might be changed to take account of social investment principles and thereby integrate social investment with the budget cycle (fiscal integration). [NB: this advice and supporting documents will be restricted to the Chair and Treasury officials]

In light of the "desk top" examination of the scenarios, the proposal may be refined for practical application. As part of the advice, other tools and levers for incentivising performance and for ensuring accountability for social investment goals should be considered.
The working group should consult widely with stakeholders, in particular the SSB DCEs group, to gather information, test draft views and build support for a governance and accountability framework.

The working group will have direct access to the Lead Ministers as the need arises.

The Product

The working group should:

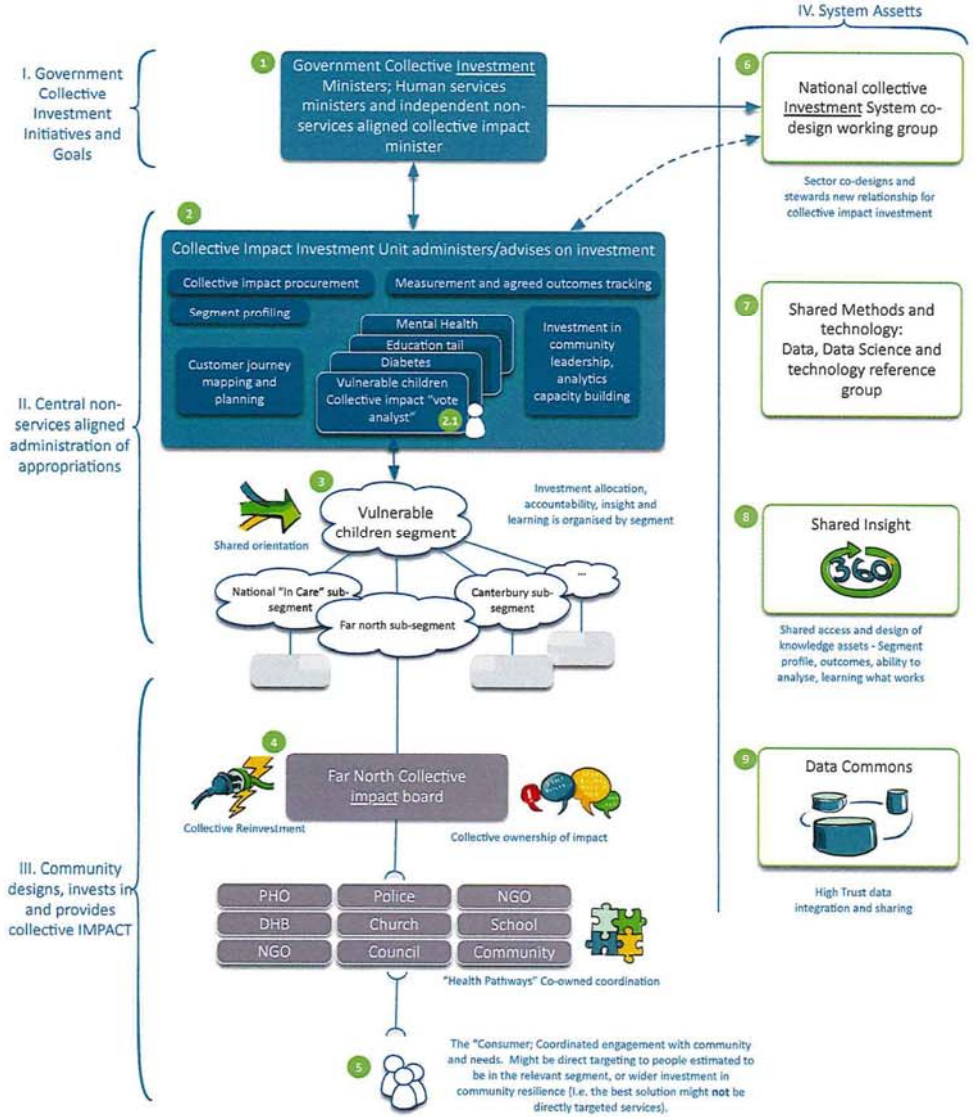
- Establish the principles to support a governance and accountability framework.
- Document a performance and accountability framework, or range of tools, building from the draft governance and accountability framework provided to the SIU.
- Document how such a framework would interact with other machinery of government arrangements and legislation.
- Recommend any changes required to existing arrangements, policies or processes to support establishment of a framework.
- Identify whether any legislative change is required to improve the implementation of a framework or support embedding it.

