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Social investment

From spend reallocation to strategic investment management

Introduction

"Social investment" has always been challenging to define, and just as challenging to deliver.

In New Zealand it is "a systematic way of using data, evidence and modern analytics to invest in earlier and better intervention that can effectively break cycles of dependence, inter-generational poverty and disadvantage. It provides the framework for how we understand who we need to invest in and what works for those people, as well as how we can measure progress to ensure that what we are doing is working."[1]

That definition co-exists – and overlaps – with a number of foundational and well-accepted pillars of good social services and support, including whānau-centred and strength-based practice, evidence-based interventions, outcomes-based commissioning, and prevention and early intervention.

The unique element is the lens of investment. An investment approach spends today in expectation of a future return or outcome. This may not be in a year (or a budget cycle), and the return may turn up somewhere else than to the investor.

Reallocation of expenditure towards interventions that promise the greatest impact is a valuable approach. However, alone it barely scratches the surface of the scope and potential of social investment management.

Too often social investment is being used as a proxy only for 'evidence-based spending' that is, the reallocation of funding to those programmes or interventions that can be shown to generate a social return. This only answers the question: "is this intervention beneficial to the group it is aimed at?"

Effective investment management – social or otherwise – requires making informed portfolio decisions across multiple time horizons with a clear understanding of risk, return, and the overall outcomes we seek to achieve.

Instead, social investment would take a cohort-based approach that answers the questions: "who are the priority groups for whom we can make the greatest difference through early and effective intervention?" and "what combination of interventions (delivered through a range of approaches) will most improve the outcomes for those priority groups?".

In this paper we set out a view that a more comprehensive approach to social investment will ensure that resources are not only used efficiently but also effectively, paving the way for sustainable social improvements.

How is New Zealand Performing?

In recent years, New Zealand has made progress towards improving how government spending is managed. The focus has shifted from merely spending money to investing it more strategically. The first social investment approach formalised the lifetime cost tools that were already in use in some agencies, and approaches such as CBAx and wellbeing models continued this.

However, there is still much work to be done. Government needs to embed social investment management as discipline to attract other sources of investment and funding, and create a more robust and sustainable ecosystem.

We are applying evidence-based policy for social expenditure
The New Zealand public sector recognises the need to spend taxpayer money wisely. The focus on investment into the data, evidence and evaluation capabilities of the public sector has supported a meaningful shift towards evidence-based policy and operations.

Dedicated capability within social services organisations, such as the Social Impact and Research Team at Oranga Tamariki[2], produce research to support organisational policy and wider system knowledge and learning through publishing their insights.

Most agencies can point to improvements in decision-making where decisions are supported by data and proven outcomes rather than assumptions about what works and what doesn't. The continuous learning and improvement that this kind of rigorous evaluation and data support is a harder shift to make.

We are evaluating effectiveness of current spending
Agencies are increasingly looking at their current investments (and providers at their programmes) to understand how well their current interventions achieve the desired outcomes, and the broader value of their portfolios.