Deliverables and Milestones

Week of 22 August	First meeting of working group
To mid-September	Workshops, including external expert soundings
By 12 September	Advice to Treasury on the fiscal integrator work
Late September	Preliminary views discussed with Lead Ministers (Hon English and Bennett)
Early October	Draft report/interim findings discussed with SSB
21 October (Labour Weekend)	Report to Lead Ministers and SSB
Late October	Meeting(s) with Lead Ministers as required

Annex 2:

Collective Impact Investment



I. Government Collective Social Investment

1. Government Investors; Ministers (Cabinet or social sector ministers plus central non-aligned facilitation minister (MoF). Decide what problem they want to solve, level of investment, measurable outcomes.

II. Central administration of collective impact investment

2. Collective Impact Investment Unit; Government has a non services aligned unit reporting to collective impact ministers. This unit has the procurement, sector collective impact capability building, data science, and measurement functions (as any typical ministry would) to carry out the functions of doing effective segment level investment (re)allocation of funding and forming contracts with provider collective impact groups around specific populations and issues. Define population, objectives, negotiate measurable outcomes and data requirements for monitoring, provide funding, monitor ROI And high level outcomes, enable collective response (stanford rules, plus capacity build).

2.1 Segment owners; accountable for procuring collective impact contracts and outcomes of collective (re)investment in outcomes for this segment. I.e. form contracts in regards to particular population - maybe 1 national contract or several regional place based (sub-segments) for procured measurable outcomes.

3. Nationally a population (segment) is defined along with measurable outcomes and forward value proposed (fiscal, social, economic outcomes). This "segment"is a way to manage appropriations and accountability - not how interventions are operationalised. It basically serves a taxonomic function to manage investment and develop learning and insights (analog under the current model is a "services"grouping. This allows the sector to focus on outcomes and customers - not services (outputs) and processes (efficiency). This will usually be further decomposed into specific sub-segments for the purposes of forming specific collective impact contracts. Sometimes they may be national or decomposed by regions or hybrid approaches depending on the national level super-segment

III. Community designs and runs collective impact

4. Collective Impact Board; Contract is with a board representing sector who demontrate the facilitative leadership required to marshal and build a collective impact network (e.g. Maniakalani, Canterbury health alliance network or Platform trust. Board is accountable for outcomes and investment. Role is reinvestment and pathway development to achieve measurable objectives for defined segment. They do service design and segment level procurement of provider services. Key to success is non-services aligned chair exercises adaptive leadership to create effective holding environment for collective decision making and mobilise commitment to shared action. Snr community, business, and NGO leaders and resource holders collectively decide on how system works. Specific providers subcontracted to work to an agreed collective impact plan and objectives

5. Investment Consumer: the community or targeted members of segment are identified with consent using local data and invited to participate and have coordinated provider engagement.

IV. Shared collective impact assets, support whole system

6. National Collective Investment System Co-design Working Group: does system design and stewardship; comes together to co-design the system of investment, procurement, data sharing - i.e. relationship between key investors in the social sector. Provides collective approach to designing the new system to ensure workable and buy-in and coordination of key interests where these are in common. Supports co-design and change leadership for the new relationship between government and sector. "Social collective investment

7. Data, Data Science & Technology reference group; provides independent advice across the system on measurement, data science and technology needs that underpin the system. Includes elected specialists in Actuarial valuation, Data Science, Measurement (statistics) Survey methods and modern approaches to technology (P2P, APIs, Metadata and federated computing).