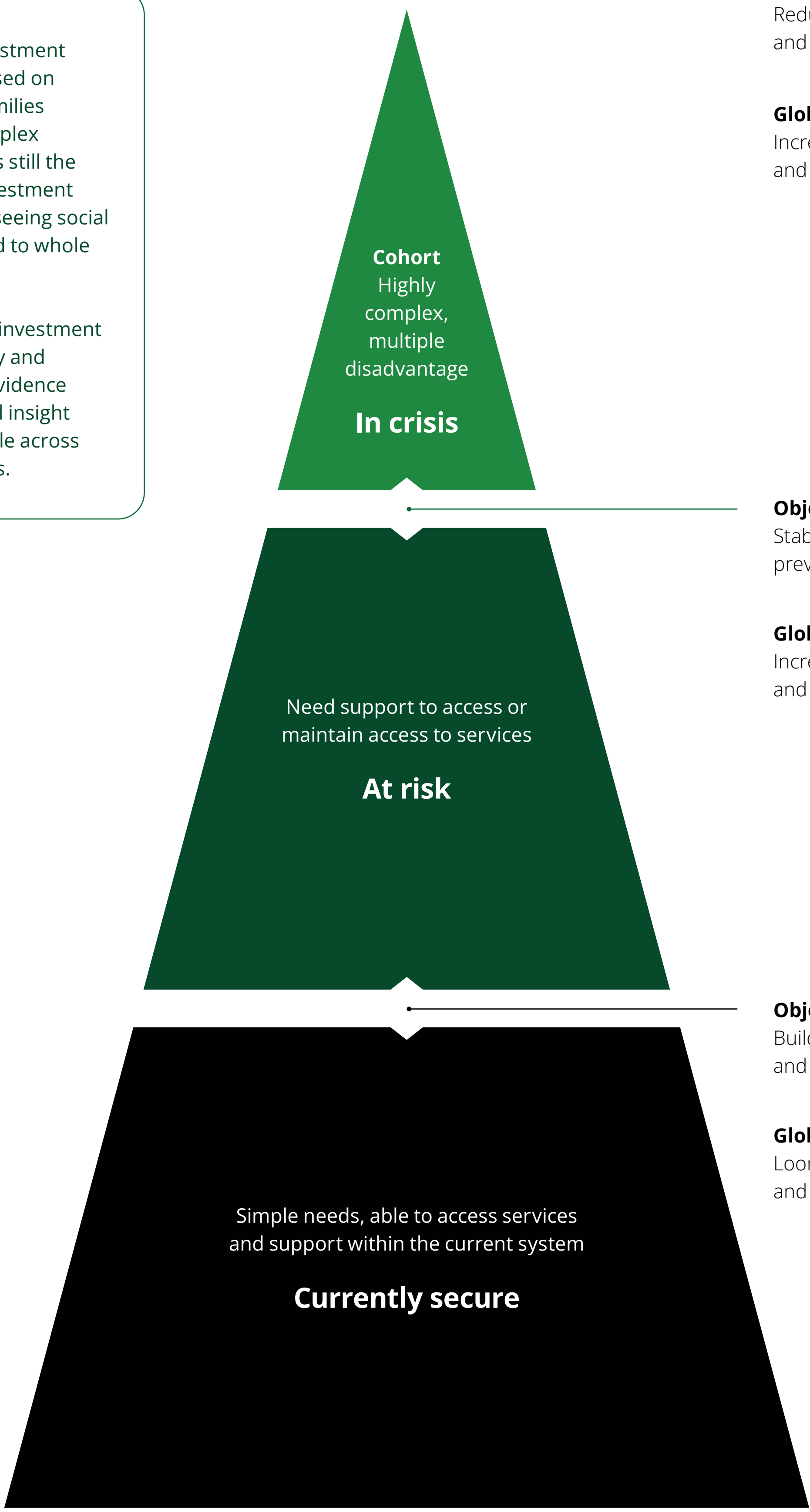
For example the Ministry of Social Development's Employment Assistance Evidence[3] Catalogue provides cost, effectiveness and cohort analysis for employment interventions for over 30 years.

By evaluating the effectiveness of their existing programmes, they can make more informed decisions about where to allocate resources. This holistic view of investment helps ensure that every dollar spent contributes to positive social outcomes, but is often backwards-looking, missing the opportunity to consider what the set of investments are that collectively achieve the best outcomes.

A cohort-based view of social investment

In 2016, social investment was squarely focused on individuals and families with the most complex needs. While this is still the core of a social investment approach, we are seeing social investment applied to whole populations.

A decade of social investment approaches, locally and globally, provide evidence on what works and insight into what is possible across population cohorts.



Objective
Reduce harm and de-escalate

Global trend
Increasing need and complexity

Objective
Stabilise and prevent escalation

Global trend
Increasing need and incidence

Objective
Build resilience and create capacity

Global trend
Looming liability and shifting severity

We can't yet take a system-wide investment view

A lack of system level data on spending across government, into social services and commissioned services, also makes it challenging to take a system-wide view on investments and outcomes. For example, providers will often reference multiple social service contracts they hold to serve a single population group, simply because of different service taxonomies. There is no easy way to understand the total investment (size and composition) that supports a specific geography or community.

We're not taking a longer-term and preventative investment approach

While social investment offers the opportunity for prevention and early intervention, many of our social investments are still focused on the short term. While terms like fund and impact investment are becoming more common, the duration of these investments tends to be relatively short. Moreover, the focus often remains on the top of the triangle – those with the most complex and immediate needs – leaving other groups underserved, and insufficient focus on the value of preventative spend.

For example, some of the key interventions to prevent the 'looming liability' of Type 2 diabetes will be in preventative and early diagnostic access, educational campaigns and school-level programmes, and 'healthy city' infrastructure. These require a social investment mindset to be applied to infrastructure and policy decisions beyond working with at-risk or already-diagnosed populations.

Our approach also undervalues the investment in core infrastructure (including investments that can be delivered through mixed public and private approaches) to drive a social return. Te Waihanga's benchmarking findings found that while we our overall spend on infrastructure (which includes health and education infrastructure) is similar to the average of other high-income countries, the return for every dollar is in the bottom 10%.[4]

In part this reflects a great strength New Zealand has – between the IDI, and our relative size, we are unusual in being able to point to very small cohorts with confidence. But it is timely to reframe our view to the whole of the triangle – which needs a much longer-term appetite for investment returns and a willingness to take a social return view on infrastructure investments.

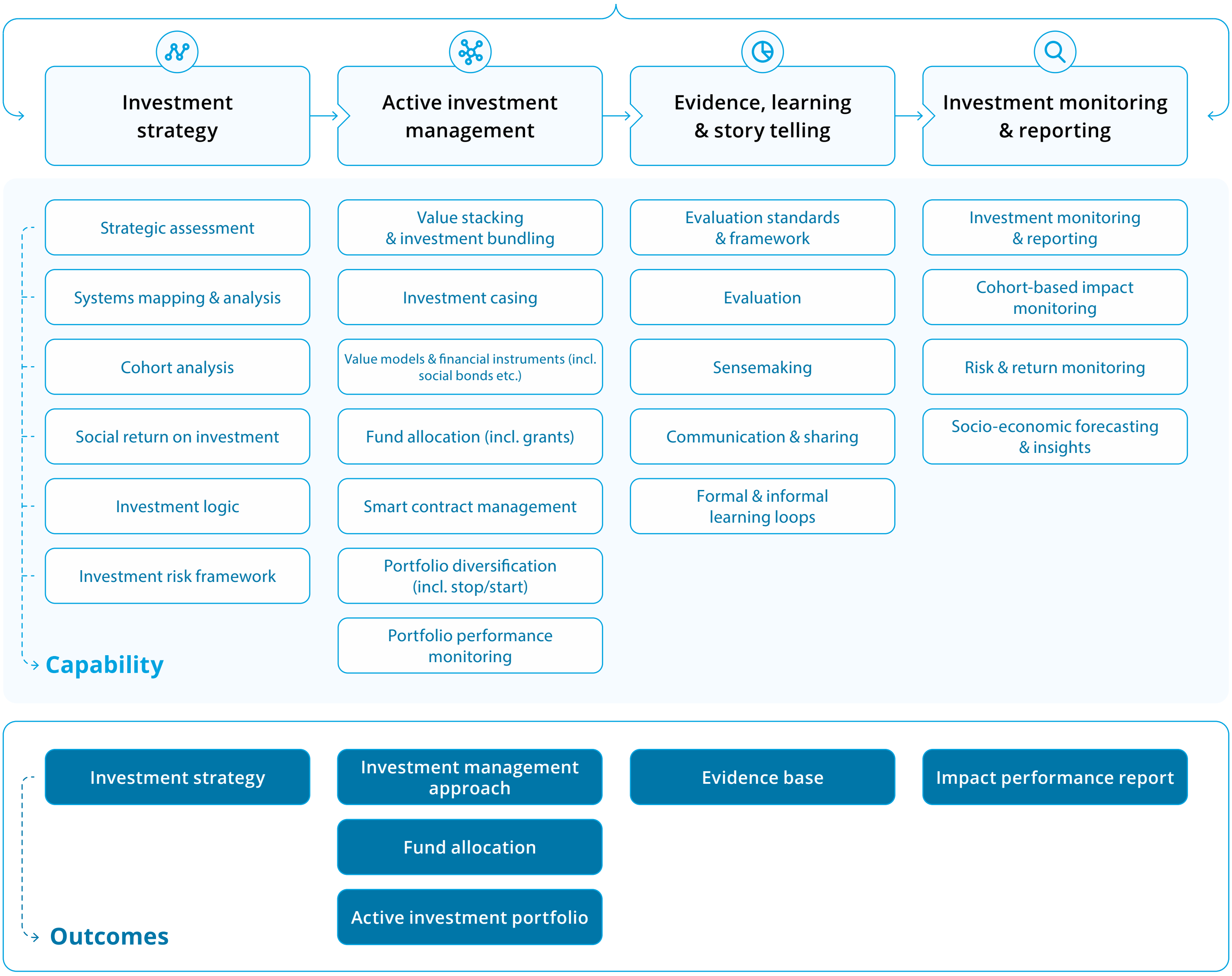
What does the next frontier of social investment look like?