8. Shared insight: see other A3

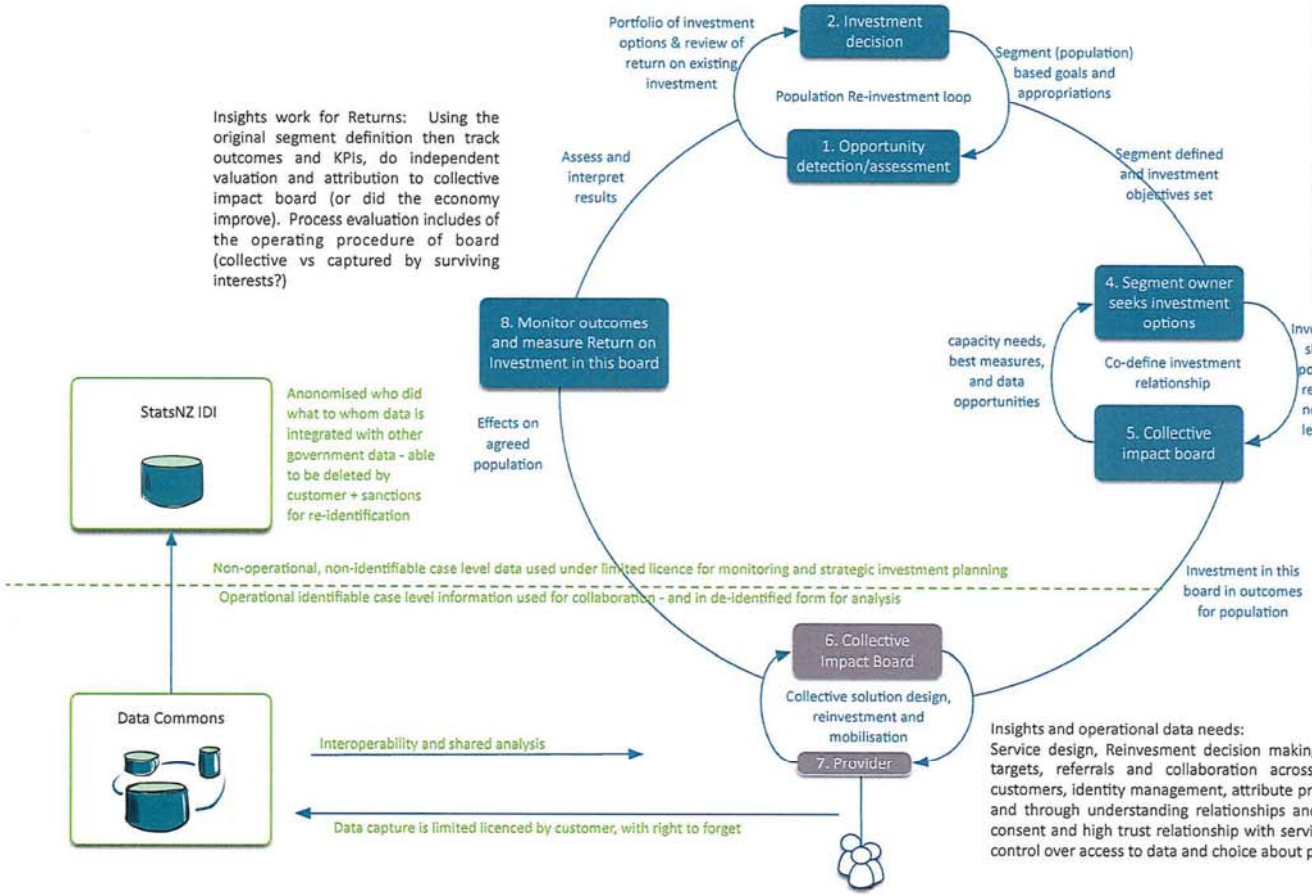
9. Data Commons: see other A3

Insights work for reinvestment loop: Support (re)investment decision making: Review previous cycle of investment (provider, data science, KPIs, Return)
Scenario model potential return for new pop based investments based on forward social, fiscal, economic outcomes. Deliverable is a portfolio of investment options based on projections and segment definitions and 5%,10%, 20% improvement scenarios (or real data if been through the cycle already)