As we look ahead to the next evolution of social investment, we see a lot to be confident with: a more evidence-based approach, the recognition that government must commission and collaborate with community-based service provision, and a more disciplined approach to investing in our most underserved people.

There is also a huge opportunity to look at the mature discipline of investment management, and the emerging discipline of 'systemic investing', to turbo charge the social investment approach in New Zealand.

Systemic investing blends complex systems thinking with portfolio investment management to look for opportunities *to intervene at multiple points, across multiple horizons, to achieve long-term sustainable outcomes.* This holistic approach involves several key components, as illustrated on the following page.

Capabilities within the social investment management office



Investment strategy

A clear investment strategy is essential for guiding decisions and ensuring that resources are allocated effectively. Clear goals in the form of investment objectives are the foundation of the investment strategy and set out what we want to achieve, for whom, and when.

Investment objectives that articulate what the investor is seeking to achieve provide a roadmap to guide investment decisions and signal to partners and providers what they should be responding to. Without investment objectives it is difficult for funders and commissioners to shape a coherent portfolio or for the market to align around these objectives.

The strategy should also set out the risk appetite of the investor (which is about the acceptable and even desired levels of risk, across timeframes), the investment return expectations and horizons, and the standards for investment logic.

The most challenging aspect of developing an investment strategy is that it essentially sets out choices – what we will, and will not, prioritise from a funding perspective. This can be a challenging concept in government, where strategy often gets stuck at values and principles, rather than crunchy choices.

Active investment management

Active management of investments is crucial for achieving desired outcomes, bringing the investment strategy to life. This involves regularly reviewing and adjusting investments based on performance data and changing circumstances. By actively managing investments, we can ensure that resources are used efficiently and effectively, maximising their impact.

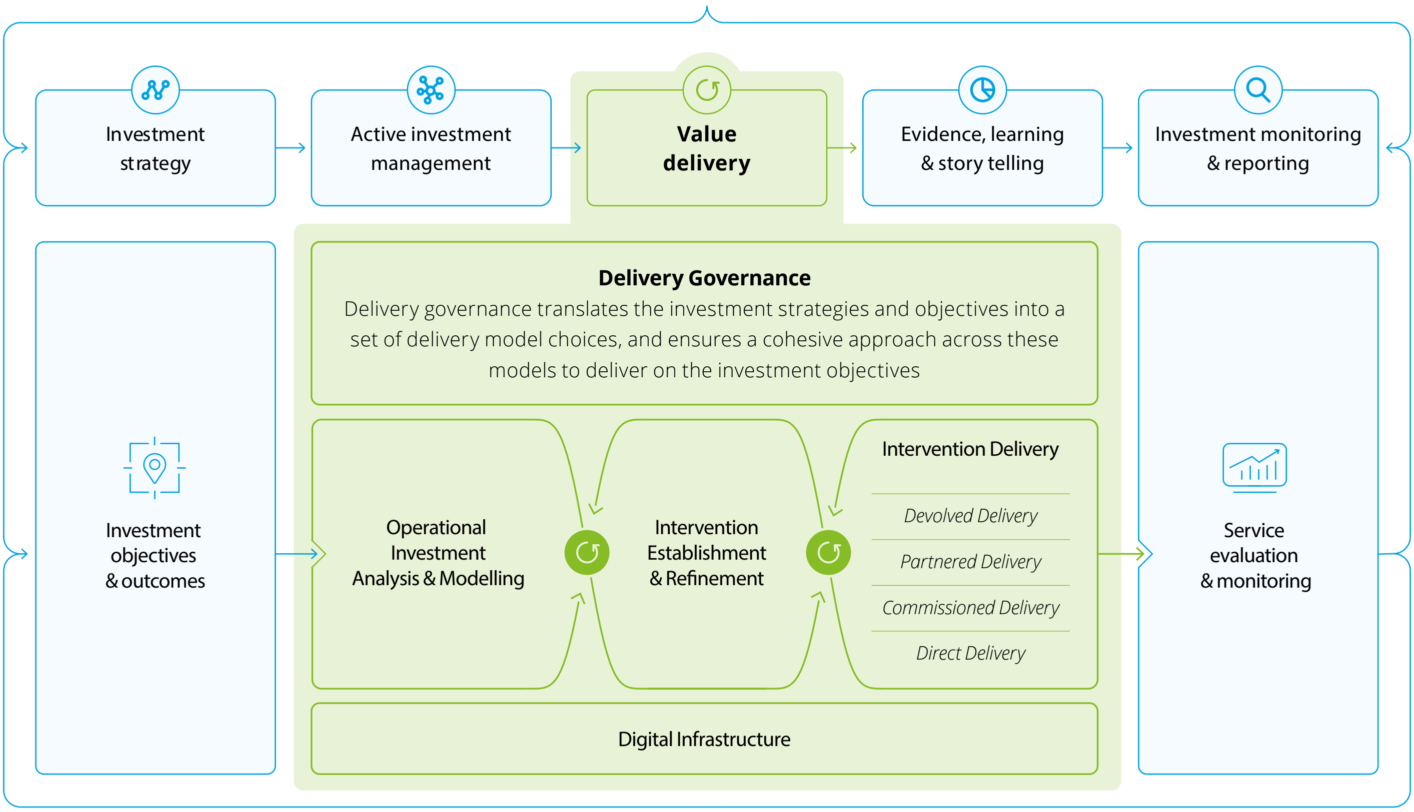
Evidence, learning, and storytelling
Using evidence to inform decisions is a cornerstone of effective social investment. By evaluating the outcomes of previous investments, we can learn what works and what doesn't, allowing us to make more informed decisions in the future. Additionally, storytelling is a powerful tool for communicating the impact of investments and garnering support from stakeholders.

Investment monitoring and reporting
Regular monitoring and reporting of investments are essential for ensuring accountability and transparency. By tracking the performance of investments and reporting on their outcomes, we can demonstrate their value and make necessary adjustments to improve their effectiveness.

Integration with delivery governance
Finally, integrating social investment management with delivery governance creates a cohesive, continuous loop of setting the strategy, translating it into a set of delivery model choices, and governing and learning what is working. Investment management and delivery governance are quite distinct organisational capabilities – working to different cadences, and generally with different governance arrangements – but they come together to inform the ongoing decision making around what we invest in, and what the best delivery methods are to achieving outcomes.