Insights and intel work: To determine or builds procurement opportunity. What works for the population? Who is available and "collective"? Do i need to build new sector collective impact capacity? Should I define sub-segment (e.g. place based) contracts for specific operational needs or sub-needs of my overarching segment responsibility or to meet experimentation goals?

Measurement design: determine agreed contracted KPIs, survey/needs assessment requirements, Data sharing (monitoring) requirements, Price, collaborative approach, and target population parameters (how you going to be assessed). Formalised agreed independent valuation.

Insights work for Returns: Using the original segment definition then track outcomes and KPIs, do independent valuation and attribution to collective impact board (or did the economy improve). Process evaluation includes of the operating procedure of board (collective vs captured by surviving interests?)



Insights and operational data needs:
Service design, Reinvesment decision making, performance against targets, referrals and collaboration across services for specific customers, identity management, attribute provider value by analysis and through understanding relationships and reputation. Manage consent and high trust relationship with service users (who maintain control over access to data and choice about participation).

Annex 3:

Examples of collective action vehicles

FUSION – responding to a spike in youth suicides in Northland

At the core of the FUSION approach is a focus on quick action and analytics. The approach was introduced in 2013 following a spike in youth suicide observed in Whangarei in 2012. The approach allows FUSION to:

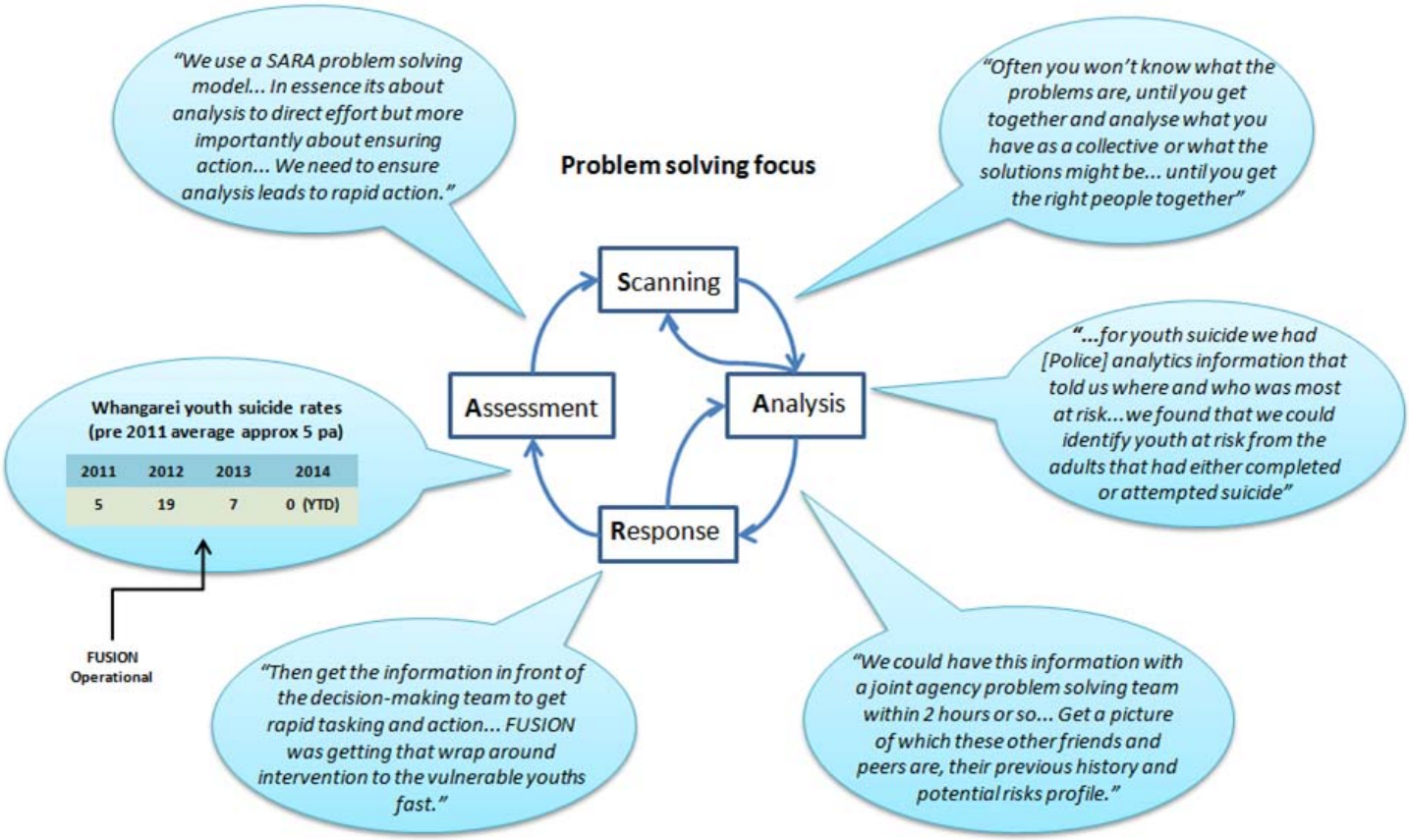
- Integrate information and analytics from a range of sources incl. agencies and NGOs
- Combine analytics with qualitative and risk information to develop an up-to-date 'strategic picture'
- Within hours of a suicide (or attempted suicide), mobilise small teams of NGOs and frontline professionals to provide wrap–around support to at risk people or groups.