Social Investment Management Office

An active social investment management office sets, manages and monitors strategy to ensure investments are value-driven and deliver a return



CASE STUDY

Finland's Housing First Programme

Finland is the only European country where homelessness has been on a steady decline, largely due to the national adoption of the Housing First model. Unlike traditional homeless programs that require individuals to address issues like addiction or mental health before being housed, Housing First provides stable housing as the starting point, with supportive services offered afterward.

How it works
The program focuses on providing permanent housing first, followed by additional social support, such as counselling, mental health services, and employment assistance. The rationale is that once individuals have secure housing, they are better equipped to address other social and health-related challenges.

Social Return on Investment (SROI)
The long-term impact of Housing First has been significant:

- **Reduction in homelessness:** Since its introduction, homelessness has decreased by 35%, with thousands of individuals rehoused.
- **Cost savings:** Studies show that housing an individual through this program costs around €15,000 per year, while leaving them on the streets (factoring in emergency healthcare, police intervention, and shelters) can cost up to €30,000 per year. For every euro invested, it saves the public purse more than it costs.
- **Health and well-being:** With housing as a stable foundation, many participants experience improvements in their health, including mental health and substance abuse recovery, reducing their need for emergency healthcare services.

Long-term SROI
By reducing the strain on public services (emergency healthcare, social services, law enforcement), Finland's Housing First program not only alleviates homelessness but also generates significant financial and social returns over time. This preventative approach shifts the focus from crisis management to long-term stability and well-being, a hallmark of successful social investment.

CASE STUDY

UK Better Society Capital (BSC)

In 2012, the UK government launchedestablished Big Society Capital (laternow renamed to Better Society Capital), an independent financial institution designed to grow the social investment market. It was part of the government"s broader Social Investment Strategy to tackle tough social challenges such as homelessness, unemployment, and community regeneration by leveraging private and public funds for social good.

How it works

BSC acts as a wholesaler of social investment, using money from dormant bank accounts and private investments to fund social enterprises, charities, and social purpose organisations. It prioritises funding for initiatives that aim to create long-term societal change, focusing on areas like employment, housing, and mental health services. Through BSC, the government aimed to foster an ecosystem where social issues are tackled in a financially sustainable way, combining government support with private investment.

Impact on funding and services

- **Increased capital for social projects:** By 2023, BSC had invested over £1.7 billion in various social enterprises and funds. This has unlocked over £2 billion in additional capital from private investors, leading to better-funded services in critical areas like healthcare, affordable housing, and support for vulnerable populations.
- **Social Impact Bonds (SIBs):** The government, via BSC, has promoted Social Impact Bonds, which bring together public and private funds to address social challenges. These bonds allow investors to fund social services, with returns contingent on positive social outcomes being achieved. For example, an SIB for reducing homelessness in London saved the government money on emergency housing costs while providing stable housing and support services for rough sleepers.
- **Long-term return:** The strategy isn't just about short-term fixes; it's focused on tackling root causes and delivering measurable social outcomes over the long term. For example, initiatives supported by BSC have helped reduce youth unemployment, create jobs in low-income areas, and improve mental health services.

Long-term SROI

The Social Investment Strategy has not only expanded the pool of funding for tough social challenges but also created a sustainable model where social organisations have access to better, long-term funding. This results in more effective, well-funded services, improving social outcomes while reducing future public spending on crisis intervention services.

CASE STUDY

New Zealand Superannuation Fund (NZ Super Fund)

Established in 2001, the NZ Super Fund is a government fund created to help cover the cost of future pension payments for New Zealand"s aging population. It operates independently from day-to-day political control, with a clear mandate to invest for the long term, generating returns that will support the country"s future retirement needs. The fund is governed by an independent board and focuses on socially responsible and sustainable investments.