While far from conclusive, there is some preliminary evidence of success, with a reduction in youth (under 25) suicide following the establishment of FUSION – from 19 in 2012, to 7 in 2013 and zero so far in 2014. Frontline staff believe that this approach could have wider application, to assist agencies and NGOs to focus on the prevention of social harm (and by association criminal offending). The FUSION group is looking to shift its focus to family violence. As part of this, physically co-locating the right people together is considered an essential starting point.

Frontline staff have identified the following as key success factors for their problem-focused taskforce:

- effective local governance that supports the integration of agency service delivery,
- a clear mandate from the top (in this case, from the regional managers) and operational autonomy, allowing for faster decision-making, and

Co-location of people to enable rapid problem solving and to build shared responsibility for results



Whangarei Children's Team – emerging network administrative organisation model

The Children's Teams are based on a 'case management' model, which gives these teams a clear focus and rationale. The Regional Director and coordinator are the key players mandated to establish and coordinate the network of organisations needed to tackle child vulnerability.

In addition, the Regional Director has been looking to the wider community and businesses to develop 'packages of intervention' to get better results. In particular, she has commitments for donated resources from a wide range of non-government and private sector actors (e.g., Bunnings, Mitre 10 and fishing clubs, accident prevention and healthy homes services). In the literature, this is an example of a 'collective impact' model – it was not part of the original design for the Children's Team but rather emerged from the entrepreneurial efforts of an individual director, supported by her governance group.

The Whangarei model seems to be working because it:

- Demonstrates true commitment and strong local governance – the co-location of significant resources and people has provided stability and increased buy-in, and led to information sharing and knowledge transfers that would otherwise not occur.
- Has a strong mandate reinforced through governance arrangements that bypass the hierarchical accountability structures of individual agencies by creating a direct line to the top (i.e., the Children's Action Plan Directorate and the Vulnerable Children's Board).
- Is given permission and space to operate rather than micro-managed from Wellington.
- Has high-calibre local leaders who have a clear vision – both on the governance group and the Regional Children's Team Director (this aligns with empirical studies on successful models which require individuals who operate as 'social entrepreneurs.