Governance approach

- **Independent guardians:** The fund is governed by the Guardians of New Zealand Superannuation, an independent Crown entity. This board is tasked with managing the fund with a focus on maximising returns while considering long-term environmental, social, and governance (ESG) factors. The Guardians have a long-term investment horizon, meaning they make decisions that will deliver sustainable value over decades, rather than focusing on short-term gains.
- **Responsibleinvestment framework:** The governance framework integrates sustainability into investment decisions. The board considers factors such as climate change, labour rights, and human rights, aiming to minimise risk and ensure the portfolio aligns with ethical standards. For example, they've divested from companies involved in tobacco, controversial weapons, and those with poor environmental practices.
- **Long-term planning:** The NZ Super Fund takes a forward-looking view, anticipating global trends and challenges like climate change, shifting demographics, and technological disruption. Its long-term strategy includes investing in renewable energy and low-carbon technologies, both to mitigate risks and to tap into future growth sectors.

Long-term social return

- **Future Generations Focus:** Although the primary aim is financial return to support future pension payments, the fund's responsible investment approach means it also promotes long-term social well-being. For example, the fund's commitment to climate action has resulted in substantial investments in green technologies, contributing to the global transition to a low-carbon economy.
- **Transparency and accountability:** The Guardians are required by law to report publicly on the fund's performance, sustainability measures, and governance. This transparency ensures that the fund's long-term focus remains aligned with societal values and future public needs.

Impact

The NZ Super Fund"s governance structure, with its independent, forward-thinking board and commitment to sustainable investing, serves as a model of how social investment funds can be governed with a long-term perspective. By integrating social and environmental responsibility into its investment strategy, the fund not only secures future financial returns but also contributes to a more sustainable and equitable global future.

Keys to success

- **Clear government support:** In all of these cases, sustained political commitment and leadership played a vital role. Whether it's Finland's Housing First initiative or the UK's Big Society Capital, strong government backing ensured the initiatives received the necessary resources, legislative support, and public endorsement.
- **Long-term vision**: Success required political leadership that focused not just on short-term gains, but on long-term social and economic returns, as seen in programs like the NZ Super Fund.
- **Partnerships between public and private sectors:** Programs like Better Society Capital demonstrated how successful partnerships between government, private investors, and non-profits can unlock additional funding, increase innovation, and bring a wider range of expertise into service design and delivery.
- **Encouraging innovation through funding:** The social investment strategies, like Better Society Capital and Social Impact Bonds, provided flexible funding mechanisms that encouraged service providers and investors to explore new models of service delivery, focusing on what was most effective for target populations.
- **Long-term horizons:** Programs like the NZ Super Fund and Finland's Housing First were designed with a long-term view, focusing on sustainable change rather than short-term fixes. This long-term planning was crucial to generating positive social and financial returns over time.
- **Preventative Approaches:** A key theme across the case studies is the focus on early intervention and prevention to address social challenges before they escalated. For example, in Finland's Housing First preventing issues from worsening (and thus reducing future costs) was a core driver of success.
- **Independent governance:** Effective oversight and governance structures helped ensure the integrity and accountability of these initiatives. For example, New Zealand's Super Fund is governed by independent guardians who focus on long-term returns, balancing both financial performance and social responsibility.

How to get started

For investors (agencies, funders and commissioners), whether focusing on a single service, cohort, or across multiple areas, establishing an initial investment portfolio and roadmap involves several key steps:

Mapping the ecosystem

The first step is to identify and map the ecosystem for the selected priority areas. This involves understanding the landscape of existing social services and resources, and identifying key stakeholders and opportunities for investment. Bringing together an integrated view of current expenditure into the priority cohorts, and the network of providers currently active across the ecosystem is an essential activity from a data perspective. By mapping the ecosystem, we can gain a clearer understanding of where investments are needed and how they can be most effective, as well as who to involve in the investment strategy process.

Developing investment objectives and strategies

Developing and releasing priority investment objectives and strategies is another key step. These objectives and strategies should be aligned with broader social goals and should be based on a thorough analysis of the needs and opportunities within the ecosystem. By clearly defining investment objectives, we can ensure that resources are directed towards areas where they can have the greatest impact.

Designing the investment allocation process

Next, we need to create a process for how investments will be allocated. A good process should be transparent and data-driven, to direct resources towards areas where they can have the greatest impact. It should also be flexible, allowing for adjustments based on changing circumstances and new evidence.

Specifying evidence thresholds

"Evidence" is not a black and white construct. Even aside from gaps, quality challenges or bias in data, applying evidence requires designers and policy makers to interpret data and apply it to new contexts and populations, often while considering a wide range of factors.

Setting clear thresholds for the type of evidence required for investments is crucial for ensuring that resources are used effectively. By specifying evidence thresholds, we can ensure that investments are based on solid data and proven outcomes, reducing the risk of ineffective or wasteful spending. Government should consider providing a shared platform and set of tools for the community sector to meet these evidence thresholds, on an equal footing with government-delivered services.

Co-Designing initial investments
Investment decisions should not resemble a 'grant-making' process in which many providers have to compete for a limited fund, often spending scarce resources in the process.

Collaborating with the sector and identifying groups of providers who can work together to deliver a shared outcome is a better approach – for example, a set of interventions across health, housing, education and social supports, to cater to a priority cohort.

Working with stakeholders to design and confirm initial investments is crucial for ensuring buy-in and support. By involving stakeholders in the design process, we can ensure that investments are tailored to the needs of the community and that they are supported by those who will be affected by them.

While this is a new way of working between government and the community sector, there is both interest and enthusiasm across the sector to work more collaboratively and over a longer horizon to shape services that work.

Designing evaluation methods
Creating and releasing methods for evaluating the success of investments is essential for ensuring accountability and continuous improvement. By regularly evaluating investments and using the results to inform future decisions, we can ensure that resources are used effectively and that investments are continually improving.

Conclusion

Social investment is a powerful tool for improving social outcomes and creating a more equitable and sustainable future. However, to realise its full potential, we need to move beyond simply reallocating social expenditure and adopt a more strategic approach to investment management. By integrating the disciplines of investment management with a focus on social outcomes, we can ensure that resources are used effectively and that investments lead to lasting improvements.

In our next article, we will explore commissioning as the delivery mechanism for these investments. We will examine how to establish an outcome-based commissioning approach that aligns with a social investment strategy, and provide practical guidance for getting started. Stay tuned for more insights into the world of social investment and how we can work together to create a better future for all.

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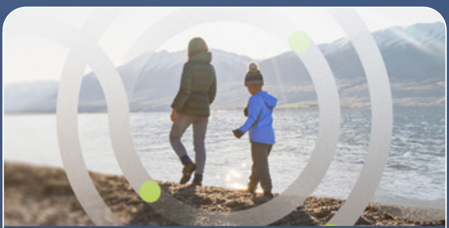
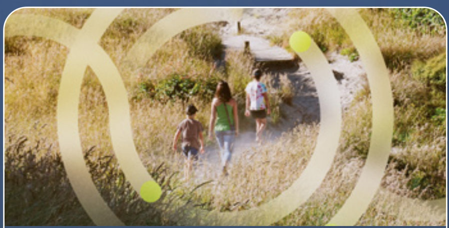
Social investment series



Social investment in action

We know too many people in our society are experiencing poor life outcomes and many children are at risk. Putting pressure on this, in the coming decades a combination of the ageing population, low productivity and revenue growth, and the need to reduce government debt will impose immense fiscal pressures.



Partnered delivery in social investment

Partnered delivery stands as a cornerstone of effective social investment. Evidence consistently shows that services and interventions delivered close to the communities they serve are more effective, trusted, and yield better outcomes. better outcomes.

Endnotes

1 Accelerating Social Investment Cabinet Paper May 2024
2 Research | Oranga Tamariki — Ministry for Children
3 Employment Assistance Evidence Catalogue
4 “Investment gap or efficiency gap? Benchmarking New Zealand’s investment in infrastructure” Te Waihanga Research Insights series December 2021

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